SYNTHESIS

1+1=3

Allianz Insurance Lanka Ltd | Allianz Life Insurance Lanka Ltd
Annual Report 2018

Allianz

Contents

SYNTHESIS

In mathematics, one plus one must invariably add up to two, but in the year that concluded, we at Allianz Insurance proved that one plus one, does equal three. With the merger that saw two insurance powerhouses team up to create a bigger and more resourceful entity, we have reached a higher plane of excellence that has resonated among our clientele as well as the industry. German precision and Sri Lankan expertise have come together to transform the Insurance needs of the nation and we are merely scratching the surface in what we hope to achieve in the years ahead; creating a third, strong and vibrant to meet and exceed the standards that are expected of us.
We call this **Synthesis.**

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

Financial Highlights

GROSS WRITTEN PREMIUM

LKR 17.73 BN
Non Life Insurance
195 %↑

LKR 1.3 BN
Life Insurance
10 %↑

INVESTMENT PORTFOLIO

LKR 20.03 BN
Non Life Insurance
557 %↑

LKR 3.13 BN
Life Insurance
12 %↑

PROFIT BEFORE TAXATION

LKR 900 MN
Non Life Insurance
388 %↑

LKR 86 MN
Life Insurance
18 %↓

Allianz at a Glance

	2018	Change from Previous Year	2017	Change from Previous Year	2016	Change from Previous Year	2015	Change from Previous Year	2014	Change from Previous Year
NON LIFE INSURANCE										
Income Statement										
Gross Written Premium (Rs. '000)	17,733,187	195%	6,020,890	32%	4,576,123	30%	3,506,621	20%	2,923,611	39%
Underwriting Profit / (Loss) After Expenses (Rs. '000)	(1,426,718)	488%	(242,465)	9%	(223,410)	-1649%	14,422	-111%	(131,056)	-244%
Profit Before Tax (Rs. '000)	900,346	388%	184,346	390%	37,635	-76%	159,055	1077%	13,518	-95%
Balance Sheet										
Total Assets (Rs. '000)	34,043,287	393%	6,904,433	32%	5,211,062	27%	4,106,848	22%	3,363,034	23%
Shareholders' Equity (Rs. '000)	11,114,237	606%	1,574,375	62%	973,471	-1%	986,717	10%	896,867	2%
Return on Net Assets (%)	6.84%	-19%	8.42%	247%	2.43%	-78%	11.04%	-9%	12.15%	-45%
Earnings Per Share (Rs.)	1.17	-28%	1.63	247%	0.47	-78%	2.18	407%	0.43	-94%

	2018	Change from Previous Year	2017	Change from Previous Year	2016	Change from Previous Year	2015	Change from Previous Year	2014	Change from Previous Year
LIFE INSURANCE										
Income Statement										
Gross Written Premium (Rs. '000)	1,301,254	10%	1,178,817	13%	1,040,269	13%	919,144	12%	823,456	-1%
Profit / (Loss) Before Tax (Rs. '000)	85,583	-18%	104,024	301%	25,959	-31%	37,891	183%	13,390	-134%
Balance Sheet										
Total Assets (Rs. '000)	5,256,584	31%	4,015,837	38%	2,907,569	24%	2,348,432	32%	1,784,553	66%
Investments (Rs. '000)	3,129,120	12%	2,796,319	45%	1,930,971	23%	1,569,538	32%	1,186,394	31%
Shareholders' Equity (Rs. '000)	1,325,815	50%	883,746	82%	486,186	-21%	615,715	13%	545,347	108%

About Allianz

The global strength and solid capitalisation of the Allianz Group, coupled with local expertise and business knowhow, have been Allianz Lanka's powerful formula for success since inception. In the fiscal year 2018, the Allianz Group achieved total revenues of € 130.6 billion and an operating profit of € 11.5 billion. Allianz Insurance Lanka Ltd and Allianz Life Insurance Lanka Ltd are Non Life and Life insurance businesses known together as Allianz Lanka.

PROTECTING PEOPLE AND PROPERTY FOR OVER A CENTURY -AND-A-QUARTER

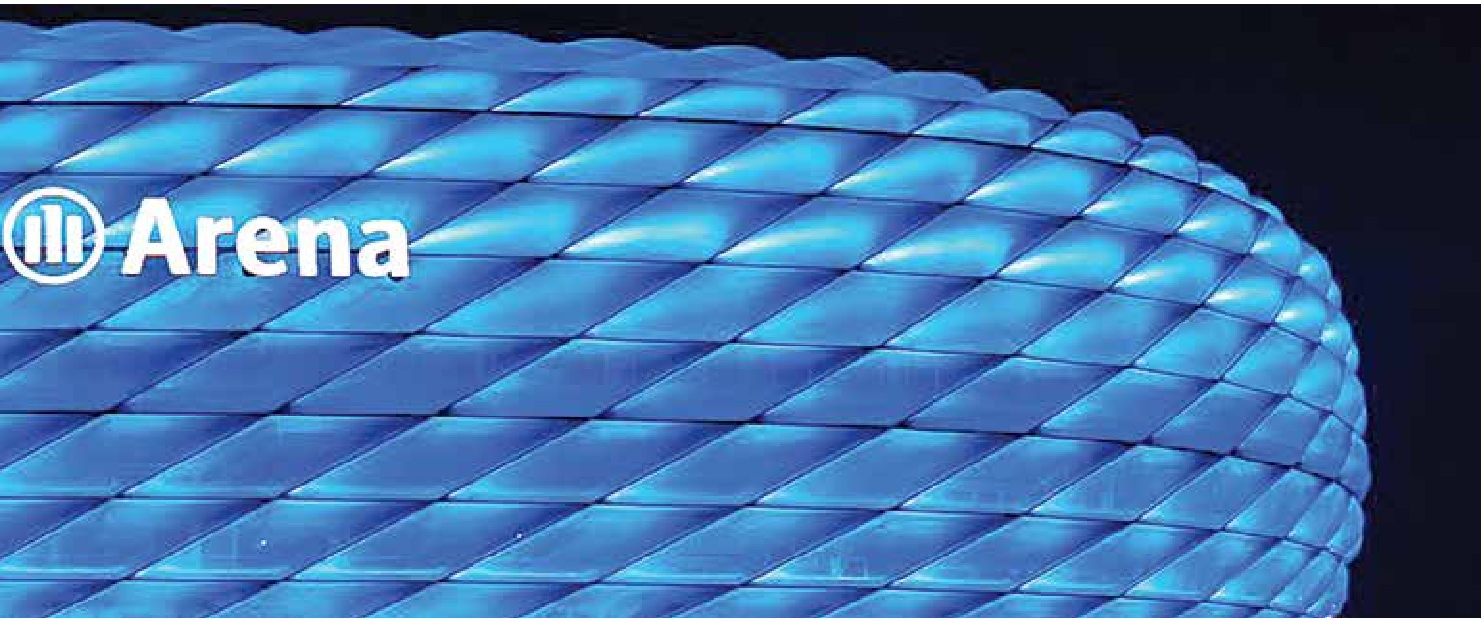
About Allianz Lanka

Allianz Insurance Lanka Ltd and Allianz Life Insurance Lanka Ltd are Non Life and Life insurance businesses known together as Allianz Lanka. Both companies are fully- owned subsidiaries of world renowned integrated financial services conglomerate Allianz SE, headquartered in Munich, Germany. Allianz SE is also the world's largest Non Life insurer.

The global strength and solid capitalisation of the Allianz Group, coupled with local expertise and business knowhow, have been Allianz Lanka's powerful formula for success since inception.

Allianz Lanka was established in Sri Lanka 14 years ago in 2004, as Allianz Insurance Lanka, with the license to practice Non Life Insurance in the country. The Company expanded over the years, and became one of the fastest growing insurers in Sri Lanka growing its topline by more than 47% of the compound annual growth rate. The success of the Non Life insurance company prompted Allianz SE to establish its Life Insurance business in Sri Lanka as well, and Allianz Life Insurance Sri Lanka Ltd came into being four years later, in 2008. The Life company, too, has grown by more than 44% compound annual growth rate over its ten years of operations.

Allianz Lanka delivers strong and steady results in increasingly challenging operating conditions. In 2018, The Non Life Company's



revenue reached Rs. 19.175 billion, the highest in Allianz Lanka's history. Correspondingly, the Life Company recorded Rs. 1.301 billion in revenue during the period, up 10% over the figure of the previous year.

Over the years, the Company achieved many 'firsts' that redefined industry benchmarks along the way. Among these, Allianz Lanka was:

- the first Non Life insurance company to achieve Rs. 1,000,000,000 (Rs. one billion) in premium income within the first five years of operations
- the first Non Life insurance company to record an underwriting profit in the second year of operations
- the first Life insurance company to make Rs. 100,000,000 (Rs. one hundred million) gross written premium within the first year of operations.
- the first insurance operation to comply with the statutory requirement of having two separate legal entities for Life and Non Life business

These statistics ensure the health of our business and give us the confidence to believe that we will continue to deliver positive results and protect the people and property of Sri Lanka for years to come.

A Top Insurer

Having delivered strong results in increasingly challenging operating conditions, Allianz Lanka aimed at further consolidating its presence in Sri Lanka. Accordingly, in February 2018, Allianz SE bought a 100% stake in Janashakthi General Insurance Limited. The acquisition propelled the Company's market position to No. 2 in Sri Lanka, commanding over 20% of the market share, up from the No. 5 position enjoyed earlier.

Product Portfolio

Allianz Lanka offers a broad spectrum of insurance solutions that cater to the needs of individual and businesses. We serve several leading local and multinational enterprises across diverse sectors including engineering and construction – both infrastructure and property development, hotel, financial services, as well as energy – renewable energy in particular, with a dominance in wind power and solar.

About Allianz

Some of the country's high-profile civil engineering projects protected by Allianz Lanka include:

- Altair

- Colombo City Center

- Shangri-La's Hambantota Golf Resort & Spa

- The Southern Expressway

- Arugambay Bridge

- One Colombo
- Oil Exploration in Mannar
- 10 Megawatt Solar PV Power Plant in Hambantota
- Numerous wind power projects
- Electricity transmission infrastructure capacity enhancement projects.

Employees

As at 31 December 2018, Allianz Lanka had a staff and advisor strength of 2,631, which includes 1,238 employees in sales and non sales functions in both the Non Life and Life businesses at the head office and our branches throughout the country. This is in addition to a field sales force of 1,393 advisors in the Life and Non Life business areas.

We are an equal opportunity employer and have an inclusive recruitment process that commits us to diversity and inclusiveness. This has ensured that we access and attract some of the industry's most talented and experienced candidates.

Branches

The acquisition has reinforced our presence throughout the country by expanding our network to over 100 branches in urban as well as rural areas. Today, our clientele in the most remote regions of Sri Lanka enjoy the same world class products and services provided to Allianz clientele worldwide.

About Allianz

Since inception in 1890, Allianz has been catering to the changing needs of customers across the globe, giving them the confidence they seek to take the next steps in their journey in life.

Today, more than 142,000 Allianz employees serve over 92 million retail and corporate customers in over 70 countries, who rely on the knowledge, global presence, financial strength and solidity of Allianz to support them in their moment of truth.

With over 125 years of experience in the industry, Allianz continues to secure its leadership position in many areas, and is Industry leader in Risk Detection, Financial Inclusion, Environmental Reporting and ESG Insurance integration. We are also a globally accredited ethical insurer with accreditation awarded by the Ethisphere Institute, USA.

Financial Strength

In the fiscal year 2018, the Allianz Group achieved total revenues of € 130.6 billion and an operating profit of € 11.5 billion.

Allianz SE is among the world's largest asset managers, with third party assets under management in 2018 amounting to €1,961 billion. The Group enjoyed one of the world's strongest solvency ratios of 229% in 2018 and has one of the world's best credit ratings among international insurers.

The robust ratings received by premier ratings agencies: Standard & Poor's AA – Stable outlook, Moody's Aa3 - Stable outlook, A.M. Best A+ - Stable outlook, confirm our stability and dominance in the market.

World famous buildings under our care

Our presence is on every continent, as 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, and the international airports in Hong Kong, Bangkok and Kuala Lumpur.

About Allianz

Building a Sustainable Organisation

At Allianz, we strongly believe that sustainable companies are those able to circumvent all the challenges that come their way, be it climate change, political instability or volatile markets. Accordingly, we are committed to meeting the challenges of climate change by supporting the transition to renewable energy, and endorse the decarbonisation of the economy through sustainable investments in alternative energy sources like wind and solar parks.

Allianz is also among the world's top10 companies and the leading insurance company commended by the Carbon Disclosure Project(CDP) for disclosure of climate change information, climate strategy and emissions reduction

We also received the Gold Class Award from the RobecoSAM Dow Jones Sustainability Index and recognition as the highest ranked primary insurer to receive this rating, in recognition of our sustainability initiatives.

Our approach to sustainability is organised around the five key roles that Allianz plays in day-to-day business. We are a:

	**SUSTAINABLE INSURER**	• 470 insurance transactions assessed for ESG risks. • 1.56 billion Euro revenue generated through Sustainable Solutions.	• 43.8 million customers in the emerging consumers market. • Continued to train underwriters and relevant employees on our ESG screening processes.
	**RESPONSIBLE INVESTOR**	• 5.4 billion Euro additional sustainable investments, bringing the total to 25.1 billion Euro. • Launched systematic approach for engagement on environment, social and governance with 12 companies.	• Tightened restrictions on coal-based business models and introduced a long-term action plan for coal until 2040. • 175.6 billion Euro third party Sustainable and Responsible Investments (SRI) across AllianzGI and PIMCO. • AllianzGI and PIMCO published their first ESG reports.
	**TRUSTED COMPANY**	• Net Promoter Score: 74% of Allianz Group business segments scored above market average or in a loyalty leader position in 2018. • Adopted the Allianz Privacy Standard reflecting requirements of the GDPR. • 562 suppliers have contracted our Vendor Code of Conduct for 2018.	• Acceptance of our Binding Corporate Rules for international data transfers. • Signed up to RE100 committing to 100% renewable energy by 2023. • 27% cut in CO_2 emissions per employee since 2010.
	**ATTRACTIVE EMPLOYER**	• 71% score in the Inclusive Meritocracy Index – our key measure of cultural change – up from 68% in 2015. • Launched LinkedIn Learning @ Allianz.	• 38% Allianz managers in our core business are women. • Rolled out newly launched Employee Share Purchase Program to around 80% of Allianz population.
	**COMMITTED CORPORATE CITIZEN**	• 25.8 million Euro corporate giving (2017: 20 million Euro). • Expanded Encouraging Future Generations with the Allianz Social Innovation Fund and Allianz Future Generations Award. • Third Allianz World Run raised 300,000 Euro for SOS Children's Villages.	• Since 2017, our Social Innovation Fund has invested almost 400,000 Euro across 14 countries to support the education, training and employability of children and youth.

Distribution Network

The Company has extended its reach throughout the island with a branch network that provides superior, responsive and convenient customer service. The branch network was further expanded following the Company's acquisition of Janashakthi General Insurance. The branch network of Allianz Insurance is given on page 186.

In early 2018, with the acquisition of the Janashakthi General Insurance, the Company's head office was relocated to a spacious high rise in Dematagoda. The new premises facilitates more efficient customer service and a better employee working environment.

Distribution was also reinforced with the addition of another distribution channel to Allianz Life Insurance Limited, to accelerate growth.

Focus On The Future

We have crossed borders, oceans and continents, to reach Sri Lanka and stand with you, to support you in your Moment of Truth and fortify you against the vagaries of fortune.

With Allianz Lanka to take care of the risk, you can now dream big. Dare to dream, look beyond limitations, and we will help you attain the impossible.

Managing Director's Review

We embarked on a new chapter of the Company during the year, defined by our acquisition of Janashakthi General Insurance Ltd., on 26 February 2018. This acquisition propelled us to the No. 2 position in Non Life insurance in Sri Lanka, and added yet another arrow to our quiver full of 'firsts' achieved in the industry since inception 14 years ago.

This has been one of the most exhilarating, and at the same time demanding, years in the history of your Company. Going by the strength of our performance, I am delighted to say that we successfully responded to the challenges of your rapidly evolving company.

Corporate success is determined today by the way in which a company utilises change management strategies to counter business challenges. Organisations that accelerate agility using innovation and flexible approaches stay relevant and competitive in the dynamic business landscape. This is a mantra that Allianz rigorously subscribes to, and our many successes over the years confirm its effectiveness.

PERFORMANCE OF ALLIANZ INSURANCE LANKA LTD

We embarked on a new chapter of the Company during the year, defined by our acquisition of Janashakthi General Insurance Ltd., on 26 February 2018. This acquisition propelled us to the No. 2 position in Non Life insurance in Sri Lanka, and added yet another arrow to our quiver full of 'firsts' achieved in the industry since inception 14 years ago.

I am proud to say that your Non Life Company posted a 195% growth during the year, and reached a GWP of Rs. 17.7 billion, achieving a market share of 20%. This is a highly commendable GWP, we were outranked for the No. 1 slot by just Rs. 15 million. It is of note that in many other instances of acquisitions, companies report negative growth at the outset, but Allianz Lanka was one of the few exceptions. The motor portfolio contributed 49% of our portfolio, whilst non motor contributed a substantial 56%, followed by 18% contributed by fire. Medical, marine, miscellaneous and liability which made up the balance. Since inception, non motor has been our main focus and this year, too, we were able to maintain our No.1 position in the market with a market share of 28%.

We ended the year with an operating profit of Rs. 760 million. This is yet another remarkable achievement in view of the high costs of integration incurred during the year coupled with the expenses incurred in systems enhancements. The Company's net assets grew by 606% to Rs. 11.1 billion, mainly as a result of the capital infused for the purchase. We maintained our solvency margin at 224%, which is well above the required regulatory threshold of 120%.

The purchase was for a consideration of Rs. 16.4 billion, which makes it the largest acquisition of a listed company in Sri Lanka in recent years. Allianz's infusion of this substantial sum into the Sri Lankan economy confirms our confidence and our commitment to a long-term market presence in Sri Lanka.

The transaction was an accretive one in that we are confident that it will add considerable value to our business in the years to come. The acquisition fortifies the competencies of the experienced local player with the international insurance capabilities of Allianz, the world's largest Non Life insurance conglomerate. We are exploiting the synergies between the two businesses to extend our customer reach, step up service competencies and trim duplicate resources, all of which will continue to strengthen our bottom line. The benefits of the economies of scale that result will be passed on to our customers and other stakeholders.

PERFORMANCE OF ALLIANZ LIFE INSURANCE LANKA LTD

Your Life Company also showed substantial growth. GWP reached Rs 1.3 billion, which was a 10% increase and indicates the efficacy of the growth strategies and new initiatives introduced. New business growth expanded by 33% to Rs 820 million. The Company recorded a profit after tax of Rs. 660.6 million as compared to Rs. 104 million in 2017 (this includes a one-off profit of Rs. 575 million). During the year of review the Company recognised its unrecognised deferred tax asset due to the change in Income Tax regulations w.e.f 1 April 2018 resulting in future taxable profits. The solvency margin, the key indicator of the company's ability to meet its obligations and arises from the number of policies sold, was 11,162. Net Assets also rose by 50% to Rs 1.3 billion. The Life Fund increased by 23% to Rs. 3.5 billion. The Life Company, too, maintains a prudent investment strategy, allocating 95% of its portfolio to government securities. The portfolio grew during the period of review by 12% to Rs. 3.1 billion. These astute investment strategies enabled the Company to declare a healthy dividend of 8.5% to our policyholders.

During the year, we were able to launch two new products by identifying the actual needs of the customer. The health policy was launched to cater to the segment who wish to undergo medical treatment overseas. The corporate pension product was once again a first in the market with a comprehensive operating system which was well received by corporates.

Distribution was further strengthened by adding another distribution channel to accelerate growth in the Life Company. This is giving us good results already.

Technology enhancements. Strengthening our digital competence has been a key priority for Allianz Lanka over the past few years, and our companies are now reaping the benefits of this far-thinking strategy. Digitalisation has revolutionised the way we work in both companies. In the Life Company, we can now issue policies immediately after submission of the digital proposal, and our distribution partners are increasingly adopting this. Our superior

Managing Director's Review

connectivity capabilities enable us to speedily obtain medical reports from major hospitals in real time. The portal we developed to link with financial institutions has enabled us to manage loan policies in real time on a single platform.

In the Non Life Company, digitalisation transformed our motor portfolio with more apps developed for our internal sales team to speedily provide quotations for a range of retail products, wherever they are located, at any time. This has added substantial value to our product offerings and reinforced our commitment to customer centricity. Distribution convenience has also increased with the introduction of quotation apps for many retail products.

ACHIEVEMENTS IN 2018

Renewal Agenda. We realised the 5 pillars of growth set out in the Renewal Agenda during the calendar year. Introduced in 2015, the Renewal Agenda enables the Company deliver on its promise of being the most trusted insurer and global leader in sustainability, and to respond to the pressing issues of contemporary life. We have progressed very well and achieved good results in all 5 pillars of the Renewal Agenda. The Growth agenda was fulfilled with the acquisition; Technical excellence was attained with technical pricing and process enhancements that were particularly visible in the motor portfolio; Customer centricity was also gained considerably with a number of initiatives, including digitalisation, and I am proud to say that our NPS score was well above the market. We achieved this by revamping the motor business; Digitalisation is also being continually enhanced as we align with Allianz global standards to add state-of-the-art technology in our business processes. Last but not least, the many out-of-the-box methodologies we introduced to develop our staff have also borne noticeable results.

Brand repositioning. Following the acquisition, we realised the need to build the brand from its earlier more corporate focus by re-positioning it to reach further into the retail segment. Among several initiatives to access targeted markets was our partnership with a local media channel to reach out to schools in all districts of the island in support of young talented sportsmen and women. Our sponsorship of the Sports First Allianz Platinum Award provided these young hopefuls with opportunities to develop their on-field talents.

To build the brand in the three - wheeler segment, an effective campaign was organised and well received by the segment. As a result, even people in the outskirts of the country now recognise the Allianz brand and are able to pronounce our name.

Non Life Company posted a 195% growth during the year, and reached a GWP of Rs. 17.7 billion, achieving a market share of 20%. We were outranked for the No. 1 slot by just Rs. 15 million in term of GWP. Life Company also showed substantial growth and GWP reached Rs 1.3 billion, which was a 10% increase and indicates the efficacy of the growth strategies and new initiatives introduced. New business growth expanded by 33% to Rs 820 million.

People focus. I am pleased to say that a high proportion of staff was retained following the acquisition. It is also heartening to note that the Employee Survey remained positive despite the integration.

In promoting a people culture, we are harmonising certain processes to create a regional model that provides staff with exposure to multinational and regional Allianz entities. This enables them to share with, and learn from, the other entities, the benefits of which are immense. Regional teams have been identified for this purpose.

The Asia Pacific Talent Pool (APTP) continued activities this year too. This is a select team of top performers identified regionally who are provided with opportunities to access global and regional resources and activities designed to groom them for higher positions up the corporate ladder.

OUR TRIPLE BOTTOM LINE

We continued our commitment to communities, and contributed to areas that enhanced their lives and livelihoods. Our Railway Safety Awareness programme begun a year ago is a case in point. We stepped in to help stem the steady rise in the number of accidents at unprotected railway crossings each year. In partnership with the National Council for Road Safety, we deployed warning signs at all unprotected railway crossings around the island. Statistics supplied by the National Road Safety Council confirm that fatalities at unprotected railway crossings were reduced by over 50% during the current year as a result of this important initiative. We are happy to have been able to take such positive steps to protect the lives of the people and will continue with many such initiatives in the future.

Young football enthusiasts were invited this year too, to submit applications for selection to the prestigious Allianz Junior Football Camp which will realise their dream of training with the premier German football team FC Bayern in Munich, Germany.

OUTLOOK FOR THE FUTURE

The Company will pursue progress to reach the apex of the industry in the not- so distant future. While we will be seeking higher returns, these returns will not only be in terms of increased GWP, they will also embrace other values that are intrinsic to Allianz. We will explore opportunities to realise our aspiration of being the most preferred insurer by providing the best solutions and offering customers the best protection, and will also strive to be the most preferred employer by continuing to provide our people with opportunities that foster their skills and talents.

We will ensure distribution and customer convenience when buying hassle- free and easily understood policies as we provide our customers with the benefits of digitalisation. Our heavy investments in technology will be in vain if they fail to enhance customer convenience. Customer satisfaction and retention will be more important key performance indicator in the future, and we will be looking at changing our business model to focus more on the customer experience and outcomes than on products to the customer.

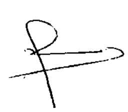
We will also be revisiting and streamlining internal structures to increase efficiencies and eliminate waste, and the benefits of these savings will be given back to the customer by way of competitively priced products.

Needless to say, we will also continue to stand by our values of integrity, professionalism and fair play in all areas of business and in all circumstances. We will continuously invest in our most valuable asset, 'our people' with a host of people-centric initiatives that will equip them to meet the challenges of the competitive marketplace of the future.

Organisations of the future will be shaped by societal changes, globalisation and technological developments, all forces that cannot be accurately predicted. The key challenge is to innovate and transform businesses to adapt to these forces whilst maintaining their integrity.

APPRECIATION

In closing, I take the opportunity to thank all our esteemed stakeholders and business partners for your confidence in the Company and unwavering loyalty over the years. I also express my grateful thanks to the Regulator, for her invaluable support in challenging times. Words fail me when I seek to express my deep appreciation to you, my beloved team, for all your hard work in a challenging year. Looking back over the years, I will not forget the roads we travelled, the challenges we overcame and the opportunities we created together through each difficulty. I am happy to have nurtured a culture of collaboration and togetherness, in which we took collective responsibility for our triumphs and for our defeats.



Surekha Alles
Managing Director

Directors’ Profiles

George Sartorel
Regional CEO, Allianz Asia Pacific

Regional CEO of Allianz in Asia Pacific, George is responsible for the core growth region of Allianz Group. Under his leadership, Allianz has accelerated its growth strategy in Asia Pacific while also leading the industry in embracing digital innovations to drive stronger engagement with its 18 million customers in the region.

George joined the Allianz Group in 1998. Before becoming Asia Pacific CEO in 2014, he served as CEO of Allianz Italy, where he successfully integrated three companies, Ras, Lloyd Adriatico and Allianz Subalpina, into a single distribution network, and transformed the company into a digital enterprise, subsequently leading it to become the best-performing insurer in the country. Prior to that, he was CEO at Allianz Turkey from 2007-2010, and grew the company to be Ankara’s market leader in both life/health and property/casualty insurance over that period.

George began his career in the financial services industry in Australia, where he was Chief General Manager of Allianz Australia. He was later appointed Global Head of Business Process Re-engineering for the sustainability programme of the Allianz Group worldwide. George holds a degree in Economics from the University of Technology in Sydney, and an MBA in International Business Studies from the Heriot-Watt University of Edinburg.

George also serves on a number of boards as:

- Global board member, Allianz X - headquartered in Munich, Allianz X performs strategic investments in, and partnerships with innovative companies to enable digitalisation and create value for the Group
- Member, Financial Centre Advisory Panel – established by the Monetary Authority of Singapore
- Board member, BIMA - the leading digital micro-insurer serving emerging customers in Asia, Africa and Latin America. In 2018, Allianz made a strategic investment in BIMA, becoming its sole insurance shareholder
- Chairman, Allianz Asia Advisory Council – strategic committee supporting the growth agenda of Allianz’s regional executive team

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 also 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 6th July 2015.

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, Women Icon of the year in 2018 awarded by the 5th world Women Leadership Congress. 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.

Greater Portfolio + Broader Network = Improved Reach

Corporate Governance

Corporate governance in all companies, including insurance companies, relates to the rules, regulations and institutions that regulate the ways in which the control and management of these companies is carried out, and their practical implementation. These practices help the setting of institutional targets and determine the way to achieve them and supervise their compliance, ensuring that actions are taken in the best interests of the institution, its shareholders (owners) and creditors and respecting the rights of policyholders, beneficiaries and other interested groups.

The basic aim of developing and implementing corporate governance is to improve all economic indicators, primarily long-term sustainable development, in the interests of the owners and all other stakeholders. These include policyholders, creditors, employees, the government and the wider community.

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 global lines of business. 'Other' structures refer to feasible markets, e.g. broker markets. Business is conducted by operating entities (OE) within each business segment. An OE is understood as being a relevant management entity and may encompass one or more legal entities.

Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited known as Allianz Lanka are wholly owned (100% share capital) companies of Allianz SE. Their 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 and cascaded down to Allianz Lanka, and a three year business plan, which specifies the strategies to be implemented.

Allianz Lanka is guided by Allianz SE as its parent company and is subjected to an adequate governance framework across the Group as determined by Allianz SE. Ultimate responsibility for Group steering lies with the Board of Management of Allianz SE, which defines the Group business strategy including risk and investment strategies and the Group's organisational structure.

Allianz Lanka is governed by both Sri Lankan Insurance Industry laws and Allianz Group guidelines. The Company comprises a governance system cascaded from the European Solvency II Governance regime and the majority of policies and procedures established in Allianz Lanka are based on the European Solvency II principles.

The company can be highlighted as an industry benchmark on topics such as Personal Data and Privacy Protection for the stringent policies and procedures established to ensure European class operational standards.

Allianz Lanka has established a governance and control policy as the forerunner of the System of Governance to ensure effective management and good governance within both companies. This policy is based on the Allianz Group guidelines and local regulatory guidelines, and facilitates the establishment of a good governance framework within Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited.

In addition, the policy framework of Allianz Lanka acts as the core set of rules which govern the operations of the Company, summarised as follows,

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 which outline Group-wide rules are those on which exposures may not be written or are subjected to upfront approvals, either locally and/or by the Group.

The Standard contains a dedicated Group Product Strategy and design principles which must be considered when developing new Life, Health and Pension products. These standards are implemented by the Allianz Lanka product development committee.

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

Sales Compliance Minimum standards are implemented to maintain the 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

This includes directives, guidelines, guidance and instructions on functional applications and technical guidance.

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

a. Safeguarding Allianz Lanka'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

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

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

Allianz Lanka recently established its Governance & Control Committee comprising senior management personnel who are in charge of the key governance positions of the Company and overlook the Company's system of governance and control.

The objectives of the committee are to support the Allianz Lanka Board of Management to fulfill its responsibilities in respect of regulatory governance, organisational and control requirements, and reinforce interaction and collaboration between key control functions of governance and control- related topics. The committee must also provide a platform for a structured and institutionalised exchange on cross- functional and regional governance and control-related topics to facilitate consistency, oversee governance topics for the company and coordinate cross-functional activities including a coordinated review of the System of Governance as well as facilitate the Statement of Accountability. Additionally, it must facilitate and support the operational and organisational effectiveness of Allianz Lanka's governance model and internal control system and enhance and promote the governance culture in line with Allianz SE Governance within the company.

Apart from the newly established Governance and Control Committee, the following committees also function as integral areas of Allianz Lanka.

A. RISK COMMITTEE

The Risk Committee comprises the Managing Director, Chief Financial Officer, Chief Risk Officer, AGM – Finance, Head of Compliance, Regional CRO and the Allianz Asia Pacific Risk Management - Country Manager.

The Risk Committee meets regularly with the following mandate 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 exposures to individual risks.

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

B. INVESTMENT COMMITTEE

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

C. 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 the heads of the technical divisions.

The aims of the standards of the committee are to;

- Support the protection of the reputation of Allianz Lanka and the Allianz Group
- Define processes, roles and responsibilities
- Mitigate the impacts of reputational risk events and enable coordinated communication and crisis communication.
- Support fulfillment of legal and regulatory requirements for risk management, including the solvency margin and risk standards defined by Local regulatory bodies.

D. INTEGRITY COMMITTEE

This committee comprises the Managing Director, Chief Risk Officer, Head of Compliance, heads of Sales and Distribution, heads of the Technical Department, and the Head of Human Resources as well as the Chief Financial Officer.

The committee coordinates the activities on integrity-related matters with the main focus on;

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

E. PROCUREMENT COMMITTEE

Allianz Lanka's procurement Committee comprises the Head of Risk, CFO, AGM Finance (both Life and Non Life) a member of the Administration Department, Head of Compliance and the Senior Manager Finance.

Risk Management

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 key risks faced by the Company are identified annually and reviewed on a quarterly basis, along with the status of the mitigation plans. Top risks to which the Company is exposed have been identified and action was taken to monitor, control and mitigate them.

Any business strategy entails risk. Without taking risk, a company would not be able to generate the returns its shareholders expect. However, the difference between a good and a bad company is how a company takes its risks:

Bad companies might take excessive risks, or even lack awareness of risks they are taking, whereas good companies engage in conscious, controlled risk-taking activity, preferably in areas where they enjoy a competitive advantage. In the case of an insurance company, a competitive advantage in taking risks usually arises from a superior knowledge of the market, detailed studies of policyholder behavior and mortality, volatility and trends in capital markets, and superior underwriting skills. The more we know about individual risks that we are taking as a company and the more we know about the interaction between these risks, the more precise will be our forecasts of losses that we might incur – and the more precise will be our estimates of how much capital we need to hold to avoid negative situations. Ultimately, this will reduce our capital requirements and increase our return on equity when compared with businesses that encounter the same levels of risk but that cannot estimate the impact of these risks with the same precision.

The acceptance and active management of risks have always been core competencies of Allianz. The main focus of risk management is adequate risk steering, as opposed to mere risk avoidance or minimisation. Risk management is an integral part of the management and control system, and ensures the timely identification, analysis, measurement, management and reporting of risks. This system provides the basis for successful value-based management including the efficient allocation of capital and the optimisation of key performance measures through the consistent consideration of 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 risk exposure due to new product launches, competitor action or changes in strategy or the business environment are evaluated and assessed. The risks and action plans are reported to the Allianz Asia Pacific (AZAP) Risk Management team.

Risk Management

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

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

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

RISK MANAGEMENT COMMITTEE (RICO)

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

The main responsibilities of the RiCo 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 the non-compliance of risk owners to limits of the risk policy.
- Request, follow-up and assess contingency and action plans in case of (imminent) limit breaches.
- Review the risk management function's effectiveness and development in the context of regulatory and Allianz Group requirements.
- Report to the Allianz Asia Pacific Risk Management team on a quarterly basis and escalate material issues to the Board of Directors.
- Promote the Allianz risk culture and develop risk management talent for the Company.

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

TOP RISKS

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

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

Credit Risk in the Company's context, primarily includes counter-party default risk. This is the risk of failure of financial institutions with which the Company has placed deposits to meet its 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 which is in line with the Allianz Group policy and above the regulatory minimum criteria. The Company's investment approach is also guided and monitored by Allianz Insurance Management, Singapore, as per Allianz Group policies on investment.

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

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 as well as part of reinsurance payments are in USD. This risk is managed by way of a direct hedge whereby USD inflows are matched with outflows, and the excess converted at an exchange rate deemed favourable at the time.

Liquidity Risk is the risk of the Company not being able to meet short-term or future payment obligations and the risk that in the event of a liquidity crisis, refinancing is only possible at higher interest rates or by liquidating assets at a discount. The risk of this materialising is very low as receipts and payments are monitored on a monthly basis with cashflow projections. In addition, predetermined minimum buffers are maintained in terms of liquidity tiers to ensure the availability of funding to meet unforeseen obligations.

Underwriting risk - Non Life - 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, morbidity and longevity risks.

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

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

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

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

Reputation Risk is the risk of direct loss or loss in future business caused by a decline in the reputation of the Company among its stakeholders (i.e. shareholders, customers, staff, business partners or the general public). For example, every action, existing or new transaction or product can lead to losses in the value of the Company's reputation, either directly or indirectly, and can also result in losses in other risk categories. The Reputation Management Committee which comprises senior management from each key function meets periodically to address any reputational issues that have been brought to attention, or issues that may have potential reputational impact.

Risk Management

ANNUAL HIGHLIGHTS

Following the acquisition of Janashakthi General Insurance Ltd, a close review of the investment portfolio was undertaken and the equity portfolio was sold down. Special approval was taken from the Allianz Group to continue holding certain high risk asset classes (mainly debentures) at least on a temporary basis. Annually set thresholds on asset classes and single counterparty exposure limits were reviewed and adjusted to suit local requirements and the post- acquisition balance sheet.

The CRO attended the Allianz Asia Pacific CRO Conference in Indonesia at which the priorities for 2019 were discussed and agreed on.

The Regional CRO Joerg Biebel and Risk Country Coverage Officer Sven Regling visited the local office and conducted a presentation to the management team and a risk workshop which started the harmonisation of the risk function within the newly merged entity.

PRIORITIES FOR 2019

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

- To continue to promote the risk management culture within the newly acquired organisation
- To comfortably meet regulatory solvency targets under the RBC framework
- To further strengthen internal control systems

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 with written policies, limits, documentation and reporting. These comprehensive standards ensure the accurate and timely flow of risk- related information at the local and regional levels.

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

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

The main risks faced and mitigated during 2018 are as follows:

NON LIFE

Risk	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 reviews were conducted on identified high risk areas and continuing improvements made to systems and processes.
Concentration risk	Our solvency position is sensitive to the concentration risk charge and this is an area we control through strict credit control measures. However, following the acquisition, the balance sheet size has increased hence the impact from the concentration risk charge has reduced but this will continue to be closely monitored.
Solvency requirements	Solvency at end - December was above 200%. Post- acquisition, the larger balance sheet and active reduction of high- risk asset classes has improved solvency, this is expected to provide a comfortable buffer to support the projected growth of the Company in 2019 and beyond.

LIFE

Risk	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 measured 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

Global Strength + Local Expertise = Dynamic Teamwork

Compliance at Allianz

For Allianz, compliance stands for integrity and reputation as a trusted business partner which helps to maintain a sustainable relationship with customers, shareholders, and regulators.

Thomas Lösler – Head of Allianz Group Compliance

The most valuable investment that an organisation could make in the compliance arena is to empower its employees with the knowledge needed to comply with the rules and regulations that govern it. It is vital that an organisation has the necessary policies, processes and guidelines in place for due compliance to ensure its smooth functioning and the enforcement of essential and regular controls. However, having all these controls in place is meaningless unless employees are provided with the training and education to recognise compliance issues and implement compliance processes as and when the need arises.

The year of review was a very challenging year for Compliance at Allianz Lanka. Following the acquisition of Janashakthi General Insurance Limited, priority was given for the legal integration of the two entities into one team and this task was successfully completed by 28 September 2018. Pending legal integration, steps were taken to integrate the employees of Janashakthi General Insurance Limited into the Allianz Compliance culture, which was a challenging task for the Compliance department.

The Allianz Lanka Compliance team was strengthened to meet this challenge and many steps were taken to create and improve awareness and knowledge among the new team on board.

The year started with mapping out and assessing the Compliance Risk scope for 2018. The Compliance department joined hands with the "Get to Know Allianz Program" to provide their new colleagues from Janashakthi General Insurance with the information necessary to understand the basic compliance requirements of the Allianz compliance function. This was a successful and interactive training and awareness session at which participants shared their practices and learnt the do's and don't's of working with integrity in an ethical compliance environment. Changing mindsets to the Allianz Compliance culture is a challenge as it is a new knowledge area for several participants.

The Head of Allianz Regional Compliance and her team visited the Sri Lanka Head Office to provide more education and awareness on Compliance topics to their Sri Lankan colleagues and held very successful and interactive sessions on compliance training. Most staff including the entire Senior Management was given the opportunity to interact with the Regional team and clarify topics of relevance to their areas of responsibility. Regional training is to be conducted in stages and the first stage of training was conducted on the following topics based on the outlook assessed for the next nine months;

- Economic sanctions
- Allianz corporate rules
- Legal and compliance reporting requirements
- Anti corruption and gift and entertainment
- Conflicts of interest

The Allianz Lanka Compliance team also interacted with their new colleagues in the amalgamated Legal department and conducted comprehensive trainings on the Code of Conduct, Anti Corruption and Anti Money Laundering for exposed employees and the sales team.

Alongside class room trainings, online training was conducted by the Allianz Group on Data Privacy among all employees and training on Anti Trust for exposed employees was launched in parallel with Group training.

Prominence was given to revamping the activities of the Reputational Risk Committee and the Integrity Committee. The new colleagues were invited to join these committees and two meetings were conducted during this year. The challenges of amalgamating two mindsets into a single culture were also discussed and all members pledged to introduce the ethics of the Allianz culture throughout the staff cadres in due course.

REVISIONS MADE TO POLICIES IN 2018;

The following policies were implemented with the approvals of the Board of Directors of Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited with effect from 01.01.2016 as per the issued guidelines and minimum standards of the Allianz Group;

1. Governance and Control Policy (v 1.0)
2. Risk Policy (v 2.0)
3. Capital Management Policy (v 1.0)
4. Compliance Policy (v.2.0)
5. Outsourcing Policy (v.1.0)
6. Audit Policy (v.1.0)
7. Accounting and Reporting Policy (v.1.0)
8. Fit and Proper Policy (v. 1.0)

To be on par with Group Standards on the recommended revisions to the said policies, Allianz Lanka made the following revisions to the respective polices with the approval of the Board of Directors with effect from 2016.

In 2016, Allianz Lanka was exempted from implementing the Group Actuarial Policy for both Allianz Life Insurance Lanka Limited and Allianz Insurance Lanka Limited and the said exemption has been accepted and continued in the revised version in 2018. Allianz Lanka also adopted its Legal Policy version 01 based on the initial version of the Allianz SE Legal Policy which establishes the core principles of the Legal function within Allianz Group, its key responsibilities and tasks as well as its organisational framework which incorporates best practice legal standards across the Group.

Compliance at Allianz

Governance and Control Policy	• Upgrade of Group steering principles (establishment of Governance & Control Committee). • Upgrade of the local System of Governance review process by introducing the "Governance Statement of Accountability". • Incorporation of OE requirement to inform Group Legal in case a member of the OE BoM is at the same time a key function holder. • Upgrade of control functions at OE level by Legal and Accounting/Reporting functions (following their designation as key functions under Solvency II). • Specific control areas extended by the Protection and Resilience control framework, plus further alignment towards the Integrated Risk and Control System (IRCS) approach.
Risk Policy	• Clarification on the definition of Emerging Risks. • Upgrade of the risk management process by new "ad-hoc stress scenario analysis".
Capital Management Policy	• Sharpening of the legal entity view. • Incorporation of BaFin requirements to ensure that subordinated instruments issued for recognition as own funds under Solvency II fulfil the criteria for the respective own funds tier classification at all times. • Upgrade of GAPC's roles and responsibilities.
Compliance Policy	• Incorporation of BaFin requirements, in particular regulatory compliance tasks like the monitoring of compliance with external legal requirements as well as legal change monitoring (in terms of early warning) and implementation oversight. • Incorporation of Regional / Global lines responsibilities.
Outsourcing Policy	• Clarifications on the definition and consequences of outsourcing (e.g. regarding functions / services), sub-outsourcings, "Critical or Important Functions or Services" (CIFS) and Group Internal outsourcing.
Audit Policy	• Upgrade of the general principles by a mission statement as well as the principles stated by the Institute of Internal Auditors (IIA) (Integrity, Objectivity, Confidentiality, Competency).
Accounting and Reporting Policy	• Group accounting and reporting and functional maturity assessment, KPI assessment and functional effectiveness of the governance system. • OE Disclosure Committee.

REPRESENTATION AT ALLIANZ LEGAL AND COMPLIANCE CONFERENCE 2018

The Regional Legal and Compliance Conference was held at the Sheraton Grand in Taipei City, Taiwan from 5 to 7 December 2018. Allianz Lanka was represented at the conference and knowledge was shared on the following subject areas:

- Allianz Regional Franchise model / AZI Asia 2018 highlights
- Group Compliance presentation
- OE L&C roundtable
- Governance & Compliance @ Allianz Africa
- Insights of L&C in CEE Region
- Standard Chartered Bank Partnership – L&C view
- Group Legal presentation
- New Allianz retail risk framework
- OE showcase on digital initiatives / experiences
- Digital contracting – basics & trends
- AZAP Compliance on-boarding programme
- 2019 outlook

Allianz believes that good Corporate Governance is essential for sustainable business performance and Allianz Lanka supports this view.

In 2016, Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited jointly implemented and adopted the Governance Policy V1 based on Group Governance Policy V1 with the approval of the Board of Directors.

Allianz Lanka has added the Primary inclusions in accordance with v4 of the Allianz SE Governance and Control Policy and under the systems of Governance requirement to provide a platform for a structured and institutionalised interaction and collaboration on governance and control matters. Allianz Insurance Lanka Limited has established a Governance Committee with the following composition of members;

- Head of Legal & Compliance – Chairperson
- Head of Finance – Allianz Life
- Head of Finance – Allianz General
- Head of Risk
- Chief Operating Officer
- Head of Internal Audit
- Head of Protection and Resilience

The way forward in 2019

Allianz Lanka will organise regional comprehensive training on the following topics

- Code of Conduct
- Anti corruption
- Anti money laundering
- Economic sanctions
- Solvency 11
- Anti fraud
- Anti trust guidelines

The following areas will also be focused upon during the year;

- Implementation of the Localized Data Privacy Policy
- Conduct of spot audits on existing processes
- Harmonising processes and procedures
- Holding quarterly meetings for the Reputational Risk and Integrity committee and Governance and Control committee
- Implementation of a localized anti trust policy
- Compliance risk scoping
- Regulatory reporting
- Regional and Group compliance reporting
- Monitoring of regulatory changes and ensuring due compliance
- Conduct of periodical compliance reviews and audits

Allianz Moments

MEMORABLE MOMENTS IN ALLIANZ LANKA'S JOURNEY TO EXCELLENCE

This was one of the most significant years in Allianz Lanka's 14-year journey as it placed the Company as the No. 2 player in the Sri Lankan insurance market, following the acquisition of Janashakthi General Insurance Ltd. Several events were held during the year to introduce Allianz regional staff and business partners to the new entrants.

DAWN OF A NEW YEAR OF OPPORTUNITIES AND CHALLENGES (2 January 2018)

Clergy of different faiths invoked blessings for the growth and success of the Company

The first working day of the new year began with a celebration at the Head Office at which head office management and staff joined clergy of different faiths who invoked blessings for the progress of the Company. The event concluded with a spread of delectable traditional sweetmeats that were enjoyed by all those present. Similar new year celebrations were held at Allianz Lanka branches island wide.

LIFE PLANNING CASCADE (5 January 2018)

The senior management and staff of Allianz Life Insurance Lanka Limited at the life planning cascade 2018

The Life planning cascade took place at the Buddhist Cultural Centre at which the Life unit's strategic plan for 2018 was unveiled in line with the Company's short and long- term goals and annual target. The event was graced with the presence of Managing Director of Allianz Lanka, Surekha Alles, General Manager – Sales & Distribution, Nihal Handunge, as well as representatives from the senior management and over 250 Life advisors and field managers.

ALLIANZ LANKA BECOMES THE SECOND LARGEST INSURER IN SRI LANKA (26 February 2018)

Left to Right: Ajith Fernando, Prakash Schaffter, Chandra Schaffter, Husein Esufally , Julie Kuik, Zakri Khir, Surekha Alles, and Alan Smee at the signing of the Sales and Purchase agreement

This was a milestone event in the history of Allianz Lanka, and marked the acquisition of Janashakthi General Insurance. The amalgamation of the two companies enabled Allianz Lanka to grow its market share to 20% and propelled the Company to becoming the second largest player in the local industry. The acquisition conforms the Allianz strategic priorities of achieving market leadership and high-quality growth in the Asia Pacific region.

VISIT OF ALLIANZ ASIA PACIFIC REGIONAL CHIEF OPERATING OFFICER (7 March 2018)

Chief Operating Officer of Allianz Asia Pacific, Ruediger Schaefer, visited Sri Lanka to engage with the new Allianz team, following the acquisition. He attended a town hall meeting at which he interacted with several new members of the team.

BROKER COCKTAILS (7 March 2018)

Allianz Lanka hosted a cocktail for about 110 brokers and business partners on the lawn of the Kingsbury Hotel, following the acquisition. The event enabled Allianz management and staff to network with partners and discuss new business opportunities and the way forward.

ALLIANZ LANKA PROTECTS FUEL PUMP ATTENDANTS (14 March 2018)

The Management of Allianz Life Insurance Lanka Limited and Indian Oil Corporation along with the fuel pump attendants who received the "SERVO Jeevitha Suraksha" insurance policy

Allianz Lanka presented insurance certificates to 400 fuel pump attendants from the Indian Oil Corporation (IOC) who received Life insurance covers under the "SERVO Jeevitha Suraksha" Group Life Insurance Scheme. This Life insurance policy covers a range of Life events that include death, accidental death, total permanent disability, partial permanent disability and also provides funeral expense benefits.

ALLIANZ ASIA PACIFIC REGIONAL CEO VISITS SRI LANKA (8 and 9 May 2018)

Left to Right: Dennis Hewagama, Nihal Handunge, Asanka Perera, George Sartorel, Surekha Alles and Mangala Bandara accompanying Sartorel to the Allianz Annual Awards – 2018

George Sartorel addresses the town hall meeting

George Sartorel Addressig the gathering at the Allianz Annual Awards - 2018

Regional CEO, Allianz Asia Pacific, George Sartorel, visited Sri Lanka post acquisition of Janashakthi General Insurance Ltd.

During his visit, Mr. Sartorel graced the Allianz Annual awards - 2018 on 8 May. Mr. Sartorel also attended a town hall meeting where he interacted with operations teams from both companies and shared his future plans and intentions for the development of Allianz in Asia, and Sri Lanka's invaluable role in achieving this aim .

Allianz Moments

ALLIANZ ANNUAL AWARDS (8 May 2018)

S. S. Kaluperuma of the Colombo Metro Branch - Agency Development accompanied by Mangala Bandara receives the Champion of Champion award from George Sartorel, Surekha Alles and Alan Smee

Vijitha Samarakkoddige of the Colombo Metro Branch accompanied by Suresh Basnayake receives the Champion of Champion award from Geroge Sartorel, Surekha Alles and Alan Smee

Asitha Roshan of the Maharagama Branch – General Distribution accompanied by Dennis Hewagama receiving the Champion of Champion award from Geroge Sartorel, Surekha Alles and Alan Smee

Arunthavarasa Jeyaruby of the Thirunelveli Branch accompanied by Nihal Handunge receives the Champion of Champion award from Geroge Sartorel, Surekha Alles and Alan Smee

The Allianz Annual Awards took place at the Waters Edge hotel to recognise and reward individual successes, outstanding team effort and effective partnerships. Over 300 star performers were rewarded for their exceptional performance and commitment towards the Company. The theme for the night was "Stronger Together" in recognition of the company's historic acquisition during the year. Regional CEO – Allianz Asia Pacific George Sartorel, was the chief guest of the evening, and Head of Property and Casualty – Allianz Asia Pacific Alan Smee and Managing Director – Allianz Lanka Surekha Alles were the guests of honour at the star-studded evening.

Arunthavarasa Jeyaru by of the Thirunelveli Branch – Life,S. S. Kaluperuma of the Colombo Metro Branch - Agency Development,. Asitha Roshan of the Maharagama Branch – General Distribution and. Vijitha Samarakkoddige of the Colombo Metro Branch - JGIL were adjudged the overall best performers and presented with the grand "Champion of Champions" trophies. The highly coveted Director's Awards went to Saman Perera – Manager – Fire & Miscellaneous Department, Dinesh Gurudeniya –JGIL - IT department, Innam Shibley – Assistant General Manager – Risk & Planning and the ACS project team which comprised Asanka Perera – Assistant General Manager – Motor Underwriting, Niroshan Ranaweera – Deputy Manager – Motor Underwriting, Sivarranjanee Sivakumaran – Deputy Manager – Motor Claims, Indika Kumarasinghe – Senior Manager – IT and Upul Dissanayake – Deputy General Manager – IT.

Six "Million Dollar Round Table" (MDRT) qualifiers were also recognised at the event.

SUWASAHANA AND CORPORATE PENSION PLAN LAUNCH (5 June 2018)

Left to Right: Ruchera Perera, Nihal Handunge, Dharshini Kurukulasuriya, Malaka Mihindukulasuriya and Chandana Divigalpitiya at the launch of Allianz Corporate Pension

Left to Right: Malinga Namalgamuwa, Malaka Mihindukulasuriya, Nihal Handunge, Surekha Alles, Chandana Divigalpitiya and Ruchera Perera at the launch of Allianz Suwasahana

Allianz Life Insurance Lanka launched two unique new products to create greater value for customers. The Allianz 'Suwasahana' and the 'Corporate Pension' plans provide a level of convenience and customisation that are set to transform the way people look at, and conceive of, insurance products in the future.

The Suwasahana health plan is a tailor-made solution that meets the needs of customers and their families. Suwasahana is a standalone protection plan that provides insurance coverage for hospitalisation and situations such as death. Furthermore, the policy grants customers access to the Allianz Virtual Doctor – a special value-added service offered only by Allianz.

Allianz's Corporate Pension plan is for companies and entrepreneurs who wish to provide their employees with an attractive benefits package. This is the first product of its kind in Sri Lanka to provide a comprehensive pension solution exclusively for corporates and is revolutionary in that it serves the dual purpose of providing employees with a comprehensive pension solution as well as helps employers attract and retain talent.

CEO AND CHAIRMAN OF THE MANAGEMENT BOARD OF ALLIANZ SE AND ALLIANZ GROUP VISITS SRI LANKA (25 July 2018)

Surekha Alles welcomes Oliver Bäte for the Town hall with the staff of Allianz Lanka

Oliver Bäte met the young talents of Allianz Lanka

CEO and Chairman of the Management Board of Allianz SE and Allianz Group, Oliver Bäte, visited Sri Lanka. Mr. Bäte held a meeting with the Senior Management at the Head Office. This was followed by a luncheon with members of the German business fraternity. He also engaged with young talent from Allianz Lanka and had one-on-one discussions with them. His visit was concluded with a town hall meeting at which Mr Bäte met some of the Allianz staff and held a Q & A session with them.

Allianz Moments

Oliver Bäte addressed the gathering at the town hall meeting

Oliver Bäte welcomed at the Allianz Lanka Head Office by Suresh Basnayake, Mangala Bandara and Niyaz.

During his address at the town hall meeting, Mr. Bäte mentioned that he was very happy to be in Sri Lanka and had been especially keen to meet the new team. He stated that he was pleased with Allianz Lanka's remarkable progress in the Sri Lankan market over the years, and was confident that the Company would achieve market leadership very shortly.

LAUNCH OF ASIA CORE SYSTEM (6 August 2018)

Allianz Lanka became the first Asia model office within the Allianz Group to feature the Asia Core System (ACS) . ACS is an integrated platform which links to many front-end tools such as e-motor, policy processing workflows, finance, claims workflows as well as the call centre. This single digital platform connects teams with the intermediary networks to help them provide a better service experience to customers as well as enables more autonomy to branches.

ALLIANZ BEGINS JOURNEY AS 'ONE' STRONG TEAM (1 October 2018)

The staff of Allianz Lanka celebrated the beginning of the journey as one strong team

Allianz Insurance Lanka Limited embarked on its journey as one team following the official completion of the acquisition of Janashakthi General Insurance . This day marked the beginning of a new era of achievement and togetherness as diverse teams forged together to achieve a common goal.

Celebrations were held at the Head Office to mark the new beginning and all branches across the island also celebrated the historic event. Managing Director, Surekha Alles and members of the senior management team addressed members of the teams at the Head Office. Mrs. Alles personally thanked each staff for their hard work in the successful completion of the integration, and emphasised the importance of working as a team to achieve the Company's goal of occupying the lead position in the insurance industry of Sri Lanka.

ALLIANZ FIESTA (24 November 2018)

Allianz Fiesta was organised at the Havelock Sports Ground to bring the Allianz Lanka family together as one strong team. This was a fun- filled day of games and team-building activities that enabled the Allianz team to unwind and have an enjoyable time.

GOLD RUSH (11 December 2018)

A winner of the Gold Rush – 2018 competition is presented with gifts by Suresh Basnayake and Dennis Hewagama

A winner of the Gold Rush – 2018 competition is presented with a gold coin by Surekha Alles and Mangala Bandara

The awards ceremony for the 'Gold Rush' competition was held for the sales agents of the Business Development Unit (BDU) at the Head Office auditorium. The competition was organised to boost sales and a total of 72 winners were recognised and rewarded for top performance and 22 agents received gold coins.

General Manager – Agency Development, Mangala Bandara presented awards to the regional managers of agents who achieved their annual targets by end -November as well as to the branch managers who achieved their annual targets during the same period. He commended them for their stellar performance and shared with them the long- term goals and strategies of the unit.

Business Review

Global Growth Framework

The global economy grew at a slower pace of 3.1 % in 2018, after a growth of nearly 4% in the preceding year. Economic activity accelerated in almost all regions of the world at the beginning of the year, which continued the growth momentum begun in 2017. But several developments during the year, notably the escalation of US - China trade tensions which necessitated credit tightening in China, macroeconomic stress in Argentina and Turkey, disruptions to the automobile sector in Germany, and financial tightening alongside the normalisation of monetary policy in the larger advanced economies, contributed to a significantly weakened global expansion later in the year. Many commodity- exporting countries, notably fuel exporters, were also recovering gradually as oil revenues rose, although they remain sensitive to volatile prices.

The year also saw capital outflows from emerging market economies and increased pressure on the exchange rates of economies with wider deficits like Sri Lanka, as the Federal Reserve increased funds rate four times. As a result, the funds rate which started at 1.5% at the beginning of 2018, increased to 2.5 % by end- 2018.

Oil prices, which were on an increasing trend during the first nine months of 2018, caused some acceleration in inflation in all economies around the world. After a run of high prices during the year, oil declined in the last three months of the year, to the lowest recorded price of USD 42.53 per barrel on 24 December 2018.

South and East Asia recorded strong growth despite rising headwinds, expanding by 5.6 % and 5.8 % respectively in 2018, with growth in aggregate gross domestic product (GDP) slowing only slightly from 6.2 % in 2017 to 5.9 % in 2018, against the backdrop of decelerating global trade and economic activity. With rising oil prices and the depreciation of a number of Asian currencies, inflation in Asia edged up during the year to 2.5% from 2.2% in 2017 but remained low by historical standards, in view of stable commodity prices. World average inflation was 3.7%.

The steady growth saw a rise in the world's average GDP per capita by USD 519 in 2018, to USD 11,368 from USD 10,849 in 2017.

But these headline figures conceal fragilities in many developing countries, which are home to nearly a quarter of the global population who live at or below the poverty threshold. While unemployment rates were at historical lows in several developed economies, many low- income people in parts of Asia, Africa and Latin America saw little or no growth in disposable income over the past decade.

The pace of global economic growth also masks the build-up of several risks, the rise in trade tensions among some of the world's largest economies being a case in point. Trade tensions and tariff hikes between the United States and China are causing an erosion in business confidence, tightening financial conditions, and leading to higher policy uncertainty across many economies. As a result, global trade growth lost momentum, reducing during the year of review from 5.3 % in 2017, to 3.8 %.

The possible failure of policymakers in Europe to finalise legal and regulatory arrangements in advance of the withdrawal of Great Britain and Northern Ireland from the European Union pose risks to financial stability, given the prominence of European banks in driving global cross-border financial flows.

Investor sentiments were also affected by escalating trade tensions as well as by high levels of debt, elevated geopolitical risks and oil market developments.

Climate risks also intensified and are impacting both developed and developing countries, but the human cost of disasters fell heavily on low- income countries. Disaster resilience must be fully integrated into economic decision-making if economies are to develop. Urgent and concrete policy action is needed to reduce these global risks and establish foundations for stable and sustainable economic growth in economies across-the-board.

Global Industry Performance and Outlook

The insurance industry is a major component of the global as well as local economies because of the size and quantities of premiums it collects, the scale of its investment as well as the vital social and economic role it plays in protecting people, property and businesses from risk. Today, the global insurance market is valued at USD 5 trillion.

The market saw modest growth during 2018, with insurance premiums increasing globally by 3.3%, to EUR 3,655 billion. The U.S and Japan drove global premium income during the year, while China, which has a global market share of 12%, lagged behind due to contraction of the Chinese Life insurance market by 3.4%.

Both business lines contributed to the growth in 2018, although the Life lines, which reported a growth of 2.5%, lagged behind p & c (property and casualty) products for the third year in a row. Despite the Life dominance of the insurance market which commands a 62% of world market share, the star performer during the current year was p & c, which grew by an estimated 4.7%. This could be attributed to the low-yield environment which not only deterred savers from making long-term saving decisions but also led to fierce competition between investment products.

Insurance market growth in Asia was modest in 2018. With the exception of Japan, premiums rose by a meagre 2.3%, which is only the second time since the turn of the millennium that it trailed behind global growth. In 2018, the region accounted for a disappointing 16% of global growth, after a massive growth of 81% in 2017. Japan alone contributed more than 10% of the current year's growth, due to the fact that Life markets in China and Korea – which together account for 40% of the total regional premium pool (excluding Japan) contracting in the current year. In China, this was mainly due to a regulatory crackdown on insurance intermediaries selling wealth management products, which signals more balanced and sustainable development. Ten years ago, the size of the Chinese market was still roughly only a third of the Japanese market in terms of premiums, but today, it is by far the largest market in the region, 40% bigger than that of Japan, which China surpassed in 2016. Technology has also progressed rapidly in the Chinese market, which make the country the frontrunner in the application of AI or innovative payment solutions. India, the other potential heavyweight in the region, saw total premium incomes increase to EUR 71billion in 2018, a sixth of the size of the Chinese market. This gap has increased over time, in 2008, the Indian market was one-fourth the size of the Chinese market.

In 2018, in per capita expenditure terms, the global population spent EUR 614 on average on insurance premiums per year (Life - EUR 379; p &c - EUR 234). Expenditures per capita varied widely according to the maturity of the market, ranging from EUR 5 in Nigeria to EUR 7,180 in Hong Kong. The gross premiums of domestic insurance companies in most countries, especially in the Non Life sector, increased during the current year, with the largest growth coming from the developing countries where there is still room for growth. Overall, the best performers in 2018 were Vietnam and Laos, which posted a y-o-y growth of 26.3% and 24.6%, respectively. Sri Lanka, the Philippines and India also reported double-digit growth during the year. At the other end of the spectrum are the developed markets of the region like South Korea, Taiwan, and Singapore in which premium growth was 1.9%, 2.6% and 3.1% respectively.

There is clearly no homogeneity in the development of insurance markets in Asia. Countries like Laos, with deficient financial literacy, barely reach an insurance income of 0.5% of their GDP, while neighbouring markets such as China and Hong Kong have an insurance penetration of 3.7% and 17.5%, respectively. Equally wide is the dispersion in insurance density, with premiums per capita spanning from EUR12 in Laos and EUR 52 in India to EUR 4,510 in Singapore and over EUR 7,000 in Hong Kong.

Two situations in global insurance marked sector developments during the last decade, namely, the persistent growth gap between premium and economic growth, and the regional shift of market shares.

For the third year in a row, global premiums lagged behind the expansion of economic activity, which points to a widening protection gap. Over the last decade, insurance premiums outgrew global GDP growth during 2014 and 2015 only, while they contracted slightly in the global recession of 2009. In 2018, the estimated growth of the global economy was 5.7%, which left the insurance industry to lag behind by 2.4%. Consequently, global insurance penetration (gross written premiums as a percentage of GDP) decreased in the past decade, from 6.3 in 2008 to an estimated 5.4 in 2018. This development points to the fact that global risks are constantly increasing as climate change, demographies and cyber attacks increase while people and businesses worldwide are spending smaller proportion of their incomes on insurance. This disparity has resulted in a widening protection gap against natural catastrophes, cyber risks, healthcare and pension savings.

Mirroring the economic rise of emerging markets and China in particular, the insurance world map has changed considerably over the past decade. China's growing weight in insurance almost tripled its world market share in just one decade. In contrast, the share of mature markets, North America, Western Europe and Japan, declined by approximately 14pp. Western Europe, North America and Asia (ex Japan) account for 85% of global premiums at present.

Outlook for the coming decade. The future of the insurance market lies with a handful of countries, with three quarters of future growth coming from the leading ten markets, China, the US and India topping the list. Total global volumes of insurance premiums are expected to expand over the next decade to reach EUR 6,327 billion in 2029. Predictions are that a massive one- third of additional premiums will be written in China, compared to just 14% in the U.S. Region-wise, Asia (excluding Japan) will be responsible for around 60% of future growth.

However, although global premiums are forecast growing to reach approximately 5% in the next decade, global economic output is expected to grow by 5.6% which means that the penetration rate will not improve. Given the accelerating demographic change, as well as underdeveloped social security systems in emerging markets, Life insurance should again grow slightly faster than p & c business.

Business Review

Overall, emerging markets are expected to grow premiums by 10.5% in Life and p & c, and advanced markets by 3.2%. Besides different underlying growth dynamics, part of this difference is explained by higher inflation and diverging paths of penetration, with penetration expected to rise in emerging markets, by around 0.8pp but set to decline further in advanced markets, by 0.4pp.

Global insurance markets are at a crossroads today. The big unknown is the digitalisation of insurance, which will have many effects on premium growth. Digital platforms will enable a wider customer base, both in the developed and developing worlds. Given the still very low penetration in many emerging markets, the potential is huge. A one percentage point higher penetration rate in emerging markets would have added EUR 250 billion in total premiums in 2018.

The trends shaping the contemporary insurance industry as digital technologies drive irreversible change are as follows:

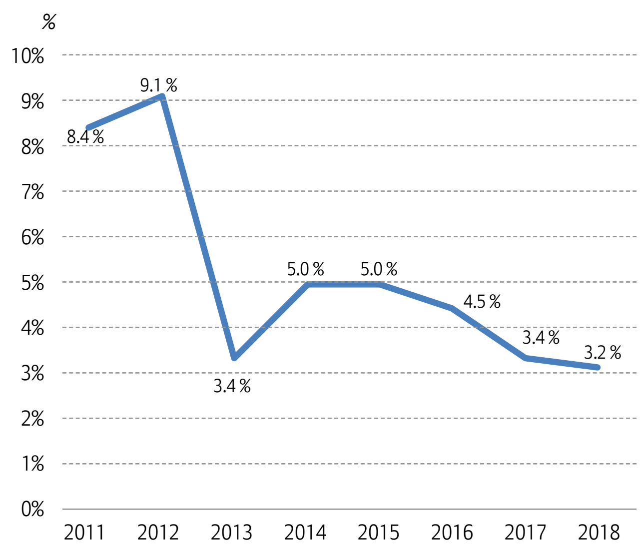
- **New models and personalised products.** The digital economy will increase the demand for usage-based, personalised insurance covers instead of the one-size-fits-all products currently available. New products, from cyber security to so-called UBI products (usage-based insurance) will generate new demand for insurance. Cyber insurance, for example, offers huge opportunities, from insurance against cyberattacks to the protection of customer's digital identities.
- **AI and automation for faster claims.** New technologies are already causing a seismic shift in the insurance industry as AI (artificial intelligence) and related technologies are embedded into the business. Robotic Process Automation (RPA) and AI will occupy center stage in insurance, driven by newer data channels, better data processing capabilities and advancements in AI algorithms. AI eliminates brokers and paperwork and its behavioral economics capabilities minimise fraud - leading to reduced time, effort and costs.
- **Advanced analytics and proactiveness.** Premiums will also become highly personalised, enabled by new sources of tech-enabled data such as Internet of Things, mobile-enabled InsurTech apps and wearables. With the connected devices market poised to grow strongly in the next five years, Property and Casualty (p&c) insurers will be able to extract real-time and accurate data on the loss exposure of consumers. This will help them to proactively respond with timely and highly personalized interventions.
- **InsurTech partnerships.** As the customer base increases, so will competition. New competitors will come from outside the industry as well, from tech giants in China and the U.S. to insurtech startups. InsurTech firms have been showing significant growth in the areas of auto, home ownership and cyber insurance. This will stimulate traditional insurers to either acquire technology capabilities or seek partnerships with InsurTech companies, and once established, they will provide insurance with superior customer experience at cheaper prices. With an increasing demand for innovative products and services from millennials, such collaboration will become a critical imperative.
- **Mainstreaming blockchain.** The need for massive volumes of customer data to be processed in real time for different insurance functions necessitates speedy and secure transfer of data across organisations and their diverse stakeholders. Blockchain technology provides the advantage of secure data management across multiple interfaces and stakeholders without loss of integrity, and offers reduced operational costs. The beta version of a blockchain-based insurance solution is expected to be deployed in 2018.

New value worth billions of dollars could be created for the insurance industry once these trends come into play. The choice is now clear: the industry must innovate or perish in the present digitalisation scenario.

Local Growth Framework

Economic growth in Sri Lanka continued at a sluggish pace of 3.2 % in 2018, which is a marginal decline from 3.4 % in 2017. This growth is well below the IMF forecast of 4.3 % for 2018, and is comparatively lower than in other economies in the region which experienced GDP growth of up to 7% . The low growth could be attributed to the various challenges experienced by the country on both the domestic as well as global fronts.

Sri Lanka-GDP Growth



Source: Central Bank of Sri Lanka

Growth was mainly due to increased activity in the services sector that expanded by 4.7 % and the recovery of the agriculture sector, which grew by 4.8 %. The services sector provided the highest contribution to the economy during the year, led by growth in financial services and wholesale and retail trade activities and supported by the residual effects of the rebound in agricultural activities. However, Industry activities slowed to 0.9%, from a growth of 4.1 % recorded in 2017, mainly due to the contraction in construction and mining activities which accounted for a significant 35.1 % share of Industry activities.

The financial services sector recorded a moderate expansion during the year. The banking sector reported a moderate growth in total assets and maintained its capital and liquidity levels at well above the minimum statutory requirement. The increase in loans accounted for 84.1 % of the asset growth of the banking sector during 2018. Deposits continued to be the main source of funding, representing 72 % of total liabilities of the sector.

The Licensed Finance companies (LFCs) and Specialised Leasing companies (SLCs) sector, however, declined in credit growth and profitability. Lending activities of the sector decelerated mainly due to certain fiscal and macroprudential policy measures taken during the year.

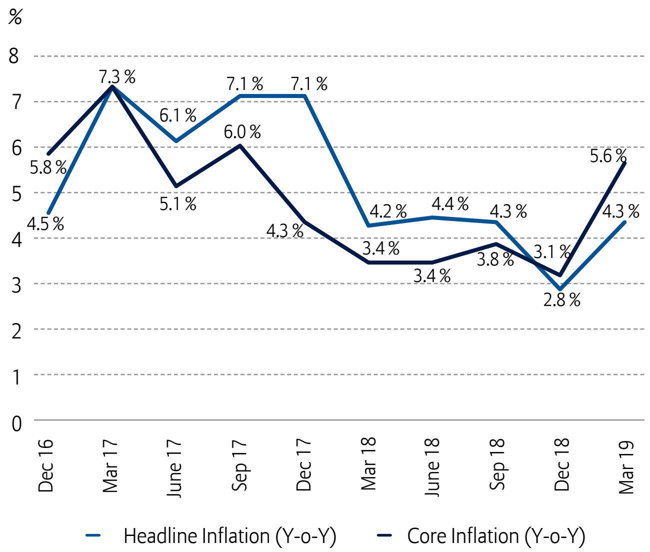
Rupee liquidity in the domestic money market, which displayed mixed movements until mid-September 2018, turned into persistent deficit levels thereafter, mainly due to foreign exchange -related transactions carried out by the Central Bank. The imposition of the margin requirement on Letters of Credit (LCs) on motor vehicle imports and the statutory requirement for such deposits to be maintained with the Central Bank, also contributed to the liquidity deficit. With a view to improving the liquidity in the market, the Central Bank took policy decisions to reduce the Statutory Reserve Ratio (SRR) by 2.50 percentage points in two steps in November 2018 and March 2019, which substantially improved liquidity conditions.

Investment as a percentage of GDP declined marginally to 28.6 % in 2018 from 28.8 % in the previous year, while the savings-investment gap widened during the year, indicating increased dependence on external resources to fill the shortfall.

Public investment also declined due to fiscal consolidation measures targeted at rationalising government expenditure. Despite the sharp depreciation of the Sri Lankan rupee against major currencies, net external demand remained weaker. Moreover, domestic savings slowed in 2018, with a moderation in private savings and continued increases in government dis-savings.

Year- on-year headline inflation, measured by CCPI, increased to 4.3 % by March 2019, partly due to the lagged effect of the sharp depreciation of the rupee during 2018. Core inflation remained at low single digits throughout 2018, reflecting the lagged impact of the relatively tight monetary policy stance maintained recently.

Inflation



Source: Department of Census and Statistics

Amidst the moderate growth in economic activity, the unemployment rate increased marginally and there was a slight decline in the labour force participation rate.

GDP at current prices recorded a growth of 7.7 % in 2018, compared to the higher growth of 11.9 % recorded in 2017. This indicates relatively low price pressure. In dollar terms, per capita GDP was recorded at USD 4,102 in 2018.

The trade deficit widened considerably during the year to USD10,343 million, from USD 9,619 million in 2017, due to a substantial increase in import expenditure in the first eight months of the year. To curb the widening trade deficit, the Central Bank implemented a series of measures to reduce non-essential imports which proved successful, and the deficit in the trade account of the Balance of Payments contracted significantly in the first quarter of 2019, fortified by increased export earnings and the substantially depreciated Sri Lankan Rupee.

The current account deficit widened to 3.2% of GDP during the year as a result of stagnant workers' remittances and rising foreign interest payments.

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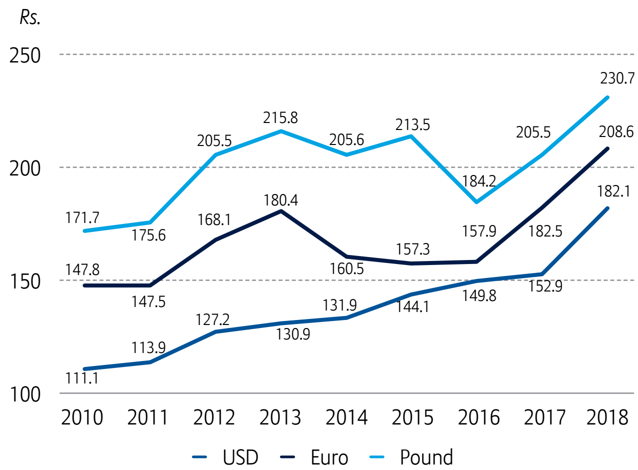
The Average Weighted Lending Rate (AWLR), which is based on the interest rates of all outstanding loans and advances extended by commercial banks, increased to 14.49% by end- March 2019 from 14.04% as at 31 March 2018.

The Central Bank followed a market- based exchange rate policy that allowed a sharper depreciation of the rupee, but intervened in the domestic foreign exchange market when there were large capital outflows and undue speculation that caused excessive market volatility.

The Sri Lankan Rupee depreciated by 16.4 % against the USD during the year. The Central Bank intervened to reduce the pressure on the Rupee and supplied USD 1,120 million to the domestic foreign exchange market on a net basis, which caused exchange rate fluctuations to subside somewhat during late 2018 and early 2019.

Foreign Exchange Rates



Source: Central Bank of Sri Lanka

The financial account also benefitted from increased FDI inflows which were at their historically highest level in the year of review, following the easing of global financial conditions and the shift in the monetary policy focus in advanced economies, particularly the United States.

The delayed implementation of structural reforms and policy uncertainties throughout the year, exacerbated by political tension during the latter part of 2018, had a negative impact on business confidence and investor sentiment. The uncertain political climate compounded by concerns of fiscal slippage in the lead, up to the elections resulted in all three major international rating agencies downgrading Sri Lanka's sovereign ratings.

The external sector was also volatile. Monetary policy normalisation, particularly in the United States caused a tightening of global financial conditions that resulted in outflows of capital from emerging market economies, which increased pressure on the exchange rates of economies like Sri Lanka that experience a fiscal deficit as well as a deficit on the current account of the balance of payments.

The average import price of crude oil increased by 31.9 % to USD 76.25 per barrel during the year, from USD 57.79 per barrel, in 2017, reflecting higher oil prices in the international market.

LOCAL INDUSTRY FRAMEWORK

The insurance industry in Sri Lanka during 2018 comprised twenty-six registered insurance companies. Of these, six insurance companies operated with major foreign equity. Many companies are organised into conglomerates, subsidiaries and associates of groups, and nine companies were listed in the Colombo Stock Exchange as at 31 December 2018.

Several acquisitions and mergers were experienced in recent years, especially in the Non Life insurance sector consequent to the segregation of the Life and Non Life insurance businesses of composite insurers in 2015. Recent trends in acquisitions and mergers have seen a shift in ownership to global insurance firms. The single large acquisition that took place during the year was the acquisition by Allianz Insurance Lanka Ltd. of Janashakthi General Insurance, with the support of parent company Allianz SE. This propelled Allianz Lanka from No. 5 position with a market share of approximately 6% in Sri Lanka in 2017, to the No. 2 position, an event that had a substantial impact on the local Non Life insurance industry.

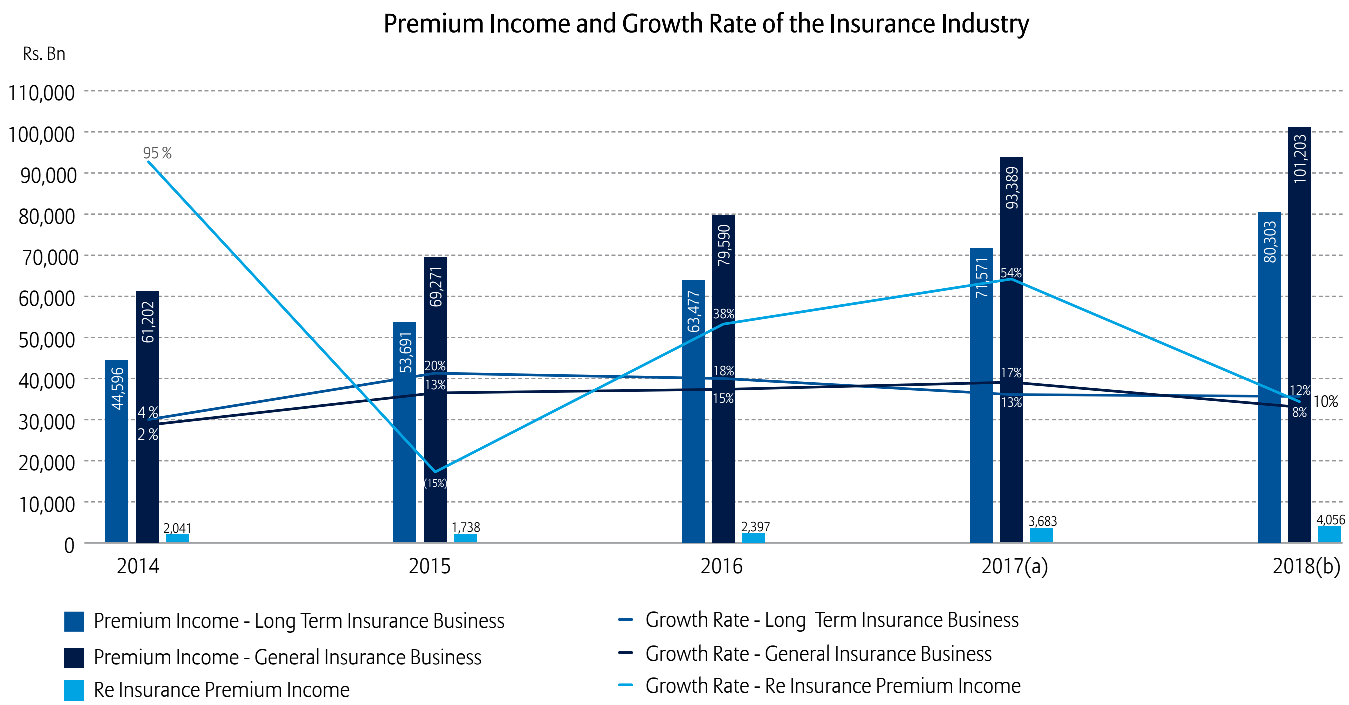
A significant contemporary trend in the local industry is the steady gaining of importance of micro-insurance, due to its ability to reach large segments of the population with simple and affordable insurance products. The increasing dependency ratio with demographic transitions and the non-availability of sufficient pension schemes, added to low insurance penetration levels, are affording more opportunities for insurers and micro-insurers.

Several natural disasters occurred during the year, due to erratic weather patterns brought about by climate change. Torrential monsoonal rains occurred in mid May 2018, and heavy thunder storms lashed the Northern province in Sri Lanka in end-December. Although these events caused damage, their impact on the insurance industry was not as severe as the weather impacts of the previous year.

Despite the economic and political uncertainties during the year, the insurance industry achieved a total Gross Written Premium (GWP) of Rs. 181,507 million in 2018 compared to Rs. 164,960 million reported in 2017 and grew at a moderate phase of 10.03% - growth was 15.30% in 2017. Motor insurance was the main contributor to the GWP this year too, as has been the trend in past years. However, the Non Life insurance industry grew at a slow phase of 8.37%, compared to double digit growth recorded since 2015. The Life insurance industry to reported premium income of Rs. 80,303 million in the current year and a moderate growth rate of 12.20% over the preceding year.

PREMIUM INCOME & GROWTH RATE OF THE INSURANCE INDUSTRY

Premium income and growth rate of the insurance industry over the past five years



The contribution of insurance towards the country's total GDP remains low at 1.26% (2017: 1.24 %). The level of disposable income as well as certain negative perceptions of insurance and available social security benefits are among the key factors that contribute to the low penetration levels.

Insurance density in Sri Lanka during 2018, calculated based on the total GWP to the country's population, was Rs. 8,376. About 8 million persons were employed during 2018, and total GWP to the country's employed people stood at Rs. 22,646.

Business Review

TOTAL PREMIUM INCOME AND PENETRATION

Details on GWP, insurance penetration and insurance density over the past five years

Premium Income & Penetration

	2014	2015	2016	2017(a)	2018(b)
Premium income - Long Term Insurance Business (LKR millions)	44,596	53,691	63,477	71,571	80,303
Premium income - General Insurance Business (LKR millions)	61,202	69,271	79,590	93,389	101,203
Total Premium Income - Insurance Business (LKR millions)	105,798	122,962	143,067	164,960	181,506
Growth Rate in Total Premium Income - Insurance Business (%)	5.84	16.22	16.35	15.3	10.03
Reinsurance Premium Income (LKR millions)**	2,041	1,738	2,397	3,683	4,056
Gross Domestic Product at current market price (LKR billions)*	10,361	10,951	11,996	13,418	14,450
GDP Growth Rate % *	4.9	4.84	4.5	3.4	3.2
Penetration % (Total Premium of Insurance Business as a % of GDP)	1.02	1.12	1.19	1.23	1.26
Penetration % (Premium of Long Term Insurance Business as a % of GDP)	0.43	0.49	0.53	0.53	0.56
Penetration % (Premium of General Insurance Business as a % of GDP)	0.59	0.63	0.66	0.7	0.7
Insurance Density - (Total Premium Income - Insurance Business/ population) LKR.	5,094	5,865	6,747	7,693	8,376
Population '000 (Mid-Year) *	20,771	20,966	21,203	21,444	21,670

** Source: Central Bank of Sri Lanka and Department of Census and Statistics*
: Gross Domestic Product at current market price has been updated from 2014 onwards based on the Annual Report of Central Bank of Sri Lanka 2018.
*** Reinsurance premium income represents the compulsory cession of reinsurance premiums of General Insurance Business ceded to NITF.*

PROFITABILITY

The volatility in the interest rate environment and other economic instabilities that prevailed during the year impacted the profitability of the local insurance industry, which reported a total profit before tax of Rs. 37,017 million, down from Rs. 49,084 million in 2017. The total profit of the insurance industry after excluding One off Surplus, amounted to Rs. 36,636 million in 2018 as against Rs. 33,217 million in 2017.

Long- term insurance business reported a profit before tax of Rs. 24,127 million in 2018, mainly driven by Janashakthi Life following the substantial profit earned from the disposal of subsidiary company, Janashakthi General. Overall profitability of Life insurance business during the year showed an upward trend over the past two years due to the release of reserves other than One-off Surplus.

Despite the competition and price pressure that prevailed in the market, the Non Life insurance industry reported profits before tax of Rs. 11,318 million in 2018, compared to Rs. 9,469 million recorded in 2017, which is a growth of 19.52% YoY. SLIC and Ceylinco General together contributed 54.19% of the total profits before tax in the current year.

During the preceding year, the Insurance Regulatory Commission of Sri Lanka issued Direction # 16 on identifying and treating the One off Surplus, following which a few major insurance companies transferred their One-off Surplus, other than participating business to shareholders' fund for the year ended 31 December 2017. As a result of this transfer, Life insurers' profitability improved by 67.57 % in 2017 to Rs. 39,349 million. However, in 2018, only HNB Life transferred the One-off Surplus amounting to Rs. 381 million (2017- Rs. 15,867 million).

GROSS WRITTEN PREMIUM - LIFE

The Sri Lankan Life insurance industry comprises twelve insurance companies registered to carry on only Life insurance business as well as three composite companies who handle both Non Life and Life insurance business.

2018 was a year of challenging global and local economic conditions with economic growth lower than expected, continued uncertainty in socio-economic policy which resulted in further depreciation of the rupee which affected the balance of payments and reduced disposable income in a scenario of increased direct and indirect taxes.

Despite these challenges, the local Life insurance industry grew by 12.20% (2017:12.75%) reporting a premium income of Rs. 80,303 million in comparison with Rs. 71,571 million recorded in the preceding year. This growth momentum was sustained by improved operational processes that assured quality service to customers, revamping existing products as well as introducing innovative products to cater to changing customer needs, improving customer awareness of insurance.

The segregation of insurance companies also resulted in insurance companies improving focus on their business lines, coupled with factors such as rising urbanization, increasing levels of customer sophistication and improvements in the overall macrocosmic features of the country.

The GWP of Life business improved by 80.07% during the five-year period 2014 to 2018, despite low penetration levels, achieving double digit GWP growth rate during the last four years although a declining trend was observed in the growth rate recorded from 2015.

INSURANCE POLICIES ISSUED AND POLICIES IN FORCE – LIFE INSURANCE

During 2018, Life insurance companies issued 712,013 new life insurance policies, which is an increased of by 10.65% over the 643,483 new policies issued in. This was the result of several innovative payment and claims options introduce by Life companies to the local market. This brought the total Life insurance policies in force to 3,215,911 as at end- 2018 (2017: 3,068,866). The total Life insurance policies in force have increased gradually over the last five years, which reflects the expansion of Life business in the country. Number of life insurance policies as a percentage of the total population was 14.84% in 2018 compared to 14.31% recorded in 2017. The number of life insurance policies as a percentage of the labour force has increased to 37.93% in 2018 from 35.51% recorded in 2017.

CLAIMS INCURRED BY INSURANCE COMPANIES – LIFE INSURANCE

Total claims incurred by Life insurers increased noticeably in 2018 to Rs. 34,337 million (2017: LKR 26,371 million) which is a 30.21% YoY growth and is the highest number of claims incurred within the last five years in terms of value. Total claims incurred comprised disability benefits, death benefits, surrenders, maturity benefits and other benefits paid to policyholders.

NON LIFE INSURANCE

Gross Written Premium

The Sri Lankan Non Life insurance industry comprised fifteen insurance companies in 2018, of which eleven insurers conducted Non Life insurance only, three composite insurers handled both Life and Non Life insurance businesses and one insurer conducted both Non Life and reinsurance business.

The year of review saw intense competition among Non Life insurers as a result of industry opportunities and challenges mainly due to reduced construction business, increases in vehicle registration which were largely witnessed in cars with small engine capacity following the favourable duty structure for that vehicle category provided by the 2018 Budget. The industry experienced less adverse effects from unfavourable weather conditions in 2018 when compared to previous years.

The acquisition of Janashakthi General Insurance Ltd. by Allianz Lanka Ltd. exacerbated industry competition during the year and created significant changes in the positioning of the top market players. The amalgamation of Janashakthi General, enabled Allianz Insurance Lanka to gain leadership in the Non Life insurance market by surpassing top industry player SLIC. Allianz Insurance Lanka achieved a market share of 18.39% and recorded a premium of Rs. 18,610 million in 2018 while Ceylinco General remained in the second position of the Non Life insurance market with a premium income of Rs. 18,138 million (2017: Rs. 17,012 million) and a market share of 17.92% (2017:18.22%). SLIC was at third position with a premium income of Rs. 17,905 million (2017: LKR 18,355 million).

Business Review

The GWP generated by the Non Life business was Rs. 101,204 million in 2018 compared to Rs. 93,389 million recorded in 2017, which is a growth of 8.37%. This growth is attributable to factors driven by the industry such as technology, new methods of marketing, distribution and payments which helped to boost the Non Life industry. However, the GWP growth was at a slower pace compared with the growth rate of 17.34% in the previous year. This is mainly due to lower GWP growth experienced in fire, motor, miscellaneous insurance businesses and negative growth recorded in the health insurance business.

Motor insurance dominated the Non Life insurance market this year too, generating GWP of Rs. 62,479 million in 2018 (2017: LKR 56,048 million) which represented 61.74% of total GWP (2017: 60.02%). There was a further drop in the growth rate of motor insurance business to 11.47% from the of 13.61% recorded in 2017 as a result of the tight monetary conditions that prevailed during the current year.

SOLVENCY – NON LIFE BUSINESS

The Average Capital Adequacy Ratio (CAR) of the industry was 171% as at 31st December 2018, a marginal decrease of by 4% from 175% recorded in 2017. All Non Life companies except two, complied with the minimum CAR requirement of 120% and minimum TAC requirement of Rs. 500 million as at 31 December 2018.

BRANCHES, EMPLOYEES AND INSURANCE AGENTS

The local insurance industry plays a key role in the financial services sector by creating substantial employment opportunities, 19,437 people were employed in the industry in 2018, of which Non Life insurance and Life insurance generated 10,091 and 6,472 jobs respectively, while composite companies employed 2,874 people. As in previous years, more than 60% of the employees are in the Western Province.

A total of 44,904 agents service the industry. Sales agents continued to play a valuable role in the Western province and increased in by 7.38% to 19,042 in the current year. Agents servicing the Northern Western province increased by 259 to 4,497 but numbers declined in the Central and Northern Provinces in 2018. More than 90% of agents serve in the Life and composite companies.

The Sri Lankan insurance industry expands services to customers through a widespread branch network throughout the island, with new branches added each year. Branches increased to 2,147 in 2018, from 2,079 reported in 2017.

DISTRIBUTION CHANNELS

Today, insurers employ multi- distribution frameworks that integrate agents, marketing officers, banking and other financial institutions, and several value additions were observed with digitalization support. However, despite value additions in certain integrated functions such as payments, marketing and claims processing, the insurance industry is yet to leverage the benefits of the online space.

Agents continued to dominate the Life market, generating 86.93% of the total GWP. The contribution from bancassurance to the GWP of Life insurance business improved slightly from 5.92 % in 2017 to 7.14% in 2018. The Important role played by exclusive sales and marketing officers was evident in Non Life business during the year, as total GWP generated by this segment amounted to 41.67% (2017: 43.72%). Institutional agents, finance and leasing companies and group business are also important sources of premium income for Non Life business and accounted for 18.93% of total GWP. Brokering companies also generated 17.57% of premium income. Direct insurance business mainly represents insurance schemes implemented by the government through NITF.

INSURANCE BROKERING COMPANIES

Sixty-five insurance brokering companies operated in the local market in the current year, generating a Gross Written Premium (GWP) of Rs. 25,063 million. The total GWP generated through insurance brokering grew by 16.69% in 2018 from Rs. 21,479 million recorded in 2017.
As in previous years, the contribution of insurance brokering companies towards long term insurance business was insignificant.

Capital Reports
Financial Capital

OVERVIEW

The contemporary business environment is growing increasingly more volatile as new challenges materialise week by week. This compels organisations to counter mounting risks that threaten their continuity because they understand that their survival rests on how prudently their financial resources are managed.

Effective financial management is mandatory if a company is to achieve sustainable growth whilst generating significant competitive advantages. A company that judiciously manages its investments apportions its funds to achieve the profitability and growth determined by its growth objectives. Prudent financial management dictates the sourcing of funds at lower costs, control of capital costs, as well as avoids of high debt capital.

OUR APPROACH

Allianz Lanka has a focused approach to financial management that complies with the best practices and standards of all relevant statutory and regulatory bodies. The Company employs its financial capital to maximise shareholder wealth whilst increasing the economic value of the business. Effective safeguards are also in place to deal with uncertainty and associated risks, and transparency and accountability is assured in every transaction.

The Company's Financial Capital comprises a pool of funds accumulated from the investments of shareholders. The Company operates under the following financial advantages that place it on the firm financial footing necessary to effectively utilise these funds by:

- Exploring new business opportunities that increase profitability
- Pursuing investments that provide the best returns
- Sourcing cost and process efficiencies
- Enhancing credibility with stakeholders by distributing value

NON LIFE BUSINESS

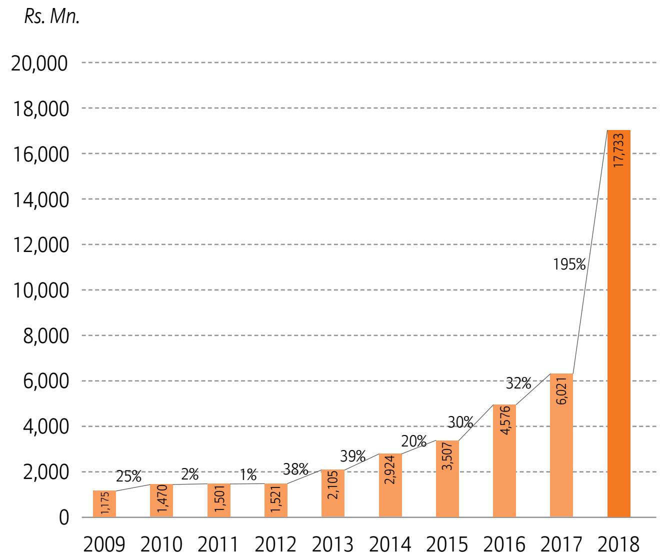
The highlight of the year of review was the successful completion of the legal process in the acquisition of Janashakthi General Insurance Ltd by Allianz Insurance Lanka Limited in accordance with the provisions of the Companies Act.

Accordingly, with effect from 28 September 2018, the acquired company was absorbed into Allianz Insurance Lanka Limited and the following areas of operation were streamlined to ensure effective and uninterrupted business processes:

- The products of Allianz and Janashakthi were harmonised, the pricing and claims structures were redefined, and a technical policy structure was introduced to provide more rationale to the claims and pricing procedures.
- Best practices were identified by reviewing the data and cost structures and claims controls of both companies, and these practices were implemented across both companies to improve the efficiency of the overall processes.
- Compensation and benefits for recruits from the acquired company, both in the permanent and agency cadres, were also harmonised.
- Policy structures have been simplified to make them more customers- centric, and the internal processes of business placing, claims handling, payments etc. were streamlined to align them with the future digital business model.

GROSS WRITTEN PREMIUM (GWP)

The GWP of the Company grew by 195% to Rs 17,773 million, exceeding the previous year's growth by 32 % and comfortably surpassing the industry growth by 8 % YoY. The motor and health businesses emerged as the two key growth drivers for this immense growth.



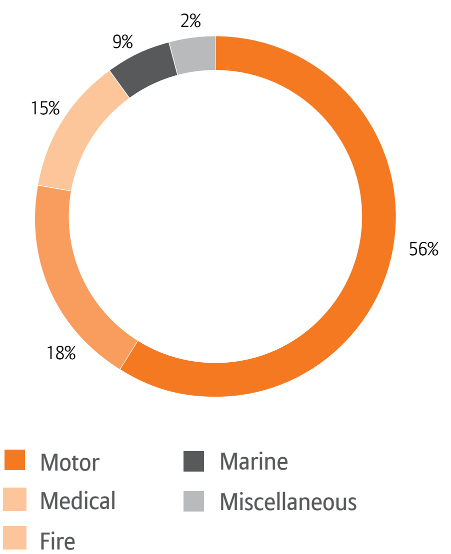
Capital Reports

Financial Capital

PREMIUM BY CLASS

Motor business stands out as the main contributor to GWP as it comprises 57% of the total portfolio, recording a mammoth YoY growth when compared to industry growth. This was mainly due to the amalgamation of the two businesses following the acquisition as well as the successfully established new sales structure

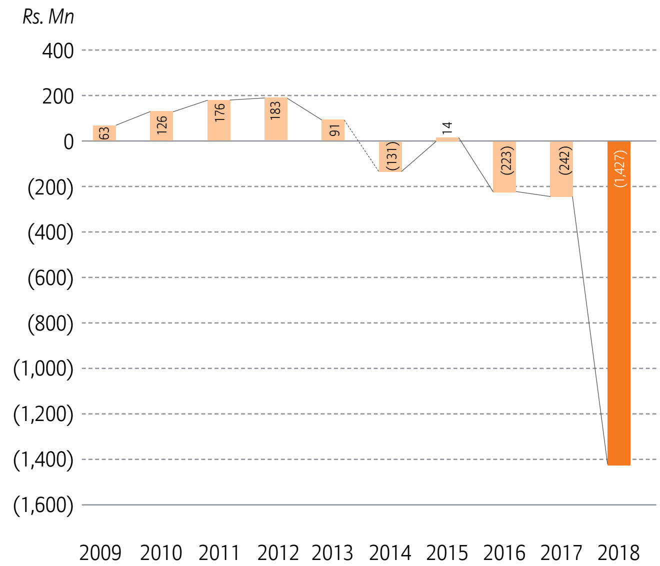
Non motor business also grew considerably in the year under review and far exceeded the industry growth rate of 1%.



UNDERWRITING RESULTS

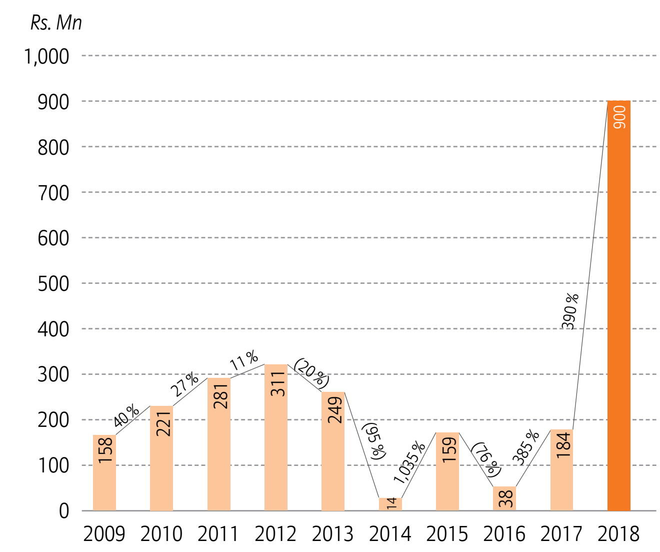
The Company recorded an underwriting loss of Rs.1,427 million in the year of review. This loss was mainly driven by the fire and health businesses which experienced some large claims in 2018, coupled with the costs of integration.

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.



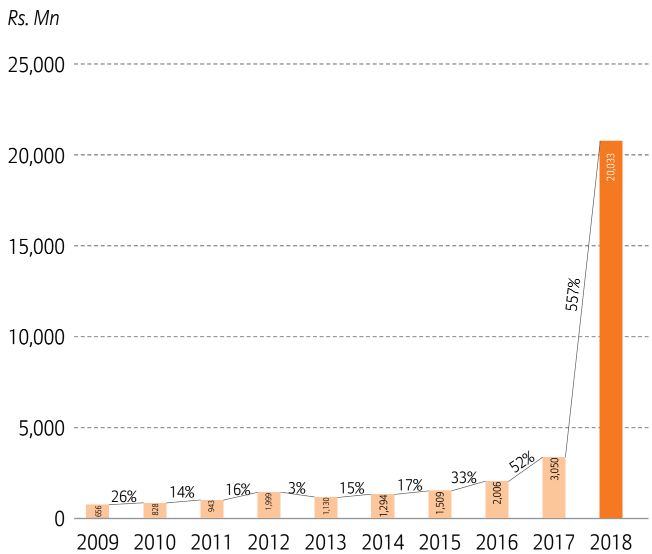
PROFIT BEFORE TAX (PBT)

The Company recorded a profit before tax amounting to Rs.900 million during the year, which is a 389% growth over 2017 mainly as a result of the substantial improvement in investment returns.

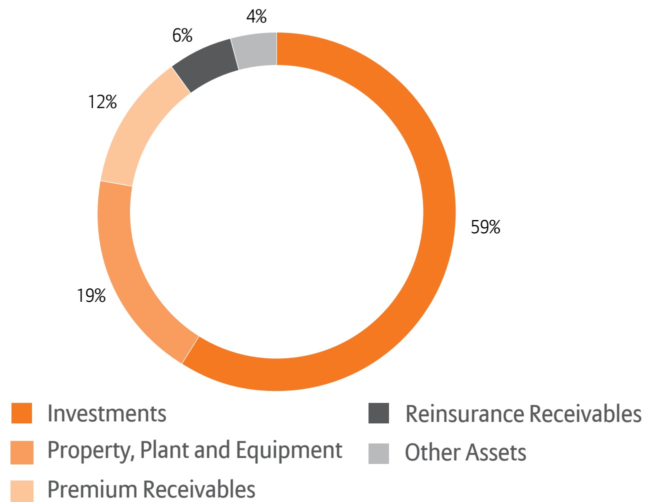


INVESTMENT PORTFOLIO

Investment portfolio in 2018 recorded a mammoth YoY growth to Rs. 20,033 million as a result of the amalgamation. This healthy growth was driven by the upward revision of policy rates in the first half of the year. The majority of the Company's portfolio is held in government securities and fixed deposits in line with its prudent risk strategy.



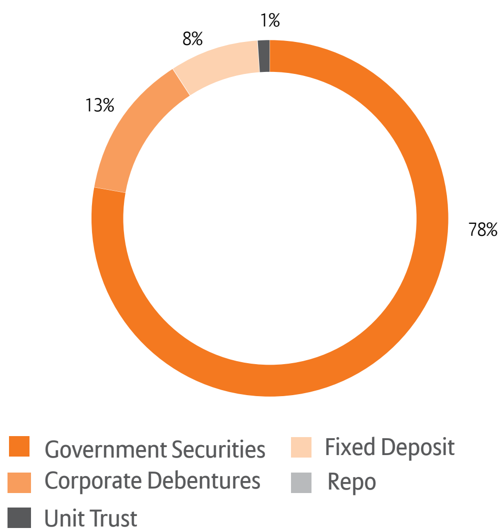
TOTAL ASSETS COMPOSITION



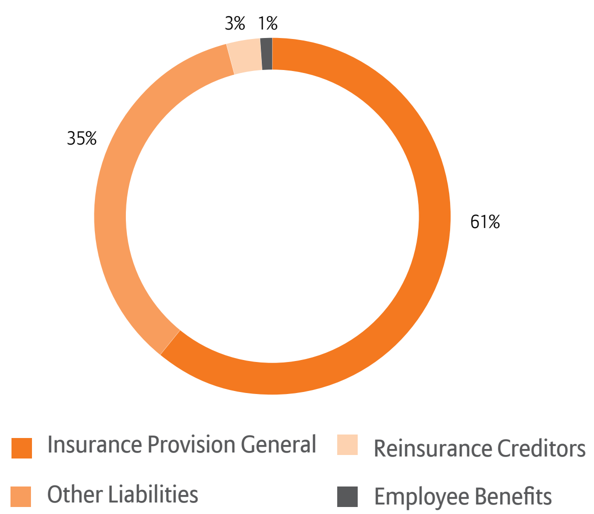
INVESTMENT PORTFOLIO – ASSET ALLOCATION

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 maintenance of a highly liquid portfolio.



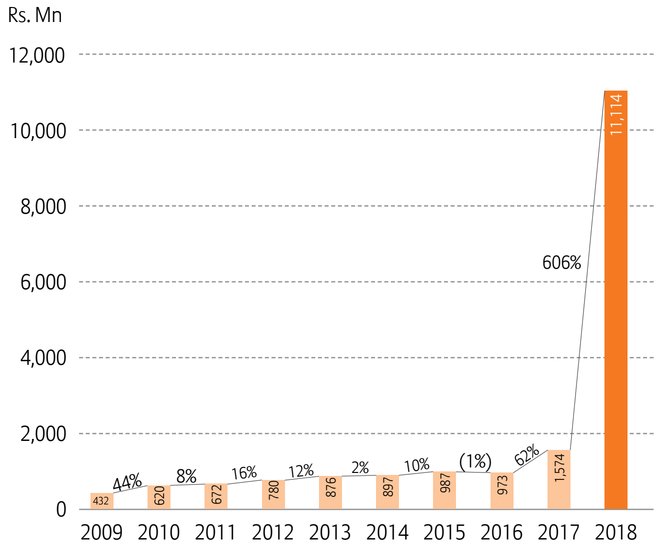
LIABILITY COMPOSITION



Financial Capital

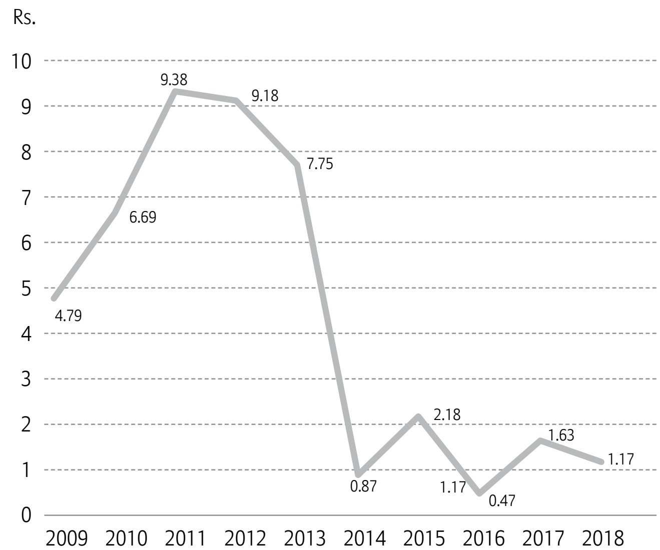
NET ASSETS

The net assets of the company grew by 606% from last year, to Rs.11,114 million. This is mainly due to the acquisition during the year.



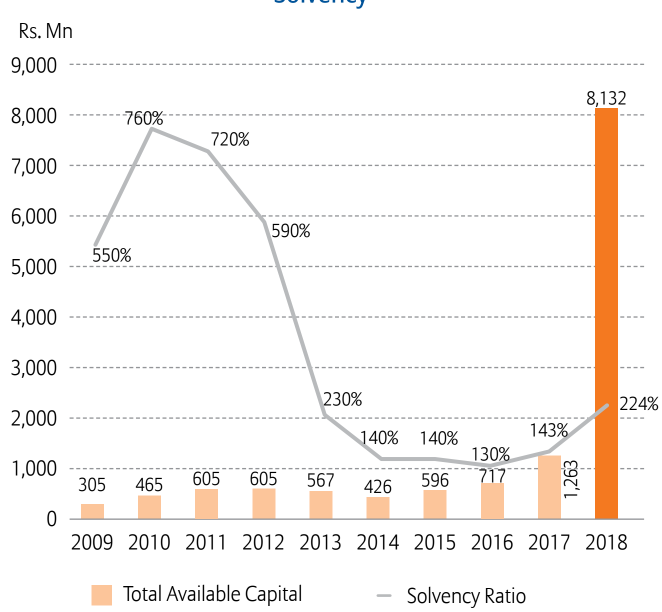
EARNING PER SHARE (EPS)

The EPS decreased to Rs.1.17 in 2018, from 1.63 in 2017 as a result of the underwriting loss.



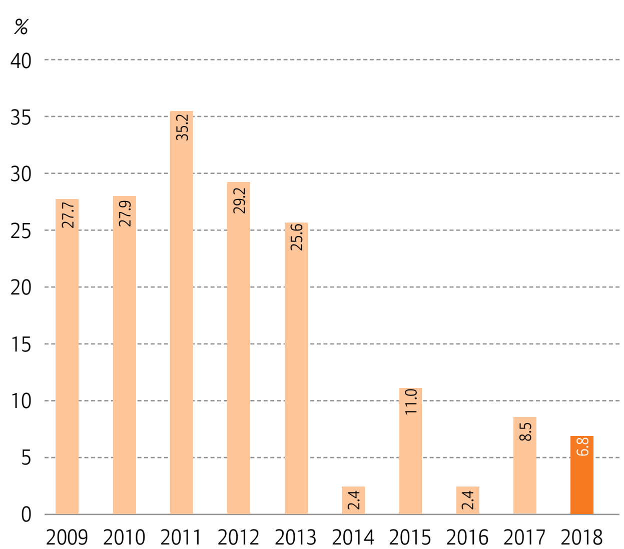
SOLVENCY MARGIN

The Company's Capital Adequacy Ratio (CAR) by end - 2018 stood at 2.24 which is comfortably above the regulatory minimum. Improvement in Total Available Capital was due to the increase in profits. While there was a significant increase in the liability risk charge, the market risk capital charge and concentration risk charges decreased.



RETURN ON EQUITY (ROE)

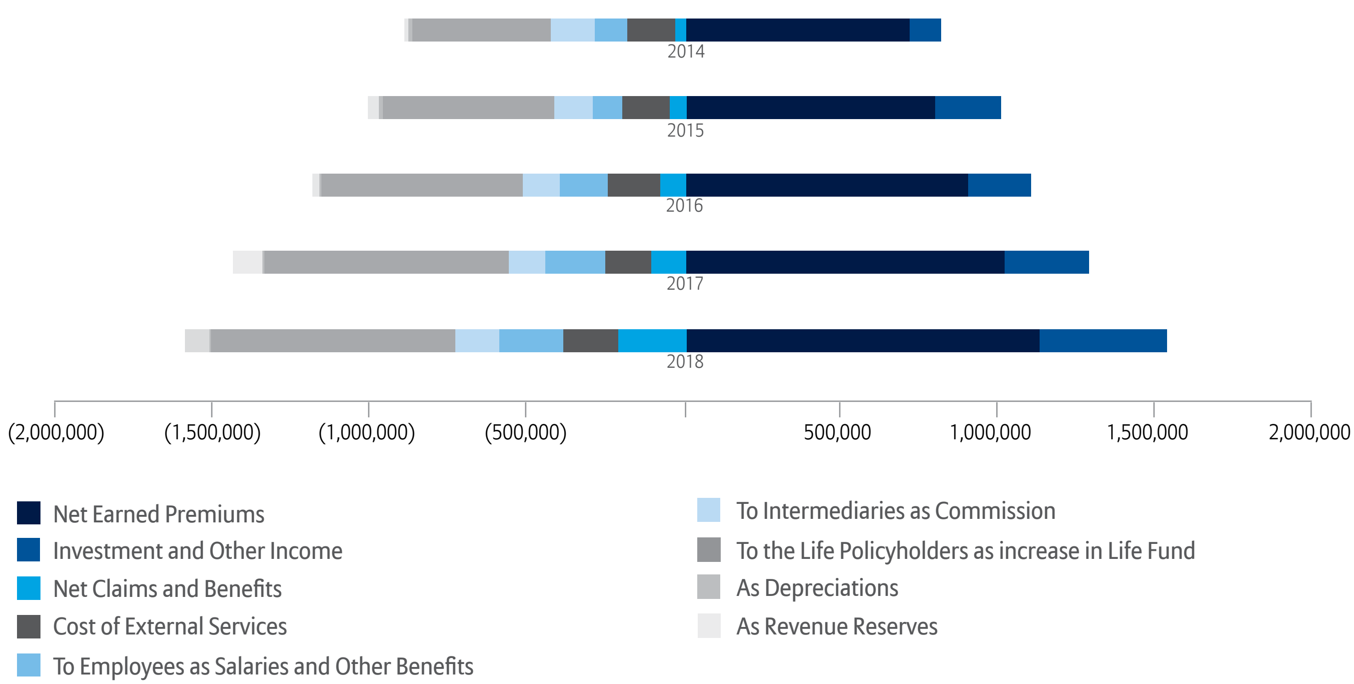
ROE decreased to 6.8% in 2018 from 8.5% in 2017. This is largely due to the underwriting loss reported in 2018. However, ROE is expected to improve in the long term along with the improvement in investment income.



VALUE ADDED AND VALUE DISTRIBUTION

Value Addition	2018	2017	2016	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Net Earned Premiums	1,215,099	1,095,344	973,115	859,834	768,148
Investment and Other Income	327,693	290,111	210,507	148,000	107,950
Net Claims and Benefits	(232,127)	(115,187)	(86,648)	(52,493)	(38,562)
Cost of External Services	(187,100)	(158,604)	(179,968)	(163,755)	(161,693)
Total Value Added	1,123,565	1,111,664	917,007	791,586	675,843

Value Distribution	2018		2017		2016		2015		2014	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	223,810	19.9	206,177	18.5	163,246	17.8	104,490	13.2	110,663	16.4
To intermediaries as commissions	150,221	13.4	130,392	11.7	130,863	14.3	129,688	16.4	150,816	22.3
To the government as taxes	-	-	-	-	-	-	-	-	-	-
To the Life policyholders as increase in Life fund	656,817	58.5	663,854	59.7	586,505	64.0	506,223	64.0	384,958	57.0
Retained with the business										
- as Depreciation	7,134	0.6	7,217	0.6	10,434	1.1	13,294	1.7	16,016	2.4
- as Revenue Reserves	85,583	7.6	104,024	9.4	25,959	2.8	37,891	4.8	13,390	2.0
Total Value Distributed	1,123,565	100.0	1,111,664	100.0	917,007	100.0	791,586	100.0	675,843	100.0



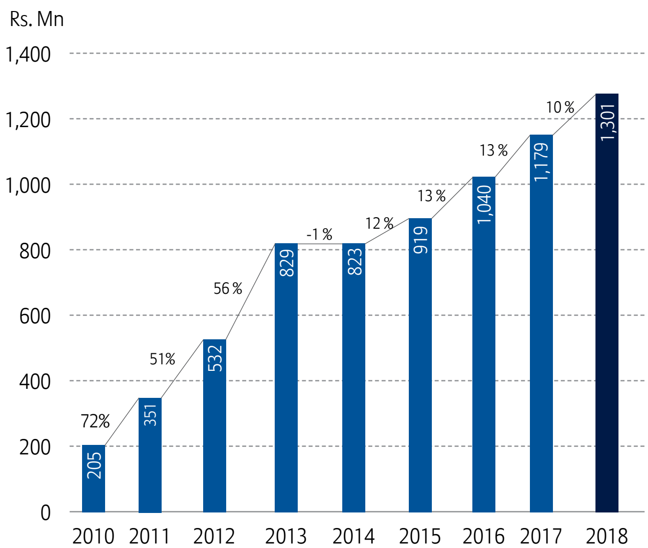
D. Capital Reports

Financial Capital

LIFE BUSINESS

The Life Company posted an exceptional performance during the year despite turbulent economic and political conditions in the country, demonstrating its potential for future growth.

Gross Written Premium (GWP)



GWP achieved surpassed Rs.1.3 billion, which confirms the success of the strategies adopted during the last few years during which the Company focused on consolidating its market position by laying the foundation for aggressive expansion in the forthcoming years and opened a number of branches island wide. Growth showed steady improvement by more than 10%, a clear indication of progress with stability in the market.

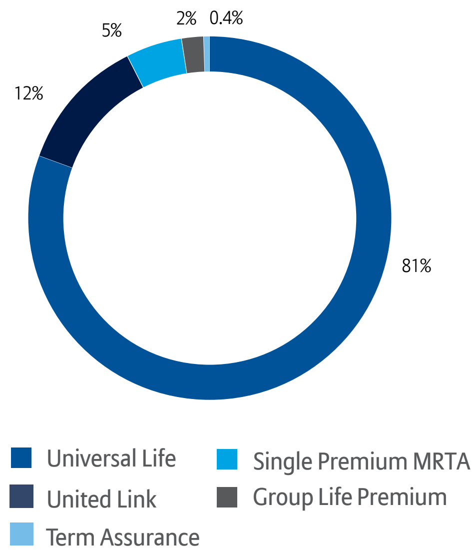
The GWP composition further illustrates the Company's success in maintaining its position of trust and reliability in customers' minds, more than 60% of GWP was received from renewal premiums in addition to 31% of GWP contributed from FY premiums or new business achieved during the year, a growth of 15%. Group Premium increased by 162% YoY. GWP in the year of review was mainly driven by the agency channel.

	2018		2017	
	LKR Mn	%	LKR Mn	%
FYP	404	31%	351	30%
Single Premium	47	4%	37	3%
Group Premium	63	5%	24	2%

	2018		2017	
	LKR Mn	%	LKR Mn	%
Renewal Premium	787	60%	767	65%
Total GWP	1,301	100%	1,179	100%

The Allianz Life Insurance core product, Universal Life, represents 81% of total GWP, while Unit Link had a 12% weightage in the product mix in 2018.

Premium by Insurance Type



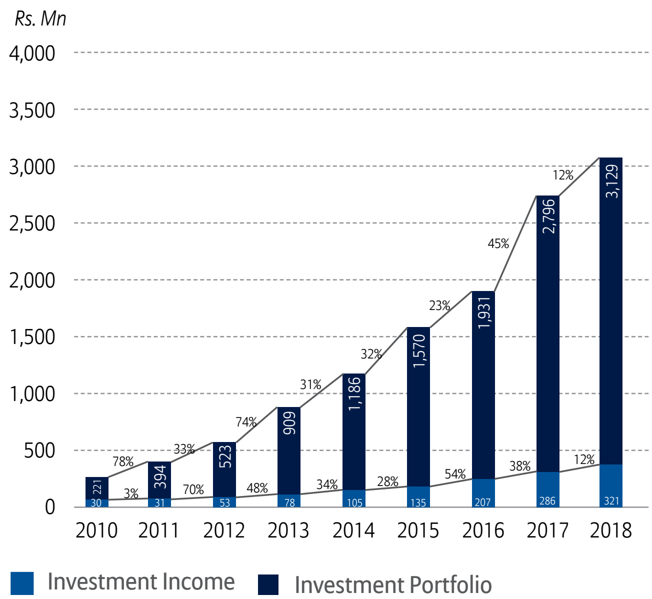
Customised products continued to be offered to cater to customer needs. In 2018, a new term Life product "Allianz Suwasahana" was introduced.

FINANCIAL INVESTMENTS

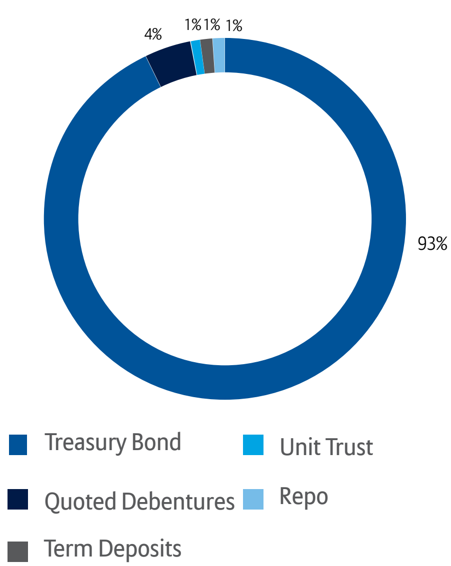
A long- term investment strategy is in place that assures growth into the future and ensures that funds are available when needed. The Company maximises its financial investments and uses the best maturity mix to increase interest income, with the majority of investments made in government securities.

Financial investments were in high-grade financial instruments this year too, which succeeded in growing the investment portfolio by 12% despite the negative impact of available-for-sale reserves. Investments are mainly sourced from GWP growth, which enabled the Company to grow its interest income by 12% during the year.

Investments



COMPOSITION OF FINANCIAL INVESTMENTS



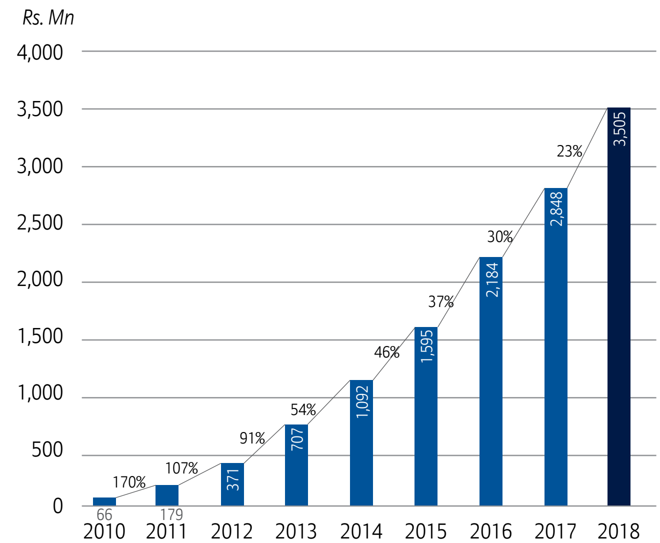
Financial investments represent 60% of total assets and 93% of financial investments are invested in government treasury bonds. With these higher financial investments, the Company recorded a 12% growth in investment income compared to the previous year.

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 assure 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 94% of investments are made in risk- free government securities followed by 4% invested in fixed deposits in highly rated licensed commercial banks, which provide secure returns. The Allianz Life Fund did not invest in speculative instruments such as equities, which are highly volatile in nature and pose significant risk. The Company decided on the best asset mix to maximise returns while maintaining an optimum risk level and meeting its liquidity requirements.

LIFE FUND GROWTH

In 2018, the Company's Life Fund reached Rs. 3.5 billion, which is a growth of 23% over the previous year and an annual compound growth rate of 38% over the last five years. The rapid growth of the Life Fund over the years is an indicator of strength and the ability of the Company to fulfill its obligations to its policyholders.

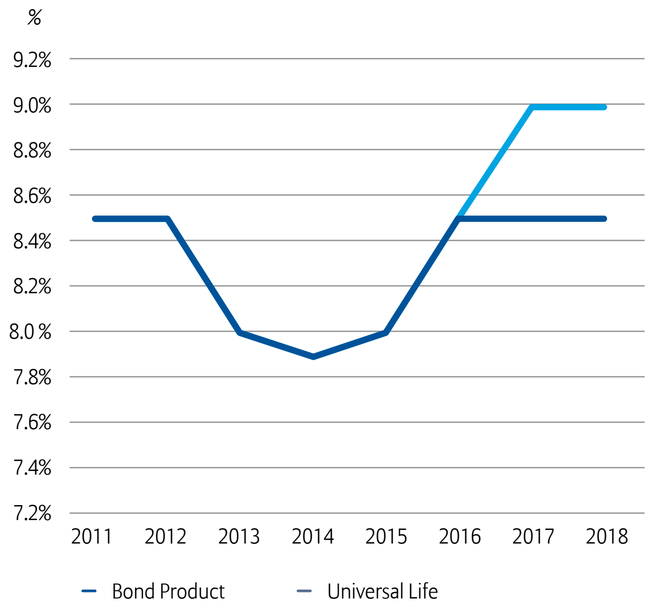


The Company has in place a long-term investment strategy that assures growth into the future and ensures that funds are available when needed. Investments in high grade financial instruments succeeded in growing the investment portfolio by 12% over the last year, with funds mainly sourced from GWP growth. This enabled the Company to grow its interest income by 12% during the year.

D. Capital Reports

Capital Reports

Financial Capital



Allianz Life declared a crediting rate of 8.5% in 2018 for all Universal Life policyholders and 9% for Allianz Life bond product holders. There is an upward trend of the crediting rates declared by the Company in recent years and is due to the significant improvement of the investment performance of the policyholders' fund.

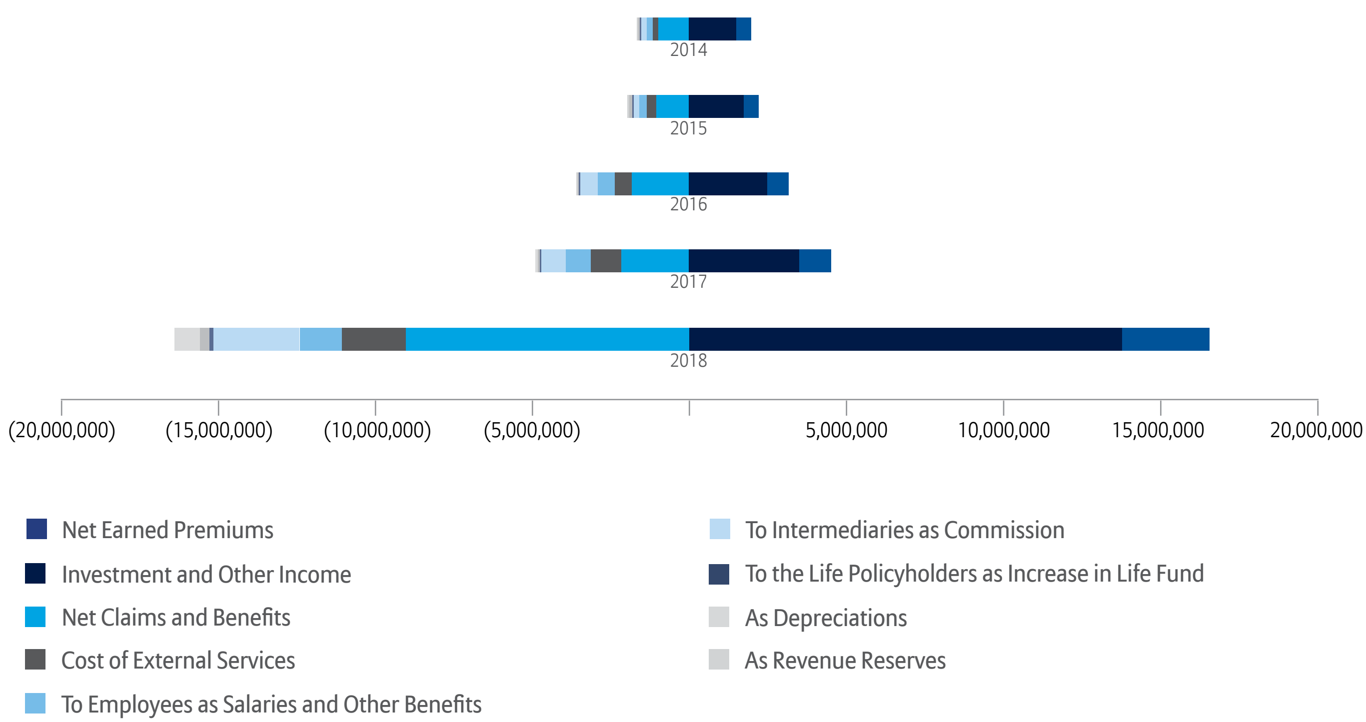
SOLVENCY RATIO

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. The Company maintained a solvency ratio of 406% as at 31 December 2018 which is well above the minimum requirement of 120%.

VALUE ADDED AND VALUE DISTRIBUTION

Value Addition	2018	2017	2016	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Net Earned Premiums	13,666,565	3,413,816	2,400,551	1,617,389	1,421,992
Investment, Commission and Other Income	2,827,431	769,783	683,291	521,157	474,534
Net Claims and Benefits	(9,135,373)	(2,311,185)	(1,814,727)	(1,169,854)	(1,109,326)
Cost of External Services	(2,139,955)	(612,104)	(424,259)	(290,052)	(274,238)
Total Value Added	**5,218,668**	**1,260,310**	**844,856**	**678,640**	**512,962**

Value Distribution	2018		2017		2016		2015		2014	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	1,468,318	28.1	470,100	37.3	347,575	41.1	214,845	31.7	207,365	40.4
To intermediaries as commission	2,573,521	49.3	516,264	41.0	373,161	44.2	233,012	34.3	228,384	44.5
To the government as taxes	139,903	2.7	51,753	4.1	13,933	1.6	50,122	7.4	-	-
Retained with the business										
- as Depreciations	276,484	5.3	89,600	7.1	86,485	10.2	71,728	10.6	55,565	10.8
- as Revenue reserves	760,442	14.6	132,593	10.5	23,702	2.8	108,933	16.1	21,648	4.2
Total Value Distributed	5,218,668	100.0	1,260,310	100.0	844,856	100.0	678,640	100.0	512,962	100.0



D. Capital Reports

Capital Reports

Human Capital

OVERVIEW

The Human Resources Department (HRD) is one of the most dynamic departments within an organisation because it deals with the evolving wants and needs of its people, who are a company's greatest assets. The department handles a range of functions. Apart from its responsibility for hiring, firing and training employees, HRD is also responsible for addressing employee concerns, re-training employees to ensure they conform to current company requirements, as well as for maintaining inter-office relationships and ensuring that the company follows the relevant employment laws. The Human Resources Department is also critical to helping employees manage challenges encountered in their daily corporate lives.

One such challenge arises in the event of an acquisition or merger. Such situations spawn uncertainty during which staff may feel challenged or uncertain about their continued employment with the company. People fear change, and HRD has a key role to play in such instances by alleviating employees' concerns and helping to merge the often widely divergent cultures of the acquiring and acquired companies.

OUR APPROACH

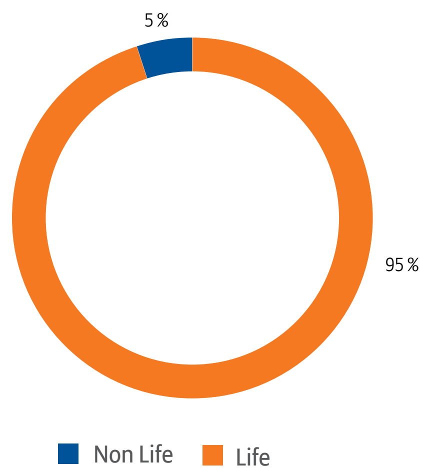
Company cultures would diverge in terms of the ways in which the acquiring and acquired organisations define and measure success, the benefits employees enjoy, and the management styles of the two entities. It is the function of the HR department of the acquiring company to facilitate an easy transition of the employees of the company purchased to their new place of work, and to answer queries on how the acquisition would affect each individual employee. Human Resources address rumours about layoffs, office relocations or other changes that employees fear, and provide feedback to management about employee concerns in order to ensure that productivity is unaffected.

The HRD of Allianz Lanka was called upon to perform these many functions during the acquisition by Allianz Lanka of Janashakthi General Insurance Limited on 26 February 2018, which enabled a smooth transition of the human capital of Janashakthi to the Allianz Lanka work environment.

STAFF COMPOSITION

As at 31 December 2018, Allianz Insurance Lanka Ltd. comprised 2,506 employees and Allianz Life Insurance Lanka Ltd., 125 employees.

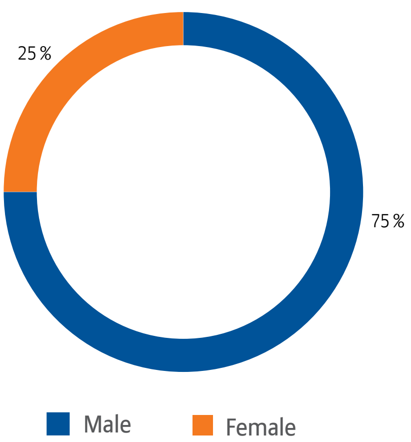
The acquisition added 511 employees from Janashakthi General Insurance to Allianz Lanka's staff strength of 2010, which was over and above the capacity necessary for the Company to function at optimum level. This necessitated a review of the head count of both companies and the formulation of a business plan to determine the ideal staff strength for amalgamated operations.



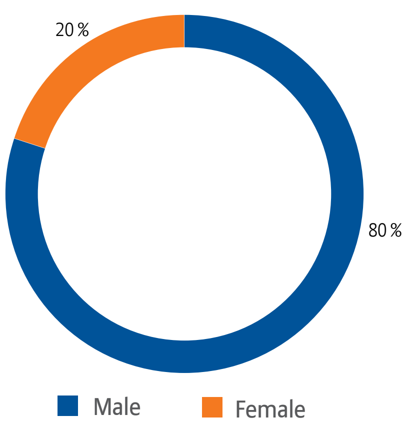
Male / Female Distribution

Description	Non Life	Life	Total
Male	1,887	100	1,987
Female	619	25	644
Total	2,506	125	2,631

NON LIFE



LIFE



DIVERSITY AND INCLUSIVENESS

Allianz Lanka follows its parent company in ensuring a work environment free from prejudice, discrimination and victimisation, and has in place policies and processes that support this stance. All recruitment and promotion processes ensure that selection is based only on qualifications, skills and experience.

As an equal opportunity employer, the Company is proud of its staff mix which represents both genders, all major ethnic groups in the country and a diverse mix of ages, which is confirmed by the following charts:

COMPANY WISE STAFF STRENGTH

Description	Non Life	Life
Average Age	33.60	38.77
Average Tenure	5.59	2.16

GENDER WISE

Description	Non Life	Life
Average Tenure	5.59	2.16
Tenure Age Women	7.58	4.36
Tenure Age Men	4.93	1.61

AGE

Age Group	Non Life Company		Life Company	
	Male	Female	Male	Female
<25	330	106	4	2
25-29	393	166	12	6
30-34	393	104	18	5
35-39	299	65	13	4
40-44	210	62	22	5
45-49	153	58	19	1
50-54	79	47	8	1
55-59	18	9	4	1
60-64	8	2	-	-
65>	4	-	-	-
Total	1,887	619	100	25

ATTRITION RATE

Description	Non Life	Life
Average staff	2,506	111
Resignations only	772	49
Attrition rate	30%	44%

Human Capital

GENDER DIVERSITY

Gender diversity is an important area that the Company monitors from recruitment, and this focus has been effective in maintaining a proportionate gender balance.

Despite the fact that the sales function is usually dominated by males, the Company has consistently maintained a female representation of over 25%.

Gender Diversity in Sales and Non Sales

Gender	Non Sales		Sales	
Male	722	58.32%	1,165	91.88%
Female	516	41.68%	103	8.12%
Total	**1,238**	**100%**	**1,268**	**100%**

In the Non-Sales category, the Company has a female cadre of 41.68%.

Gender Diversity in Management and Non-Management

Gender	Management		Non- Management	
Male	222	81.02%	1,665	74.6%
Female	52	18.98%	567	25.4%
Total	**274**	**100%**	**2,232**	**100%**

December 2018, Allianz Lanka Insurance Ltd. had 18.98% females in Management.

Gender Diversity in Management (Non-Sales)

Male	121	71.59%
Female	48	28.40%
Total	**169**	**100%**

The percentage of female staff in Management in the Non-Sales category was 28.40%.

Age diversity is another characteristic of the work force of Allianz Lanka. The Company believes that an age mix of older and younger employees facilitates diverse experiences, expectations, styles and perspectives, all of which strengthen the Company because they encourage innovation, which ultimately improves productivity. The average age of an employee was 34 years for a Non Life employee while the average age for an employee in the Life company is 39 years.

PROJECT SAPPHIRE TO FACILITATE A SMOOTH TRANSITION

HRD organised 102 project activities under Project Sapphire which focused on amalgamating and harmonising processes within the departments of the merged entities. The attention and action centred on payroll, staff alignment, organisational structure, compensation and benefit packages, and HRIS (Human Resource Information System).

All staff and stakeholders were kept informed of the progress of the amalgamation process. Weekly meetings were conducted at department level. Appropriate communiques were sent out regularly and staff was encouraged to ask for more information if required.

CHANGING ROLES AND STRUCTURES

An acquisition often includes the elimination of redundant or overlapping positions or the combination of teams and departments. The process of restructuring two organisations to enable them to work together effectively could take months to complete, and the HRD plays a vital role in this restructuring process by communicating to employees any changes in reporting lines, teams or work groups they are assigned to as well as any changes to their positions and roles in the organisation. HRD works with Management and employees to ensure that everybody involved understands their role in the new structure.

GOLDEN HANDSHAKE PROGRAMME

A golden handshake programme is planned for the first quarter in 2019 to facilitate the optimum head count necessary to take the Company forward.

ORGANISATIONAL STRUCTURE AND ROLE PROFILES

Integrating two diverse organisational structures was a key challenge faced by the Human Resources Department. Extensive reviews and discussions took place with divisional heads along with the Allianz regional management team to come up with a new organisational structure that enables smoother operations and a sustainable business model. This included creating profiles for every job.

BENEFIT HARMONISATION

Re-visiting the annual performance review process and benefit harmonisation were some of the key initiatives carried out to ensure a smooth transition during the period. The benefit schemes of both entities were reviewed to bring both schemes in line with regulatory requirements and staff expectations.

Also in keeping with the amalgamation plan, HRD supported vital areas such as reviewing the payroll process to ascertain the HR related cost aspects and drew up a plan to arrive at an optimum HR/ payroll cost for an efficient and effective business.

GETTING TO KNOW ALLIANZ

HRD conducted a series of trainings to provide the staff of the acquired company with information on Allianz global and regional, and the Group's Vision, Mission, Renewal Agenda and People Attributes. Staff from the Allianz Regional Head Office and trainers from Allianz Lanka conducted these awareness sessions.

ASSESSMENT CENTRES FOR LEADERSHIP POSITIONS

A series of Assessment Centres were conducted at different levels to identify key talent to lead functional areas of the amalgamated entity. A total of 44 senior and key staff members were assessed by Kon Ferry, a leading global consulting firm based in Singapore.

PULSE CHECK

Two pulse check surveys were carried out during the acquisition period to address staff concerns and ascertain their views.

ALLIANZ ENGAGEMENT SURVEY

The Allianz Engagement Survey was conducted for the 12th consecutive year. The survey collects feedback annually from all levels of employees to measure their overall level of engagement throughout the Company. This has been an invaluable platform for voicing employee opinions and addressing areas of concern.

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

- Employee Engagement Index (EEI) which measures employees' satisfaction, loyalty, advocacy and pride in their organisation.
- Inclusive Meritocracy Index (IMIX) measures organisational progress in establishing a culture of Inclusive Meritocracy.
- 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, controls, support, and social capital and a higher index score is associated with better employee health and productivity.

	2018 rating	2017 Rating
Employee Engagement Index (EEI)	77%	74%
Inclusive Meritocracy Index (IMIX)	77%	76%
Work Well Index (WWi)	73%	73%

TRAINING AND DEVELOPMENT

Allianz Lanka carried out several training and development initiatives locally and overseas during the year, which equipped a cross section of staff with job-specific skills as well as soft skills during the year.

In addition to the on-boarding programmes for new recruits, the Company conducted regular inhouse and external training programmes with external and internal trainers. Selected employees were sent to follow overseas programmes as well.

TRAINING COST

Foreign training cost	13,044,263
Local training cost	6,640,106
Total Training Cost	19,684,369

D. Capital Reports

Human Capital

DIRECTORS AWARD

Allianz Lanka encourages and supports innovation and enterprise in line with the Group's position of being the 'home of those who dare'. The Director's Award is presented to Non Sales staff in recognition of their outstanding contributions to the Company, over and above their job descriptions. Staff can nominate their colleagues for the award and many nominations were received out of which 7 employees were shortlisted for their outstanding contributions during 2017. They were recognised at the Annual Awards Ceremony held on 8 May 2018.

The Directors Award was won by; Upul Dissanayake, Deputy General Manager, IT, Asanka Perera, Assistant General Manager, Motor Underwriting, Innam Shibly, Assistant General Manager, Risk and Planning, Indika Kumarasinghe, Senior Manager, Information Technology, Saman Perera, Manager, Fire & Miscellaneous Department, Niroshan Ranaweera, Deputy Manager, Motor Underwriting, Sivarranjanee Siverkumaran, Deputy Manager, Motor Claims, and Dinesh Gurudeniya, Executive, Information Technology

CELEBRATIONS OF CHRISTMAS

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.

CHRISTMAS CAROLS

Christmas carols were held on 21 December at the Head Office. Floors participating in the carols competition were judged on melody, rhythm, and relevance to Christmas.

The 2nd floor were the winners of the competition while the 6th and 4th floors were the first and second runners-up.

In recognition of their contributions, tokens of appreciation was shared among all participating teams.

CHRISTMAS DECORATION COMPETITION

The Christmas decoration competition was held at the Head Office once again. Submissions were evaluated on the theme 'Eco-friendliness, red and green and cost effectiveness'. Participating teams were organised floor – wise or department- wise and all departments participated actively, spending time and effort on creative decorations. Winners were selected by Managing Director Surekha Alles, GM - Sales & Distribution – Life Nihal Handunge, GM – Bancassurance Wasantha Warnasuriya, and GM – Distribution Prasad Dodangoda. The 5th floor were adjudged the winners of the competition and the 3rd and 1st floors were the first and second runner-ups respectively. Prizes were distributed by Surekha Alles.

Social and Relationship Capital

OVERVIEW

Not all business growth is quantifiable in terms of financial returns. The non-financial value generated by certain areas of business goes over and above successful financial performance. Sustainable growth in the long-term must be assessed by a corporate's performance in fundamentally unquantifiable areas such as the organisation's relationships with stakeholders who comprise the network of people with whom it regularly interacts in the course of business. The ability to generate substantial social and relationship capital is integral to an organisation's value creation process. This capital is among the most valuable assets of a business because it holds the key to sustainable business development into the future.

OUR APPROACH

We focus on nurturing strong relationships with our stakeholders, based on mutual trust and respect and from the inception of the Company, we have ensured that all commitments made to our stakeholders continue to be met in a timely and professional manner. We appreciate the immense value they add to our business and strive to exceed their expectations at every opportunity for engagement. We are committed to delivering a superior service experiences to our customers, to making a positive impact on the community at large and to dealing with our business partners in a fair and transparent manner throughout. It is this commitment that has been instrumental in enabling us to grow into one of the leading insurance service providers in the country.

CUSTOMERS

As with any business, customers are the primary reason for our existence and continuity. We are privileged to serve over 800,000 loyal customers in Sri Lanka, who range from individuals and small and medium scale businesses to some of the largest enterprises and development projects in the country.

Today, over 2,600 Allianz Lanka staff in more than 100 offices around the island team with our agents, brokers and other merchant partners to deliver our extensive suite of world class insurance solutions designed to meet the needs of our customers. This is supported by our customer service, customer relations and call centre teams who work with our assessors to provide the highest levels of service. All other functional teams step in as and when needed to support them in ensuring the superiority of our products and service.

Our sales force leads in taking our products and services to customers. They apprise our underwriters of the individual requirements of every customer and ensure that each policy is customised to meet their exacting needs.

We strive continuously to identify newer avenues of value additions to enhance our customers' lives, which include strengthening our service delivery models and building on our product portfolio.

The commitment and relentless efforts of our team have helped us attain significant improvements in our NPS (Net Promoter Score), in which we scored on par or above average results in most metrics in the NPS survey during July to October 2018.

NPS is measured by the customers' willingness to recommend our brand to a friend or colleague by taking various customer touch points into consideration. The NPS score is used to measure customer experience and predict business growth. Thus, having a high NPS score is an indication of strong brand and service excellence. Data for the recent survey was gathered by Nielsen Sri Lanka and the analysis was done by GFK Germany.

It is noteworthy that we were successful in achieving this score in a year during which our business experienced substantial transition as a result of our acquisition of Janashakthi General Insurance Limited. The integration was completed in September 2018, and we are now progressing rapidly to the apex of the industry and look forward to delivering greater value to larger segments of customers as an expanded, stronger and united team.

To further strengthen our product portfolio and reinforce our commitment to our customers, we introduced three new solutions in 2018 – Allianz Corporate Pension Plan, Allianz Rekawaranaya and Allianz Suwasahana.

Capital Reports

Social and Relationship Capital

Allianz Corporate Pension Plan

This product is for companies and entrepreneurs and is the first of its kind in Sri Lanka. This is a revolutionary product serves and the dual purpose of providing employees with an attractive and comprehensive pension solution as well as helping company to attract and retain its talent.

Special benefits of the policy include low and transparent charges unmatched by existing products in the market, flexibility of premium contributions from both the employer and employee, the ability to ascertain the individual pension account balance at any given time, and the ability for the employee to continue the policy if they complete a pre-agreed number of years of service with the company.

Allianz Rekawaranaya

Allianz Rekawarnaya is designed for individuals and enables them to support loved ones in the event of untimely death or total permanent disability due to an accident, by meeting related medical expenses. The policy pays Rs. 1 million in the event of the death or total permanent disability of the policyholder in addition to providing hospitalisation benefits.

Allianz Suwasahana

This is a standalone health plan that creates tailor-made solutions to fit the needs of the customer and their family and covers hospitalisation and death. As a result of this unique combination, the premiums paid are considerably lower in comparison to similar products in the market. It also has the flexibility that enables customers to add additional covers to their policy whenever needed.

The policy also grants customers access to the Allianz Virtual Doctor – a value added service only offered by Allianz through which policyholders gain access to the best possible medical expertise in the world without the need for travel. The facility includes confirmation of diagnosis, evaluation of cases where a diagnosis is not yet possible, advice on the best course of treatment, and follow-ups on a case reported previously, at no extra cost to the policyholder. This enables policyholders to receive a documented medical diagnosis on a complex, grave or critical illness direct from panels of specialists in internationally reputed medical institutions.

COMMUNITY

We strive to actively engage with and make a positive impact on the communities we live and work in, worldwide. In Sri Lanka, we leverage our financial acumen, market knowledge and global partnerships to deliver a host of community engagement initiatives in the areas of sports, education, financial literacy and road safety. Our key programmes during 2018 are itemised below.

Helping young footballers pursue their dreams

Now known as the Allianz Explorer Camp – Football Edition, the Allianz Junior Football Camp has hosted teenagers from 25 countries to a week of training with FC Bayern youth coaches in Munich, Germany, every year since 2009. These young men and women are given a once-in-a-lifetime opportunity to develop their skills, get a behind-the-scenes look into life at FC Bayern, watch games and practices with their favourite football stars, as well as to make friends with other aspiring footballers from around the world.

Allianz Lanka has been sponsoring two teenage football enthusiasts from Sri Lanka to join the Allianz Junior Football Camp, annually. In 2018, Risinu Kudagama and Senuth Jayasundara participated in the Asia camp held in Bangkok, Thailand, and Senuth Jayasundara went on to represent Sri Lanka at the global camp held in Munich in August 2018.

Supporting the Paralympic Movement

Allianz has been a partner of the International Paralympic Committee (IPC) since 2006, and became its first International Partner in 2011. We work at both local and global levels of the Paralympic Movement, to help increase awareness and popularity of sports for differently abled people, worldwide.

Allianz Lanka has partnered with the Sri Lankan Paralympic team since 2013 with the aim of enabling the country's para athletes to compete in international sporting events and realise their true potential. Since extending this partnership by another two years in 2017, Allianz Lanka continued to provide financial assistance and technical support to the Sri Lankan Paralympic team in the current year as well.

Raising awareness of unprotected Railway Crossings

Allianz Lanka has been working on alerting commuters and road users about unprotected railway crossings, in partnership with the National Council for Road Safety (NCRS), since November 2017.

The first set of sign boards were commissioned at the Narahenpita Railway Station in October 2017 and the project was extended to the Pannipitiya station in December 2017. Allianz Lanka and NCRS covered 10 more railway stations including Navinna, Payagala South and Ragama in 2018.

The NRCS noted that the warning signs and safety messaging established in and around railway stations through this project helped avert accidents and save lives. This initiative has been one of the key factors behind the sharp drop in fatalities at unprotected railway crossings, by over 50% down from 544 in 2017 to 212 in 2018.

Social and Relationship Capital

BUSINESS PARTNERS

Our business partners include brokers and merchant partners, the Regulator and reinsurers as well as a range of suppliers, and each group plays a significant role in enabling us to deliver world class insurance solutions to customers throughout Sri Lanka.

We are committed to regular interactions with our business partners and keep them informed on areas of our activities that are relevant to them. This was more so during the acquisition this year, during which we apprised them of each step taken and the tremendous opportunities for growth and expansion that resulted from the expansion of our operations. They were also updated on the expanded range of products and benefits being rolled out.

The acquisition and integration during the year also saw our brokers and merchant partners play a pivotal role in facilitating the seamless integration of our portfolio and ensured that our customers continue to receive the world class service they expect from Allianz. Special mention must be made of our Regulator whose role has been invaluable throughout and whose expertise was sought to ensure that the Company follows all the rules and regulations stipulated by the industry.

Suppliers also played a major role during the year, and their support was invaluable in helping us complete the integration in record time. Suppliers from the acquired business were added to our systems and we now have a common pool to draw from.

Progressing together with all our stakeholders during this transformational phase has reinforced our mutual trust and respect. With the integration now behind us, we look forward to the next phase of our journey with the continued and strong support of our business partners.

STAKEHOLDER ENGAGEMENT CHART

Stakeholder	Objectives	Contact points	Highlights of 2018	
			Common	Specific
Customers	• Raise awareness about our Company, brand and product portfolio • Update them about their policies – claims and settlements, renewals, bonuses, promotions, etc. • Inform them about other products that would interest them (cross sell / up sell) as well as new products that we introduce	**Internal** • Sales team • CRM team • Assessors • Company head office and branches • Call Centre • Company Website • Company's social media feeds – Facebook, Instagram, LinkedIn **External** • Agents • Brokers • Merchant partners – leasing companies, finance companies and banks (Banccassurance) • Media – Print, TV, Radio, outdoor, digital, etc.	• Acquisition of Janashakthi General Insurance by Allianz SE • Integration of Allianz Insurance Lanka Limited and Janashakthi General Insurance Limited	• 1+1 = 3 campaign which emphasised the strengths of the integrated company and assured them outstanding customer service in the future.

Stakeholder	Objectives	Contact points	Highlights of 2018	
			Common	Specific
Staff	• Inform them of the company's profits and goals (Local, Regional and Global) • Update them about the CSR activities carried out by the organisation and encourage them to participate • Keep the staff informed about upcoming events in the organisation • Reassure them about job security following the acquisition • Update them about future career prospects	• E-mails from - The Managing director /CEO - Market Management - Human Resource Department • Posters & floor branding	• Acquisition of Janashakthi General Insurance by Allianz SE • Integration of Allianz Insurance Lanka Limited and Janashakthi General Insurance Limited	• Assurance of stability in the work environment and the possibilities of career prospects with international exposure.
Brokers & Merchant partners	• Keep them updated about the new products and benefits introduced by the company • Assure them of a continued relationship following the acquisition • Ensuring the company's stability in the market and across the globe	• Managing Director / CEO • Broker sales unit	• Acquisition of Janashakthi General Insurance (JGIL) by Allianz SE • Integration of Allianz Insurance Lanka Limited and JGIL	• Reassuring them of the ability of the amalgamated organisation to enhance customer service in terms of new deliverables and products
Reinsurers	• To obtain new re-insurance policies and to renew annual agreements • To assure them of the continuity of relationships following the acquisition	• Reinsurance department	• Integration of Allianz Insurance Lanka Limited and JGIL	
Suppliers	• Maintain the brand image of the company • Assure them of the continuity of relationships following the acquisition	• Administration department • Marketing department	• Integration of Allianz Insurance Lanka Limited and Janashakthi General Insurance Limited	
Regulators	• To ensure that the company follows all the rules and regulations stipulated by the industry	• Compliance officer • Managing director • Principal officer	• Acquisition of Janashakthi General Insurance by Allianz SE and • Integration of Allianz Insurance Lanka Limited and Janashakthi General Insurance Limited	
General Public	• To attract new customers • To make the public aware that we are a socially responsible organisation that believes in giving back to our community a portion of our profits • To create more awareness of the Allianz brand identity	• Company Social Media sites • Company website • TV, Radio and Print advertisements	• Acquisition of Janashakthi General Insurance by Allianz SE • Integration of Allianz Insurance Lanka Limited and Janashakthi General Insurance Limited	• 1+1 = 3 campaign which emphasised the strengths of the amalgamated company and assured them outstanding customer services in the future.

Intellectual Capital

OVERVIEW

In the contemporary knowledge economy, the real drivers of business growth are not the tangible physical assets of a company but rather its Intangible assets. The creation of value in the fast-paced world now depends on the effective utilisation of these intellectual capital factors. Which comprise a company's knowledge, reputation, systems and corporate culture. Consequently, companies expend considerable time and effort to continuously develop and upgrade these elements of their business because they are aware that their success rests on the quality of this intangible capital.

OUR APPROACH

Our intellectual capital defines our corporate identity, determines our market competitiveness and creates economic value for our stakeholders. Despite the fact that this capital does not appear in the Statement of Financial Position since it cannot be monetised, it is nevertheless a valuable component of business growth and progress. Over the past 14 years of our operations, we have grown and developed our Intellectual capital in the following three areas to attain an optimum level of performance in terms of financial strength and reputation. Through the wealth of our accumulated industry knowledge, up-to-date processes and strong and unshakable relationships with stakeholders built up brick by brick over the years, we have converted our intellectual capital capabilities into core competencies and continue to nurture these competencies into critical success factors to achieve competitive advantage. This has contributed towards enhancing the wealth of the organisation, which we, in turn, channel to our stakeholders to maximise their wealth.

KNOWLEDGE AND EXPERIENCE

Knowledge is a key component of our intellectual capital and we continue to add to our pool of expertise and experience. We have introduced a knowledge-based approach in all business areas which reinforces our focus on quality, innovation, and sustainability, and have on board a committed, professional and productive team committed to achieving our goals.

The Senior Management comprises qualified experts with many years of experience in several areas of the insurance industry. Our staff has been our strength throughout, and we invest substantially in upgrading their technical and professional industry skills at all levels. The fact that we are a fully-owned subsidiary of one of the world's foremost insurers gives us recourse to its many international training and development resources.

Our position among the industry leaders has provided us with the capabilities, insights and specialised knowledge that is a vital component of industry leadership in a rapidly changing business environment. This training and development has equipped us with the foresight to anticipate future business trends, which has enabled us to strategise, innovate and adjust to the headwinds of change, a capability that is a substantial deposit in our base of intellectual capital.

CORPORATE CULTURE

We encourage a performance – based culture that promotes efficiency within a participatory and collaborative environment. Each individual is recognised for the value they bring to the workplace and accepts accountability for their actions. We foster and encourage employee engagement in an atmosphere of open communication that assures job security.

SYSTEMS AND PROCESSES

We have digitalised systems and processes across the organisation in line with those followed by parent company Allianz SE in Germany, which keeps us on par with global standards of insurance business. Our underwriting processes have been automated by utilising the sophistication and convenience of Artificial Intelligence, and draw on the strength of a Business Rules Engine that has significantly improved our speed of response to customers. We introduced a digital Point of Sales (ePOS) and Automated Underwriting System (AUSYS) platform recently and in the current year, stepped up its use by the agency team for submitting new business applications. To date, ePOS has been adopted by 84% of the agency force while 74% of the cases were processed through the auto underwriting system. The concept of "True Straight Through Processing (STP)" will be introduced to accelerate the use of digital platforms to profoundly improve and ensure a seamless customer and distributor experience and drive end-to-end automation in the processes. Accordingly, the main new features introduced were:

- Instant customer onboarding –Issuance of policy within 5 minutes
- Customer and agent engagement –self-service and enquiries by agents and customers for simple high- volume transactions with paperless input and output
- Claims experience – instant payment of claims to the customer, the potential to go 95% cashless is being explored

Several applications in various areas of insurance were also integrated with the ACS (Asia Core System) during the year. These include partner portals for banks to process loan policies straight through as well as health portals for hospitals for cashless claims and real time connectivity to AUSYS. ACS is a regional core insurance platform that enables the central functions of insurance business to which Allianz Insurance Lanka migrated recently.

BRAND AND REPUTATION

Our store of knowledge has been fortified by the strong reputation of the Allianz brand, worldwide, carefully built up over a quarter-of-a-century through our integrity, industry competencies, leader market position, and deep sense of responsibility to ethical standards and practices.

THE ALLIANZ BRAND

We have built a strong and sustainable brand that stands for quality, trust and resilience.

Interbrand ranking of the Top 100 global bands 2018

Capital Reports

Intellectual Capital

For the twelfth consecutive year, Allianz secured a place in the Interbrand ranking of the 100 most valuable brands in the world. Allianz is ranked # 49 among the world's 100 strongest brands in 2018 with a brand value of USD 10,821 million, which is a rise of 8% over the previous year. Interbrand identified Internal clarity and commitment along with external presence as being the three top-performing factors for the Allianz brand.

We reinforce brand awareness in the country by reaching customers and potential customers of many segments through mass media, digital channels and outdoor activation, and have introduced a number of applications and wide and varied approaches to customers which have facilitated convenience and enhanced our reputation.

AWARDS AND ACCOLADES

Allianz Lanka was recognised throughout the year of review for our performance and the quality of our people.

- Allianz Insurance Lanka Ltd was recognised as the "Best General Insurance Company" in February 2018 at the BFSI (Banking, Financial Services and Insurance) at the Awards presentation by ET Now, held in Mumbai, India.

The 'innovative Leader' award was presented to Upul Dissanayake, Assistant General Manager – IT, and the 'Insurer of the Year' award was won by Asanka Perera, Senior Manager - Motor Underwriting and Process Re-engineering

Asanka Perera and Upul Dissanayake with their awards

- Allianz Life Insurance Lanka won the Turbo Award for the highest improvement in Automated Underwriting at the Operations Center of Excellence Awards held in Indonesia.

This award was presented to Allianz Lanka in recognition of the Company's 38% improvement in automated underwriting ratio (Life) achieved in less than a year. The Company's underwriting ratio which stood at 36% in January 2018 was increased by 74% by end-November, just 10 months later.

Ruchera Perera – Senior Manager, Life, with the award presented by Dr. Ruediger Schaefer, Head of Special Projects and External Affairs at Allianz Asia Pacific.

- Allianz Insurance Lanka Ltd was recognised as a "Company with Great Managers" at The Great Manager Awards 2017 organised by the Colombo Leadership Academy and People Business in April 2017.

Mangala Bandara, General Manager - Agency Development Business, was adjudged a "Great Manager" in the "Driving Results & Execution" category.

- Allianz Lanka made history at the Sri Lanka Institute of Marketing's (SLIM) National Sales Congress (NASCO) Awards 2018 with the Best of the Best Award win in the Outstanding Sales Executive / Supervisor category. Our excellence in salesmanship was rewarded with two gold and three bronze awards at the awards ceremony held in August 2018.

Malinda Mendis took home the Best of the Best Award for Outstanding Sales Executive / Supervisor and the Gold Award for the Best Sales Executive / Supervisor – General Insurance. The Company's second Gold of the night was awarded to Mahesh Dias in the Best Front Liners – General Insurance category. The three Bronze Awards were bestowed on Kevin Paul, Vijitha Samarakkodige and Charitha Dushantha for Best Territory Manager – General Insurance; Best Sales Executive/Supervisor – General Insurance; and Best Front Liners – General Insurance, respectively.

ALLIANZ TOPS DOW JONES SUSTAINABILITY INDEX 2018 AS THE MOST SUSTAINABLE INSURER

The Allianz Group took the lead position among all rated insurance companies in the latest Dow Jones Sustainability Index (DJSI) for the second consecutive time. In the results of the world's most relevant sustainability index published recently, Allianz was ranked with 85 points, which is well above the average sector score of 47 points. Since 2000, the Group has been part of the DJSI which assesses environmental, social and governance (ESG) criteria and lists the most sustainable among 2,500 companies worldwide in the Dow Jones Global Total Stock Market Index (DJGTSM).

- The "Women Icon of the Year" award was won by Surekha Alles, Managing Director of Allianz Lanka, at the 5th World Women Leadership Congress & Awards held in February 2018 in Mumbai, India.

Allianz Lanka Memberships in local professional institutions:

- Insurance Regulatory Commission of Sri Lanka (IRCSL)
- Institute of Chartered Accountants of Sri Lanka (ICASL)
- Insurance Association of Sri Lanka (IASL)

D. Capital Reports

Capital Reports

Digital Capital

THE EXPANDING ROLE OF INFORMATION TECHNOLOGY

The versatility of IT in adapting to the needs and demands of contemporary businesses makes it the ideal platform for showcasing efficiencies

Information Technology (IT) is widely recognised as being a key enabler of business process optimisation and transformation. In the context of an acquisition, the role of IT is invaluable in helping enterprises realise more value from the operational and market synergies that bring their businesses together. By speedily reconciling the myriad aspects of consolidating the businesses of two complex organisations, IT, in addition to facilitating synergies by integrating major business functions, can also coordinate transactions, manage operations, support sales and customer service as well as provide services to support digitalisation. That is not all, IT can also play a major role in supporting cost savings by combining technology cost structures. This enables the acquiring company to reduce overheads by rationalising application portfolios as well as improving and enhancing communications and processes. Recent research shows that about 50% of the values of an acquisition is related to IT synergies.

SYSTEM INTEGRATION AND HARMONISING

The acquisition of Janashakthi General Insurance Pvy. Ltd. posed a host of challenges for Information Technology at Allianz Lanka. System integration, system harmonisation and network integration were necessary to facilitate the smooth consolidation of the two entities. System Integration and harmonisation during an acquisition is not a simple project but rather, is part of a much wider business goal. Therefore detailed planning, considerable effort and many resources are required to ensure a smooth transition.

At Allianz Lanka, IT integration required us to balance our resources among three priorities, each of which carries risks and benefits for the entire organisation. Firstly, IT was tasked with the challenge of 'keeping the lights on,' namely, of ensuring business-as-usual operations during the integration process. Secondly, we had to combine the IT requirements of the acquired company with the infrastructure in place with the aim of reducing costs or recognising other synergies. Finally, we were required to provide IT support for integrating all business units while establishing an end-state architecture for the long-term business objectives of the Company in its new iteration.

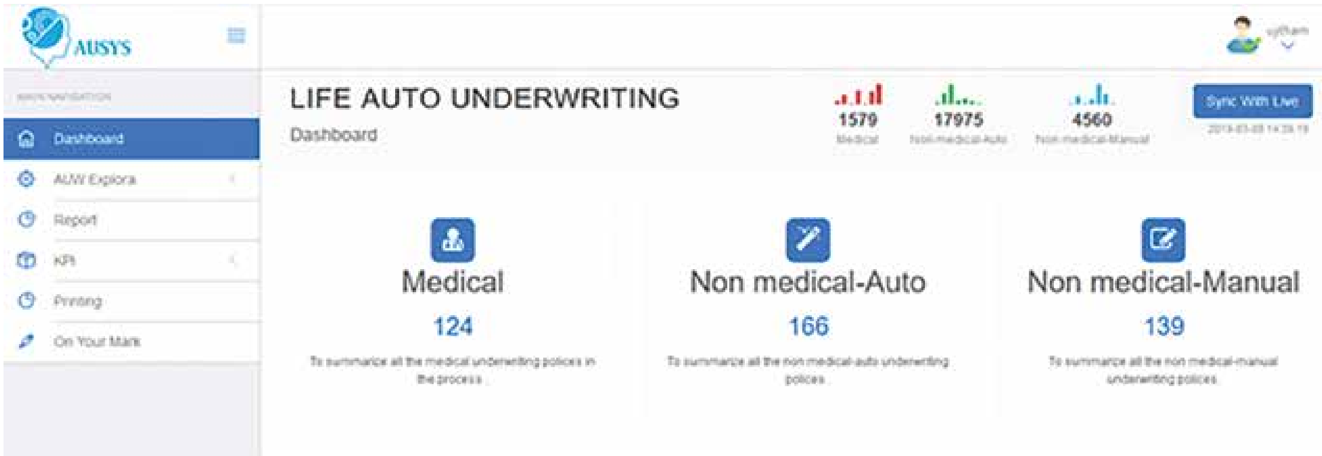
The IT department rose to the challenge and successfully integrated and harmonised all core insurance applications and other peripheral applications in record time during the current financial year, which facilitated one of the fastest system integrations in the Allianz Group.

The IT department rose to the challenge and successfully integrated and harmonised all core insurance applications and other peripheral applications in record time during the current financial year, which facilitated one of the fastest system integrations in the Allianz Group.

Harmonising the JIC core application system to cater to Allianz pricing structures, policies, conditions, e-mails and SMSs was a turning point in system integration, providing Allianz e-mail addresses to all the former employees of Janashakthi General Insurance was a major milestone achieved. The physical separation of Life and general data of Janashakthi Core application system was yet another task achieved with true team work and dedication.

KEEPING IN STEP WITH THE GLOBAL MARKETPLACE

As the international insurance market becomes more and more competitive and challenging, aligning with Allianz global standards equips Allianz Lanka with the necessary competitive edge in the market by keeping us on par with the latest technology developments worldwide. Several new applications and processes were introduced during the year to ensure the Company retains its leadership position in the local insurance industry.



ENABLING STRAIGHT- THROUGH- PROCESS FOR LIFE UNDERWRITING

Auto underwriting with straight through process was introduced to the Life insurance company during the year. Straight-through processing (STP) is an automated electronic payment process used by financial companies to speed up the transaction process by allowing transactions to be processed without manual intervention. I insurance, STP allows for the entire payment process, from initiation of the policy to final settlement of claims, to be free of human intervention.

Underwriting is a complex area of insurance and automation is key to bringing in efficiency and standardisation. The implementation of auto underwriting enables underwriters to focus on strategy, portfolio analysis and more complex cases instead of devoting their time to the large volumes of standard policy requirements. As a result of the automation, Life Operations achieved better performance metrics including high STP rates, quick turnaround times and reduced rates of error, which ensured an overall high performance throughout the Life business.

VOICE RECOGNITION MOBILE APPLICATION

The Allianz My Arena App was embedded with voice recognition capabilities to enable Allianz agents circumvent the need to type in data. This has speeded up the pace at which proposals are entered into the system.

Voice recognition technology is revolutionising the way people interact today because it is fast and easy to use. The software rapidly converts voice into data by turning the spoken word into text much faster than the speed of typing. This also promotes multi-tasking because the hands are freed to work on other tasks.

E-MOTOR APP RE-LAUNCHED WITH ACS INTEGRATION

The e-Motor mobile responsive application is now integrated with the ACS (Asia Core System) through the Core Insurance Service Layer (CISL). The e-Motor app caters to the entire life cycle of motor insurance and this integration is another 1st not only for Sri Lanka but for the whole region as well.

E Motor is a pheripheral application that has many modules that cover most motor insurance functions including the quote and contract as well as claims, and is developed mainly for the use of Insurance Agents. The app interfaces with claims modules and links to Solera and the Assessors mobile app to support claims, in addition to linking with the Call Centre for claims intimation.

ACS is the core insurance platform that holds the core functionality of the insurance business. Supporting applications like eMotor are necessary to support end to end services through seamless integration with the core application (ACS) in order to facilitate the full functionality of the insurance value chain.

Digital Capital

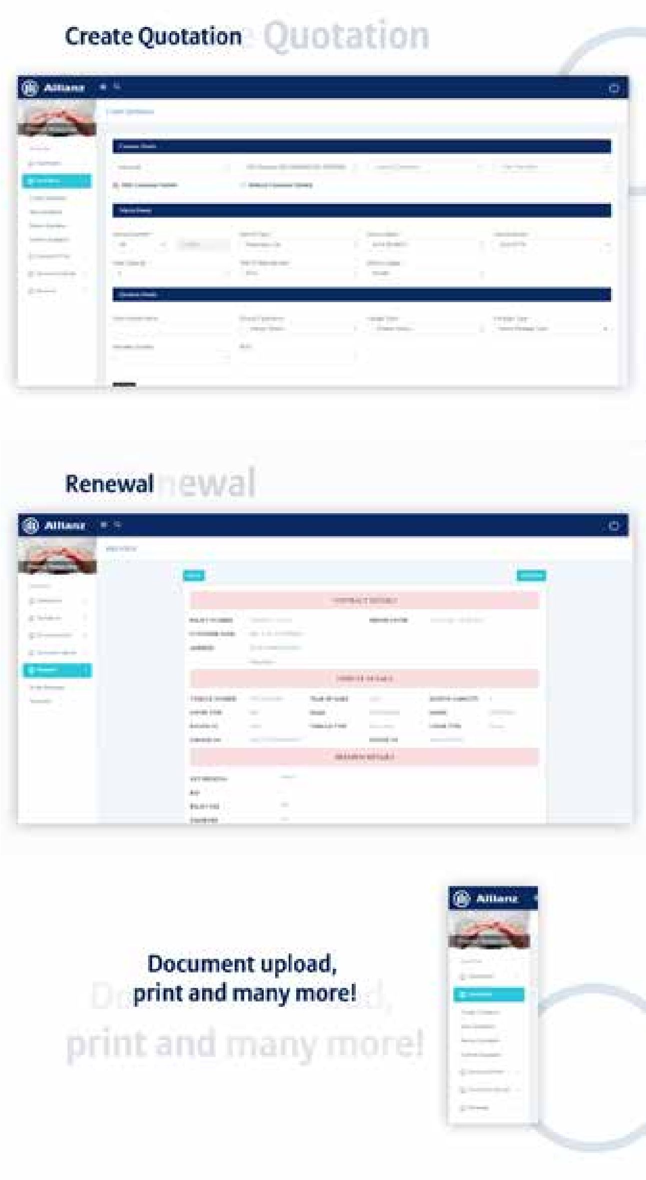
INTEGRATION OF CLMDRIVESAFE (CLMDS), DMS AND ACS

The existing Document Management System cum workflow management system of the Motor Claims department was revamped to integrate with the ACS to support the e-motor application.

Further enhancements have been made to CLMDriveSafe (CLMDS), which fast track the claims settlement process. This year, CLMDS was integrated through web services to connect to four areas, namely, the ACS – Call Center; ACS – Assessor App with Photo cloud which is the Accident Image viewing application that enables better claims evaluation, ACS – Work Flow and ACS – SOLERA.

ACS DATA MART

ACS DataMart supports the transactions related to reporting requirements to obtain management information on production, outstandings, commission provision, daily banking register as well as claims reports. ACS DataMart is the data warehousing of the ACS core application.



IT AS AN ENABLER

The data-intensive nature of insurance ensures that IT will continue to act as a critical enabler for the industry as a whole, in collecting, processing and maintaining insurance information. In the volatile insurance environment, which necessitates recurrent changes in process models and product design, IT helps gain web-based, online, front-ending improvements for efficient selling, analysis and decision making.

Focus on the customer- oriented business model will continue to drive Allianz Lanka to embrace more emerging technologies. Continued investments in technology will be crucial in this dynamic insurance environment not only to facilitate the Company's competitive edge but also to maintain the regulatory obligations and health of the Company.


Constant innovation + Unstinting Service = Lifelong Trust

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 2018.

The Audited Financial Statements were approved by the Board of Directors on 31 May 2019.

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 Capital on Pages 49 to 57. The future developments of the Company are presented in the Review of the Managing Director on pages 12 to 15. 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 issues and on the strategy and existing risk exposure.

Compliance with Laws and Regulations

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

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

Risk Management and Internal Control Systems

The Board considers 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 23 to 27.

The Board is satisfied with the effectiveness of the system of internal controls and risk management that was in place during the year under review 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 85 to 135, and the Auditors' Report on the Financial Statements is provided on page 83 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 2018 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 substantially post-amalgamation by 195% to Rs. 17,733 million, from Rs. 6,021 million in 2017.

The Company has recorded Rs. 900 million operating profit which increased by Rs. 716 million mainly due to the considerable increase in investment income.

Financial Results

The Company recorded a net profit of Rs. 760 million (2017: Rs. 132 million).

Investments

The details of investments held by the Company are disclosed in Note 8 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

Earnings Summary

For the year ended 31 December	2018 Rs. '000
Gross Written Premium (GWP)	
- Fire	3,169,056
- Marine	445,430
- Medical	2,610,320
- Miscellaneous	1,545,737
- Motor	9,962,644
Total GWP	**17,733,187**
Net Earned Premium	13,666,565
Underwriting Profit / (Loss)	(1,426,718)
Profit Before Taxation	**900,346**
Taxation	(139,903)
Profit After Taxation	**760,443**
Profit brought forward from previous year	653,269
Dividend Paid	-
Profit available for appropriation	2,628,996

Asset Allocation by Class

For the year ended 31 December	2018 Rs. '000	%	2017 Rs. '000	%
Sri Lanka government securities	15,813,276	79	2,928,890	90
Fixed deposits	1,611,101	8	79,441	6
Corporate debentures	2,560,945	13	15,423	1
Unit trusts	48,047	0	26,281	3
Total	20,033,368	100	3,050,035	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 2018.

For the year ended 31 December	2018 Rs. '000	2017 Rs. '000
Total Available Capital (TAC)	8,132,382	1,263,160
Risk Based Capital Requirement (RCR)	3,632,844	883,784
Risk Based Capital Adequacy Ratio (CAR)	224%	143%

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 an 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 2018 was Rs. 8,619.9 million (2017: Rs. 905.5 million). The increase in Stated Capital is due to the legal amalgamation.

The total equity of the Company as at 31 December 2018 amounted to Rs. 11,114 million (2017: Rs. 1,574 million). The movement of equity is shown in the Statement of Changes in Equity on page 88.

Directorate

The Board consist of three member, and the information on the Directors of the Company is available in the Directors' profile on pages 16 to 17.

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

- George Sartorel
- 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 35 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 37 to the Financial Statements on page 125.

Auditors

The Financial Statements for the year ended 31 December 2018 have been audited by Messrs. PWC (Chartered Accountants) 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 31 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.

Alan David Smee	Surekha Alles
Director	*Director*

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

21st May 2019

Certification of Incurred but not Reported (IBNR) Reserve

31 May 2019

To the shareholders of Allianz Insurance Lanka Ltd

Allianz Insurance Lanka Ltd 31 December 2018 Net IBNR and LAT Certification

I hereby certify that the IBNR provision (inclusive of CHE) of LKR 1,015,504,255 is adequate in relation to the Claim Liability of Allianz Insurance Lanka Ltd as at 31 December 2018, net of reinsurance on a Central Estimate basis. This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate at a 50th percentile to meet the future liabilities in respect of the Company's incurred claim obligations as at 31 December 2018, in many but not all scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). I hereby certify that the UPR provision of LKR 9,435,691,707 set by the Company, net of reinsurance, is adequate at a 50th percentile in relation to the unexpired risks of Allianz Insurance Lanka Ltd as at 31 December 2018, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

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

I have relied upon information and data provided by the management of the above Company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonableness of the data.

Sivaraman Kumar
Fellow of the Institute & Faculty of Actuaries (FIA)
For and on behalf of NMG Consulting
Dated 31 May 2019

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

Independent Auditor's Report

TO THE SHAREHOLDERS OF ALLIANZ INSURANCE LANKA LIMITED

Report on the audit of the financial statements

OUR OPINION

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of Allianz Insurance Lanka Limited ("the Company") as at December 31, 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What we have audited

The Financial Statements of the Company, which comprise:

- the Statement of Financial Position as at December 31, 2018;
- the Statement of Income and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

INDEPENDENCE

We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics.

OTHER MATTER

The Financial Statements of the company for the year ended 31 December 2017 were audited by another firm of auditors whose report, dated 25 June 2018, expressed an unmodified opinion on those Statements.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information presented in the annual report excluding the Financial Statements and our Auditor's Report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this Auditor's Report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of Financial

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Partners **D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, S. Gajendran FCA, Ms. S. Hadgie FCA, N.R. Gunasekera FCA, Ms. S. Perera ACA, T.U. Jayasinghe FCA**

Independent Auditor's Report

Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act, No. 07 of 2007, 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 accounting records of Company have also been maintained in the manner required by the rules made by the Insurance Regulatory Commission of Sri Lanka in compliance with Section 47 (2) of the Regulation of Insurance Industry Act, No. 43 of 2000 so as to clearly indicate the true and fair view of the financial position of Allianz Insurance Lanka Limited.

CHARTERED ACCOUNTANTS
COLOMBO
12 July 2019

Statement of Financial Position

(ALL AMOUNTS IN SRI LANKA RUPEES THOUSANDS)

	Note	As at 31 December 2018	2017
Assets			
Intangible assets	5	872,137	17,411
Property, plant and equipment	6	593,663	90,794
Deferred tax asset	7	70,980	17,983
Financial investments	8	20,033,369	3,050,035
Other fund assets	9	1,921	-
Reinsurance receivable	10	1,929,573	763,921
Premium receivables	11	6,660,658	2,440,764
Insurance contracts - deferred expenses	12	1,005,959	303,085
Amounts due from related parties		8,090	27,184
Other assets	13	2,249,087	66,984
Cash in hand and balance at bank	14	617,850	128,959
Total assets		**34,043,287**	**6,907,120**
Equity and liabilities			
Equity			
Stated capital	15	8,619,972	905,500
Retained earnings	16.1	2,628,996	653,269
Available for sale reserve	16.2	(134,731)	15,606
Total equity		**11,114,237**	**1,574,375**
Liabilities			
Insurance liability - Non Life	17	13,872,520	3,897,918
Retirement benefit obligation	18	331,705	24,853
Insurance contracts - deferred revenue	19	225,213	217,071
Deferred Tax Liability		-	-
Other fund liabilities	20	2,130	-
Reinsurance payables		737,262	492,249
Income tax payables		229,739	8,179
Other liabilities	21	6,837,596	579,957
Bank overdraft	14	692,885	112,518
Total liabilities		**22,929,050**	**5,332,745**
Total equity and liabilities		**34,043,287**	**6,907,120**

I certify that the Financial Statements have been prepared in compliance with the requirements of 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:

Surekha Alles
Managing Director

Alan Smee
Director

Colombo
31 May 2019

Allianz Insurance Lanka Ltd

Statement of Income

(ALL AMOUNTS IN SRI LANKA RUPEES THOUSANDS)

	Note	Year ended 31 December 2018	2017
Gross written premium	22	17,733,187	6,020,890
Premium ceded to reinsurers	22 (b)	(2,718,275)	(1,723,768)
Net written premium		15,014,912	4,297,122
Net change in reserve for unearned premium	23	(1,348,347)	(883,306)
Net earned premium		13,666,565	3,413,816
Benefits and claims			
Net insurance benefits and claims paid	24	(9,263,223)	(2,514,982)
Gross change in contract liabilities	24	(45,203)	(150,270)
Change in contract liabilities ceded to reinsurers	24	173,502	354,067
Underwriting and net acquisition cost	25	(2,073,154)	(243,768)
Total benefits, claims and net acquisition cost		(11,208,526)	(2,554,953)
Other revenue			
Investment income	26	1,732,635	275,820
Net realised (losses) /gains	27	(15,716)	8,362
Fair value gains	28	13,349	-
Fees and commission Income	29	412,469	134,248
Other operating Income	30	184,327	8,382
Total other revenue		2,327,064	426,812
Other expenses			
Other operating, administrative and finance charges	31	(3,884,757)	(1,101,328)
Total other expenses		(3,884,757)	(1,101,328)
Profit before taxation		900,346	184,346
Income tax expense	32	(139,903)	(51,753)
Profit for the year		760,443	132,593
Profit attributable to:			
Equity holders of the Company		760,443	132,593
		760,443	132,593
Basic earnings per share (Rs)	33	1.17	1.63

Statement of Comprehensive Income

(ALL AMOUNTS IN SRI LANKA RUPEES THOUSANDS)

	Year ended 31 December	
	2018	2017
Profit for the year	760,443	132,593
Other comprehensive (loss) / income		
Items that may be reclassified to profit or loss		
Amounts transferred from AFS reserve on disposal of AFS assets	-	(8,048)
Net change in fair value of AFS assets	(104,320)	97,286
Items that will not be reclassified to profit or loss		
Actuarial losses on defined benefit plans	(93,312)	(2,001)
Aggregate tax effect of items recognised in other comprehensive (loss) / income	77,827	(24,426)
Other comprehensive (loss) / income	(119,805)	62,811
Total comprehensive income for the year	640,638	195,404
Total comprehensive income attributable to:		
Equity holders of the Company	640,638	195,404
	640,638	195,404

Statement of Changes in Equity

(ALL AMOUNTS IN SRI LANKA RUPEES THOUSANDS)

	Stated capital	Available for sale reserve	Retained earnings	Total
Balance as at 31 December 2016	**500,000**	**(48,646)**	**522,117**	**973,471**
Profit for the year	-	-	132,593	132,593
Other comprehensive income	-	64,252	(1,441)	62,811
Transactions with owners in their capacity as owners				
Issue of shares	405,500	-	-	405,500
Balance as at 31 December 2017	**905,500**	**15,606**	**653,269**	**1,574,375**
Profit for the year	**-**	**-**	**760,443**	**760,442**
Other comprehensive income	-	(104,319)	(15,485)	(119,804)
Transactions with owners in their capacity as owners				
Issue of shares	1,836,455	(10,961)	(529,482)	1,296,012
Balances transferred from Amalgamation	5,878,017	(35,057)	1,760,251	7,603,211
Balance as at 31 December 2018	**8,619,972**	**(134,731)**	**2,628,996**	**11,114,237**

Statement of Cash Flows

(ALL AMOUNTS IN SRI LANKA RUPEES THOUSANDS)

	Note	Year ended 31 December 2018	2017
Cash flows from operating activities			
Premium received from customers		13,569,848	5,153,850
Reinsurance premium paid		(2,473,262)	(1,947,951)
Claims paid		(9,788,983)	(2,907,455)
Reinsurance receipts in respects of claims		525,760	575,853
Cash paid to and behalf of employees		(1,438,394)	(494,565)
Other operating cash payments		(1,232,662)	(1,232,304)
Cash flows from operating activities	A	(837,693)	(852,572)
Employees benefit paid		(28,320)	(1,012)
Income tax paid		(91,503)	-
Net cash used in operating activities		(957,516)	(853,584)
Cash flows (used in) / generated from investing activities			
Acquisition of investments		(326,437,592)	(24,212,216)
Proceeds on disposal of investment		321,784,740	24,483,703
Acquisition of intangible assets		(32,393)	(5,693)
Acquisition of property and equipment		(259,741)	(43,223)
Proceeds on disposal of property and equipment		2,084	-
Interest income received		1,624,460	284,182
Net cash (used in) / generated from investing activities		(3,318,442)	506,753
Net cash flows before financing activities		(4,275,958)	(346,831)
Cash flows used in financing activities			
Issue of shares		1,296,012	405,500
Net cash generated from financing activities		1,296,012	405,500
Net cash transferred from former Janashakthi General Insurance Limited at the time of amalgamation		2,888,467	-
Net (decrease) / increase in cash and cash equivalents	B	(91,478)	58,669

Allianz Insurance Lanka Ltd

Statement of Cash Flows

(ALL AMOUNTS IN SRI LANKA RUPEES THOUSANDS)

	Year ended 31 December	
	2018	2017
A Cash flow from operating activities		
Profit before tax	900,346	184,346
Depreciation of property, plant and equipment	201,240	58,133
Amortisation of intangible assets	75,244	31,476
Provision for employee benefits	46,079	6,062
Provision for bad and doubtful debts	141,871	6,536
Interest and investment income	(1,732,635)	(275,820)
Realised gains and losses	15,716	(8,362)
Fair value gains and losses	(13,349)	-
Increase in premium and other receivables	(1,797,222)	(2,120,841)
Increase in deferred expenses	(109,654)	(94,705)
Increase in insurance liability - Non Life	1,182,182	1,037,304
Increase in creditors and accruals	252,489	323,299
Net cash flow used in operating activities	**(837,693)**	**(852,572)**
B Increase / (decrease) in cash and cash equivalents		
Cash in hand and at bank	617,850	128,959
Bank overdrafts	(692,885)	(112,518)
Net cash and cash equivalents for the current year	(75,035)	16,441
Net cash and cash equivalents for the previous year	16,441	(42,228)
(Decrease) / Increase in cash and cash equivalents during the year	**(91,478)**	**58,669**

Notes to the Financial Statements

1. GENERAL INFORMATION

1.1 Reporting entity

Allianz Insurance Lanka Limited ("the Company") is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company and the principal place of business is located at No. 46/10, Nawam Mawatha, Colombo 02, Sri Lanka and No. 675, Dr. Danister de Silva Mawatha, Colombo 09, Sri Lanka.

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

1.2 Principal Activities and Nature of Operations

The principal activities of the Company are to carry out underwriting of all classes of general insurance. In terms of Section 244 (3) of the Companies Act No. 07 of 2007, Allianz Insurance Lanka Limited amalgamated with Janashakthi General Insurance Limited, as a result of Allianz SE Germany, a company predominantly engaged in the insurance and assets management business acquiring 100% of the voting share of Janashakthi General Insurance Limited (JGIL). The amalgamated company will continue as Allianz Insurance Lanka Limited bearing Company registration number PB 5179, and a certificate of amalgamation has been issued by the Registrar General of Companies on 28 September 2018 in terms of Section 244 (1) (a) of the Companies Act No. 07 of 2007.

Accordingly, the rights and obligations arising from a policy of insurance entered into by any policy-holder with the amalgamating Companies being Janashakthi General Insurance Limited and Allianz Insurance Lanka Limited, shall continue and be in force and effect with the amalgamated Company being Allianz Insurance Lanka Limited bearing Company registration number PB 5179, on the same basis and same terms and conditions, as that which existed between the policy-holder and either of the amalgamating Companies being Janashakthi General Insurance Limited and Allianz Insurance Lanka Limited.

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

1.3 Parent entity

The Company's parent undertaking and ultimate parent undertaking and controlling party is Allianz SE of Munich, Germany.

1.4 Date of authorisation of issue

The financial statements of the Company for the year ended 31 December 2018 were approved and authorised for issue by the board of directors on 31 May 2019.

1.5 Responsibility for financial statements

The board of directors is responsible for the preparation and presentation of the financial statements of the Company as per the provisions of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Company for the year ended 31 December 2018 have been prepared in accordance with Sri Lanka Accounting Standards comprising LKASs and SLFRSs as issued by the Institute of Chartered Accountants of Sri Lanka and comply with requirements of the Companies Act No.07 of 2007. The presentation of the financial statements is also in compliance with the requirements of the Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto. The financial statements includes statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows and notes to the financial statements.

2.2 Historical cost convention

The financial statements of the Company have been prepared on historical cost basis except for the following:

- Available for sale financial assets are measured at fair value
- Financial assets designated at fair value through profit or loss are measured at fair value
- Policyholder' liability is determined using actuarial valuation
- Defined benefit obligations are recognised at present value

2.3 Materility and aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard - LKAS 1 on 'presentation of financial statements'.

Assets and liabilities and income and expenses are not set off unless permitted by Sri Lanka Accounting Standards.

3. (A) NEW STANDARDS AND AMENDMENTS - ADOPTED BY THE COMPANY

The Company has applied the following standards and amendments for the first time for their annual reporting period 01 January 2018.

- SLFRS 15 Revenue from contracts with customers
- Amendments to SLFRS 15, Revenue from contracts with customers

SLFRS 15 'Revenue from contracts with customers'
In accordance with transition provisions in SLFRS 15, the Company has adopted the new rules retrospectively and no adjustments have been made to equity as at 1 April 2018 as no differences resulted from adoption of SLFRS 15.

3. (B) NEW STANDARDS AND AMENDMENTS - NOT YET ADOPTED BY THE COMPANY

(i) SLFRS 9, 'Financial Instruments' - Applicable in 2021

SLFRS 9 replaces the multiple classification and measurement models in LKAS 39; 'Financial Instruments: Recognition and measurement' with a single model that has initially only two classification categories, amortised cost and fair value.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if:

a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and

b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.

All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option, entities will need to recognise part of the fair value change that is due to changes in their own credit risk in Other Comprehensive Income (OCI) rather than in profit or loss.

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

Further changes introduced to the classification and;

- a third measurement category (FVOCI) for certain financial assets that are debt instruments.
- a new Expected Credit Loss (ECL) model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (eg. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

The Company is yet to assess the impact of adopting this new standard and has opted for the deferral option given in the standard for general insurance entities. Therefore adoption of the standard is expected to be for annual period beginning on or after 2021.

The Company qualifies for the above exemption as it has not previously applied any version of SLFRS 9 and its activities are solely connected with insurance business.

The fair value of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading in SLFRS 9, or that is managed and whose performance is evaluated on a fair value basis.

The following standards and interpretations had been issued but not mandatory for annual reporting periods ending 31 December 2018.

(ii) SLFRS 16 Leases

SLFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under SLFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted if SLFRS 15, 'Revenue from Contracts with Customers', is also applied.

The Company is in the process of assessing the impact of adopting SLFRS 16 and will apply the standard from its mandatory adoption date of 1 April 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right of use of assets for property leases will be measured on transition as if the new rules had always been applied. All other right - of - use will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

(iii) IFRIC 23, 'Uncertainty over income tax treatments'

This IFRIC clarifies how the recognition and measurement requirements of LKAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

This amendment is effective for the annual periods beginning on or after 1 January 2019.

(iv) Annual improvements 2015 - 2017

These amendments includes minor changes to the following standards:

- SLFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business
- SLFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- LKAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- LKAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

These amendments are effective for the annual periods beginning on or after 1 January 2019.

(v) Amendments to LKAS 19, 'Employee

These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

This amendment is effective for the annual periods beginning on or after 1 January 2019.

(vi) Amendments to LKAS 1 and LKAS 8 on the definition of material

These amendments to LKAS 1, 'Presentation of financial statements', and LKAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other SLFRSs:

- use a consistent definition of materiality throughout SLFRSs and the conceptual framework for financial reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in LKAS 1 about immaterial information.

These amendments are effective for the annual periods beginning on or after 1 January 2020.

Notes to the Financial Statements

(vii) SLFRS 17, 'Insurance contracts'

This standard replaces SLFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. SLFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

This amendment is effective for the annual periods beginning on or after 1 January 2021.

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 meet the following eligibility criteria:

(i) The Company has not applied SLFRS 9 before ; and

(ii) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

This note provides a list of the significant accounting policies adopted in the preparation of the financial statements. These accounting policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Business combinations under common control

A business combination under common control is a transaction in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the transaction.

The Company accounts for such transactions applying the following principals:

- The acquiring / remaining entity is the entity first controlled by the parent of the entities that are combined.
- The results of the business under common control are combined retrospectively as if both entities (acquirer and acquiree) had always been combined.
- The assets and liabilities combined are accounted for and presented based on carrying values as appearing in the separate financial statements of the entities being combined. Adjustments are made where necessary to the financial information of the receiving entity to make its accounting policies consistent to that of the acquiring entity. No adjustments are made to reflect fair values and no new assets and liabilities of the acquiree are recognised at the date of the business combination.
- Any difference between the consideration given (where applicable) and the aggregate book value of the assets and liabilities of the acquired entity at the date of the transaction is included in equity in retained earnings or in a separate reserve. Please refer note 38 for reconciliation of equity as a result of the amalgamation of Janashakthi General Insurance Limited and Allianz Insuranace Lanka Limited.

4.2 Foreign currency translation

4.2.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Sri Lankan Rupees (LKR), which is the Company's functional and presentation currency.

4.2.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains / (losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognised in other comprehensive income.

4.3 Financial assets and financial liabilities

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments.

4.3.1 Financial assets

(a) Initial recognition and measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available-forsale financial assets, as appropriate.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit or loss where the Company's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this 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.

Financial assets are classified into the following specified categories:

- Fair value through profit or loss (either as held for trading or designated at fair value through profit or loss) (FVTPL)
- Loans and receivables
- Held to maturity financial assets (HTM)
- Available-for-sale financial assets (AFS)

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs that are attributable to the acquisition of the financial asset.

The Company's existing types of financial assets and their possible classifications are shown in the table below:

Financial asset	Category
Treasury bond	Available for sale
Quoted shares	Fair value through profit or loss / available for sale
Unit trust	Fair value through profit or loss
Corporate debt	Loans & receivable
Fixed deposit	Loans & receivable
Reverse repurchase agreements	Loans & receivable
Staff loans	Loans & receivable
Reinsurance receivable	Loans & receivable
Premium receivable	Loans & receivable
Cash and cash equivalent	Loans & receivable
Other assets	Loans & receivable

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the settlement date.

The financial assets include cash and short-term deposits, loans and receivables, quoted and unquoted financial instruments.

(b) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realized gains and losses are recognised in the income statement.

The Company evaluated its financial assets at fair value through profit and loss (held for trading) whether the intend to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, availablefor- sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Available-for-sale financial assets

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealized gains or losses recognised as other comprehensive income in the available-for-sale reserve until the asset is derecognized, at which time, the cumulative gain or loss is recognised in other operating income, or determined to be impaired, or the cumulative loss is recognised in the income statement in finance costs and removed from the available-for-sale reserve.

The Company evaluated 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 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 profit or loss over the remaining life of the investment using the Effective Interest Rate (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 income statement.

Loans and other receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment.

After initial measurement, loans and receivables are measured at amortised cost, using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortization process.

(c) Derecognition of financial assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Company retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

(a) The Company has transferred substantially all the risks and rewards of the asset; or

(b) The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

(d) Impairment of financial assets

The Company asseses at each reporting date whether 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.

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 impairment 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 income statement. 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 part of investment income in the income statement. 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 'finance cost' in the income statement.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system, which considers credit risk characteristics such as asset type, industry, geographical location,collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Company and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

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 equity investments classified as available-for-sale, objective evidence would include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

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 income statement. 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 finance 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 income statement, the impairment loss is reversed through the income statement.

(e) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset derecognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(f) Fair value of financial instruments

For financial instruments where there is not an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, net assets, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

The fair value of repo and call deposits with credit institutions is their carrying value. The carrying value is the cost of the investment and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the reporting date.

If the fair value can not be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

4.3.2 Financial Liabilities

Classification and subsequent measurement of financial liabilities

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss (held for trading or designated at fair value through profit or loss) and financial liabilities at amortised cost. Financial liabilities of the Company includes amounts due to banks, customer deposits, etc.

The subsequent measurement of financial liabilities depends on their classification.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the income statement. The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

(b) Financial liabilities at amortised cost

Financial liabilities not classified as fair value through profit or loss are classified as amortised cost liabilities. Such financial liabilities are subsequently measured at amortised cost using the EIR method.

4.4 Recognised fair value measurement

(i) Fair value hierarchy

This section explains the judgments and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements to provide an indication about the reliability of the inputs used in determining fair value. The company has classified its financial instruments into three levels prescribed under the accounting Standards. An explanation of each level follows underneath the table.

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using valuation models with the company's best estimate of the most appropriate model assumptions.

The following table provides an analysis on different basis used by the Company in assessing the fair value of financial instruments.

(ii) Determination of fair value

Instrument	Valuation technique	Fair value hierarchy
Treasury bond	Using market yield	Level 1
Treasury bill	Using market yield	Level 1
Quoted shares	Volume weighted average	Level 1
Corporate debt	Published market prices	Level 1
Fixed deposit	Carrying value (cost + interest)	Level 3
Reverse repurchase agreements	Carrying value (cost + interest)	Level 3
Unit trust	Published net asset values	Level 2

There were no transfers between Level 1, 2 and 3 for recurring fair value measurements during the year.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

4.5 Reinsurance

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsurance policy.

The Company also assumes reinsurance risk in the normal course of business non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

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

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsures are estimated in a manner consistent with the claim liability associated with the reinsurance policy.

If a reinsurance asset is impaired, the company reduces the carrying amount accordingly and is recognized in profit or loss. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after the initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amount that the company will receive from the re-insurer.

Notes to the Financial Statements

4.6 Premium receivables

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premium receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognized in the income statement. Premium receivables are derecognised when the de-recognition criteria for financial assets have been met.

4.7 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These are held for the purpose of meeting short-term cash commitments.

For the purpose of statement of cash flows, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

4.8 Other debtors and amounts receivable from related companies

Other debtors and dues from related parties are recognised at cost less allowances for bad and doubtful receivables.

4.9 INTANGIBLE ASSETS

4.9.1 Basis of recognition

Software

Costs associated with maintaining software programmes are recognised as an expenses as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Amortisation method and useful life

The Company amortises intangible assets with alimited useful life using the straight line method over the period as follows:

IT development and software 10 Years

4.10 Property, plant and equipment

4.10.1 Basis of recognition

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

4.10.2 Basis of measurement

An item of property and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of, or service 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 the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. 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' in profit or loss. When revalue assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

4.10.3 Subsequent cost

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

The costs of the day-to-day servicing of property, plant and equipment are recognised in income statement as incurred.

4.10.4 Depreciation

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. Depreciation is calculated by using the straight-line method on the cost of all property and equipment, other than freehold land, in order to write off such amounts over the estimated useful economic lives of such assets.

The estimated useful lives of property, plant and equipment are as follows:

The class of tangible assets	Useful life
Buildings	40 years
Improvements on buildings under lease	05 - 10 years
Equipment	03 - 04 years
Furniture and fixtures	05 years
Motor vehicles	04 - 05 years

Useful lives, depreciation method and residual amounts of property and equipment are reviewed at each financial year end and adjusted prospectively if appropriate. Such a review takes into consideration the nature of the assets, their intended use including but not limitative to the closure of operations and the evolution of the technology and competitive pressures that may lead to technical obsolescence.

4.10.5 Derecognition

The carrying amount of an item of property and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in income statement when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspections is derecognised.

4.10.6 Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell or value in use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Income Statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

4.11 Other assets

Other assets include other debtors and receivables, advances, deposits, prepayments, taxation receivables, inventory and amounts receivable from related companies.

(a) Advances, deposits and prepaid expenditure

Expenditure which is deemed to have a benefit or relationship to more than one financial year is classified as advances, deposits and prepaid expenditure. Such expenditure is written off over the period, to which it relates, on a time proportion basis.

Notes to the Financial Statements

(b) Inventories

Inventories include all consumable items that are stated at the lower of cost and net realisable value.

4.12 Liabilities and provisions

4.12.1 Insurance contract Liabilities

(a) Unearned premiums – Non Life Insurance

Unearned premiums reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/365 basis except for the marine and title policies in accordance with the Regulation of Insurance Industry Act No. 43 of 2000.

The basis of calculating unearned premiums for marine and title policies are as follows,

Class of the policy	Basis
Marine	60% in the same month
	40% after three months of underwriting the policy
Title	60% in the same year
	40% is deferred until the validity of the policy expires.

Change in reserve for unearned insurance premium represents the net portion of the gross written premium transferred to the unearned premium reserve during the year to cover the unexpired period of the polices.

(b) Provision for gross outstanding

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are 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.

The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are de-recognised when the contract expires, is discharged or is cancelled.

(c) Provision for gross incurred but not reported claims

Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation.

For 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 (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

(d) Unearned premiums – Non Life Insurance

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder method, Bornheutter-Ferguson method and Frequency / Severity method.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

(e) Provision for gross incurred but not reported claims

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgments, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium.

(f) Title insurance reserve

Title insurance reserve is maintained by the Company to pay potential claims arising from the title insurance policies. Title insurance policies are normally issued for a long period.

Unearned premium for title is calculated on 10 year basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

If the respective loan subjected to the title insurance policy issued is settled before the maturity, full premium of such policies remaining as at the date of settlement of such loan is recognised as profits upon confirmation from the respective bank.

4.12.2 Provisions (excluding Insurance contracts)

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

4.13 Employee benefits

(a) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the statement of income in the periods during which related services are rendered by employees.

Employees' Provident Fund

All employees of the Company are members of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the salary to EPF managed by the Central Bank of Sri Lanka and have no legal or constructive obligation to pay any further amounts.

Employees' Trust Fund

All employees of the Company are members of the Employees' Trust Fund (ETF). The Company contributes at the rate of 3% of the salaries of each employee to the ETF managed by the Central Bank of Sri Lanka.

(b) Defined benefit plans

Gratuity is a defined benefit plan. Provision has been made in the accounts for retiring gratuities. An actuarial valuation of the retirement benefit is performed by a qualified actuary as at the statement of financial position date using the Projected Unit Credit (PUC) method in terms of Sri Lanka Accounting Standards 19 - Employee Benefits. The provision is not externally funded.

Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods. The past service cost is recognized as an expense on a straight line basis over the period until the benefits become vested.

However, as per the payment of Gratuity Act No.12 of 1983, the liability arises only upon completion of five years of continued service.

The actuarial valuation involves making assumptions on the discount rate, salary increment rate and balance service period of the employees. Due to the long term nature of the plans these assumptions and estimates are subject to significant uncertainty.

4.14 Leases

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

Finance lease

Leases in which the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and 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 under finance costs in the income statement.

A leased asset is 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.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor over the period of the lease are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease, and are recognised as an operating expense in the income statement when they fall due.

4.15 Interest bearing borrowing

Interest bearing borrowings of the Company comprise of bank overdrafts. The relevant fees and expenses are charged to income statement.

4.16 Other liabilities

Other liabilities include payables to life insurance policyholders (claims payable), Agents / Brokers (commission payable), reinsurers and other creditors (including accrued expenditure). These are stated at their historical value, which is deemed to be their fair value.

4.17 Income recognition

4.17.1 Gross written premium

Gross insurance written premiums (GWP) represents the premium charged by the Company to underwrite risks. GWP is accounted on accrual basis. Rebates that form a part of the premium rate, such as no claim rebates are deducted from GWP.

GWP comprise of the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

4.17.2 Product classification

Insurance contracts

According to Sri Lanka Accounting Standards SLFRS 4 requires contracts written by insurer to be classified as either insurance contracts or investment contracts. Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policy holders) by agreeing to compensate the policy holders if a specified uncertain future event (the insured event) adversely affects the policyholders. The Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer significant financial 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 'SLFRS 4 - Insurance Contract'. Thus the Company does not have any investment contracts within its product portfolio as at the reporting date.

4.17.3 Premium ceded to reinsuers

Gross reinsurance premium comprises the total reinsurance premium payable for the whole cover provided by contracts entered into the period and is recognised on the date on which the policy commences.

4.17.4 Fees and commission income

Policyholders are charged for policy administration services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed.

4.17.5 Investment income

Interest income

Interest income are recognised within ‘investment income’ in the income statement using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument.

Dividend income

Dividend income is recognised when the Company’s right to receive the payment is established. For equity securities this is the ex-dividend date.

Realised gains and losses

Realised gains and losses on investments recorded in the income statement, include gains and losses on financial assets and investment properties. 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.

4.17.6 Other income

Other income is recognised on an accrual basis and it includes income from disposal of property, plant and equipment, exchange gains etc.

4.18 Recognition of gross claims

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

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

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example - subrogation).

4.18.1 Reinsurance claims

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

4.18.2 Salvage and subrogation reimbursements

While the directors consider that the provision 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 and the estimates made are reviewed regularly.

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

4.18.3 Deferred Acquisition Cost (DAC)

Cost of acquiring new business including commission, underwriting, marketing and policy issuance expenses, which vary with and directly related to production of new business are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expenses when incurred. Subsequent to initial recognition deferred acquisition costs (DAC) is amortised over the period on the basis unearned premium is amortised.

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

DAC is reviewed for impairment at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value and impairment loss is recognised in the income statement. DAC are also considered in the liability adequacy test for each reporting period. DAC are derecognised when the related contracts are either expired or cancelled.

Reinsurance commissions

Commission receivable on outward reinsurance contracts are deferred and commission receivable on outward reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

4.19 Borrowing costs

All Borrowing Costs are expensed as and when they are incurred except where they are directly attributable to the acquisition or construction of a qualified asset as required by 'LKAS 23 - Borrowing Cost'.

Notes to the Financial Statements

4.19 Current and deferred income tax

4.19.1 Income tax

The tax expense for the period comprises current and deferred tax.

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the end of the reporting period, applicable as at the date of statement of financial position or although enacted subsequently are applicable to the current period. Accordingly, provision for taxation is computed at 28% (2017 – 28%) 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.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where apropriate on the basis of amounts expected to be paid to tax authorities.

4.19.2 Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

4.20 Basic earnings per share

Company presents basic and diluted Earnings Per Share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the 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.

4.21 Contingent 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 readily measured as defined in the 'LKAS - 37 on Provisions, Contingent Liabilities and Contingent Assets'. Contingent liabilities are not recognized in the statement of financial position but are disclosed unless its occurrence is remote.

4.22 Events after reporting date

The Directors give due consideration to and where necessary adjustments or disclosures are made in the current financial statements in respect of material post statement of financial position events as appropriate.

4.23 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements of the Company in conformity with SLFRS / LKAS requires management to make judgements, 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.

Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised prospectively. Management considered the following items, where significant judgments, estimates and assumptions have been used in preparing these financial statements.

4.23.1 Going concern

The Management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company 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, financial statements continue to be prepared on a going concern basis.

4.23.2 Non-life insurance contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of outstanding claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not yet reported at the date of statement of financial position IBNR.

The Company establishes IBNR reserves, to recognize the estimated cost of losses for events which have already occurred but which have not yet been notified. These reserves are established to recognize the estimated costs required to bring such claims to final settlement. As these losses have not yet been reported, the Company relies upon historical information and statistical models, based on product line, type and extent of coverage, to estimate its IBNR liability. The Company also uses reported claim trends, claim severities, exposure growth, and other factors in estimating its IBNR reserves. These reserves are revised as additional information becomes available and as claims are actually reported. It can take a significant period of time before the ultimate claims cost can be established with certainty.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Changes in assumptions may lead to changes in the non-life insurance liability over time. Furthermore, some of these assumptions can be volatile.

The insurance contracts are issued under fronting arrangements whereby it is as clearly declared and agreed in the fronting policy, that payment and recognition of any claim under a fronting arrangement is made conditional upon the said reinsurer or the consortium of reinsurers confirming their respective liabilities to the Company to the full extent of their shares in the risks underwritten.

This fronting policy is issued for and on behalf of the fronting company (Insurer) on 100% fronting basis and any liability.

The insured or their agents' principals or their bankers or any or other institution having a financial interest shall not institute any court proceedings or other civil suit or initiate arbitration proceedings against the Company until and unless the Company shall have received consent of the said reinsurer or the consortium of reinsurers to settle their respective liabilities under the agreed reinsurance program, to the Company.

The claim liability is recognized only to the extent of the confirmation of the claim liability, by the reinsurer.

4.23.3 Deferred policy acquisition costs

Deferred policy acquisition costs (DAC) is an asset and represent costs of acquiring insurance that are deferred and amortised. This vary with and are primarily related to the production of new and renewal business and consist with commissions, underwriting and agency expenses.

Deferred policy acquisition costs are deferred only to the extent that they are recoverable from future policy income. The amount of acquisition costs to be deferred is dependent on judgments as to which issuance costs are directly related to and vary with the acquisition.

The Company performs an impairment review on DAC at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognized in the income statement. No such indication of impairment was experienced during the year.

4.23.4 Fair value of financial instruments

Fair values of financial assets and liabilities are determined using quoted market prices where available.

There are certain financial assets and financial liabilities for which fair value cannot be derived from active markets and they are determined using a variety of valuation techniques that include the use of discounted cash flow models and / or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Notes to the Financial Statements

4.23.5 Valuation of defined benefit obligation - gratuity

The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and the long-term nature, such estimates are subject to significant uncertainty and the obligation is highly sensitive to the changes of these estimates and assumptions.

4.23.6 Deferred tax assets and liabilities

Deferred tax assets are recognized if sufficient future taxable income, including income from the reversal of existing taxable temporary differences and available tax planning strategies, is available for realization. The utilization of deferred tax assets arising from temporary differences depends on the generation of sufficient taxable profits in the period in which the underlying asset or liability is recovered or settled.

Certain management judgments are involved when determining the amount of deferred tax to be recognised based on the timing and future taxable profits.

4.23.7 Impairment of financial assets

Impairment evaluation is a complex process that involves significant judgments and uncertainties that may have a significant impact on Company's financial statements. The identification of impairment is an inherently uncertain process involving various assumptions and factors, including financial condition of the counter-party, expected future cash flows, statistical loss data, discount rates, observable market prices, etc. Estimates and assumptions are based on management's judgment and other information available prior to the issuance of the financial statements.

Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry performance, financing and operational cash flows and changes in technology.

4.23.8 Provisions for liabilities and contingencies

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

5. INTANGIBLE ASSETS

	Year ended 31 December 2018	2017
Cost	1,235,952	191,934
Accumulated amortisation and impairment	(363,815)	(174,523)
	872,137	17,411

Cost	Software
As at 31 December 2017	186,241
Additions	5,693
As at 31 December 2017	**191,934**
Balances transferred from Amalgamation	151,858
Additions	892,160
As at 31 December 2018	**1,235,952**
Accumulated amortisation and impairment	
As at 31 December 2017	143,047
Amortisation charge for the year	31,476
As at 31 December 2017	174,523
Balances transferred from Amalgamation	114,047
Amortisation charge for the year	75,245
As at 31 December 2018	**363,815**

6. PROPERTY, PLANT AND EQUIPMENT

	Note	Year ended 31 December 2018	2017
Cost	6.1	1,751,480	347,520
Accumulated depreciation and impairment	6.2	(1,157,817)	(256,726)
Net book value		593,663	90,794

Notes to the Financial Statements

	Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	Total
6.1 Cost					
As at 1 January 2017	49,107	90,563	154,570	10,057	304,297
Additions	4,393	8,278	30,552	-	43,223
As at 31 December 2017	**53,500**	**98,841**	**185,122**	**10,057**	**347,520**
Balance transferred from Amalgamation	457,040	335,148	350,118	40,729	1,183,034
Additions	8,248	14,275	219,735	17,483	259,741
Disposals	(27,616)	(472)	(7,840)	(2,888)	(38,816)
As at 31 December 2018	**491,171**	**447,791**	**747,135**	**65,381**	**1,751,480**

	Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	Total
6.2 Accumulated Depreciation					
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
As at 31 December 2017	**45,676**	**66,563**	**136,063**	**8,424**	**256,726**
Balance transferred from Amalgamation	250,357	196,748	251,602	39,360	738,068
Depreciation charge for the year	68,876	43,200	93,913	3,400	209,389
Accumulated Depreciation on Disposal of Assets / Adjustments	(43,167)	882	(6,499)	2,419	(46,366)
As at 31 December 2018	**321,742**	**307,392**	**475,078**	**53,604**	**1,157,817**

7. DEFERRED TAX ASSET/LIABILITIES

Deferred income tax assets and liabilities are set-off when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity.

	Year ended 31 December 2018	2017
Deferred income tax assets		
On tax losses	-	9,523
On bad debt provision	-	7,840
On retirement benefit obligation	92,878	6,959
Total deferred income tax assets	**92,878**	**24,322**
Deferred tax liabilities		
On available for sales reserve	-	(6,069)
On property, plant and equipment and intangible assets	(21,898)	(270)
Total deferred income tax liabilities	(21,898)	(6,339)
Net deferred income tax assets / (liabilities)	**70,980**	**17,983**

The Company has recognised deferred tax asset of LKR 70.9 Mn to the extent that it is probable that future taxable profit profit will be available.

	Year ended 31 December 2018	2017
As at 1 January	17,983	50,406
Balances transferred from amalgamation	(90,389)	-
Deferred tax charge / (income) recognised in Statement of Income		
On retirement benefit obligation	12,978	1,415
On property, plant and equipment and intangible assets	14,325	3,868
On tax losses	(9,523)	(15,109)
On bad debt provision	(7,840)	1,829
On available for sales reserve	6,069	-
Set-off against Liabilities	2,176	-
	18,185	(7,997)
Deferred tax charge / (income) recognised in Statement of Comprehensive Income		
On retirement benefit obligation	18,122	560
On property, plant and equipment and intangible assets	46,814	-
On available for sales reserve	-	(24,986)
Set-off against Liabilities	60,265	-
	125,201	(24,426)
As at 31 December	**70,980**	**17,983**

8. FINANCIAL INVESTMENTS

(a) The financial investments of the Company are summarised by measurement category in the table below.

	Year ended 31 December 2018	2017
Financial assets at fair value through profit or loss	18,750	-
Loans and receivables	1,879,553	163,807
Available for sale financial assets	18,135,066	2,886,228
Total financial investments	**20,033,369**	**3,050,035**

(b) The following table compares the fair values of the financial investments with their carrying values:

	Year ended 31 December 2018		Year ended 31 December 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets at fair value through profit or loss	18,750	18,750	-	-
Loans and receivables	1,879,553	1,879,553	163,807	163,807
Available for sale financial assets	18,135,066	18,135,066	2,886,228	2,883,805
	20,033,369	**20,033,369**	**3,050,035**	**3,047,612**

Notes to the Financial Statements

	Year ended 31 December 2018		Year ended 31 December 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(c) Financial assets at fair value through profit or loss				
Investment in Unit Trust	18,750	18,750	-	-
Total	**18,750**	**18,750**	-	-
(d) Loans and receivables				
Reverse repurchase agreements	268,452	268,452	84,366	84,366
Placements with banks and financial institutions	1,611,101	1,611,101	79,441	79,441
Total	**1,879,553**	**1,879,553**	**163,807**	**163,807**
(e) Available for sale financial assets				
Investment in government securities	15,544,824	15,544,824	2,844,524	2,844,524
Investment in unit trust	29,298	29,298	26,281	26,281
Corporate debts	2,560,944	2,560,944	15,423	13,000
Total	**18,135,066**	**18,135,066**	**2,886,228**	**2,883,805**

9. OTHER FUND ASSETS

	Year ended 31 December	
	2018	2017
Government securities	1,921	-
	1,921	-

10. REINSURANCE RECEIVABLE

	Year ended 31 December	
	2018	2017
Reinsurance receivable on outstanding claims	1,199,523	592,220
Reinsurance receivable on settled claims	730,050	171,701
Total reinsurance receivables	**1,929,573**	**763,921**

11. PREMIUM RECEIVABLES

	Year ended 31 December	
	2018	2017
Premium receivable	6,970,026	2,468,764
Allowance for impairment loss	(309,368)	(28,000)
Total premium receivables	**6,660,658**	**2,440,764**

12. INSURANCE CONTRACT - DEFERRED EXPENSES

The Deferred acquisition costs comprise of agents' commissions. These costs are deferred and amortised over the terms of related policies.

	Year ended 31 December 2018	2017
Deferred expenses	1,005,959	303,085

	Year ended 31 December 2018	2017
Opening balance	303,085	208,380
Balance transferred from amalgamation	593,220	-
Net change in reserve	109,654	94,705
Closing balance	**1,005,959**	**303,085**

13. OTHER ASSETS

	Note	Year ended 31 December 2018	2017
Other debtors and receivables		53,603	75
Advances, deposits and prepayments		229,250	61,354
Other tax receivables	13.1	1,865,208	3,179
Inventory		54,018	1,670
Loans given to staff		47,008	706
Total other assets		**2,249,087**	**66,984**

	Year ended 31 December 2018	2017
13.1 Other tax receivables		
Economic service charges recoverable	80,388	2,686
Notional tax recoverable	8,135	-
Withholding tax recoverable	135,572	493
VAT recoverable	1,641,113	-
	1,865,208	**3,179**
13.2 Current tax liabilities		
Income tax payable	229,739	8,179
	229,739	8,179
Net tax receivable/(payable)	**1,635,469**	**(5,000)**

Allianz Insurance Lanka Ltd

Notes to the Financial Statements

14. CASH AND BANK BALANCES

In preparation of Cash Flow Statements; Cash and Cash Equivalents include Cash in Hand and Balance at Bank, net of outstanding Bank Overdrafts. Cash Equivalents at the end of the Financial Year as shown in the Cash Flow Statement can be reconciled to the related items in the Statement of Financial Position as follows

	Year ended 31 December	
	2018	2017
Cash in hand and balance at bank	617,850	128,959
Bank overdraft	(692,885)	(112,518)
Total Cash and Cash equivalents for the purpose of Statement of Clash Flows	**(75,035)**	**16,441**

15. STATED CAPITAL

	Year ended 31 December	
	2018	2017
The stated capital of the Company	8,619,972	905,500
No. of fully paid ordinary shares of the Company as at the year ended ('000)	675,164	90,550

16. REVENUE RESERVES

16.1 Retained Earnings

	Year ended 31 December	
	2018	2017
Balance as at 1 January	653,269	522,117
Balance transferred from amalgamation	2,117,524	-
Profit for the year	760,444	132,593
Use of reserves to issue shares	(529,482)	-
Actuarial Losses on Defined Benefit Plans	(93,312)	(2,001)
Aggregate tax effect of items recognized in other comprehensive income	77,827	560
Merger Reserve	(357,273)	
Balance as at 31 December	**2,628,996**	**653,269**

Merger Reserve

Janashakthi Insurance PLC acquired 100% of the voting shares of AIA General Insurance Lanka Limited (AIA-GI), a non-life insurance company, on 23 October 2015.

The AIA-GI has been amalgamated with Janashakthi General Insurance Limited (JGIL) w.e.f. 29 January, 2016 in accordance with the provisions of The Companies Act No. 07 of 2007. Accordingly, on 29 January, 2016, the net assets of AIA-GI were absorbed into JGIL and JGIL continued its activities as a licensed General Insurance Company wholly owned by Janashakthi Insurance PLC.

However on 26 February 2018, Allianz SE, Germany, a Company predominantly engaged in the insurance and asset management business, acquired 100% of the voting share of the JGIL. Accordingly, JGIL has been amalgamated with Allianz Insurance Lanka Limited (AILL), a wholly owned subsidiary of Allianz SE and the net assets of JGIL were absored into the AILL.

This is classified to Retained earnings during the year

	Year ended 31 December 2018	2017
Net Assets transferred	2,020,743	-
Cancellation of investment on cross holding	(500,000)	-
Issue of shares on amalgamation	(1,878,017)	-
Transferred to retained earnings	357,273	-
	-	-

16.2 Available for Sale Reserve

	Year ended 31 December 2018	2017
Balance as at 1 January	15,606	(48,646)
Issue of shares	(10,960)	-
Balances transferred from Amalgamation	(35,057)	-
Net change in fair value of available for sale financial assets	(104,320)	97,286
Net change in fair value of available for sale financial assets reclassified to profit or loss	-	(8,048)
Deferred tax on change in fair value	-	(24,986)
Balance as at 31 December	**(134,731)**	**15,606**
Total revenue reserves	**2,494,265**	**668,875**

17. INSURANCE LIABILITY - NON LIFE

	Note	Year ended 31 December 2018	2017
Reserve for gross claims outstanding	17.2	3,144,466	1,040,150
Reserve for Claims Incurred But Not Reported (IBNR)	17.3	1,015,504	133,697
Provision for net unearned premiums	17.4	9,712,550	2,724,071
		13,872,520	**3,897,918**

17.1 The Claim Liability including IBNR Claims and Premium Liability have been actuarially valued for the year 2018 by the appointed Actuary, M/S N M G Financial Services Consulting Pte Ltd, Malaysia. The valuation is based on internationally accepted actuarial methods.

The Company has performed the Liability Adequacy Test (LAT) in respect of Insurance Provisions of Non Life as required by SLFRS 4 - Insurance Contracts with the assistance of the above appointed external Actuaries of the Company. Accordingly it was confirmed by the Actuaries that the Insurance Provisions recorded by the Company are adequate to meet the Insurance Liabilities as of the reporting date.

17.2 Gross Claims Outstanding

	Year ended 31 December 2018	2017
Balance as at 1 January	1,040,150	930,946
Balances transferred from amalgamation	2,392,694	-
Claims incurred during the year	9,500,605	2,919,925
Claims paid during the year	(9,788,983)	(2,810,721)
Balance as at 31 December	**3,144,466**	**1,040,150**

Notes to the Financial Statements

17.3 Reserve for IBNR

	Year ended 31 December 2018	2017
Balance as at 1 January	133,697	71,922
Balances transferred from amalgamation	638,632	-
Increase in IBNR	243,175	61,775
Balance as at 31 December	**1,015,504**	**133,697**

17.4 Provision for Net Unearned Premiums

	Year ended 31 December 2018	2017
Balance as at 1 January	2,724,071	1,840,765
Balances transferred from amalgamation	5,640,132	-
Premiums written in the year	16,592,589	4,297,122
Premiums earned during the year	(15,244,242)	(3,413,816)
Balance as at 31 December	**9,712,550**	**2,724,071**

18. RETIREMENT BENEFIT OBLIGATIONS

	Year ended 31 December 2018	2017
Retirement benefit obligation	331,705	24,853

	Year ended 31 December 2018	2017
Retirement Benefit Obligations - Gratuity		
Balance as at 1 January	24,853	17,801
Balance transferred from amalgamation	195,780	-
Provision recognized during the period	46,080	6,063
Actuarial gain on change in financial assumptions	93,312	2,001
Benefits paid	(28,320)	(1,012)
Balance as at 31 December	**331,705**	**24,853**

	Year ended 31 December 2018	2017
Amounts recognized in the income statement		
Net Interest cost	23,168	1,958
Current Service Cost	22,912	4,105
Amount recognized in the income statement	**46,080**	**6,063**

	Year ended 31 December	
	2018	2017
Amounts recognized in the Other Comprehensive Income Statement		
Actuarial loss recognized for the period	93,312	2,001
	93,312	2,001

As at 31 December, 2018, the Gratuity liability was actuarially valued under the Project Unit Credit Method by by M/S K.A. Pandit Consultants and Actuaries, India.

Principal actuarial assumptions used are as follows

	Year ended 31 December	
	2018	2017
(a) Discount rate	12%	11%
(b) Salary increase	10%	11%
(c) Attrition rate		
For services up to 4 years	22%	25%
For services 5 years and above	3%	2%
(d) Retirement age	55 year / 58 years	58 years

Maturity Analysis of Projected Benefit Obligation: From the Employer

Projected benefits payable in future years from the date of reporting

	Year ended 31 December	
	2018	2017
1st Following year	24,649	778
2nd Following year	17,884	1,778
3rd Following year	38,075	791
4th Following year	44,078	1,016
5th Following year	29,066	7,735
Sum of years 6 to 10	208,404	5,254
Sum of years 11 and above	823,928	113,138

Sensitivity Analysis	Year ended 31 December	
	2018	2017
Delta effect of +1% change in discount rate	(22,814)	(2,512)
Delta effect of -1% change in discount rate	25,960	3,011
Delta effect of +1% change in salary increment rate	26,210	2,967
Delta effect of -1% change in salary increment rate	(23,403)	(2,522)
Delta effect of +1% change in employee turnover rate	3,364	(260)
Delta effect of -1% change in employee turnover rate	(3,798)	314

Notes to the Financial Statements

19. INSURANCE CONTRACT - DEFERRED REVENUE

	Year ended 31 December	
	2018	2017
Deferred revenue	225,213	217,071

	Year ended 31 December	
	2018	2017
Balance as at 1 January	217,071	234,052
Balance transferred from amalgamation	201,200	-
Net change in reserve	(193,058)	(16,981)
Balance as at 31 December	**225,213**	**217,071**

The deferred revenue arises as a result of the amortization of reinsurance commission received

20. OTHER FUND LIABILITIES

	Year ended 31 December	
	2018	2017
Agents superannuation fund	2,130	-
	2,130	**-**

The "Agents Superannuation Fund" was created for the benefit of the agency force of former AIA General Insurance Lanka Limited, prior to acquisition by Allianz Insurance Lanka Limited. The fund invests in government securities.

21. OTHER LIABILITIES

	Year ended 31 December	
	2018	2017
Policyholder advance payments	56,555	-
Acquisition cost payable	832,599	166,527
Government levies payables	2,082,164	198,879
Payable to AIG (UK)	1,457,203	-
Other creditors including accrued expenses	2,409,075	214,551
	6,837,596	**579,957**

22. GROSS WRITTEN PREMIUM

Premium income for the year by major classes of business are as follows:

(a) Class - wise

	Year ended 31 December 2018	2017
Fire	3,169,056	1,588,586
Motor	9,962,644	2,409,335
Marine	445,430	151,514
Medical	2,610,320	1,248,629
Miscellaneous	1,545,737	622,826
Total for the year	**17,733,187**	**6,020,890**

(b) Premium ceded to reinsurers

	Year ended 31 December 2018	2017
National Insurance Trust Fund (NITF)	1,132,664	612,120
Allianz SE Reinsurance Branch Asia Pacific	201,652	418,754
Other foreign / local reinsurers	1,383,959	692,894
	2,718,275	**1,723,768**

23. NET CHANGE IN RESERVE FOR UNEARNED PREMIUM

	Year ended 31 December 2018	2017
Change in unearned premium provision arising on:		
Gross written premium	(868,897)	(932,476)
Premium ceded to reinsurers	(479,450)	49,170
Net change in reserve for unearned premium	**(1,348,347)**	**(883,306)**

Notes to the Financial Statements

24. INSURANCE CLAIMS AND BENEFITS (NET)

	Note	Year ended 31 December 2018	2017
Gross claims paid			
Fire		1,322,233	775,678
Motor		5,602,644	1,236,721
Marine		120,932	42,903
Health		2,569,047	677,437
Misc. Others		358,173	174,716
		9,973,029	2,907,455
Less: recoveries from salvage sales		(184,046)	(96,734)
Gross claims Paid	17.2	9,788,983	2,810,721
Claims recovered from reinsurers		(525,760)	(295,739)
		9,263,223	2,514,982
Gross change in Contract Liabilities		45,202	(150,270)
Changes in Contract Liabilities ceded to reinsurers		(173,052)	354,057
Net benefits and claims		**9,135,373**	**2,718,779**

25. UNDERWRITING AND NET ACQUISITION COST

	Note	Year ended 31 December 2018	2017
Underwriting and policy acquisition cost		2,630,491	666,585
Reinsurance commission		(305,631)	(325,990)
Change in net deferred acquisition cost for insurance contracts	25.1	(251,706)	(96,827)
		2,073,154	**243,768**

25.1 Change in deferred acquisition cost for insurance contracts

	Year ended 31 December 2018	2017
Commission cost	(56,970)	(79,845)
Commission income from reinsurers	(194,736)	(16,982)
	(251,706)	**(96,827)**

26. INVESTMENT INCOME

	Year ended 31 December 2018	2017
Investment Income from financial assets at fair value through profit / (loss)	25,977	-
Investment income from loans and receivables	687,389	12,223
Investment income from available for sale financial assets	1,019,269	263,597
	1,732,635	275,820

	Year ended 31 December 2018	2017
Financial assets at fair value through profit / (loss)		
Interest income		
Interest income-investment in Unit Trust	18,198	-
Dividend income		
Dividend income-equity securities	7,779	-
	25,977	-
Loans and receivables		
Reverse repurchases agreements	136,989	5,541
Corporate debts	271,549	2,210
Placements with Banks and Financial Institutions	272,335	4,472
Staff loans	6,516	-
	687,389	12,223
Available for sale financial assets		
Investment in Government Securities	1,019,269	263,597
	1,019,269	263,597

27. NET REALISED (LOSSES) / GAINS

	Year ended 31 December 2018	2017
Sale of equity securities	(2,580)	8,362
Sales of units	742	-
Disposal of property, plant and equipment	(13,878)	-
	(15,716)	8,362

Notes to the Financial Statements

28. FAIR VALUE GAIN

	Year ended 31 December 2018	2017
Fair value gains on financial assets at fair Value through profit or loss	13,349	-
	13,349	-

29. FEES AND COMMISSION INCOME

	Year ended 31 December 2018	2017
Policy and related fees	337,860	55,723
Profit commission from reinsurers	74,609	78,525
	412,469	134,248

30. OTHER OPERATING INCOME

	Year ended 31 December 2018	2017
Gain on foreign exchange transactions	78,840	6,661
Miscellaneous income	105,487	1,721
	184,327	8,382

31. EXPENSES BY CATEGORY

	Note	Year ended 31 December 2018	2017
Staff expenses	31.1	1,468,318	486,502
Auditors' remuneration			
Audit		8,846	2,314
Non - audit		1,816	-
Legal fees		7,382	3,028
Administration and establishment expenses		1,744,643	442,046
Selling expenses		313,900	50,331
Government levies		32,702	23,054
Depreciation of property, plant and equipment		201,240	58,611
Amortisation of intangible assets		75,244	31,475
Other costs		30,666	3,967
Other operating and administrative expenses		3,884,757	1,101,328

31.1 Staff Expenses

	Year ended 31 December 2018	2017
Wages and salaries	737,313	197,319
Defined contribution plan costs	124,231	31,577
Defined benefit plan costs	29,924	8,063
Allowances	87,441	44,436
Other staff costs	489,409	205,107
	1,468,318	**486,502**

32. INCOME TAX EXPENSE

	Note	Year ended 31 December 2018	2017
Current Tax charge			
Income Tax on Current Year's profits	32.1	158,087	49,798
(Over) / Under provision for the prior year		-	(6,042)
		158,087	43,756
Deferred Income Tax			
Deferred Tax related to the current year		(18,185)	7,997
Total Income tax expense recognised in the current year		**139,902**	**51,753**

32.1 Numerical reconciliation of income tax expenses

	Year ended 31 December 2018	2017
Accounting profit before tax	900,346	184,346
Aggregate disallowed items	293,099	124,441
Aggregate allowable expenses	(598,134)	(74,767)
Aggregate exempt income	(224,626)	(275,822)
Taxable profit / (loss)	**370,685**	**(41,802)**
Taxable profit	370,685	-
Investment income	232,096	273,613
Loss claimed for the year	(38,182)	(95,764)
Taxable income	**564,598**	**177,849**
Statutory tax rate	28%	28%
Current income tax expense	**158,087**	**49,798**

Allianz Insurance Lanka Ltd

33. BASIC EARNINGS PER SHARE

	Year ended 31 December 2018	2017
Amount used as the numerator		
Net profit attributable to ordinary shareholders	760,443	132,593

	Year ended 31 December 2018	2017
Number of ordinary shares used as denominator		
Weighted average number of ordinary shares in issue	649,711	81,329
Basic earnings per share (Rs)	1.17	1.63

34. RELATED PARTY DISCLOSURES

34.1 Transactions with Group Companies

Company	Relationship	Nature of Transaction	Transaction Amount	Balance as at 31 December 2018	2017
Allianz SE	Group Company	Reinsurance arrangement	781,386	683,246	56,088
Allianz Global	Group Company	Reinsurance arrangement	127,463	(92,360)	(22,084)
Allianz China General Insurance Company Ltd	Group Company	Reinsurance arrangement	7,818	7,225	(3,002)
Allianz AG	Group Company	Reinsurance arrangement	105,613	(861)	(50,415)
Allianz Austrailia Ltd	Group Company	Reinsurance arrangement	188	(188)	(188)
Allianz General Insurance Company (Malaysia) Berhad	Group Company	Reinsurance arrangement	1,388	(1,388)	(1,175)
Allianz Insurance (Hong Kong) Ltd	Group Company	Reinsurance arrangement	251	(251)	(212)
Allianz New Zealand Limited	Group Company	Reinsurance arrangement	477	(477)	(1,049)
Allianz Belgium SA	Group Company	Reinsurance arrangement	18	18	-
Allianz Technologies	Group Company	Reinsurance arrangement	306,458	306,458	-
Allianz Life Insurance Lanka Ltd	Group Company	Reimbursement of expenses	19,094	8,090	27,184
Allianz Houlder Insurance Brokers Far East Ltd	Group Company	Reinsurance arrangement	9,799	9,799	-

The transaction mentioned above should be read in conjuction with the reinsurance receivable and reinsurance payables in the statement of financial position

35. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The Key Management Personnel (KMP) 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 KMP. There were no other transactions with KMP for the year ended 31 December 2018.

36. COMMITMENTS AND CONTINGENCIES

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

LITIGATIONS AND CLAIMS

In the opinion of the directors in consultation with the Company's lawyers and advisors, litigation and claims currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company.

All pending litigations for claims have been evaluated and adequate provisions have been made in the financial statements.

37. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

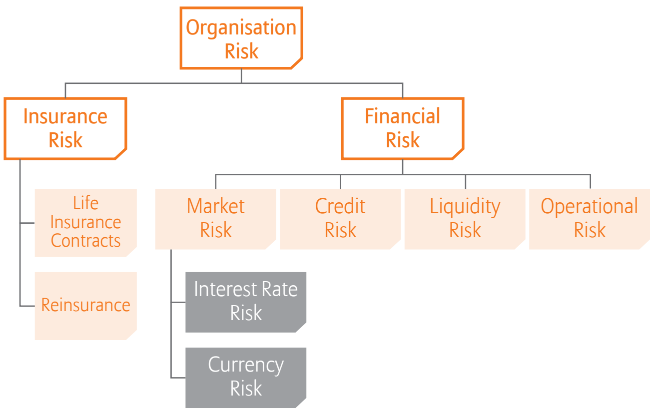
38. ADDITIONAL DISCLOSURE

Description	Allianz Insurance Lanka Limited (Prior to Amalgamation) for the period from 01.01.2018 to 31.12.2018	Former Janashakthi General Insurance Limited for the period from 01.01.2018 to 31.12.2018	Total	Amalgamation Adjustment made directly to equity	Allianz Insurance Lanka Limited (After Amalgamation)
Gross written premium	6,832,648	12,342,923	**19,175,571**	**(1,442,384)**	**17,733,187**
Net earned premium	4,810,426	10,525,168	15,335,593	(1,669,029)	13,666,565
Total other revenue	604,391	1,352,930	1,957,322	369,742	2,327,064
Total net income	5,414,817	11,878,098	**17,292,915**	**(1,299,286)**	**15,993,628**
Benefits and claims					
Net benefits and claims	(3,367,222)	(6,836,938)	(10,204,160)	1,068,787	(9,135,373)
Underwriting and net acquisition cost	(507,848)	(1,841,430)	(2,349,278)	276,124	(2,073,154)
Total benefits, claims and net acquisition cost	(3,875,070)	(8,678,367)	**(12,553,438)**	**1,344,911**	**(11,208,526)**
Other operating and administrative expenses	(1,760,101)	(2,331,402)	(4,091,503)	206,746	(3,884,757)
Profit / (loss) before Taxation	(220,354)	868,328	**647,974**	**252,372**	**900,346**
Profit /(loss) for the period	(241,760)	676,279	**434,519**	**325,924**	**760,443**

39. FINANCIAL RISK MANAGEMENT

Introduction and overview

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



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

Risk management

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

Risk management framework

The key elements of the risk management framework are:

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

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

The four primary components of the Risk Management framework include:

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

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

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

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

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

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

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

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

- Meet regulatory solvency requirements and the internal threshold set by Allianz Asia Pacific, thereby providing a degree of security to policyholders.
- Efficient allocation of capital to support business development by ensuring that returns on capital employed meet the requirements of shareholder and policyholders.
- Financial flexibility by maintaining a strong liquidity position.
- Alignment of asset and liability profiles by minimizing asset-liability duration mismatches.
- Maintain financial strength to support business growth and to satisfy the requirements of the policyholders, regulators and other stakeholders.

The operations of the Company are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. Solvency Margin, Approved Assets Requirements of 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.8,620 Mn and a Total Available Capital (TAC) exceeding - the current minimum Total Available Capital requirement of Rs. 500 Mn.

(b) Approach to capital management
The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximizes returns to the shareholders.

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

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

(c) Regulatory framework
The insurance regulator of the Country, the Insurance Regulatory Committee of 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 regulatory requirements of the IRCSL as well as various other regulators such as Central Bank of Sri Lanka (CBSL), Department of Inland Revenue etc. The Company is also regulated by the Companies Act No. 07 of 2007.

The IRCSL 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.

39.1 Insurance risk
The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent

development of long–term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

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

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

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

(a) Product design risk

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

- Motor
- Fire
- Marine
- Medical
- Miscellaneous
- Others

Description	31 December 2018		31 December 2017	
	Gross Written Premium (LKR '000)	%	Gross Written Premium (LKR '000)	%
Motor	9,963	56%	2,409	40%
Fire	3,169	18%	1,589	26%
Marine	445	3%	152	3%
Medical	2,610	15%	1,249	21%
Miscellaneous	1,546	9%	623	10%
Total	17,733	100%	6,021	100%

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, the steady escalation of costs in respect of spares in the auto industry and terrorist activities. A long tail claim which takes time to finally settle is also exposed to risk of inflation.

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

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

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

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

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

(b) Underwriting and expense over-run risk

The Company's underwriting process is governed by the by the internal underwriting procedure manual / Allianz standard of underwriting. Some of the actions undertaken to mitigate underwriting risks are detailed below:

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

(c) Claims risk

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

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

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

Refer note 17 to the financial statements, which shows the gross claim liability and the reinsurance component.

Following table summarizes the outstanding Claims position as at 31 December;

Notes to the Financial Statements

Non-life Insurance Claims Reserve	31 December 2018			31 December 2017		
	Gross claims	Reinsurance	Net	Gross claims	Reinsurance	Net
Claims Outstanding	3,144,466	(1,199,523)	1,944,943	1,040,150	(592,220)	447,930
IBNR/IBNER Reserve	1,246,715	(231,211)	1,015,504	325,899	(192,202)	133,697
Total	4,391,181	(1,528,063)	2,863,118	1,366,049	(784,422)	581,627

The following table shows the claims development trend of the company in relation to accident year and reporting periods;

Accident Year / Reporting Period	Current estimate of cumulative claims incurred			
	2015	2016	2017	2018
	Rs'000	Rs'000	Rs'000	Rs'000
2015	8,015,952	8,260,175	8,331,323	8,325,118
2016	23,209,115	26,163,920	26,152,595	
2017	9,938,515	10,352,309		
2018	10,425,124			

Key assumptions for valuation of liabilities

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

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

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

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

v Expense rate - Case reserves and IBNR claim reserves include an allowance for claim handling expenses.

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

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

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

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

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

39.2. Reinsurance risk

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

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

39.3. 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

39.3.1 Market risk

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

(a) Interest rate risk

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

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

Net assets value (LKR '000)		
As at 31 December	2018	2017
Interest rate		
+ 100 basis points	146,826	37,172
- 100 basis points	-146,826	-37,172

(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.

39.3.2. Credit risk

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

Notes to the Financial Statements

Credit risk exposure on assets

31 December 2018

Financial Instruments	Government Guaranteed	AAA+ to AA-	A+ to A-	BBB+ to BB+	Unrated	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Government securities	15,544,824	-	-	-	-	15,544,824
Unit trust	-	-	-	-	48,048	48,048
Corporate debts	-	917,582	1,108,211	535,152	-	2,560,945
Placements with banks & financial institutions	-	667,009	944,092	-	-	1,611,101
Reverse repurchase agreements	-	88,724	179,728	-	-	268,452
Total	15,544,824	1,673,315	2,232,031	535,152	48,048	20,033,370

31 December 2017

Financial Instruments	Government Guaranteed	AAA+ to AA-	A+ to A-	BBB+ to BB+	Unrated	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Government securities	2,844,524	-	-	-	-	2,844,524
Unit trust	-	-	26,281	-	-	26,281
Corporate debts	-	15,423	-	-	-	15,423
Placements with banks & financial institutions	-	79,441	-	-	-	79,441
Reverse repurchase agreements	-	84,366	-	-	-	84,366
Total	2,844,524	179,230	26,281	-	-	3,050,035

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 2018	< 180 days	180 to 365 days	< 365 days	Total
	Rs.000	Rs.000	Rs.000	Rs.000
Reinsurance receivable				
- Non Life	509,335	731,093	689,145	1,929,573
Premium receivables				
- Non Life	6,407,362	58,933	194,364	6,660,658
Total	6,916,697	790,026	883,509	8,590,231
% Distribution	80.50%	9.20%	10.30%	100.00%

31 December 2017	< 180 days	180 to 365 days	< 365 days	Total
	Rs.000	Rs.000	Rs.000	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**	**3,204,685**
% Distribution	**73.80%**	**20.70%**	**5.50%**	**100.00%**

39.3.3 Liquidity risk

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

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

- Assets are categorized into different tiers based on liquidity and a minimum allocation to each tier has been specified in the Company's investment policy statement.
- Cash 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 2018

Description	Less than 1 year	1-3 years	More than 3 years	No Maturity	Carrying Value
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Assets					
Investment in government securities	14,391,800	394,142	758,882	-	15,544,824
Corporate debts	971,276	401,528	1,188,141		2,560,945
Unit trust	-	-	-	48,048	48,048
Placements with banks & financial institutions	136,622	557,075	917,404	-	1,611,101
Reverse repurchase agreements	268,452	-	-	-	268,452
Total	**15,768,150**	**1,352,745**	**2,864,427**	**48,048**	**20,033,369**

Notes to the Financial Statements

Maturity Analysis of Financial Assets and Liabilities 2017

Description	Less than 1 year	1-3 years	More than 3 years	No Maturity	Carrying Value
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Assets					
Investment in government securities	1,697,309	606,488	540,727	-	2,844,524
Corporate debts	15,423	-	-	-	15,423
Unit trust	-	-	-	26,281	26,281
Placements with banks & financial institutions	50,058	-	29,383	-	79,441
Reverse repurchase agreements	84,366	-	-	-	84,366
Total	**1,847,156**	**606,488**	**570,110**	**26,281**	**3,050,035**

39.3.4 Operational risk

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

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

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

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

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

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

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

39.4 Financial assets and liabilities

39.4.1 Fair value hierarchy for assets carried at fair value

The different levels have been defined as follows:

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

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

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

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

As at 31st December 2018	Level 1	Level 2	Level 3	Total Fair Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Available for Sale				
- Investment in government securities	15,544,129	-	-	15,544,129
- Corporate debts	-	2,560,945	-	2,560,945
- Unit trust	48,048	-	-	48,048
- Placements with banks and financial institutions	-	-	1,611,796	1,611,796
- Reverse repurchase agreements	-	-	268,452	268,452
Total	15,592,177	2,560,945	1,880,248	20,033,369

As at 31st December 2017	Level 1	Level 2	Level 3	Total Fair Value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Available for Sale				
- Investment in government securities	2,844,524	-	-	2,844,524
- Corporate debts	-	15,423	-	15,423
- Unit trust	26,281	-	-	26,281
- Placements with banks and financial institutions	-	-	79,441	79,441
- Reverse repurchase agreements	-	-	84,366	84,366
Total	2,870,805	15,423	163,807	3,050,035

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 31st December 2018. The Audited Financial Statements were approved by the Board of Directors on 24 May 2019.

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 02, 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 Capital from page 49 to 57. The future developments of the Company are presented in the Managing Director's review from page 12 to 15. 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 141 to183 of the Annual Report.

These Financial Statements and notes thereto give a true and fair view of the Company's financial position as at 31st December 2018 and of its performance for the year ended on that date, and comply with the requirements of the Sri Lanka Accounting Standards and the Companies Act. No. 07 of 2007.

Significant Accounting Policies

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

Going Concern

The Board has conducted the necessary 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 a 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 the achievement of objectives, compliance issues and on the strategy and existing risk exposure.

Compliance with Laws and Regulations

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

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

Directors' Report

by the Risk Management Committee (RiCo). The Company's comprehensive risk management framework is given in the Risk Management note on pages 23 to 27 of the Annual report.

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

Turnover/Gross Written Premium (GWP)
The total turnover of the Company is identified as gross written premium which was Rs. 1,301 million for 2018 (Rs. 1,179 million in 2017).

The detailed analysis of the gross written premium of the Company was disclosed in Note No 20 of the Financial Statements.

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 property, 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 2018.

For the year ended 31 December	2018 Rs. '000
Total Available Capital (TAC)	1,209,377
Risk-based Capital Requirement (RCR)	297,583
Risk-based Capital Adequacy Ratio (CAR)	406%

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 31st December 2018 was Rs. 739.62 million.

Directorate
The Board consists of two members, and the information on the Directors of the Company is available in the Directors' profiles from pages 16 to 17.

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

- George Sartorel
- 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 29.

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 32 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 2018 have been audited by Messrs. Pricewaterhosue Coopers (Chartered Accountants) who will retire from office at the end of this Annual General Meeting. They have expressed their willingness to be re-appointed until the next Annual General Meeting at remuneration to be agreed upon.

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

Alan David Smee
Director

Surekha Alles
Director

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

24th May 2019

Actuary's Report

TO THE SHAREHOLDERS OF ALLIANZ LIFE INSURANCE LANKA LIMITED

ACTUARIAL VALUATION AND SOLVENCY OF ALLIANZ LIFE INSURANCE LANKA LTD AS AT 31 DECEMBER 2018

I have conducted a liability valuation for the Long Term Insurance Business as at 31st December 2018. 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 Policyholders. The crediting rate declared for the Universal Life products in 2018 is 8.5% which is well above the minimum guaranteed crediting rates.

5. The total actuarial liabilities of the Long Term Insurance Fund as included in the audited accounts as at 31st December 2018 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 31st December 2018 is well above the regulatory minimum of 120%.

Malaka Mihindukulasuriya
Fellow of Institute and Faculty of Actuaries, UK

24th May 2019

Independent Auditor's Report

TO THE SHAREHOLDERS OF ALLIANZ LIFE INSURANCE LANKA LIMITED
Report on the audit of the financial statements

Our Opinion

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of Allianz Life Insurance Lanka Limited ("the Company") as at December 31, 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What We Have Audited

The Financial Statements of the Company, which comprise:

- the Statement of Financial Position as at December 31, 2018;
- the Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Statement of Cash flows for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics.

Other Matter

The Financial Statements of the Company for the year ended 31 December 2017 were audited by another firm of auditors whose report, dated 20 April 2018, expressed an unmodified opinion on those statements.

Other Information

Management is responsible for the other information. The other information comprises the information presented in the Annual Report excluding the Financial Statements and our Auditor's Report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this Auditor's Report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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Partners **D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, S. Gajendran FCA, Ms. S. Hadgie FCA, N.R. Gunasekera FCA, Ms. S. Perera ACA, T.U. Jayasinghe FCA**

Independent Auditor's Report

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report On Other Legal And Regulatory Requirements

As required by section 163 (2) of the Companies Act, No. 07 of 2007, 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 accounting records of Company have also been maintained in the manner required by the rules made by the Insurance Regulatory Commission of Sri Lanka in compliance with Section 47 (2) of the Regulation of Insurance Industry Act, No. 43 of 2000 so as to clearly indicate the true and fair view of the financial position of Allianz Life Insurance Lanka Limited.

CHARTERED ACCOUNTANTS
Colombo

9 July 2019

Statement of Financial Position

(ALL AMOUNTS IN SRI LANKA RUPEES THOUSANDS)

	Note	Year ended 31 December 2018	2017
Assets			
Financial investments	4	3,129,120	2,796,319
Property, plant and equipment	5	5,456	5,558
Intangible assets	6	9,155	7,323
Unit linked investments	7	323,020	321,800
Deferred income tax assets	8	617,348	-
Deferred acquisition cost	9	840,425	623,592
Reinsurance receivables		84,449	44,420
Other receivables	10	246,012	198,815
Amounts due from related parties	11	-	574
Cash and cash equivalents	12	1,599	17,436
Total assets		**5,256,584**	**4,015,837**
Equity and liabilities			
Equity			
Stated capital	13	739,624	739,624
Available for sale reserve	14	(151,024)	109,838
Retained earnings	15	737,215	34,284
Total equity		**1,325,815**	**883,746**
Liabilities			
Insurance contract liabilities - Life	16	3,505,134	2,848,317
Reinsurance payables		126,262	80,833
Other payables	17	281,427	195,595
Amounts due to related parties	18	8,075	-
Employee benefit obligations	19	9,871	7,346
		3,930,769	**3,132,091**
Total equity and liabilities		**5,256,584**	**4,015,837**

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.

Alan David Smee
Director

Surekha Alles
Managing Director

24th May 2019

Statement of Profit or Loss and other Comprehensive Income

(ALL AMOUNTS IN SRI LANKA RUPEES THOUSANDS)

	Note	Year ended 31 December 2018	2017
Gross written premium	20	1,301,254	1,178,817
Premium ceded to reinsurers		(86,155)	(83,473)
Net written premium		**1,215,099**	**1,095,344**
Other revenue			
Income from investments	21	321,161	285,759
Other income	22	6,532	4,352
		327,693	**290,111**
Total net revenue		**1,542,792**	**1,385,455**
Benefits and claims			
Gross insurance claims and benefits		(276,783)	(149,718)
Claims ceded to reinsurers		44,656	34,531
Net insurance benefits and claims	23	**(232,127)**	**(115,187)**
Net income less benefits and claims		**1,310,665**	**1,270,268**
Expenses			
Underwriting and net acquisition commission costs	24	(152,440)	(134,713)
Other operating, administrative and selling expenses	25	(621,965)	(496,931)
Changes in deferred acquisition cost	9	216,833	111,042
Total expenses		**(557,572)**	**(520,602)**
Increase in insurance contract liabilities - Life fund	16.2	(667,510)	(645,642)
Profit before taxation		**85,583**	**104,024**
Income tax reversal	26.1	575,062	-
Profit for the year		**660,645**	**104,024**
Earnings per share (Rs.)	27	**8.93**	**1.41**
Other comprehensive income			
Profit for the year		660,645	104,024
Items that are or may be re-classified to profit or loss			
Net change in fair value of available for sale financial assets		(260,323)	298,310
Net change in fair value of available for sale financial assets reclassified to profit or loss		(539)	(6,218)
Tax reversal on other comprehensive income		42,286	-
Items that will not be classified to profit or loss			
Actuarial gain on defined benefit obligations		-	1,443
Total comprehensive income for the year, net of tax		**442,069**	**397,559**

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

(ALL AMOUNTS IN SRI LANKA RUPEES THOUSANDS)

	Stated capital	Available-for-sale reserve	Retained earnings	Total
Balance as at 31 December 2016	739,624	(182,254)	(71,183)	486,187
Net profit 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	-	-	1,443	1,443
Total comprehensive income	-	292,092	105,467	397,559
Balance as at 31 December 2017	**739,624**	**109,838**	**34,284**	**883,746**
Net profit for the year	-	-	660,645	660,645
Other comprehensive income, net of tax	-	-	-	-
- Net change in fair value	-	(260,323)	-	(260,323)
- Tax reversal on other comprehensive income	-	-	42,286	42,286
- Net amount reclassified to profit or loss	-	(539)	-	(539)
Total comprehensive income	-	(260,862)	702,931	442,069
Balance as at 31 December 2018	**739,624**	**(151,024)**	**737,215**	**1,325,815**

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)

	Note	Year ended 31 December 2018	2017
Cash flows from operating activities			
Premium received from customers		1,280,511	1,175,581
Reinsurance premium paid		(36,098)	(29,228)
Insurance benefits and claims paid		(269,939)	(148,707)
Cash paid to and on behalf of employees		(220,760)	(203,248)
Other operating cash flows		(474,689)	(461,975)
Cash flow from operating activities [Note A]		**279,025**	**332,423**
Retiring gratuity paid	19	(525)	(413)
Income tax paid		-	-
Net cash from operating activities		**278,500**	**332,010**
Cash flows from investing activities			
Acquisition of liquid investments (other than cash equivalents)		(682,416)	(685,922)
Proceeds on maturity of investments (other than cash equivalents)		72,000	145,118
Interest received		336,690	253,310
Investment in unit linked investments	16.2	(11,748)	(47,995)
Acquisition of intangible assets	6	(5,976)	(6,926)
Acquisition of property, plant and equipment	5	(2,887)	(2,406)
Net cash from investing activities		**(294,337)**	**(344,821)**
Cash flows from financing activities			
Net cash from financing activities		-	-
Decrease in cash and cash equivalents [Note B]		**(15,837)**	**(12,811)**

Notes to the statement of cash flows

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

	Note	2018	2017
Profit before tax		660,645	104,024
Tax reversal on other comprehensive income		42,286	-
Deferred tax reversal		(617,348)	-
Depreciation and amortization		7,133	7,214
Provision for employee benefit obligations	19	3,050	2,929
Interest income		(320,622)	(279,541)
Increase in other receivables		(46,621)	(72,947)
Increase in reinsurance receivables / (payables)		5,401	19,715
Increase in insurance contract liabilities	16.2	667,510	645,642
Increase in other liabilities		94,963	22,647
Gain on disposal of unit trust		(539)	(6,218)
Deferred acquisition cost	9	(216,833)	(111,042)
Cash flows from operating activities		**279,025**	**332,423**

B. Increase in cash and cash equivalents

	Note	2018	2017
Net cash and cash equivalents at the end of the year	12	1,599	17,436
Net cash and cash equivalents at the beginning of the year		17,436	30,247
Decrease in cash and cash equivalents		**(15,837)**	**(12,811)**

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 is located at No. 675, Dr. Danister De Silva Mawatha, Colombo 09. 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.

1.3. Date of Authorisation of Issue

The financial statements of Allianz Life Insurance Lanka Limited, for the year ended 31st December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 24th May 2019.

2. BASIS OF PREPARATION

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.

The financial statements of the Company has been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No. 07 of 2007. Sri Lanka Accounting Standards which comprise Sri Lanka Financial Reporting Standards ("SLFRS"s), Sri Lanka Accounting Standards ("LKAS"), and relevant interpretations Committee ("SIC") and international financial reporting interpretation committee ("IFRIC"). These financial statements have been prepared under the historical cost convention except for financial assets and liabilities which are measured at fair value. The preparation of financial statements in conformity with Sri Lanka Accounting Standards required the use certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Company's financial statements are disclosed in note 3.5 to the financial statements .

3. SUMMARY OF 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 New standards and amendments - Not yet adopted by the Company

SLFRS 9, 'Financial Instruments'- applicable 1 January 2021

SLFRS 9 replaces the multiple classification and measurement models in LKAS 39; Financial Instruments: Recognition and Measurement with a single model that has initially only two classification categories, amortised cost and fair value.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if:

a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and

b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value.

All fair value movements on financial assets are taken through the statement of profit or loss, except for equity investments that are not held for trading, which may be recorded in the statement of profit or loss or in reserves (without subsequent recycling to profit or loss).

For financial liabilities that are measured under the fair value option, entities will need to recognise part of the fair value change that is due to changes in their own credit risk in Other Comprehensive Income (OCI) rather than in profit or loss.

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

Further changes introduced to the classification and measurement rules and also introduced a new impairment model to SLFRS 9. The changes introduce:

- a third measurement category (FVOCI) for certain financial assets that are debt instruments.
- a new Expected Credit Loss (ECL) model which involves a three-

stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component (eg. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

The company is yet to assess the impact of adopting this new standard and has opted for the deferral option given in the standard for Life insurance entities. Therefore adoption of the standard is expected to be for annual period beginning on or after 2021.

The company qualifies for the above exemption as it has not previously applied any version of SLFRS 9 and its activities are solely connected with insurance business.

The fair value of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading in SLFRS 9, or that is managed and whose performance is evaluated on a fair value basis, are disclosed under Notes 3.5.8.4 to the financial statements.

The following standards and interpretations had been issued but not mandatory for annual reporting periods ending 31 December 2018.

(i) SLFRS 16 Leases

SLFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change.

Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows.

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under SLFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The standard is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted if SLFRS 15, 'Revenue from Contracts with Customers', is also applied.

The Company is in the process of identifying the impact on its Financial Statements resulting from the application of SLFRS 16.

This amendment is effective for annual periods beginning on or after 1 January 2019.

(ii) IFRIC 23, 'Uncertainty over income tax treatments'

This IFRIC clarifies how the recognition and measurement requirements of LKAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

This amendment is effective for the annual periods beginning on or after 1 January 2019.

(iii) Annual improvements 2015-2017

These amendments includes minor changes to the following standards:

(i) SLFRS 3, 'Business combinations', - a company remeasures its previously held interest in a joint operation when it obtains control of the business.

(ii) SLFRS 11, 'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

(iii) LKAS 12, 'Income taxes' - a company accounts for all income tax consequences of dividend payments in the same way.

(iv) LKAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

These amendments are effective for the annual periods beginning on or after 1 January 2019.

(iv) Amendments to LKAS 19, 'Employee benefits' on plan amendment, curtailment or settlement'

These amendments require an entity to:

(i) use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and

(ii) recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

This amendment is effective for the annual periods beginning on or after 1 January 2019.

(v) Amendments to LKAS 1 and LKAS 8 on the definition of material

These amendments to LKAS 1, 'Presentation of financial statements', and LKAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other SLFRSs:

(i) use a consistent definition of materiality throughout SLFRSs and the conceptual framework for financial reporting;

(ii) clarify the explanation of the definition of material; and

(iii) incorporate some of the guidance in LKAS 1 about immaterial information.

These amendments are effective for the annual periods beginning on or after 1 January 2020.

(vi) SLFRS 17, 'Insurance contracts'

This standard replaces SLFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. SLFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

This amendment is effective for the annual periods beginning on or after 1 January 2021.

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 meet the following eligibility criteria:

(i) The Company has not applied SLFRS 9 before ; and

(ii) 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.

3.2 Functional and Presentation Currency

The Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional currency except as indicated. This is the currency of the primary economic environment in which the company operates. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand, unless otherwise stated.

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.

3.3 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.

3.4 Going Concern

The Board believes that the Company has 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.

3.5 Use of Estimates and Judgments

The preparation of financial statements in conformity with SLFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimate and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes to the Financial Statements

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.

3.5.1 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.

3.5.1.1 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.

3.5.1.2 Unit linked contracts

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

Unit-linked contracts, insurance contract liabilities represent the fund value, plus a non-unit reserve to cover the risk portion. Significant judgment is exercised in making appropriate estimates of non unit reserve which are also regularly reviewed by the Company.

The judgments exercised in the valuation of non-unit reserve could affect the amounts recognised in the Financial Statements as insurance contract benefits and insurance contract liabilities. However, the non unit reserve is floored as zero on individual product level for prudence.

Investments related to unit-linked life insurance contract liability are disclosed in Note 07 to the financial statements.

3.5.2 Insurance Contract Liabilities- Life insurance

The valuation of the Long term insurance business as at 31 December 2018 was carried out by the Appointed Actuary based on the assumptions set out in Note 16 to the Financial Statements. Valuation of insurance contract liabilities and other disclosures are included in Note 3.11.1.1 to the financial statements.

3.5.2.1 Valuation of insurance contract liabilities

The liabilities of life insurance contracts are valued according to the standard actuarial techniques used for different product types.

The universal life and unit-linked contracts are valued using the 'account vale + non-account value reserves' method. The account value component is extracted from IT systems where individual accounts are maintained for all the policyholders. The non-account reserve component is calculated using the best estimate assumptions and floored to zero individual product level for prudence. This assures a higher liability than required by the Risk Based Capital (RBC) rules published by the Insurance Regulatory Commission of Sri Lanka (IRCSL).

The liabilities of the traditional protection products are valued using the Gross Premium Valuation (GPV) method specified by the RBC rules. The Group Term contracts are valued using the 'IBNR+UPR' basis.

The best estimate assumptions used for the calculation of liabilities are derived from either the company's historical experience, reinsurers' experience, industry information or standard tables allowing for reasonable adjustments to reflect company's risk exposure.

All the life insurance liabilities are subject to a Liability Adequacy Test (LAT). LAT is an assessment made to ensure the recognized life insurance liabilities are adequate as laid out under SLFRS 4. In performing the LAT, the current best estimates of future contractual cash flows are discounted back to the valuation date using the risk free curve published by the IRCSL and compared against the calculated liabilities. Any inadequacy is recorded in profit and loss account by setting up a provision for liability adequacy.

Assumptions

The following assumptions were used to calculate the liabilities of life insurance contracts as at 31st December 2018:

Mortality rates: 80% of A67/70(Ultimate) table
Morbidity rates: Reinsurers' rates
Expenses: Derived from an experience study performed using 2018 data and inflated with 5% yearly for the future
Premium Holiday/Surrender rates: Derived for each product from an experience study performed using 2018 data
Discount rate: Risk free yield curve published by the IRCSL

3.5.3 Fair Value Estimation

Fair value estimation is disclosed in Note 3.5.8.4. to the finanacial statements.

3.5.4 Valuation of Retirement Benefit Obligations

The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and staff turnover. Due to the long-term nature of these obligations, such estimates are subject to significant uncertainty. Details of the key assumptions used in the estimates are contained in Note 19 to the Financial Statements.

3.5.5 Provisions

Provisions are made for all obligations existing as at the statement of financial position date when it is probable that such an obligation will result in an outflow of resources and a reliable estimate can be made of the quantum of the outflow. Please refer Note 3.11.3 for the recognition and measurement.

3.5.6 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.

3.5.7 Assets and liabilities and the basis of their valuation

3.5.7.1 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 measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any 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 to statement of profit and loss on a straight-line basis over the estimated useful life of the software from the date that it is available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three (03) years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

De-recognition

An intangible asset is de-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 recognised in the statement of profit and loss when the item is de-recognised.

3.5.7.2 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

Property, plant and equipment is stated at cost less any accumulated depreciations and any accumulated impairment in values. 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

Notes to the Financial Statements

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. Impairment review takes place when event or changes in circumstances indicate that the carrying value may not be recoverable.

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 as incurred, during the financial period in which they are 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

The assets residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

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.

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.

3.5.7.3 Leased assets

Leases of property, plant and equipment where the company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period 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.

3.5.7.4 Unit Linked investments

In the case of unit-linked funds, the policyholder is the decision maker on asset allocation due to the investment choice provided to the policyholder to choose the preferred unit-linked fund/s to direct policy premium according to their risk appetite.The unit linked fund choices available for policy holders are the Growth Fund, Bond Fund, Balance Fund and the Sharia Fund.

3.5.8 Financial instruments

3.5.8.1 Non-derivative financial assets

Initial recognition and subsequent measurement

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.

Offsetting financial instruments

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 of investments in fixed deposits with banks, repos', reinsurance receivables and premium receivables and are reviewed for the impairment as part for the impairment review of loans and 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 of investments in debt securities and unit trusts. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

3.5.8.2 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 other financial liabilities category. 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.

Other financial liabilities comprise reinsurance payables, other liabilities.

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

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

Financial assets and liabilities 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.

3.5.8.3 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Income Statement.

3.5.8.4 Fair value measurement

This section explains the judgments and estimates made in determining the fair value of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified its financial instruments in to the three levels prescribed under the accounting standard.

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;

(i) the particular asset or liability that is the subject of the measurement

(ii) for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).

(iii) the principal (or most advantageous) market for the asset or liability.

(iv) the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

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

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

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

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

Determination of fair values

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

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

Level 2 - Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices);and

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

Instrument category fair value basis fair value

Government Securities	Valuation Technique	Level
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
Unit Trust	Published Market Prices	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

Further quantitative disclosures are included in the notes to the financial statements. (Note 34.3.1)

3.5.8.5 Impairment

a) Non-derivative financial assets

The Company asses at the end of each accounting period whether the objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant.

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of the asset which can be estimated reliably.

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

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

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Statement of profit or loss, to the extent that the carrying value of the assets do not exceeds its amortised cost at the reversal date.

In the case of equity investments classified as available -for- sale, a significant or prolonged decline in the fair value of the security below its cost was considered as an indicator that the assets are impaired. If there was objective evidence of impairment for available for sale financial assets, the cumulative loss measured as the difference between acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in profit and loss was removed from equity and recognised in profit and loss.

Impairment loss on equity instrument that were recognised in profit or loss were not reversed through profit or loss in subsequent period.

The fair value of debt instruments that were classified as available for sale increased in subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss , the impairment loss was reversed through the profit and loss.

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.

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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 profit and loss. 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.

3.6 Deferred Acquisition Cost (DAC)

The Costs that vary and directly related 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 in relation to the present value of 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.

3.7 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.

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

Reinsurance liability represents the balances due to re insurance companies. Amounts payable are estimated in a manner consistent with the related insurance contracts. Ceded reinsurance arrangements do not relieve the Company from its obligation to policy holders.

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

3.8 Premium receivable

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised costs using the EIR method. 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 and loss.

Premium receivables are derecognised when the derecognition criteria for financial assets are met.

3.9 Other receivables

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

3.10 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

3.11 Liabilities and Provisions

3.11.1 Insurance contract liabilities

3.11.1.1 Life insurance contract liabilities

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

These liabilities are measured by using standard valuation methods ensuring a higher (or equal) liabilities derived from the Risk Based Capital (RBC) method used for regulatory solvency calculations plus other mandatory reserves as required by the regulator and are classified as long duration contract liabilities or short duration contract liabilities.

Long duration contract liabilities include the fund reserves plus non-fund (sterling) reserves for in-force and lapsed universal life and unit-linked policies, gross premium valuation reserves for traditional non-participating policies, interest credit reserves, unearned premium reserves, reserves for guarantees, and reserve for premium accrued policies.

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.

3.11.1.2 Liability adequacy test

The Company evaluates the adequacy of its insurance contract liabilities at least annually. Liability adequacy is assessed by portfolio of contracts in accordance with the Company's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

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 sufficient 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. Any inadequacy is recorded in profit and loss by setting up a provision for liability adequacy.

3.11.2 Defined benefit plan

3.11.2.1 Defined benefit plan - Gratuity

A defined benefit plan is a post-employment benefit plan that defines an amount of benefits that an employee will receive on retirement, usually dependent on one or more factors such as age , years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the financial reporting period , together with adjustments for actuarial gains or losses from experience adjustments and changes in actuarial assumptions and past service costs. The defined benefits obligations is calculated by a qualified actuary using the projected unit credit method as recommended by LKAS 19 – Employee Benefits.

Actuarial gains and losses are charged or credited to other comprehensive income statements in the period in which they arise. The assumptions based on which the results of the actuarial valuations was determined, are included in Note 19 to the financial statements.

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.

3.11.2.2 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 recognized as an employee benefit expense in profit and loss when they are due.

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

3.11.3 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

Notes to the Financial Statements

reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.The increase in the provision due to the passage of time is recognised as interest expense.

3.12 Revenue Recognition

3.12.1 Gross premiums

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

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

3.12.2 Premium ceded to reinsurers

Gross reinsurance premiums on Life and investment contracts are recognised as an expense when the date on which the policy is effective. Reinsurance premiums are decided based on rates agreed with reinsurers.

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

3.12.3 Reinsurance commission income

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

3.12.4 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. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payment through the expected life of the financial assets or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial assets or liabilities. 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.

3.12.5 Dividend income

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

3.12.6 Realised gains and losses

Realised gains and losses recorded in the Statement of profit or loss 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.

3.12.7 Other income

Other income is recognised on an accrual basis. This includes the policy related administration fee and fund management fees which are recognised on an accrual basis.

3.13 Benefits, Claims and Expenses Recognition

3.13.1 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 change 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.

3.13.2 Reinsurance claims

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

3.13.3 Underwriting and acquisition costs

Underwriting and aquisition costs are recognised on the same basis as premium income is recognised in the statement of income.

3.14 Expenditure Recognition

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

b) For the purpose of presentation of the Statement of profit or loss, 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.

c) Repairs and maintenance costs, and renewals are charged to the statement of income in the year in which the expenditure is incurred.

3.15 Taxation

3.15.1 Current taxes

Current tax is the expected tax payable on the taxable income for the year using tax rates substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

3.15.2 Deferred taxation

Deferred tax is recognised using the liability 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.

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.

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. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.16 Earnings Per Share (EPS)

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

3.17 Stated Capital

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

3.18 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.

3.19 Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be concerned only with the occurrence or nonoccurrence of uncertain future events, which are beyond the Company's control. Contingent liabilities are disclosed in Note No. 31 to the Financial Statements. Commitments are disclosed in Note 30 to the financial statements.

3.20 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. 32 to the Financial Statements.

3.21 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.

3.22 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. 34).

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 Chief Risk Officer (CRO) and any deviations require special approval. The Company's investment approach is also guided and monitored by Allianz Insurance Management, Singapore, as per Allianz Group policies on investment.

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

Liquidity risk

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

- Assets are categorised in to 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 deposits which can be liquidated in the event of unexpected cash outflows.

Market risk

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

Market risk is an aggregation of,

a. Interest rate risk

b. Currency risk

c. Operational risk

a. Interest rate risk

Interest rate risk is the risk of interest rate volatility adversely affecting the market value of the investment portfolio. In an increasing interest rate environment, there will be a drop in the value of treasury bills and bonds when they are marked-to-market. The Company monitors its interest rate risk on a monthly basis by analysing the movement in the 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.

Sensitivity analysis on market, equity and interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument at the reporting date will fluctuate in response to assumed movements in market interest rate. The Management monitors the sensitivity of reported fair value of financial instruments on a regular basis by assessing the projected changes in the fair value of financial instruments held by the portfolios in response to assumed parallel shift in the yield curve by +/- 100 basis points.

The sensitivity analysis given in the following tables reflect the impact on the Company's net asset value, arising from 100 basis points parallel shift in the interest rates, holding all other variables constant.

As at 31 December (Rs. 000)	Net asset value	
	2018	2017
Interest rate risk		
+ 100 basis points	(151,338)	(147,597)
- 100 basis points	166,576	163,423

The sensitivity analysis for equity risk is not illustrated as equity is held mainly in the unit-linked portfolios and the movement in asset values is charged to the respective policy liabilities and therefore does not impact the profit before tax and the net asset value of the Company.

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.

c. Operational risk

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

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

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

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

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

Compliance with recommended action plans are supported by a periodic reviews undertaken by Senior Manager Risk and Control and 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.

3.23 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Finanancial statements in order to enhance the understanding of the current period's financial statements and to enhance the interperiod comparability.

3.24 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 1st January 2016. The period prior to 1st 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 1st 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 31st December 2015 over the total policy liabilities of the distribution basis under the RBC regime as at 1st 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 No. 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.

4. FINANCIAL INVESTMENTS

	Year ended 31 December 2018			Year ended 31 December 2017		
	Face value	Cost of investment	Carrying value	Face value	Cost of investment	Carrying value
	Rs'000	Rs '000	Rs '000	Rs'000	Rs '000	Rs '000
Available-for-sale financial assets [Note 4.1]	3,039,515	3,066,943	2,965,085	2,483,683	2,493,923	2,642,070
Loans and receivables [Note 4.2]	148,775	148,775	164,035	99,769	99,769	154,249
	3,188,290	3,215,718	3,129,120	2,583,452	2,593,692	2,796,319

4.1 Available-for-sale Financial Assets

Treasury bonds	2,989,673	3,018,003	2,912,608	2,439,673	2,450,815	2,596,869
Quoted debentures	22,882	21,980	23,179	17,792	16,890	19,149
Unit trusts	26,960	26,960	29,298	26,218	26,218	26,052
	3,039,515	3,066,943	2,965,085	2,483,683	2,493,923	2,642,070

4.2 Loans and Receivables

Repo / call deposits	38,775	38,775	38,775	9,769	9,769	9,769
Term deposits	110,000	110,000	125,260	90,000	90,000	144,480
	148,775	148,775	164,035	99,769	99,769	154,249

5. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Office equipment	Furniture and fittings	Total
Cost				
Balance as at 1 January 2018	22,254	26,578	39,867	88,699
Additions during the year	2,411	408	68	2,887
Balance as at 31 December 2018	**24,665**	**26,986**	**39,935**	**91,586**
Accumulated depreciation				
Balance as at 1 January 2018	21,741	25,736	35,664	83,141
Charge for the year	605	398	1,986	2,989
Balance as at 31 December 2018	**22,346**	**26,134**	**37,650**	**86,130**
Carrying amount				
Balance as at 31 December 2018	2,319	852	2,285	5,456

Notes to the Financial Statements

	Computer equipment	Office equipment	Furniture and fittings	Total
Cost				
Balance as at 1 January 2017	21,883	25,836	38,574	86,293
Additions during the year	371	742	1,293	2,406
Balance as at 31 December 2017	**22,254**	**26,578**	**39,867**	**88,699**
Accumulated depreciation				
Balance as at 1 January 2017	20,264	24,485	33,011	77,760
Charge for the year	1,477	1,251	2,653	5,381
Balance as at 31 December 2017	**21,741**	**25,736**	**35,664**	**83,141**
Carrying amount				
Balance as at 31 December 2017	**513**	**842**	**4,203**	**5,558**

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. 2.89 Million (2017- Rs. 2.41 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 2018. 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;

	Year ended 31 December 2018	2017
Computer equipment	21,456	20,468
Office equipment	25,642	24,770
Furniture and fittings	30,710	27,427
	77,808	**72,665**

6. INTANGIBLE ASSETS

	Year ended 31 December 2018	2017
Acquisition cost		
Balance as at 1 January	16,720	9,794
Additions during the year	5,976	6,926
Balance as at 31 December	22,696	16,720
Accumulated Amortisation		
Balance as at 1 January	9,397	7,564
Amortisation for the year	4,144	1,833
Balance as at 31 December	13,541	9,397
Carrying amount as at 31 December	9,155	7,323

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 2018. 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 has capitalized intangible assets to the aggregate value of Rs. 5.97 Million (2017- Rs. 6.92 Million), with the completion of software development projects. Cash payment amounting to Rs. 3.43 Million (2017 - Rs. 6.92 Million) were made during the year for purchase of Intangible Assets (computer software).

6.4 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of intangible assets during the year (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.7.85 Million.

7. UNIT LINKED INVESTMENTS

	Year ended 31 December 2018		Year ended 31 December 2017	
	No. of units	Net asset value	No. of units	Net asset value
Growth fund	9,659,353	123,306	9,573,913	133,668
Balanced fund	7,131,319	101,886	7,156,646	106,237
Bond fund	6,053,754	89,582	5,522,790	77,375
Sharia fund	618,611	8,246	364,580	4,520
	23,463,037	323,020	22,617,929	321,800

The above investments relate to the unit-linked life insurance contract liability of the Company.

Notes to the Financial Statements

8. DEFERRED INCOME TAX ASSETS

A deferred tax asset has not been recognised in the financial year ended 31 December 2017, as it is not probable that future taxable profits will be available against which the Company can utilise the benefits thereon.

		Year ended 31 December	
		2018	2017
Deferred tax asset	Tax Rate		
Employee benefits obligations	28%	2,764	2,057
Carried forward tax losses	28%	572,298	738,122
Available for sale reserve	28%	42,286	(30,755)
Total deferred income tax assets		**617,348**	**709,424**
Deferred tax liability		-	-
Net deferred tax asset		**617,348**	**709,424**

Balance as at 1st January		
Deferred tax charge / (income) recognised in Consolidated Income Statement		
On carried forward tax losses	572,298	-
On employee benefit obligations	2,764	-
	575,062	-
Deferred tax charge / (income) recognised in the Statement of Other Comprehensive Income		
On temporary difference form fair value differences	42,286	-
	42,286	-
Balance as at 31st December	**617,348**	-

Analysis of tax losses

The composition of the tax losses as follows;

	Year ended 31 December	
	2018 (Rs. Mn)	2017 (Rs. Mn)
Tax losses up to year of assessment 2014/15	2,044	1,792
Tax losses within the time bar	748	955
Total brought forward tax losses	**2,792**	**2,747**

As at reporting date there is unrecognised tax loss amount in to Rs. 748 Million.

The Company has first time recognised Deferred Tax Asset of Rs 572 Million by utilising the available tax losses of Rs 2,044 Million upto 31 December 2018 to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised in accordance with the provision of new Inland Revenue Act No. 24 of 2017 which has been effective from 1 April 2018. As at 1 January 2018, the cumulative business losses amounted to Rs 2,747 Million and for the quarter ended 31 March 2018, the business loss amounted to Rs 2,854 Million.

9. DEFERRED ACQUISITION COST

	Year ended 31 December 2018	2017
Balance as at 1 January	623,592	512,550
Deferred cost during the year	158,377	70,875
Interest unwinding on acquisition cost	58,105	47,736
Amortisation of deferred acquisition cost during the year	351	(7,569)
Deferred asset as at 31 December	**840,425**	**623,592**

10. OTHER RECEIVABLES

	Year ended 31 December 2018	2017
Other debtors and receivables [Note 10.1]	194,346	178,690
Receivable from policy holders [Note 34.2.1]	51,666	20,125
	246,012	**198,815**

10.1 Other debtors and receivables

	2018	2017
WHT receivables	101,568	93,058
Rents paid in advance	41,029	50,026
Prepayments	43,992	29,586
Loans and advances	5,298	4,519
Other receivable	2,459	1,501
	194,346	**178,690**

11. AMOUNTS DUE FROM RELATED PARTIES

	Year ended 31 December 2018	2017
Allianz Insurance Lanka Limited	-	574
	-	**574**

12. CASH AND CASH EQUIVALENTS

	Year ended 31 December 2018	2017
Cash at bank	(34,373)	(14,766)
Cash in hand	35,972	32,202
	1,599	**17,436**

Notes to the Financial Statements

13. STATED CAPITAL

	Year ended 31 December 2018	2017
Balance as at 1st January	739,624	739,624
Balance as at 31 December (fully paid up 73,962,400 ordinary shares)	**739,624**	**739,624**

14. AVAILABLE FOR SALE RESERVE

	Year ended 31 December 2018	2017
Balance as at 1st January	109,838	(182,254)
Net change in fair value of available for sale financial assets	(260,323)	298,310
Net change in fair value of available for sale financial assets reclassified to profit or loss	(539)	(6,218)
Balance as at 31 December	**(151,024)**	**109,838**

14.1 Net (loss) / Gain on AFS During the Year (Net of Tax)

Mark-to-market net (losses) / gains on AFS investments during the year	(260,323)	298,310
Tax on change in fair value of AFS investments	-	-
Net change in fair value of AFS assets during the year	**(260,323)**	**298,310**

15. RETAINED EARNINGS

	Year ended 31 December 2018	2017
Balance as at 1 January	34,284	(71,183)
Net profit for the year	660,645	104,024
Tax reversal on other compressive income	42,286	-
Actuarial gain (loss) on defined benefit obligations	-	1,443
Balance as at 31 December	**737,215**	**34,284**

16. INSURANCE CONTRACT LIABILITIES - LIFE

The valuation of the long term insurance business as at 31st December 2018, 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. 3.50 Billion.

	Year ended 31 December 2018	2017
Actuarial assumptions		
Mortality table used	80% of A67/70	80% of A67/70
Interest rate for universal life and 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%	9.00%

16.1 Movement in Insurance Contract Liabilities - Life

	Year ended 31 December 2018	2017
Universal life / conventional life insurance		
Balance as at 1 January	2,526,517	1,928,871
Increase in the life fund	655,762	597,646
Balance as at 31 December	**3,182,279**	**2,526,517**
Unit-linked life insurance contracts		
Balance as at 1 January	321,800	255,593
Increase in the life fund	11,748	47,995
(Losses) / gains on unit linked investments	(10,693)	18,212
Balance as at 31 December	**322,855**	**321,800**
	3,505,134	2,848,317

16.2 Recognised in Profit or Loss

Increase in universal life / conventional life insurance fund	655,762	597,647
Increase in unit-linked life insurance contracts	11,748	47,995
Increase in insurance contract liabilities - Life	**667,510**	**645,642**

Liability Adequacy Test

In the opinion of the Appointed Actuary, the liability value is sufficient to meet future benefits and expenses. Hence, no provision was made for premium deficiency.

17. OTHER PAYABLES

	Year ended 31 December 2018	2017
Commission payable	21,534	20,889
Claims payable [Note 17.1]	31,851	25,007
Premium in deposit	61,501	50,703
Others creditors and accrued expenses [Note 17.2]	166,541	98,996
	281,427	**195,595**

17.1 Movement of Claims Payables

Balance as at 1 January	25,007	23,997
Claims approved during the year	276,783	149,718
Claims paid during the year	(169,099)	(82,856)
Surrenders during the year	(100,840)	(65,852)
Balance as at 31 December	**31,851**	**25,007**

Notes to the Financial Statements

17.2 Others Creditors and Accrued Expenses

Accrued expenses	150,079	86,685
Staff creditors	2,194	1,605
Bonus provision	3,386	3,194
Surrender payable	5,315	2,560
Other liabilities	5,567	4,952
	166,541	**98,996**

18. AMOUNTS DUE TO RELATED PARTIES

	Year ended 31 December	
	2018	**2017**
Allianz Insurance Lanka Limited	8,075	-
	8,075	-

19. EMPLOYEE BENEFIT OBLIGATIONS

	Year ended 31 December	
	2018	**2017**
Defined benefit obligation as at 1 January	7,346	6,273
Current service cost	3,050	2,454
Interest for the year	-	475
Actuarial (gains) / losses	-	(1,443)
Benefits paid during the year	(525)	(413)
Defined benefit obligation as at 31 December	**9,871**	**7,346**
Number of employees as at 31 December	128	96
Expense recognised in profit or loss		
Current service cost	3,050	2,454
Interest for the year	-	475
	3,050	2,929
Amounts recognised in other comprehensive income		
Actuarial (gain) / loss	-	(1,443)

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value.

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.

The calculation is performed annually by a qualified independent actuary using the projected unit credit method.
An actuarial valuation of the retirement gratuity payable was carried out as at 31st December 2018 by Messrs K.A. Pandit, a firm of professional

Consultants & Actuaries. The valuation method used by the Actuaries to value the liability is the 'Projected Unit Credit Method (PUC)', as recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

The Present value of benefit obligation at the end of the year was Rs 5.23 Million with the actuarial gain of Rs 3.86 Million which was not adjusted in the financial statements due to sufficient provisions were made in financial statements.

19.1 Principal Assumptions as at the Reporting Date

Discount rate	12.00%	11.00%
Future salary increase	10.00%	10.00%
Retirement Age	55 & 58 years	55 & 58 years

19.2 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	Decrease	Increase	Decrease
Discount rate (change by 1%)	(463)	540	(463)	540
Salary increment rate (change by 1%)	545	(475)	545	(475)

20. GROSS WRITTEN PREMIUM

	Year ended 31 December	
	2018	2017
Variable universal life	1,046,783	997,325
Unit linked	156,025	147,961
Decreasing term assurance	30,001	9,926
Group life	62,743	23,605
Term assurance	5,702	-
	1,301,254	**1,178,817**

21. INCOME FROM INVESTMENTS

	Year ended 31 December	
	2018	2017
Available-for-sale financial assets [Note 21.1]	307,292	267,100
Loans and receivables [Note 21.2]	13,869	18,659
	321,161	**285,759**

Notes to the Financial Statements

21.1 Available-for-sale Financial Assets

Treasury bonds	304,358	257,543
Treasury bills	-	1,254
Quoted debentures	2,395	2,085
Gain on disposal of unit trust investment	539	6,218
	307,292	**267,100**

21.2 Loans and Receivables

Term deposits	12,223	16,454
Repo / call deposits	1,646	2,205
	13,869	**18,659**

22. OTHER INCOME

	Year ended 31 December	
	2018	**2017**
Interest from loan to staff and agents	23	42
Fund Manager Charges and Miscellaneous income	1,807	1,733
Claims Related Administration Fees	4,702	2,577
	6,532	**4,352**

23. INSURANCE CLAIMS AND BENEFITS (NET)

	Year ended 31 December	
	2018	**2017**
Life insurance claims death, disabilities and hospitalisation [Note 23.1]	276,783	149,718
Reinsurance recoveries	(44,656)	(34,531)
	232,127	**115,187**

23.1 Life Insurance Claims Death, Disabilities and Hospitalisation

Death, disability and hospitalisation	168,137	78,735
Surrenders	100,840	65,852
Policy maturities	7,806	5,131
	276,783	**149,718**

24. UNDERWRITING AND NET ACQUISITION COMMISSION COSTS

	Year ended 31 December	
	2018	**2017**
Policy acquisition commission cost	150,221	130,392
Other insurance related cost	2,219	4,321
	152,440	**134,713**

25. OTHER OPERATING, ADMINISTRATIVE AND SELLING EXPENSES

	Year ended 31 December 2018	2017
Staff expenses [Note 25.1]	223,810	206,177
Administration and establishment expenses	282,067	230,735
Selling expenses	108,954	52,802
Depreciation and amortisation [Note 5 and 6]	7,134	7,217
	621,965	**496,931**

25.1 Staff Expenses

Staff salaries	94,188	80,886
Defined contribution plan cost- EPF, ETF [Note 25.2]	12,938	12,232
Provision for employee benefits [Note 19]	3,050	2,929
Staff welfare	3,936	4,836
Training expenses	30	749
Other costs	109,668	104,545
	223,810	**206,177**

25.2 Contributions Made to the Defined Contribution Plan

Employee Provident Fund	10,395	9,608
Employee Trust Fund	2,543	2,624
	12,938	**12,232**

26. 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.

26.1 Current Income Tax Expense

	Year ended 31 December 2018	2017
Profit / (loss) before tax	85,583	104,024
Applicable tax rate	28%	28%
Add / (less) tax effect of the following items:		
Aggregate disallowed expenses	10,325	45,920
Aggregate net exempt expenses	(202,240)	(450,363)
Taxable income / (loss)	(106,332)	(300,418)
Tax loss brought forward	(2,747,443)	(2,447,025)
Tax loss carried forward	(2,853,775)	(2,747,443)
Current income tax expense	-	-
Deferred tax asset recognition	575,062	-
Income tax reversal for the year	**575,062**	-

Notional tax credit for withholding tax on Government securities

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

Notes to the Financial Statements

	Year ended 31 December	
	2018	2017
Notional tax credit and Withholding tax	101,568	93,058
Balance available to set-off against future tax liability	**101,568**	**93,058**

The Inland Revenue Act No.10 of 2006 as amended by subsequent legislation provides that a company which derives interest income from secondary market transactions in Government securities (on or after 1 April 2002 would be entitled to a notional tax credit being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company.

Subsequently the Inland Revenue Act No. 24 of 2017 abolished the aforesaid provision and provided that no notional tax credit should be identified for the interest income on Government securities after 1 April 2018.

As per the transitional provisions which is published on 1 April 2018, Notional Tax credit as per section 138 (2) of Inland Revenue Act No. 10 of 2006 may be carried forward to be set-off against the Income Tax liability within three consecutive years of assessment commencing from the year of assessment 2018 / 2019.

26.2 Impact of the Inland Revenue Act No 24 of 2017

The Department of Inland Revenue of Sri Lanka has issued "Inland Revenue Act No. 24 of 2017" on 24 October 2017 which was effective from 01st April 2018. According to this legislation Life Insurance Business is taxed as described follows.

The Business income of the Life Insurance Business shall be ascertained in terms of section 67 of the New Inland Revenue Act No.24 of 2017. As per this section the gains and profits on which tax is payable is the aggregate of ;

- Surplus distributed to shareholders from the Life insurance policyholders fund as certified by the actuary at a rate of 28%;
- Investment income of the shareholder fund less any expenses incurred in the production of such income at a rate of 28%;
- Surplus distributed to a Life Insurance policy holders at a rate of 14% (Upto 3 years from 2018. Thereafter at 28%).

Accordingly the Company computed income tax on this basis as per the Note 26.1 above. Due to the carried forward tax losses Company has no tax liability which is payable as at reporting date.

27. 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.

	Year ended 31 December	
	2018	2017
Net profit attributable to ordinary shareholders (Rs.)	660,645	104,024
Weighted average number of ordinary shares in issue	73,962,400	73,962,400
Earnings per share (Rs.)	8.93	1.41

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.

28. RELATED PARTY TRANSACTIONS

The Company considers its Chief Executive Officer (CEO) and 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 following transactions were carried out with related parties during the year ended 31st December 2018.

Related party	Relationship	Nature of transaction	Transaction value (Net)	Balance as at 31 December 2018	Balance as at 31 December 2017
Allianz SE	Parent	Reinsurance Agreement	(41,499)	(41,813)	(36,413)
Allianz SE	Parent	Management fee	(38,288)	(101,917)	(63,629)
Allianz Insurance Lanka Limited	Group company of Allianz SE	Reimbursable expenses (net)	(8,649)	(8,075)	574
		Group Health policy issued	376	-	-

29. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel includes the Chief Executive Officer (CEO) and 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 2018.

30. CAPITAL COMMITMENTS

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

31. CONTINGENT LIABILITIES

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

32. EVENTS AFTER THE REPORTING DATE

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

33. LITIGATIONS AND CLAIMS

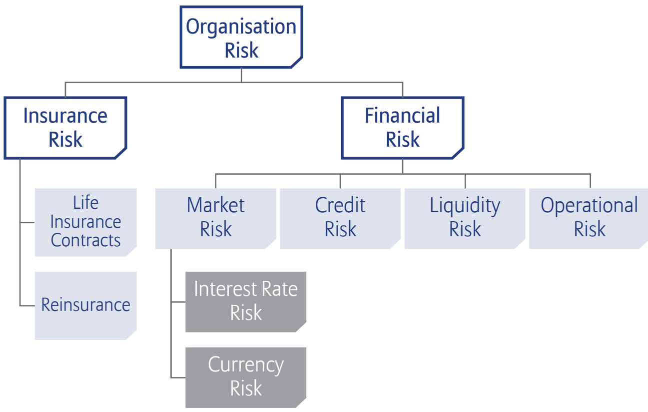
There were no litigations and claims filed against the Company as at the reporting date.

34. RISK MANAGEMENT

Introduction and overview

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

Notes to the Financial Statements



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 minimization. Risk management therefore is an integral part of the management and control system, ensuring the timely identification, analysis, measurement, management and reporting of risks. This system provides the basis for successful value-based management, including the efficient allocation of capital and the optimization of key performance measures through consistent consideration of risk-return implications.

Risk management framework

The key elements of the risk management framework are:

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

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

The four primary components of the Risk Management framework include:

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

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

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

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

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

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

- Promoting the Allianz risk culture and developing risk management talent for the Company.
- Pre-approving the Company's risk management policy, risk strategy/appetite and carrying out reviews to ensure alignment with local regulatory and Allianz Group requirements.

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

a. Capital management objectives, policies and approach

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

- Meet regulatory solvency requirements and the internal threshold set by Allianz Asia Pacific, thereby providing a degree of security to policyholders.
- Efficient allocation of capital to support business development by ensuring that returns on capital employed meet the requirements of shareholder and policyholders.
- Financial flexibility by maintaining a strong liquidity position.
- Alignment of asset and liability profiles by minimizing asset-liability duration mismatches.
- Maintain financial strength to support business growth and to satisfy the requirements of the policyholders, regulators and other stakeholders.

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

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

The Company maintains its capital well above the minimum regulatory requirements of the 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 optimize the structure and sources of capital to ensure that it consistently maximizes returns to the shareholders.

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

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

c. Regulatory framework

The insurance regulator of the Country, the Insurance Board of Sri Lanka (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 regulatory requirements of the IRCSL as well as various other regulators such as Central Bank of Sri Lanka (CBSL), Department of Inland Revenue etc. The Company is also regulated by the Companies Act No. 07 of 2007.

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

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.

34.1 Insurance Risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the

Company is to ensure that sufficient reserves are available to cover these liabilities.

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

34.1.1 Life insurance contract

a. Product design risk

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

Unit linked products have been designed in order to reduce the market and credit risks associated with traditional products. Under unit linked contracts those risks are largely passed on to the policyholder, although a portion of the Company's management fees are linked to the value of funds under management and hence are at risk if the fund values decrease. Unit linked products carry mortality risk and market risk to the extent that there are guarantees built into the product design. Contracts may have minimum guaranteed death benefits where the sum at risk depends on the fair value of the underlying investments. For certain contracts these risks are mitigated by explicit mortality and morbidity charges.

The main risks that the Company is exposed to under product design risk are as follows:

Mortality risk	Risk of loss arising due to policyholders' death experience being different from expected
Morbidity risk	Risk of loss arising due to policyholders' health experience being different from expected
Investment return risk	Risk of loss arising from actual returns being different from expected.
Expense risk	Risk of loss arising from the expense experience being different from expected.
Policyholder decision risk	Risk of loss arising due to policyholders' experiences (lapses and surrenders) being different from expected

These risks do not vary significantly in relation to the location and type of risk insured by the Company.

b. Underwriting and expense over-run risk

The Company's underwriting strategy focuses on ensuring risk diversification with regard to 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 product) to ensure the most appropriate policy is sold.
- Input on terms and conditions and product pricing is obtained from in-house Actuarial Team, Appointed Actuary, Allianz Asia Pacific Actuarial team, Chief Risk Officer and Local Compliance Officer to ensure new products are adequately priced.
- In-house Actuarial Team provides periodic management information to review Life insurance products to facilitate decision-making.
- Only registered laboratories are used to obtain medical reports.
- Focused product and sakes training is provided in English, Sinhala and Tamil by the in-house training department to Insurance advisors.
- Financial Authority limits are in place and have been incorporated in the core insurance system.

c. Claims risk

This risk arises due to the frequency of claims from life insurance contracts exceeding the level incorporated in pricing the products. The following measures are in place to mitigate claims risk;

- In-house Actuarial team carries out valuation of Life liabilities on an annual basis, which is approved by Appointed Actuary.
- In-house Actuarial team reviews reserving on a monthly basis and provides information and guidance to management.
- Claims are reserved immediately at initiation or on the availability of information of the death or injury of an insured.
- Financial authority limits are set based on the Claims limits with the maximum limits provided to the CEO, Senior Manager - Life and Chief Financial Officer. Financial limits are reviewed on an annual basis and quarterly audits are conducted to ensure compliance.

Valuation of liabilities for the Long term business is predominantly based on Fund reserve, sterling reserves, reserves for claims incurred but not reported and unearned premium reserves.

- The sterling reserves are the non-fund related liabilities and is 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 is calculated based on the analysis on the claims payment patterns in the past (speed of settlement).
- Discounting - discounting rate is derived based on the IRCSL guidelines provided under Regulation of Insurance Industry Act No.43 of 2000 as amended by Act No. 27 of 2007 & Act No. 03 of 2011 for long term insurance business.
- Additional contingency reserves are set aside in order to allow for operational risks and for any data omissions & errors.

34.1.2 Reinsurance risk

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both Quota Share and surplus programmes which 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 policy holders rests with the Company.

Default of reinsurers does not negate this obligation and in that respect the Company carries a credit risk up to the extent ceded to each reinsurer. The Company uses Allianz SE and Munich Re as its reinsurance providers. The following table shows the credit ratings of the reinsurance companies with whom the Company has arrangements;

Reinsurer	Rating		Rating Agency
	2018	2017	
Allianz SE	AA	AA	Standard & Poor's
Munich Re	AA-	AA-	Standard & Poor's

34.2 Financial Risk

34.2.1 Credit risk

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

As at 31 December 2018

Financial Instruments	Government guaranteed Rs '000	AAA Rs '000	AA+ Rs '000	A+ Rs '000	AA- Rs '000	BBB+ Rs '000	Unrated	Total
Available-for-sale								
- Government Securities	2,912,608	-	-	-	-	-	-	2,912,608
- Unit trust	-	-	-	-	-	-	29,298	29,298
- Debentures	-	-	-	-	9,777	13,402	-	23,179
Loan and receivables								
- Term deposits	-	-	92,838	-	32,422	-	-	125,260
- Repo / call deposit	-	-	-	-	-	38,775	-	38,775
Cash and cash equivalents	-	-	-	-	-	-	1,599	1,599
Total	**2,912,608**	**-**	**92,838**	**-**	**42,199**	**52,177**	**30,897**	**3,130,719**

Notes to the Financial Statements

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
Available-for-sale								
- Government securities	2,596,869	-	-	-	-	-	-	2,596,869
- Unit trust	-	-	-	-	-	-	26,052	26,052
- Debentures	-	-	-	10,466	8,683	-	-	19,149
Loan and receivables								
- Term deposits	-	52,132	35,715	-	56,633	-	-	144,480
- Repo / call deposit	-	-	-	-	-	9,769	-	9,769
Cash and cash equivalents	-	-	-	-	-	-	**17,436**	**17,436**
Total	**2,596,869**	**52,132**	**35,715**	**10,466**	**65,316**	**9,769**	**43,488**	**2,813,755**

**Ratings represent the local ratings given by Fitch Ratings Lanka Limited and/or ICRA Lanka Limited.

The table below set out information regarding the credit risk exposure on other financial assets of the Company as at 31st December by classifying assets according to their due period. As at the date of the Statement of Financial Position, none of these financial assets are either past due or impaired.

31 December 2018	< 180 days Rs. '000	180 to 365 days Rs. '000	365 < days Rs. '000	Total Rs. '000
Reinsurance receivable	50,497	24,720	9,232	84,449
Premium receivables	51,666	-	-	51,666
Total	102,163	24,720	9,232	136,115

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**	**13,864**	**-**	**64,545**

The table below summarizes the maturity profile of the financial assets of the Company based on their market value.

Maturity analysis of financial assets - 2018

	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	226,040	73,303	2,613,265	2,912,608
Unit Trust	29,298	-	-	29,298
Debentures	-	-	23,179	23,179
Loans and receivables				
Fixed deposits	-	32,422	92,838	125,260
Repo / call deposit	38,775	-	-	38,775
Total	294,113	105,725	2,729,282	3,129,120

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
Unit trust	26,052	-	-	26,052
Debentures	8,684	-	10,465	19,149
Loans and receivables				
Fixed deposits	35,715	78,845	29,920	144,480
Repo / call deposit	9,769	-	-	9,769
Total	**80,220**	**78,845**	**2,637,254**	**2,796,319**

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

Maturity analysis of unit linked investments - 2018

As at 31st December 2018	Less than 1 year Rs. '000	1-3 years Rs. '000	More than 3 years Rs. '000	Carrying value Rs. '000
Treasury bonds	-	118,481	-	118,481
Treasury bills	-	-	-	-
Debentures	6,695	3,435	29,614	39,745
Repo	-	-	-	-
Quoted Shares	120,189	-	-	120,189
Short Term Sharia	8,246	-	-	8,246
Cash and Cash Equivalents	36,360	-	-	36,360
Total	171,489	121,916	29,614	323,020

Maturity Analysis of Unit Linked Investments - 2017

As at 31st December 2017	Less than 1 year Rs. '000	1-3 years Rs. '000	More than 3 years Rs. '000	Carrying value Rs. '000
Treasury bonds	-	20,156	71,454	91,610
Treasury bills	29,826	-	-	29,826
Debentures	2,208	10,387	9,243	21,838
Repo	20,387	-	-	20,387
Quoted Shares	148,144	-	-	148,144
Short Term Sharia	4,520	-	-	4,520
Cash and Cash Equivalents	5,474	-	-	5,474
Total	**210,560**	**30,543**	**80,697**	**321,800**

Notes to the Financial Statements

34.3 Financial Assets and Liabilities

34.3.1 Fair value hierarchy for assets carried at fair value

Assets and liabilities recorded at fair value in the statement of financial position are measured and classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. The company 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.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

As at 31st December 2018	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total market value
Available-for-sale				
- Treasury bonds	2,912,608	-	-	2,912,608
- Unit trust	29,298	-	-	29,298
- Debentures	-	23,179	-	23,179
Loans and receivables				
- Term deposits	-	-	125,260	125,260
- Repo / Call deposits	-	-	38,775	38,775
Total	2,941,906	23,179	164,035	3,129,120

As at 31st 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
- Unit trust	26,052	-	-	26,052
- Debentures	-	19,149	-	19,149
Loans and receivables				
- Term deposits	-	-	144,480	144,480
- Repo / Call deposits	-	-	9,769	9,769
Total	2,622,921	19,149	154,249	2,796,319

Fair Value hierarchy - Unit Linked Investments

As at 31st December 2018	Level 1	Level 2	Level 3	Total market value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury bonds	118,481	-	-	118,481
Treasury bills	-	-	-	-
Debentures	39,745	-	-	39,745
Repo	-	-	-	-
Quoted Shares	120,189	-	-	120,189
Short Term Sharia	8,246	-	-	8,246
Cash and Cash Equivalents	-	-	36,360	36,360
Total	286,661	-	36,360	323,020

Fair Value hierarchy - Unit Linked Investments

As at 31st December 2017	Level 1	Level 2	Level 3	Total market value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Treasury bonds	91,610	-	-	91,610
Treasury bills	29,826	-	-	29,826
Debentures	21,838	-	-	21,838
Repo	-	-	20,387	20,387
Quoted Shares	148,144	-	-	148,144
Short Term Sharia	4,520	-	-	4,520
Cash and Cash Equivalents	-	-	5,474	5,474
Total	**295,939**	-	**25,861**	**321,800**

34.3.2 Assets / liabilities not carried at fair value

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

	Carrying value (Rs. '000) 2018	2017
Loans and receivables		
Fixed deposit	125,260	144,480
Repo / call deposit	38,775	9,769
Premium receivable	51,666	20,125
Reinsurance receivable	84,449	44,420
Total	**300,150**	**218,794**
Liabilities		
Reinsurance liability	126,262	80,833

Ten Year Summary

Allianz Insurance Lanka Ltd

	2018 RS. '000	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
Statement of Income										
Gross Written Premium	17,733,187	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
Net Earned Premium	13,666,565	3,413,816	2,400,551	1,617,389	1,421,992	684,309	435,561	336,747	293,436	265,074
Income from Investments and Other Income	2,327,064	426,512	261,045	145,455	144,574	158,297	127,498	105,454	95,379	95,709
Insurance Claims and Benefits (net)	(9,135,373)	(2,311,185)	(1,814,727)	(1,169,854)	(1,109,326)	(317,838)	(163,837)	(139,168)	(172,754)	(150,698)
Underwriting and Net Acquisition Cost/Income (Including Reinsurance)	2,073,154	(243,768)	49,085	142,690	101,576	121,337	163,639	151,610	115,060	(88,096
Expenses	(3,884,757)	(1,101,328)	(858,319)	(576,625)	(545,298)	(396,876)	(251,962)	(173,452)	(109,816)	(139,869)
Profit Before Taxation	900,346	184,346	37,635	159,055	13,518	249,229	310,899	281,191	221,305	158,312
Income Tax Expenses	(139,903)	(51,753)	(13,933)	(50,122)	8,130	(55,408)	(81,382)	(46,594)	(53,996)	(38,646)
Net Profit for the year	760,443	132,593	23,702	108,933	21,648	193,821	229,517	234,597	167,309	119,666
Statement of Financial Position										
Assets										
Investments	20,033,369	3,050,035	2,005,969	1,508,664	1,294,635	1,129,579	1,098,551	943,206	828,458	656,207
Property, Plant and Equipment	593,663	90,794	105,704	106,539	100,924	63,563	34,999	19,020	26,330	31,988
Intangible Assets	872,137	17,411	43,194	37,979	48,150	46,884	24,870	10,122	11,233	19,453
Reinsurance Receivables	1,929,573	763,921	1,044,035	609,392	472,646	463,164	261,048	341,143	296,505	125,480
Premium Receivables	6,660,658	2,440,764	1,573,724	1,537,905	1,202,145	897,033	451,657	379,805	334,602	130,678
Other Assets	2,259,098	91,481	58,356	93,767	81,516	60,187	35,070	77,072	95,316	111,342
Insurance Contract - Deferred Expenses	1,005,959	303,085	208,380	163,756	98,600	86,797	56,764	44,819	36,324	43,477
Deferred Tax Assets	70,980	17,983	50,406	8,792	19,553	8,906	7,616	5,060	3,183	7,124
Cash and Cash Equivalents	617,850	128,959	121,294	40,054	44,865	57,899	56,250	18,485	19,827	23,172
Total Assets	34,043,287	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
Liabilities and Shareholders' Equity										
Liabilities										
Insurance Provision-General	13,872,520	3,897,918	3,077,685	2,086,080	1,613,794	1,217,450	586,642	513,471	556,576	358,582
Reinsurance Creditors	737,262	492,249	716,432	674,046	574,178	451,752	469,908	535,829	336,200	240,657
Employee Benefits	331,705	24,852	17,801	12,490	8,573	8,169	5,890	4,112	4,899	2,856
Other Liabilities	7,294,678	805,208	262,151	301,264	216,202	198,155	168,117	91,037	105,524	107,535
Bank Overdraft	692,885	112,518	163,522	46,250	53,419	62,976	15,983	22,540	28,457	7,345
Total Liabilities	22,929,050	5,332,745	4,237,591	3,120,130	2,466,166	1,938,502	1,246,540	1,166,989	1,031,656	716,975
Shareholders' Equity										
Stated Capital	8,619,972	905,500	500,000	500,000	500,000	250,000	250,000	250,000	250,000	250,000
Revenue Reserves	2,628,996	653,269	522,117	499,643	390,118	616,707	534,706	430,243	349,446	181,946
Fair Value Reserve	(134,731)	15,606	(48,646)	(12,926)	6,749	8,803	(4,421)	(8,500)	20,676	-
Total Shareholders' Equity	11,114,237	1,574,375	973,471	986,717	896,867	875,510	780,285	671,743	620,122	431,946
Total Liabilities and Shareholders' Equity	34,043,287	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

Ten Year Summary

Allianz Life Insurance Lanka Ltd

	2018 Rs. '000	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
Statement of Income										
Gross Written Premium	1,301,254	1,178,817	1,040,269	919,144	823,456	828,790	532,141	351,299	204,814	101,816
Net Written Premium	1,215,099	1,095,344	973,115	859,834	768,148	784,600	497,452	329,558	192,569	94,322
Income from Investments and Other Income	327,693	290,111	210,507	148,000	107,950	78,931	52,753	31,087	39,008	33,819
Net Insurance Benefits and Claims	(232,127)	(115,187)	(86,648)	(52,493)	(38,562)	(23,316)	(15,877)	(12,612)	(5,715)	(3,283)
Net Acquisition Cost	(152,440)	(134,713)	(133,837)	(134,241)	(154,947)	(170,131)	(152,276)	(111,814)	(81,149)	(48,014)
Expenses	(621,965)	(496,931)	(468,449)	(363,893)	(410,493)	(373,730)	(249,964)	(181,792)	(201,486)	(145,243)
Changes in Deferred Acquisition Cost	216,833	111,042	111,242	84,725	108,966	-	-	-	-	-
Increase in Life Insurance Contract Liabilities	(667,510)	(645,642)	(579,971)	(504,042)	(367,672)	(335,881)	(191,674)	(112,933)	(58,289)	(7,317)
Profit Before Taxation	85,583	104,024	25,959	37,891	13,390	(39,527)	(59,587)	(58,506)	(115,062)	(75,716)
Income Tax Reversal / (Expenses)	575,062	-	-	(24,523)	24,523	-	-	-	-	-
Net Profit for the Year	**660,645**	**104,024**	**25,959**	**13,367**	**37,913**	**(39,527)**	**(59,587)**	**(58,506)**	**(115,062)**	**(75,716)**
Statement of Financial Position										
Assets										
Financial Investments	3,129,120	2,796,319	1,930,971	1,569,538	1,186,394	908,592	523,259	393,807	221,193	189,150
Property, Plant and Equipment	5,456	5,558	8,533	14,736	24,045	25,637	25,635	25,065	23,787	18,147
Intangible Assets	9,155	7,323	2,230	705	1,209	1,653	3,128	4,738	-	-
Unit Linked Investments	323,020	321,800	255,593	184,518	111,449	44,587	-	-	-	-
Deferred Income Tax Assets	617,348	-	-	-	-	-	-	-	-	-
Deferred Acquisition Cost	840,425	623,592	512,550	401,308	316,583	-	-	-	-	-
Reinsurance Receivables	84,449	44,420	41,577	28,133	37,680	15,988	13,389	10,710	3,108	2,376
Other Receivables	246,012	198,815	125,869	97,188	82,220	59,335	37,722	34,936	43,358	57,981
Amounts Due from Related Parties	-	574	-	4,170	-	-	-	-	-	-
Cash & Cash Equivalents	1,599	17,436	30,246	48,136	24,973	16,145	23,039	15,778	8,351	5,849
Total Assets	**5,256,584**	**4,015,837**	**2,907,569**	**2,348,432**	**1,784,553**	**1,071,937**	**626,172**	**485,034**	**299,797**	**273,503**
Liabilities and Equity										
Liabilities										
Life Insurance Contract Liabilities - Non Unit Linked	3,182,279	2,526,517	1,928,871	1,413,441	980,303	662,191	370,897	179,223	66,290	8,001
Life Insurance Contract Liabilities - Unit Linked	322,855	321,800	255,593	184,518	111,433	44,587	-	-	-	-
Reinsurance Payables	126,262	80,833	58,275	39,502	43,868	22,646	18,277	10,645	7,252	5,098
Other Payables	281,427	195,595	171,888	90,508	92,022	77,237	75,856	69,803	65,484	93,179
Amounts Due to Related Parties	8,075	-	483	-	7,600	-	-	-	-	-
Employee Benefit Obligations	9,871	7,346	6,273	4,748	3,980	3,318	1,602	1,254	820	508
Bank Overdraft	-	-	-	-	-	-	4,436	2,629	1,865	2,085
Total Liabilities	**3,930,769**	**3,132,091**	**2,421,383**	**1,732,718**	**1,239,207**	**809,979**	**471,068**	**263,554**	**141,711**	**108,871**
Equity										
Stated Capital	739,624	739,624	739,624	739,624	592,624	592,624	492,499	492,499	349,999	249,999
Available for Sale Reserve	(151,024)	109,838	(182,254)	(25,940)	65,037	27,456	(19,263)	(12,084)	8,516	-
Retained Earnings	737,215	34,284	(71,184)	(97,969)	(112,314)	(358,122)	(318,132)	(258,935)	(200,429)	(85,367)
Total Equity	1,325,815	883,746	486,186	615,715	545,347	261,958	155,104	221,480	158,086	164,632
Total Liabilities and Equity	**5,256,584**	**4,015,837**	**2,907,569**	**2,348,432**	**1,784,553**	**1,071,937**	**626,172**	**485,034**	**299,797**	**273,503**

Branch Network

	Branch	Address	Contact No.	Status
1	Akkaraipattu	Main Street, Kalmunai Road, Akkaraipattu	Tel: 067-2279320 / 067-2279252	General
2	Akuressa	16, First Floor, Pitabeddara Road, Thibbatuwawa, Akuressa	Tel: 041-2283260 / 041-2283567	General
3	Aluthgama	168,Galle Road, Kaluwamodara, Aluthgama	Tel: 034-2271665 / 034-2270418	Life / General
4	Ambalangoda	21/1/1, New Road, Ambalangoda	Tel: 091-2255724 | Fax: 091-2255894	Life / General
5	Ambalantota	76/B, 1st floor, Mallika Building, Tangalle Road, Ambalantota	Tel: 047-22233363 / 047-2225561 | Fax: 047-2223363	Life / General
6	Ampara	2nd Floor, Amarathunga Building, D.S. Senanayake Veediya, Ampara	Tel: 063-2223622 | Fax: 063-2223952	Life / General
7	Anuradhapura	523/3, 1st Floor, Maithreepala Senanayake Mawatha, Anuradhapura	Tel: 025-2224063 / 025-2234899 | Fax: 025-2226695	Life / General
8	Athurugiriya	70/20C, Main Street, Athurugiriya	Tel: 011-2077858 / 011-2077857	General
9	Avissawella	162, 1/1, Colombo Road, Avissawella	Tel: 036-2232107 / 0362231840 | Fax: 036-2233464	Life / General
10	Badulla	13 1/1, R H Gunawardana Mawatha, Badulla	Tel: 055-2222730 / 055-2228698 | Fax: 035-2229944	Life / General
11	Balangoda	84, Barnes Ratwatte Mawatha, Balangoda	Tel: 045-2289422 | Fax: 045-2287569	Life / General
12	Bambalapitiya	117/2/1, Galle Road, Colombo 04	Tel: 011-2554146 | Fax: 011-2554156	Life / General
13	Bandaragama	Karunarathne Building, Market Lane, Bandaragama	Tel: 038-2293946 | Fax: 038-2293919	Life / General
14	Bandarawela	35/2, Welimada Road, Bandarawela	Tel: 057-2231214 / 057-2231149 | Fax: 057-2231580	Life / General
15	Battaramulla	81/1, Kaduwela Road, Battaramulla	Tel: 011-2885041 | Fax: 011-2872732	Life / General
16	Batticaloa	26-28,Bailey Road, Batticaloa	Tel: 065-2223904 | Fax: 065-2226360	Life / General
17	Beliatta	Gatamanna Mawatha, Beliatta	Tel: 047-2243195 | Fax: 047-2243196	Life
18	Chavakachcheri	Station Road, Chavakachcheri	Tel: 021-2270724 | Fax: 021-2270723	Life / General
19	Chilaw	105/1/2, Colombo Road, Chillaw	Tel: 032-2222622 / 032-2224832	Life / General
20	Chunnakam	Raja Complex,89, KKS Road, Chunnakam	Tel: 021-2224832 / 021-2242506 / 021-2242271 | Fax: 021-2241692	Life / General
21	Dambulla	78, Anuradhapura Road, Dambulla	Tel: 066-2283678 / 066-2283355 | Fax: 066-2283676	Life / General
22	Dehiattakandiya	6, New Town, Dehiattakandiya	Tel: 027-2250265 / 027-2250655 | Fax: 027-2250384	Life / General
23	Dehiwala	78 A, Galle Road, Dehiwala North, Dehiwala	Tel: 011- 2718602 | Fax: 011- 2718603	Life / General
24	Eheliyagoda	143/3/1, Main Street, Eheliyagoda	Tel: 036-2258245 / 036-2258135 | Fax: 036-2259944	Life / General
25	Elpitiya	45/1A, Pituwala Road, Elpitiya	Tel: 091-2290812 / 091-2291744	Life / General
26	Embilipitiya	93 A, Malwatte Building, New Town Road, Embilipitiya	Tel: 047-2261270 / 047-2230993 | Fax: 047-2261795	Life / General
27	Galewala	90, Dambulla Road, Galewela	Tel: 066-2288435 | Fax: 066-2287427 / 066-2289936	Life / General
28	Galgamuwa	Main Street, Galgamuwa	Tel: 037-2254116 | Fax: 037-2254117	General
29	Galle	143, Colombo Road, Kaluwella, Galle	Tel: 091-2223473 / 091-2235308 | Fax: 091-2246001	Life / General
30	Gampaha	6, Asoka Garden, Colombo Road, Gampaha	Tel: 033-2234995 / 033-2221946 / 033-2234994 | Fax: 033-2227808	Life / General

Branch Network

31	Gampola	73/1/2, Nuwara Eliya Road, Gampola	Tel: 081-2350555 / 081-2353694-95 | Fax: 081-2350555	Life / General
32	Giriulla	103A/1, Negombo Road, Giriulla	Tel: 037-2289514 | Fax: 037-2289515	Life / General
33	Godagama	579/A/2, Highlevel Road, Godagama, Homagama	Tel: 011-2748235	Life / General
34	Hanwella	137/3, Avissawella Road, Hanwella	Tel: 036-2253992 | Fax: 036-2253993	Life / General
35	Hingurakgoda	29, Airport Road, Hingurakgoda	Tel: 027-2247587 | Fax: 027-2245576	Life / General
36	Homagama	93, High Level Road, Homagama	Tel: 011-4442055 | Fax: 011-2891899	General
37	Horana	132/1, Anguruwatota Road, Horana	Tel: 034-2262977 / 034-2261002 | Fax: 034-2262977	Life / General
38	Ja-Ela	170/B-1/1, Negombo Road, Ja-Ela	Tel: 011-2229795 | Fax: 011-2229051	Life / General
39	Jaffna	165, Manipay Road, Jaffna	Tel: 021-2229552 / 021-2219927 / 021-2212433 | Fax: 021-2223827	Life / General
40	Kadawatha	151/1A, Kandy Road, Kadawatha	Tel: 011-2922010 | Fax 011-2922346	Life / General
41	Kaduwela	510, Avissawella Road, Kaduwela	Tel: 011-2537886 | Fax: 011-2538111	Life / General
42	Kahawatta	173/B, Main Street, Kahawatta	Tel: 045-2270431 | Fax: 045-2270432	Life
43	Kalawana	39, Sigiry Building, Mathugama Road, Kalawana	Tel: 045-2255010 | Fax: 045-2255011	Life
44	Kalmunai	174, Batticaloa Road, Kalmunai	Tel: 067-2224747 | Fax: 067-2224987	Life / General
45	Kalubowila	247 1/1, 1st Floor, Hospital Road, Kalubowila	Tel: 011-2764020 / 011-2763530 / 011-2763006 | Fax: 0112763006	Life / General
46	Kalutara	338/1/1, Galle Road, Kalutara South, Kalutara	Tel: 034-2223579 / 034-2221318 / 034-2221328 | Fax: 034-2226595	Life / General
47	Kandy	302, D.S Senanayaka Veediya, Kandy	Tel: 081-2227496-8 | Fax: 081-2201236	Life / General
48	Kantale	58L, Main Street, Kantale	Tel: 026-2234747 / 026-2234855 | Fax: 026-2234890	Life / General
49	Katugastota	Sri Rathnapala Mawatha, Katugastota	Tel: 081-2498935	Life / General
50	Kegalle	17/C/1, Court Road, Kegalle	Tel: 035-2230157 / 035-22230454 | Fax: 035-2223539	Life / General
51	Kekirawa	15, EDC Arcade, Thalawa Road, Kekirawa	Tel: 025-2263300 | Fax: 025-2263372	Life / General
52	Kelaniya	878, Bulugaha Junction, Kandy Road, Kelaniya	Tel: 011-2911483 | Fax: 011-2911484	Life / General
53	Kilinochchi	A9, Kandy Road, Karadippokku, Kilinochchi	Tel: 021-228 0087 | Fax: 021-2280086	Life / General
54	Kiribathgoda	276 1/1, Kandy Road, Kiribathgoda	Tel: 011-2907825 / Fax: 011-2907826	Life / General
55	Kirindiwela	123/A, Colombo Road, Kirindiwela	Tel: 033-2267970 | Fax: 033-2267970	Life / General
56	Kottawa	1/121 B, High Level Road, Kottawa	Tel: 011-2783318 | Fax: 011-2783320	Life / General
57	Kuliyapitiya	262/1/1, The Finance Building, Madampe Road, Kuliyapitiya	Tel: 037-2283548 / 037-2283471 | Fax: 037-2284546	Life / General
58	Kurunegala	9A , Noel Senevirathna Mawatha, Colombo Road, Kurunegala	Tel: 037-2230505 / 037-2230535 / 037-2232673-4 / 037-2229507 | Fax: 037-2232674	Life / General
59	Maharagama 1	72 1/1, Library Road, Maharagama	Tel: 011-2844773 / 011-2848930 / 011-2897565 / 011-2897566 | Fax: 011-2846048	Life / General
60	Maharagama 2	157/1, High Level Road, Maharagama	Tel: 011-4872525 / 011-2837490 | Fax: 011-4302356	General
61	Mahawewa	10, Main Street, Mahawewa	Tel: 032-2254607 / 032-2255786 | Fax: 032-2252710	General
62	Mahiyanganaya	4, Gemunu Building, Kandy Road (South), New Town, Mahiyanganaya	Tel: 055-2258391 | Fax: 055-2257370	Life / General
63	Manipay	75, Jaffna Road, Manipay	Tel: 021-2256224-6 | Fax: 021-2256225	Life / General

64	Mannar	201 1/1, St. Sebastian's Street, Mannar	Tel: 023-2250790 | Fax: 023-22250791	Life / General
65	Matale	83 A 1/1, Kings Street, Matale	Tel: 066-2232819 / 066-2224362 | Fax: 066-2231897	Life / General
66	Matara	38, Station Road, Matara	Tel: 041-2229554 / 041-2223025 | Fax: 041-2223035	Life / General
67	Mathugama	121A, Agalawatta Road, Mathugama	Tel: 034-2248243 / 034-2248432 | Fax: 034-2248244	Life / General
68	Medawachchiya	70, Jaffna Road, Medawachchiya	Tel: 025-2245161 | Fax: 025-2245191	Life / General
69	Melsiripura	Near the Filling Station, Dambulla Road, Melsiripura	Tel: 037-2250272 | Fax: 037-2250271	Life / General
70	Minuwangoda	108/2/B, Handirama Junction, Negombo Road, Minuwangoda	Tel: 011-2281028 | Fax: 011-2281033	Life / General
71	Moneragala	236, Kachcheriya Junction, Wellawaya Road, Moneragala	Tel: 055-2277037 / 055-2055449 | Fax: 055-2276430	Life / General
72	Moratuwa	603 B/1/1, Galle Road, Rawathawatte, Moratuwa	Tel: 011-2645703 / 011-2641328 | Fax: 011-2643438	Life / General
73	Mullaitivu	Puliyadiyil, Mulliyawalai, Mullaitivu	Tel: 021-2290144 | Fax: 021-2290145	Life / General
74	Nawalapitiya	88, Gampola Road, Nawalapitiya	Tel: 054-2224341 | Fax: 054-2224215	Life / General
75	Negombo	32/1/1, Ave Maria Road, Negombo	Tel: 031-2231427-8 / 031-2235153 | Fax: 031-2231334	Life / General
76	Nelliyadi	Vickneswara College Road, Karaveddy, Nelliyadi	Tel: 021-2264383 | Fax: 021-2264418	General
77	Nikaweratiya	Heelogama Road, Nikaweratiya	Tel: 037-2260832 | Fax: 037-2260911	Life / General
78	Nittambuwa	577/5/A, Colombo Road, Nittambuwa	Tel: 033-2287235 | Fax : 033-2296734	Life / General
79	Nugegoda	296, High Level Road, Nugegoda	Tel: 011-2819907 | Fax: 011-2810906	Life / General
80	Nuwara Eliya	13/7, Parkwood Complex, Park Road, Nuwara Eliya	Tel: 052-2235291 | Fax: 052-2223759	Life / General
81	Panadura – 1	541A, Main Street (Galle Road), Panadaura	Tel: 038-2245680 / 038-2240669 | Fax: 038-2241246	General
82	Panadura – 2	A.S. Building, Galle Road, Panadura	Tel: 038-2241246	Life
83	Pettah (Kotahena)	244, George R De Silva Mawatha, Colombo 13	Tel: 011-2473203 / 011-2473234 | Fax: 011-2473204	Life / General
84	Pilimathalawa	207/1/1, Colombo Road, Pilimathalawa	Tel: 081-2575188 | Fax: 081-2575189	Life / General
85	Piliyandala	24-1/A, Vidyala Mawatha, Piliyandala	Tel: 011-2608678 / 011-2604412 / 011-2317900 | Fax: 011-2619729	Life / General
86	Polonnaruwa	120, Baticaloa Road, Polonnaruwa	Tel: 027-2225125 / 027-2227266 / 027-2222866 | Fax: 027-2226909	Life / General
87	Puttalam	128A, 1/2, Dewshan Building, Kurunegala Road, Puttalam	Tel: 032-2266209 | Fax: 032-2266300	Life / General
88	Ratnapura	66, Bandaranayake Mawatha, Ratnapura	Tel: 045-2230936 / 045-2230520 | Fax: 045-2231800	Life / General
89	Tangalle	104, Beliatta Road, Tangalle	Tel: 047-2241644 / 047-2241614 | Fax : 047-2241614	Life / General
90	Thambuttegama	150, Kurunegala Road, Tambuttegama	Tel: 025-2275052 | Fax: 025-2275200	Life / General
91	Thanamalwila	16, Tissa Road, Thanamalwila	Tel: 047-2285311 | Fax: 047-2285312	Life
92	Thirunelveli	28,Palaly Road, Thirunelveli	Tel: 021-2212380 | Fax: 021-2212381	Life / General
93	Tissamaharama	142/1, Hambantota Road, Tissamaharama	Tel: 047-2239165 / 047-22339591 | Fax: 047-2239165	Life / General

Branch Network

94	Town Hall (City Office)	251, Dharmapala Mawatha, Colombo 07	Tel: 011-2317988	Life / General
95	Trincomalee	316, 323/1, Ehambram Road, Trincomalee	Tel: 026-2225326 | Fax: 026-222 5926	Life / General
96	Valachchenai	Main Street, Valachchenai	Tel: 065-2258304-5 | Fax: 065-2258325	Life / General
97	Vavuniya	30, 1st Cross Street, Vavuniya	Tel: 024-2221668 | Fax: 024-2224916	Life / General
98	Warakapola	183, Kandy Road, Warakapola	Tel: 035-2267026 / 035-2269800 | Fax: 035-2268778	Life / General
99	Wattala	41, Negombo Road, Wattala	Tel: 011-2933418 | Fax: 011-2980833	Life / General
100	Welimada	127/1, Hemapala Munidasa Mawatha, Welimada	Tel: 057-2244541 | Fax: 057-2244597	Life / General
101	Wellawatte	67, W. A. D. Ramanayake Mawatha ,Colombo 02	Tel: 055-2274984	Life / General
102	Wellawaya	Opposite the New Filling Station, Moneragala Road, Wellawaya	Tel: 055-2274984 | Fax: 055-2274985	Life / General
103	Wennappuwa	Victory Building, Chillaw Road, Wennappuwa	Tel: 031-2253670 / 031-2256258 | Fax: 031-2253670	Life / General
104	Werahera	61/2, 1st Floor, Katuwawala, Boralesgamuwa	Tel: 011-2150930 | Fax: 011-2150931	General
105	Head Office - Life	675, Dr. Danister de Silva Mawatha, Colombo 09	Tel: 011-2300400 / 011-2317988 / 011-2317989 | Fax: 011-2303116	Life
105	Head Office - Non Life	675, Dr. Danister de Silva Mawatha, Colombo 09	Tel: 011-2303300 | Fax: 011-2309999	General

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 Regulatory Commission 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 - 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.

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.

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.

Glossary

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

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) - 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.

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 which are carried forward from one accounting period to subsequent accounting periods.

EARNING PER SHARE (EPS)

Profits of the Company after tax and after the transfer to Life Fund divided by the number of issued ordinary shares.

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.

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 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.

LIABILITY ADEQUACY TEST

An annual assessment of the sufficiency of insurance and/or investment contract with liabilities, to cover future insurance obligations.

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.

MATURITY

The time at which payment of the sum insured under a Life Insurance policy falls due at the end of its term.

MORTALITY

The ratio of deaths to the entire population or to a particular age group. It is globally expressed in numbers or rates and set out in mortality tables.

NET ASSET VALUE

The value of tangible and intangible assets of a company minus its liabilities. It reflects a company's fundamental value.

NET CLAIM 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

NET COMBINED RATIO

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.

Formula : Net Expense Ratio + Net Claim Ratio

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.

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.

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.

POLICY

The printed document issued to the policyholder by the Company stating the terms of the insurance contract.

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.

PREMIUM

The payment or one of the regular periodic payments, that a policyholder makes to own an insurance policy.

PRIMARY INSURERS

Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

REINSURANCE

An arrangement whereby one party (the reinsurer) in consideration for a premium, agrees to indemnify another party (the cedant) against part or all of the liability assumed by the cedant under a policy or policies of insurance.

REINSURANCE COMMISSION

Commission received or receivable in respect of premiums paid or payable to a reinsurer.

REINSURANCE INWARDS

The acceptance of risks under a contract of reinsurance.

REINSURANCE OUTWARDS

The placing of risks under a contract of reinsurance.

REINSURANCE PROFIT COMMISSION

Commission received or receivable by the cedant (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty.

RETENTION

That part of the risk assumed which the insurer/reinsurer does not reinsure/retrocede, i.e. retained net by the ceding company for its own account.

SOLVENCY - 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.

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.

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.

Glossary

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.

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.

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- LIFE INSURANCE BUSINESS

Premiums to which an insurer is contractually entitled, and received in the accounting period.

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.

Notes

Notes

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. The company was amalgamated with Janashakthi General Insurance Limited on 28 September 2018.	A public limited liability company incorporated in Sri Lanka on 24 March 2008 under the Companies Act No. 7 of 2007.
Company Registration Number	PB 5179	PB 3493
Tax Identification Number (TIN)	134051795	134034939
VAT Registration Number	134051795- 7000	-
Board of Directors	George Sartorel Surekha Alles Alan Smee	George Sartorel Surekha Alles Alan Smee
Auditors	PwC, (Chartered Accountants), 100, Braybrooke Place, Colombo 2.	PwC, (Chartered Accountants), 100, Braybrooke Place, Colombo 2.
Accounting Year End	31 December	31 December
Consultant Actuaries /Appointed Actuary	NMG Consulting, 30, Hill Street, #03-02A, Singapore, 179360	Malaka Mihindukulasuriya, No. 675, Dr. Danister De Silva Mawatha, Colombo 9
Secretaries	N & N Agents and Secretaries (Pvt) Ltd M & N Building (Level 5), No. 2, Deal Place, Colombo 3.	N & N Agents and Secretaries Pvt Ltd M & N Building (Level 5), 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 Bank PLC National Savings Bank Union Bank of Colombo PLC Pan Asia Banking Corporation Peoples' Bank
Registered Office	No. 675, Dr. Danister De Silva Mawatha, Colombo 9.	No. 675, Dr. Danister De Silva Mawatha, Colombo 9.

www.allianz.lk