

Annual Report 2008

ALLIANZ INSURANCE LANKA LTD. | ALLIANZ LIFE INSURANCE LANKA LTD .



Content

Vision and Mission	03
Guiding Principle and Core Values	04
About Allianz	05
Allianz at a Glance	06
Financial Overview	07
An Interview	12
CEO's Review	14
Allianz Moments	16
Allianz Insurance Lanka Ltd.	
Directors' Report	20
Certification of Incurred But Not Reported (IBNR) Reserve	22
Independent Auditor's Report	23
Balance Sheet	24
Statement of Income	25
Statement of Changes in Equity	26
Cash Flow Statement	27
Accounting Policies	29
Notes to the Financial Statements	33
Allianz Life Insurance Lanka Ltd.	
Directors' Report	40
Actuary's Report - Life	41
Independent Auditor's Report	42
Balance Sheet	43
Statement of Income	44
Statement of Changes in Equity	45
Cash Flow Statement	46
Accounting Policies	48
Notes to the Financial Statements	51
Four Year Summary	55
Glossary of Insurance Terms	56
Corporate Information	58

Our Vision

To be the first choice insurer for customers

To be the preferred employer for staff in the insurance industry

To be the number one insurer for creating shareholder value

Our 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 recognize, respect, and appreciate the contributions of each individual by creating a culture that recognizes and values our differences-not only in who we are but also in how we think and the way we carry our responsibilities.

We value our investment in our people

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

About Allianz

Allianz Lanka is a fully owned subsidiary of financial services conglomerate Allianz SE headquartered in Munich, Germany, and is one of the newest entrants to the Sri Lankan insurance arena.

In business since 1890, the Allianz Group is renowned as a global player in Insurance, Asset Management and Banking. The Allianz Group is the world's largest property and casualty insurer based on revenues, and Europe's largest insurer in terms of market capitalisation. Allianz is ranked among the top 20 companies in Fortune 500's listing of top global corporates.

Allianz is present in more than 70 countries and provides its over 80 million customers with a comprehensive range of property, casualty, life and health insurance, as well as asset management and banking services.

Due to its strong global business position and its solid capitalisation, Allianz is rated financially strong with a AA rating given by global rating agencies Standard and Poor's and US (United States) insurance rating body A.M. Best.

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

Allianz provides its clients with a wide range of insurance and financial products through its worldwide subsidiaries, under strong and well-known brands. Allianz was ranked among the best global brands in the Business Week/ Interbrand 2007 annual ranking.

Trust, integrity, reliability and professionalism have been the pillars on which Allianz has built its success. In 2008, Allianz SE was voted the world's most ethical insurer by the Ethisphere institute, the think tank dedicated to promoting best practices in global governance, business

ethics, compliance and corporate responsibility.

The global strength and solid capitalisation of the Allianz group coupled with local expertise and business know-how, has been Allianz Lanka's powerful formula for success since inception. Setting up operations in General insurance business in 2005, Allianz Lanka follows its parent company in an impressive track record of achievements that have created history in the insurance industry in Sri Lanka. From its second year of operations, Allianz Lanka made pure underwriting profits and maintained a combined ratio well below industry norms. Allianz is also the first General Insurance company in Sri Lanka to achieve a GWP (Gross Written Premium) of Rs 0.5 billion within the first four years of operations.

Local expertise and global strength have also given Allianz Lanka the edge in providing its fast expanding customer base of large multinationals, local corporates, small traders and individuals with the most innovative and intelligent insurance solutions, supported by genuine value additions.

Empowering its people is just as important to Allianz as providing a premier service to customers. The over 181,000 staff in Allianz global offices function in a dynamic multi-ethnic and multi-cultural environment that provides them with a world of opportunities for personal and professional development. The fact that the Allianz Group was adjudged one of Europe's top 100 most favoured employers confirms the success of this people focus.

Allianz insures 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, the MRT (Mass Rapid Transport) in Singapore and Bangkok, the Hong Kong, Bangkok and Kuala Lumpur international airports, Dubai's Palm Island,

the world's largest artificial island, as well as numerous atolls in the Maldives are insured by Allianz. Infrastructure projects and buildings insured by Allianz Lanka are no less impressive. The company has underwritten the construction of the Arugam Bay bridge, the Colombo-Matara highway and the structure of the World Trade Centre twin towers to name a few.

Allianz is the Official Global Partner of Formula 1 racing, and uses the fusion of speed technology and performance of Formula 1 racing as the perfect platform to drive its expertise in safety.

The world's only insurer to have its own safety research centre, the Allianz Center for Technology implements the safety aspects and new technologies in Formula 1 racing and translates these developments into everyday road safety and accident prevention strategies to improve the safety of drivers and passengers worldwide.

This commitment to safety was taken into the sponsorship of the Allianz Arena in Munich as well, where the company installed outstanding safety measures in response to the critical need for fire protection in this massive complex and was recognized by German fire safety organisation Bundesverband Technischer Brandschutz e. V. (bvfa) with the prestigious Sprinkler Protected fire safety award for fire safety, the first time ever that the bvfa has given a football stadium an award for fire safety.

Building on the success of its achievements in General insurance, Allianz Lanka breathed new life into the local insurance industry with the launch of Life business in Sri Lanka in October 2008.

Allianz at a Glance

	2008	Change from previous year	2007	Change from previous year	2006	Change from previous year	2005
GENERAL INSURANCE							
Income Statement							
Total Revenue (Rs. '000)	160,875	117%	73,970	104%	36,316	237%	10,771
Underwriting Profit after Expenses (Rs. '000)	41,294	29%	32,009	822%	3,473	123%	(15,417)
Profit/(Loss) Before Tax (Rs. '000)	86,934	63%	53,207	258%	14,867	267%	(8,900)
Balance Sheet							
Total Assets (Rs. '000)	700,033	81%	386,195	47%	263,488	143%	108,624
Shareholders' Equity (Rs. '000)	312,280	164%	118,411	72%	68,873	42%	48,602
Return on Net Assets (%)	27.84	(38%)	44.93	108%	21.6	218%	(18.3)
Earnings Per Share (Rs.)	7.21	(2%)	7.34	250%	2.1	242%	(1.48)

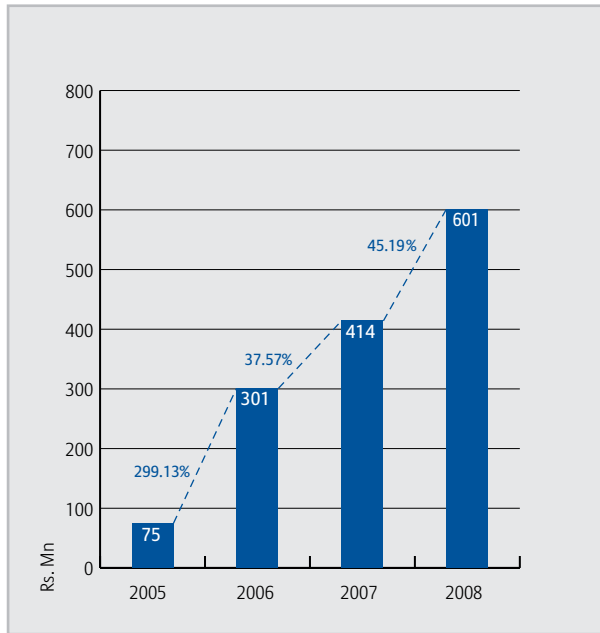
LIFE INSURANCE

Total Revenue (Rs. '000)	26,171
Loss for the Period (Rs. '000)	(9,651)
Investment (Rs. '000)	231,775
Net Assets	240,348

Financial Overview

GENERAL INSURANCE

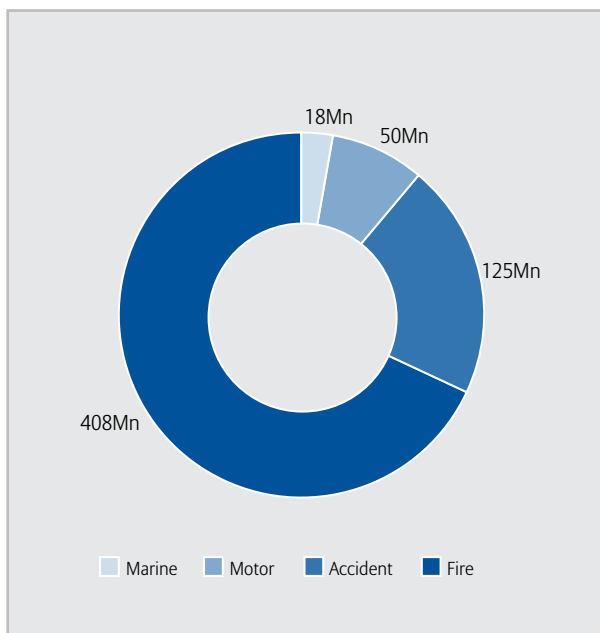
Gross Written Premium



The Gross Written Premium showed an impressive growth of 45% during 2008, reflecting the steady growth maintained by the company.

This was mainly contributed by direct channels which represent the increased recognition received from the insuring public.

Premium by Classes



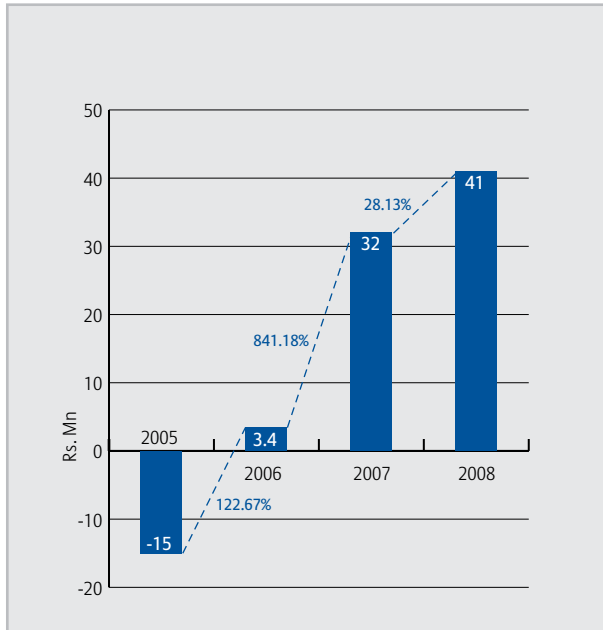
The company showed a healthy composition of Gross Written Premium consisting of 68% Fire, 21% Accident, 8% Motor and 3% Marine Insurance. All four classes have recorded a growth in premiums underwritten.

The Accident class recorded the highest growth of 132%, followed by Motor 72%, Marine at 60%.

This achievement was due to the strategies adopted by the company to attract profitable business in selected market segments whilst maintaining efficient client relations initiatives.

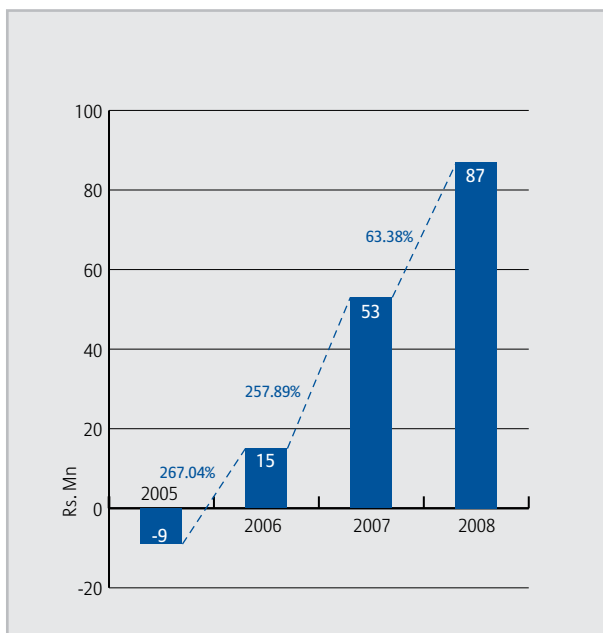
Financial Overview (Contd.)

Underwriting Profit



Underwriting Profit generated by the company was Rs. 41Mn which resulted in a 28% increase over the previous year's achievement of Rs. 32Mn. This is commendable considering the intense price competition in the market.

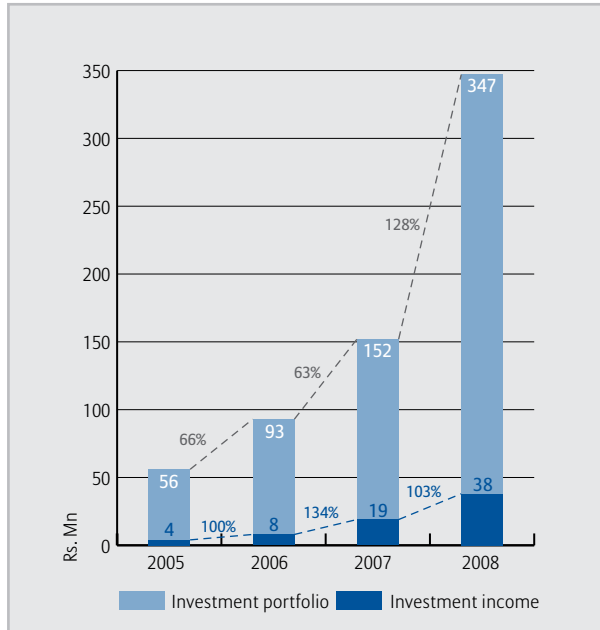
Profitability



Rs. 87Mn Profit before tax recorded by the company represents a 63% growth over 2007. This profitability has been derived after charging Rs. 81Mn as staff, selling, depreciation and other expenses. Operating expenses have doubled over the past year mainly due to new recruitments, purchase of office equipment and furniture, and rent expenses associated with the expansion and relocation to a spacious new office at Glennie Street, Colombo 2 in January 2008.

Financial Overview (Contd.)

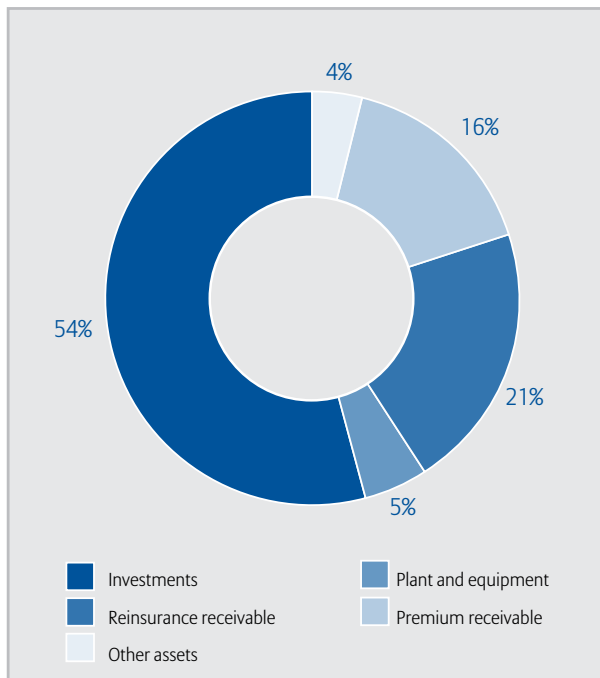
Investment Portfolio



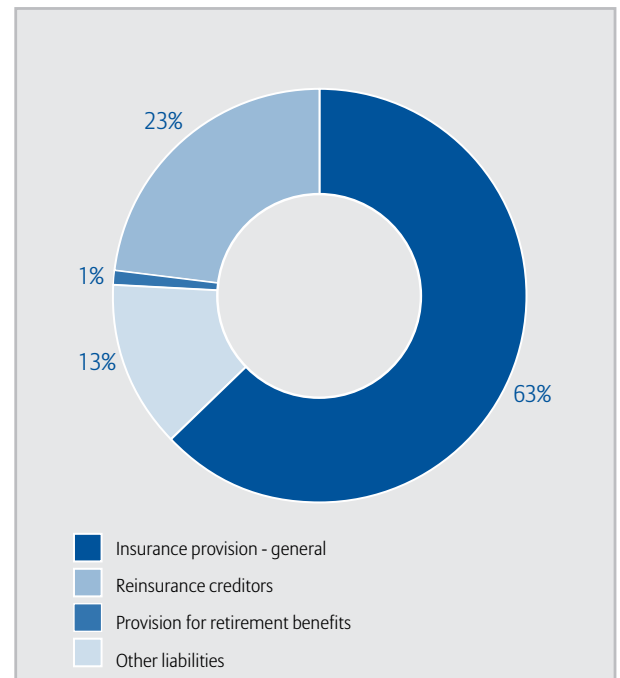
Investments have increased by 128% from Rs. 152Mn to Rs. 347Mn. This is mainly due to the funds received by the company by way of capital increase during the period. The total portfolio is invested in Government securities.

Interest Income has increased to Rs. 38Mn from Rs. 19Mn recorded in 2007. This again shows a remarkable growth of 103% when compared with 2007 and is mainly due to the favourable interest rates that prevailed in the early period of 2008, and the increase in the investment portfolio.

Asset Composition

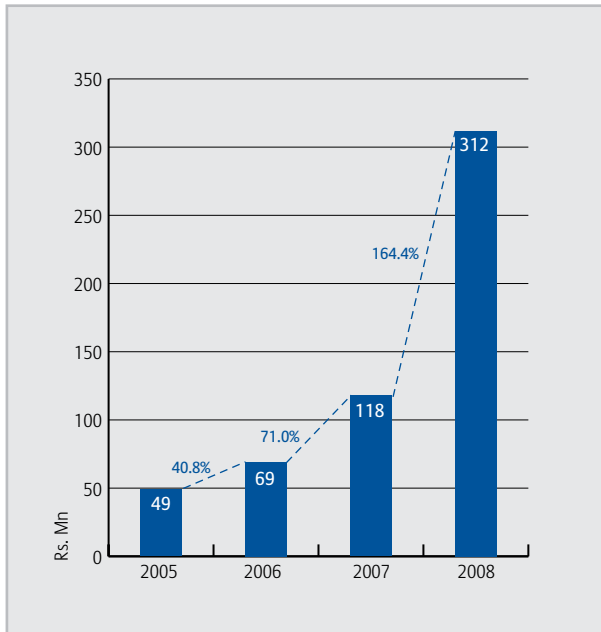


Liability Composition



Financial Overview (Contd.)

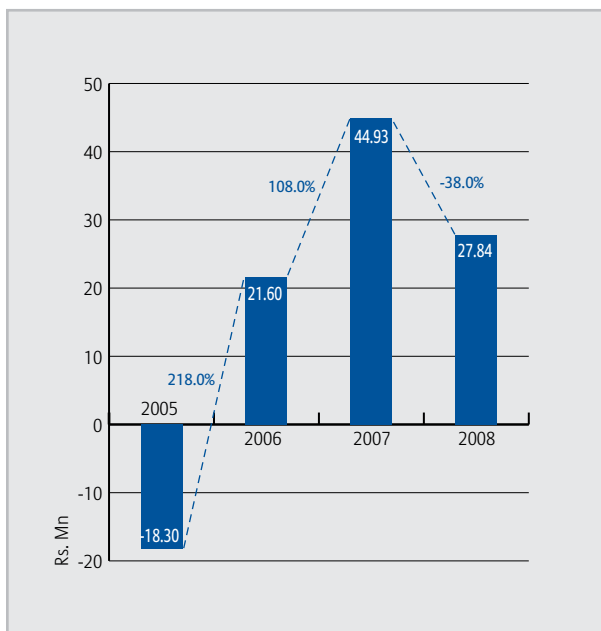
Net Assets



The Net Assets of the company increased by 164% to Rs. 312Mn. This is mainly due to the increase in stated capital during the year, where the company received Rs. 121Mn fresh capital from Allianz SE.

An additional factor was the increase in the revenue reserve by the current year's contribution of Rs. 72.74Mn.

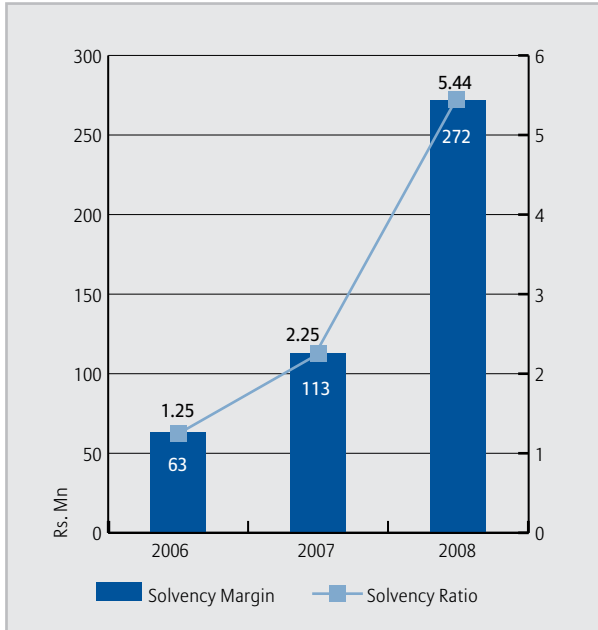
Return on Net Assets



The Return on Net Assets stood at 27.84% on before tax basis whilst 44.93% was recorded in 2007. This represents a decline of 38%, which is due to the increase in the Total Net Asset base of the company by 164% during the period under review.

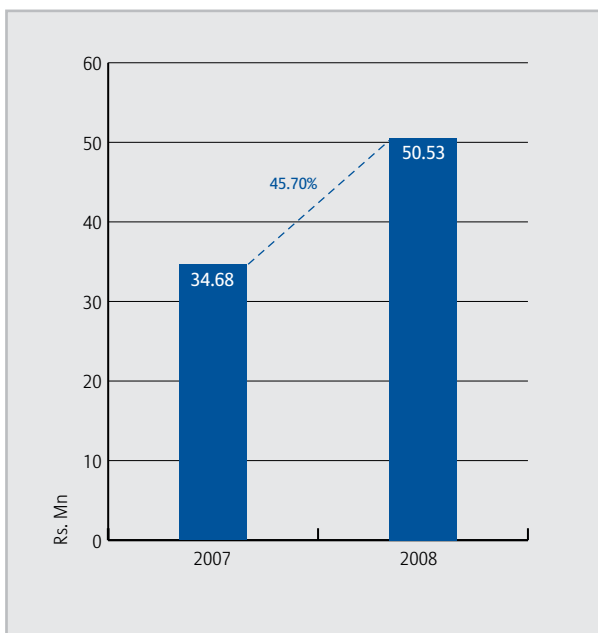
Financial Overview (Contd.)

Solvency Margin



Allianz maintains solvency levels for both General business and Life insurance business that are well above the regulated minimum. The General insurance solvency ratio improved to 5.44 times, which is a 142% improvement compared with the previously recorded 2.25 times.

Economic Value Added (EVA)



The Economic Value Added (EVA), is the value generated in excess of the cost of capital and measures the profitability of the company after taking into account the cost of invested equity, which creates value.

The EVA for the company increased by 45.70% from Rs. 34.68Mn to Rs. 50.53Mn, reflecting the ongoing improvement in productivity and financial stability.

An Interview with...



Director - Allianz Insurance Lanka Ltd., / Allianz Life Insurance Lanka Ltd.,
Executive Vice President - Allianz Asia Pacific, Middle East and North Africa

Q The year 2008 was as an especially challenging one, given the global economic environment. In this context, how do you view Allianz SE's performance?

A 2008 has been a very tough year and a huge challenge for all of us. However Allianz remains solid, a financially stable partner for customers, shareholders and employees. Our result of 7.4 billion Euros deserves recognition considering the challenging environment. In 2009 we will continue to focus on operating efficiency and offering our customers products that provide security over the long term.

Q Has Allianz Lanka met your expectations? Are you happy with your operations in Sri Lanka?

A We are very satisfied with the results Allianz Lanka has delivered. The company fulfilled our expectations last year. Let me give you one example: when we first started our activities in Sri Lanka, we came from the middle field, now the company ranks among the top ten insurers.

Allianz Lanka has reported a strong performance since its first year of operations, and today maintains a growth rate above the industry average, despite a fiercely competitive local market. Allianz Lanka posted substantial Underwriting Profits since

2006, the only insurer in Sri Lanka to chart pure Underwriting Profits from its second year of operations.

In addition, Allianz Lanka has enlarged its product line. From October 2008 the company offers Life insurances to its clients. This success is not just a matter of course, it is the result of the very hard work of the whole team.

Q What are the key challenges you foresee for the country and Allianz Lanka in the coming year?

A In times of crisis, customers will look for a well-capitalised and stable long-term

An Interview (Contd.)

partner who delivers relevant financial solutions – this is exactly what Allianz stands for. Therefore I remain positive about the future of our operations in Sri Lanka. Indeed, the impact of the global financial crisis will also have some effects on the business in Sri Lanka. However, our very cost-efficient structures and dedicated and flexible team will help us to weather the storm.

Q How do you view the future of Allianz and what are your strategies for future success?

A We remain committed to our plans to expand our Life and Non-Life businesses in Sri Lanka and we will continue to focus more closely on our customers' needs, especially in these turbulent times.

Our customers in Sri Lanka should rest assured that Allianz is here for them, even if the economic environment is extremely challenging. A promise is a promise.

Heinz Dollberg

18 March 2009

CEO's Review



This year has been both challenging and eventful for Allianz Lanka, with the company achieving significant progress in many key operational areas and continuing the momentum of steady growth in revenue and profits attained from inception.

Allianz Lanka completed its fourth year of operations in General Insurance in Sri Lanka with Gross Written Premium (GWP) reaching Rs 601 Mn, a growth of 45% over the previous year's figure of Rs 414 Mn. This growth far exceeds the industry average growth of about 11%, and is thus a noteworthy achievement as we are the only insurer in Sri Lanka with no captive business. The company recorded growth in all classes of insurance; the highest growth recorded was in the Miscellaneous Accident class, an increase of 132%, from

Rs 54 Mn last year, to Rs 125 Mn this year. We are pleased with the healthy composition of business with fire insurance leading the way with 68% followed by Miscellaneous Accident insurance 21%, Motor insurance 8% and Marine insurance 3%.

Even this year, in a very difficult market situation, we continued to make pure Underwriting Profits. Allianz Lanka is one of the few insurance companies in Sri Lanka who charters pure Underwriting Profits after deduction of all expenses arising out of its operations. During the current year Underwriting Profits grew by 28%, from Rs 32 Mn in 2007 to Rs 41 Mn in 2008.

We are proud to say that Allianz continues to make history in Sri Lanka, this time achieving

a GWP of over Rs 0.5 Bn within a short span of 4 years of operations, a first for any General Insurer in Sri Lanka. Once again, we have maintained a combined ratio well below industry norms due to prudent underwriting and operational excellence. The company was also able to maintain the solvency ratio at over five times the required amount.

The company was further strengthened with additional capital infused by our shareholders once again this year, which confirms the confidence placed in us and reinforces our presence in Sri Lanka.

The year under review also saw the introduction of several new products and the rebranding and repositioning of some existing products to meet current customer requirements. New products

CEO's Review (Contd.)

introduced included Title insurance and Directors' & Officers' Liability (D & O) insurance, and rebranded products include our Travel policy, which now has a special Home Safe feature offered for the first time in Sri Lanka.

The success of our General insurance business in Sri Lanka prompted the realisation of our strategy for venturing into other areas of business. The Life company – Allianz Life Insurance Lanka Ltd., was formed during the year and Life business was launched in October 2008. A new concept in Life insurance was introduced to Sri Lanka with the Universal Life Plan, which has been widely accepted by Sri Lankans. Within just two months of operations, we are very happy to state that we achieved a record GWP of Rs 4 Mn, well beyond our expectations.

Our strategy for expanding our business in Sri Lanka was also made a reality this year, with the opening of our first provincial branch office in Kurunegala in December 2008, which affords our customers in the Wayamba province the same financial security, benefits and facilities enjoyed by our customers in Colombo.

It is not Allianz's aim to increase market share. Our corporate strategy focuses on writing quality business rather than on concentrating only on growth, and we continue to benchmark the standards set by our parent company, Allianz SE, and to tap into their substantial resources as one of the world's premier financial services conglomerates.

In terms of staff recruitment, 2008 was a year of expansion and growth with many new staff joining us, increasing our staff strength, from 21 as of end- 2007, to 72 in both General as well as in the Life company. Several staff benefited this year from training in regional centres in the areas of insurance, finance and management. We will continue to invest in human capital and equip our staff to be top achievers in this highly competitive industry.

Our sales force in Life business will be further strengthened and will continue to be equipped and trained to sell on a need identified basis.

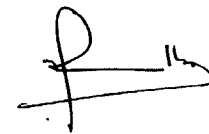
For the future, the company will continue its expansion plans into other strategic townships in the provinces and into new channels to build the business. Fully equipped branches will be opened, which will cater to both Life and General businesses. We will continue to infuse new products and solutions to our General and Life business portfolios to meet the special needs of our customers.

We will invest in information and communication technology for both companies to keep in line with our global offices. This will help us to further enhance internal operational excellence, customer convenience and management information capabilities.

I thank the Board of Directors for the trust and confidence placed in me and for their unstinted support since inception. I also greatly appreciate the commitment and dedication of our staff,

who worked as a team to meet the overall business goals of the Allianz Group. Last but not by any means the least, I extend my sincere thanks to our customers and other business partners without whose support our growth and success would not be the reality it is today.

We will further consolidate our presence in Sri Lanka by pursuing new initiatives and opportunities whilst building on our core competencies. Achieving a paradigm of excellence can only be accomplished through a deep commitment towards achieving our goals and a finely attuned focus to the future.



Surekha Alles

Chief Executive Officer

18 March 2009

Allianz Moments



Launching of Life Plan to the Sri Lankan market.
10 October 2008



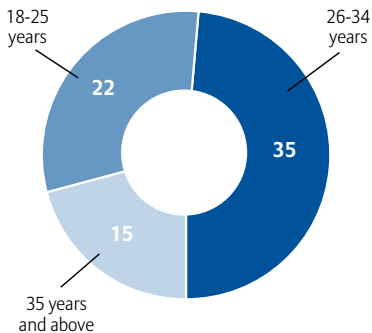
Press Conference to coincide with the Life launch.
11 November 2008



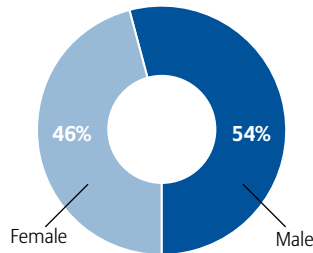
Opening of the first provincial branch in Kurunegala.
5 December 2008

The year under review was full of milestones for Allianz Lanka, the opening up of the branch network and start of the Life company being some of the most important moments. It was also a year of expansion and growth as new members joined Allianz Lanka. At the end of 2007 the total number of employees stood at 21. As at 31 December 2008 there was a total of 72 employees in the General company and the newly formed Life company, which is an increase of 243%.

Age-wise distribution of employees



Employees gender distribution



An integral part of our corporate vision is to be the preferred employer for staff in the insurance industry. In keeping with this philosophy, the company has placed great importance in the training and development of staff to equip aspiring individuals to reach the top of the corporate ladder whilst making a valuable contribution to the company. In 2008 too, Allianz continued to support and finance employees pursuing professional qualifications in the insurance field as well as in other fields of study relevant to employment.

Being part of the worldwide Allianz family Allianz in Sri Lanka is uniquely placed to provide the best available training to staff. Several staff

were sent for training at Allianz training centres in Singapore, India, Malaysia and Bahrain. Overall, of the confirmed employees, 26% were provided with overseas training opportunities.

Allianz Lanka shifted to a more spacious and comfortable office at No. 92, Glennie Street, Colombo 2 in January 2008, with a view to providing customers with an efficient and personalised service, and employees with comfortable work stations.

Allianz launched its first Life Plan to the Sri Lankan market on 10 October 2008. Taking the Universal Life Plan into a market that has known only conventional endowment Life plans was an uphill task. The Life team, numbering 300 members at the time, took up the challenge and the result was the achievement of Rs. 30Mn by way of Annualised New Business Premium, which was the highest ever achieved by a Life insurance company in Sri Lanka during its launch month.

Allianz Moments (Contd.)



Awards Ceremony.
7 December 2008

Allianz Asia Pacific, Middle East and North Africa Executive Vice President Heinz Dollberg visited Sri Lanka on 11 November for the Life launch and press conference held at the Cinnamon Grand, Colombo. Heinz Dollberg addressed the sales force at the Allianz Life premises and encouraged them by expressing his support, outlining Allianz SE's plans for further consolidating its presence in Sri Lanka.

December 5, 2008 was very significant for Allianz Lanka. The company realised its plans for reaching out to the people of the provinces with the opening of the first provincial branch in Kurunegala. The Allianz team has put together a strategy for expansion through a regional office network.

Recognising and awarding achievers is a key element in the Allianz sales process. Ten top performers in Life and two from the General sales team were recognised and rewarded at the Allianz Top Ten Congress 2008, held under the patronage of the company's Chief Executive



Annual Company Trip.
14 June 2008

Officer Surekha Alles. Also at this congress the first 100 members of the Life sales team who introduced Rs. 100,000 by way of Annualised New Business Premiums were recognised as members of the Allianz Life "Pioneer Team".

The annual company trip took place on June 14. Nearly all employees and their families visited The Palms Hotel in Beruwela. This served as an invaluable team building exercise as staff and their families got to know one another better. For members of a rapidly expanding organisation, this was an invaluable opportunity to relax and gain a sense of community. Staff also took part in several sports and family events.

Allianz Lanka started Christmas celebrations by decorating the office premises in early December. The celebrations culminated with the staff Christmas party and carol singing on 23 December. All employees, from diverse faiths, joined in the carol singing and exchanging of gifts.



Colombo Motor Show.
15-17 August 2008

Allianz was the Official Insurer for the Colombo Motor Show 2008 held from 15 to 17 August at the BMICH and had the most attractive trade stall and display centre. All employees participated in the event with enthusiasm. The event was organised solely on the dedication and commitment of the Allianz team.

Content

Directors' Report	20
Certification of Incurred But Not Reported (IBNR) Reserve	22
Independent Auditor's Report	23
Balance Sheet	24
Statement of Income	25
Statement of Changes in Equity	26
Cash Flow Statement	27
Accounting Policies	29
Notes to the Financial Statements	33

Financial Information

ALLIANZ INSURANCE LANKA LTD.



Directors' Report

The Directors of Allianz Insurance Lanka Ltd., present their report together with the audited Financial Statements of the company for the financial year ended 31 December 2008 and the Report of the Auditors thereon.

Principal Activity

The principal activity of the company is the transaction of General insurance business commencing operations in January 2005.

Stated Capital

The stated capital of the company as at 31 December 2008 was Rs.188,634,630 comprising of 18,863,463 ordinary shares.

The stated capital during the year increased by Rs.121,125,130 comprising of 12,112,513 ordinary shares.

Shareholding

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

Review of Business and Future Developments

An overview of the business performance during the year along with an analysis of its financial position is set out in the financial overview. The future developments of the company are presented in the CEO's review. These reports together with the audited financial statements reflect the state of affairs of the company.

Financial Results

	2008 Rs.'000	2007 Rs.'000
Profit before Taxation	86,934	53,207
Taxation	(14,190)	(3,669)
Profit after Taxation	72,744	49,538
Profit brought forward from the previous year	50,901	1,363
Accumulated profit at the end of the year	123,645	50,901

Turnover

The Gross Written Premium for the year was Rs. 601,103,133 compared with Rs. 414,016,589 in the previous year.

Plant and Equipment

The details of plant and equipment are given in Note 2 to the financial statements.

Investments

The details of investments held by the company are disclosed in Note 1 to the Financial Statements.

Employment Policy

The company policy reflects our belief that motivated and skilled employees are critical to our success. We encourage equal opportunity and this involves recruiting, engaging, retaining, rewarding and developing people solely on the grounds of their ability to do the job, and establishing and promoting a working environment free from discrimination.

The company continues to focus on the development of employees to deliver

high levels of performance. Allianz employees continue to receive global training within 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 a competitive advantage by building and maintaining a high performance culture in the company.

Directors

The Directors of the Company as at 31 December were as follows:

Heinz Dollberg
Don Tri Nguyen
Kamesh Goyal

Soumen Ghosh resigned as Director from the company with effect from 14 March 2008.

Directors' Interest in Contracts with the Company

None of the Directors had any material interest either directly or indirectly in any transaction or contract with the company other than as disclosed in Notes to the Financial Statements (Note 19).

Directors' Report (Contd.)

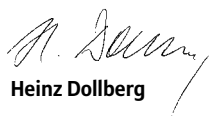
Going Concern

The Board of Directors is satisfied that the company has adequate resources to continue operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

Auditors

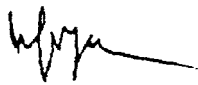
The Financial Statements for the year ended 31 December 2008 have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Company (Chartered Accountants), who will retire from office at the end of this Annual General Meeting. They have expressed their willingness to be re-appointed until the next Annual General Meeting at a remuneration to be agreed upon.

On behalf of the Board.



Heinz Dollberg

Director



Kamesh Goyal

Director

Secretaries to the Company

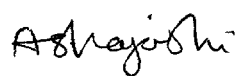
EM & EN Agents and Secretaries (Pvt) Limited

18 March 2009

Certification of Incurred But Not Reported (IBNR) Reserve

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

In calculation of the provision, I have relied on the information and data provided by the management of Allianz Insurance Lanka Ltd. I am assured that the figures given to me were tallied/reconciled with the Audited Accounts. They were verified to the extent possible to satisfy ourselves as to the reasonability of the data. Analysis of claims on gross and net of reinsurance has been done. The results have been determined largely in accordance with internationally generally accepted actuarial principles. I have certified IBNR provision net of reinsurance as SLRs 12,140,000 as on 31 December 2008.



Asha Joshi

Fellow of Institute of
Actuaries of India
12 March 2009

Independent Auditor's Report



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

Tel : +94 - 11 242 6426
: +94 - 11 542 6426
Fax : +94 - 11 244 5872
: +94 - 11 244 6058
: +94 - 11 254 1249
: +94 - 11 230 7345
Internet : www.lk.kpmg.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ALLIANZ INSURANCE LANKA LTD.

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Insurance Lanka Ltd, which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2008 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2008 and its profits and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

Chartered Accountants

18th March 2009
Colombo

KPMG Ford, Rhodes, Thornton & Co, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

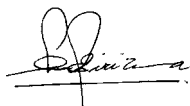
A.N. Fernando FCA
M.R. Mihular FCA
P.Y.S. Perera FCA
T.J.S. Rajakarier FCA
Ms. S. Joseph ACA

S. Sirikananathan FCA
Ms. M.P. Perera FCA
C.P. Jayatilake FCA
W.W.J.C. Perera FCA

Balance Sheet

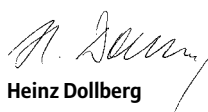
As at 31 December	Note	2008 Rs. '000	2007 Rs. '000
Assets			
Investments	1	347,368	151,914
Plant and equipment	2	22,963	2,287
Intangible assets	3	9,802	-
Reinsurance receivable		133,939	104,561
Premiums receivable	17	104,593	76,520
Other assets	4	23,680	4,022
Deferred tax assets	16b	2,884	3,273
Cash and cash equivalents	5	54,804	43,618
Total assets		700,033	386,195
Liabilities and shareholders' equity			
Liabilities			
Insurance provision - General	6	238,503	146,349
Reinsurance creditors		86,537	88,505
Provision for retirement benefits	7	966	567
Other liabilities	8	46,881	28,954
Bank overdraft		14,866	3,409
Total liabilities		387,753	267,784
Shareholders' equity			
Stated capital	9	188,635	67,510
Revenue reserves	10	123,645	50,901
Total shareholders' equity		312,280	118,411
Total liabilities and shareholders' equity		700,033	386,195

The above Balance Sheet is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 29 to 38. These Financial Statements have been prepared in accordance with the Companies Act No. 7 of 2007.

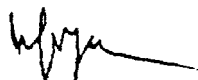


Dineth Ediriweera
Chief Financial Officer

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



Heinz Dollberg
Director
18 March 2009



Kamesh Goyal
Director

Statement of Income

For the year ended 31 December

	Note	2008 Rs. '000	2007 Rs. '000
Revenues	10a	160,875	73,969
Gross written premium	10b	601,103	414,017
Less: premium ceded to reinsurers		(423,914)	(352,002)
Net written premium		177,189	62,015
Net change in reserve for unearned premium		(61,953)	(9,244)
Net earned premium		115,236	52,771
Benefits, losses and expenses			
Insurance claims and benefits (net)	11	(59,178)	(33,219)
Underwriting and net acquisition costs/income (including reinsurance)		66,090	50,006
Total benefits, losses and expenses		6,912	16,787
Net premium less benefits, losses and expenses		122,148	69,558
Other revenue			
Income from investments	12	38,531	18,741
Other income	13	7,109	2,457
Expenses			
Other operating, investment related and administrative expenses	14	(80,854)	(37,549)
Profit before taxation	15	86,934	53,207
Income tax expenses	16	(14,190)	(3,669)
Net profit for the year		72,744	49,538
Earnings per share (Rs.)		7.21	7.34

The above Statement of Income is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 29 to 38.

Statement of Changes in Equity

For the year ended 31 December 2008

	Stated capital Rs.'000	Revenue reserves Rs.'000	Total Rs.'000
Balance as at 31 December 2006	67,510	1,363	68,873
Net Profit for the year	-	49,538	49,538
Balance as at 31 December 2007	67,510	50,901	118,411
Shares issued during the period	121,125	-	121,125
Net Profit for the year	-	72,744	72,744
Balance as at 31 December 2008	188,635	123,645	312,280

The above Statement of Changes in Equity is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 29 to 38.

Cash Flow Statement

For the year ended 31 December	2008	2007
	Rs. '000	Rs. '000
Cash flow from operating activities		
Premium received from customers	554,347	395,434
Reinsurance premium paid	(308,277)	(319,618)
Claims paid	(125,658)	(59,792)
Reinsurance receipts in respect of claims	61,520	34,372
Cash paid to and on behalf of employees	(18,191)	(10,152)
Other operating cash payments	(86,337)	21,946
Cash inflow / (outflow) from operating activities (Note A)	77,404	62,190
Income tax paid	(2,850)	(4,465)
Net cash from operating activities	74,554	57,725
Cash flow from investing activities		
Purchase of liquid investments (other than cash equivalents)	(766,491)	(1,011,373)
Sale of liquid investments (other than cash equivalents)	571,037	952,846
Acquisition of intangible assets	(10,082)	-
Interest received	34,350	17,112
Purchase of plant and equipment	(24,766)	(832)
Proceeds on sale of plant and equipment	3	16
Net cash from investing activities	(195,949)	(42,231)
Net cash inflow / (outflow) before financing activities	(121,395)	15,494
Cash flow from financing activities		
Proceeds from issuance of share capital	121,125	-
Net cash from financing activities	121,125	-
Increase / (decrease) in cash and cash equivalents (Note B)	(270)	15,494

Cash Flow Statement (Contd.)

For the year ended 31 December	2008	2007
Notes to the cash flow statement	Rs. '000	Rs. '000
A. Reconciliation of profit before taxation with cash flow from operating activities		
Profit before taxation	86,934	53,207
Depreciation charge	4,087	2,078
Interest Income	(38,531)	(18,741)
(Increase) / decrease in debtors	(81,864)	(49,712)
Increase in unearned premiums and deferred acquisition costs	67,694	18,522
Increase / (decrease) in claims provisions	33,397	16,646
Increase / (decrease) in creditors	5,008	39,978
Provision for gratuity	399	212
Amortization of intangible assets	280	-
Cash inflow / (outflow) from operating activities	77,404	62,190
B. Increase / (decrease) in cash and cash equivalents		
Cash at bank and in hand and cash equivalents	54,804	43,618
Bank overdraft	(14,866)	(3,409)
Net cash at bank and in hand and cash equivalents	39,938	40,208
Net cash and cash equivalents for the previous year	40,208	24,715
Increase / (decrease) in cash and cash equivalents	(270)	15,494

The above Cash Flow Statement is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 29 to 38.

Accounting Policies

The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

1. Corporate Information

1.1 Reporting Entity

Allianz Insurance Lanka Limited is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the company and the principal place of business is located at No. 92, Glennie Street, Colombo 2.

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

The company was incorporated on 20 January 2004 and commenced Non-life (General) insurance business in January 2005.

The Financial Statements of Allianz Insurance Lanka Ltd. for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Board of Directors on 18th March 2009.

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

2.1.1 Statement of Compliance

The Financial Statements have been prepared and approved by the directors in accordance with Sri Lanka Accounting Standards (SLAS), and the requirements of the Companies Act, No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 and the Regulation of Insurance Industry Act, No. 43 of 2000. The formats and disclosures prescribed in the Statement of Recommended Practice for Insurance Contracts (SoRP) introduced by the Institute of Chartered Accountants of Sri Lanka (ICASL) have been followed, except in the accounting for investments as agreed by the IBSL, in preparation of the Financial Statements.

2.1.2 Responsibility for Financial Statements

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

2.1.3 Basis of Measurement

Financial Statements have been prepared on the historical cost basis.

2.1.4 Functional and presentation currency

These Financial Statements are presented in Sri Lankan rupees, which is the company's functional currency. All financial information presented in Sri Lankan rupees has been rounded to the nearest thousand.

2.1.5 Use of Estimates and Judgements

The preparation of Financial Statements in conformity with SLAS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making the judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of SLAS that have significant effects on the Financial Statements and estimates are mentioned below.

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Insurance Provision	6	34
Unearned premium and deferred acquisition cost	6	34
Reserve for Gross Outstanding Claims	6	34
Deferred Taxation – Utilisation of Losses	16b	38
IBNR	6	34

2.1.6 Significant Accounting Policies

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

2.1.7 Comparative Information

Certain comparative figures have been re-classified wherever necessary, to conform to the current year's presentation.

2.1.8 Foreign Currency Transactions

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

Accounting Policies (Contd.)

at the time of underwriting and revenue is recognised accordingly.

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

3. Assets and Bases of their Valuation

3.1 Investments

Investments in Government Securities

Investments in treasury bill, treasury bonds and repurchase agreements are stated at cost, and interest is accrued up to year end.

3.2 Plant and Equipment

a) Cost

Plant and equipment are stated at cost less accumulated depreciation less any impairment losses.

The cost of plant and equipment is the cost of acquisition or construction together with any expenses incurred in bringing the asset to the working condition for its intended use.

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

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment, and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

b) Subsequent Costs

The cost of replacing 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 carrying amount of the replaced part is de-recognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

c) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment.

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

Office equipment	3 years
Computer equipment and software	3 years
Furniture and fittings	5 years
Motor vehicles	5 years

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

d) De-recognition

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

When replacement costs are recognised in the carrying amount of an item of plant and equipment, the remaining carrying amount of the replaced part is de-recognised.

e) Impairment of Assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the assets recoverable amount is estimated. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

3.3 Reinsurance Receivable

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

3.4 Premiums Receivable and Other Assets

Premiums receivable and other assets are stated at their net estimated realisable amounts. Collectability of premiums and other assets are reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

Accounting Policies (Contd.)

3.5 Cash and Cash Equivalents

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

4. Liabilities and Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, except for insurance related contracts.

4.1 Provision for Taxation

The company is liable to taxation in accordance with the Inland Revenue Act No.10 of 2006 and its amendments thereto, at 35% of taxable income.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

4.2 Deferred Taxation

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised 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.

4.3 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the company are disclosed in the Financial Statement.

4.4 Retirement Benefits

Defined Benefit Plan - Gratuity

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the SLAS 16 (revised). However under the Payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The liability is not externally funded, nor actuarially valued. The gratuity liability is valued using the gratuity formula method as required by Sri Lanka Accounting Standard 16-Retirement Benefit Cost

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

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with the respective statutes and regulations. The company contributes 12 % and 3% of gross emoluments of employees to the Employees' Provident Fund and Employees' Trust Fund respectively.

5. Stated Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as deductions from equity, net of any tax effects.

6. General Insurance Business

6.1 Gross Written Premium

Premium is generally recognised as written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage. However for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. Earned premiums are calculated on the 24th basis except for marine business, which is computed on a 60-40 basis.

6.2 Reinsurance Premium

Reinsurance premium expense is accounted for in the same accounting period as the gross written premium to which it relates.

Accounting Policies (Contd.)

6.3 Unearned Premium

Unearned premium reserve represents the proportion of gross written premium written in the year but relating to the unexpired terms of coverage.

6.4 Deferred Acquisition Costs

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

6.5 Claims

Claims expenses and liabilities for outstanding claims are recognised in respect of direct and inwards reinsurance business. The liability covers claims reported but not yet paid, incurred but not reported (IBNR) and the anticipated direct and indirect expenses of settling those claims. Claims outstanding are assessed by reviewing individual claim files and estimating changes in the ultimate cost of settling claims. The provision in respect of IBNR is actuarially valued by the consultant actuary to ensure a more realistic estimation of the future liability based on past experience and trends. Actuarial valuations are performed on an annual basis. The provision for claims is fairly stated on the basis of information currently available. The ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the Financial Statement for that period. The methods used and the estimates made are reviewed regularly.

7. Expenses

- a) Expenses are recognised in the income statement 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 plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.
- b) For the purpose of presentation of the income statement the directors are of the opinion that the function of expenses method presents fairly the elements of the company's performance, and hence such presentation method is adopted.

8. Investment Income and Other Income

Interest income is recognised as the interest accrued (taking into account the effective yield on the assets)

Other income is recognised on an accrual basis

Net gains and losses of a revenue nature on the disposal of plant and equipment and other non current assets including investments have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

9. Cash Flow Statement

The cash flow statement has been prepared using the direct method. Interest received is classified as operating cash flows. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

10. Events after the Balance Sheet Date

All material post balance sheet events have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the Financial Statements.

Notes to the Financial Statements

1. Investments	2008 Rs. '000	2007 Rs. '000
Sri Lanka Government securities	347,368	151,914

2. Plant and equipment	Office equipment Rs. '000	Furniture and fittings Rs. '000	Computer equipment Rs. '000	Motor vehicles Rs. '000	Total Rs. '000
Cost					
Balance as at 1 January 2008	560	995	4,253	1,590	7,398
Additions during the year	3,283	5,543	5,950	9,990	24,766
Disposals	(26)	-	-	-	(26)
Balance as at 31 December 2008	3,817	6,538	10,203	11,580	32,138
Depreciation					
Balance as at 1 January 2008	358	447	3,273	1,034	5,112
Depreciation charge for the year	469	1,010	1,291	1,317	4,087
Accumulated depreciation on disposals	(24)	-	-	-	(24)
Balance as at 31 December 2008	803	1,457	4,564	2,351	9,175
Carrying amount					
Balance as at 31 December 2008	3,014	5,081	5,638	9,230	22,963
Balance as at 31 December 2007	202	548	953	584	2,287

3. Intangible Assets	2008 Rs. '000
Acquisition Cost	
Balance as at 1 January	-
Additions	10,082
Balance as at 31 December	10,082
Amortisation	
Balance as at 1 January	-
Amortisation charge for the year	280
Balance as at 31 December	280
Carrying amount as at 31 December	9,802

Intangible assets represent the cost of acquisition (Rs.10Mn) of a system from Data Quest Systems Ltd. The assets has been amortised during the period as per the SLAS 37(Intangible assets). This consists of an insurance operating system purchased during the year and amortised over 3 years.

4. Other assets	2008 Rs. '000	2007 Rs. '000
Interest receivable	5,241	1,061
Other debtors and receivables	18,439	2,911
	23,680	4,022

Notes to the Financial Statements (Contd.)

5. Cash and cash equivalents	2008 Rs. '000	2007 Rs. '000
Cash in hand and cash at bank	54,804	43,618

6. Insurance provision - General

The General insurance provision shown in the balance sheet represents the following:

	2008 Rs. '000	2007 Rs. '000
Premiums		
Unearned premiums		
Gross	298,478	202,306
Reinsurance	(194,882)	(160,620)
Net	103,596	41,686
Deferred acquisition expenses	27,172	21,388
	130,768	63,074
Gross claims reserve		
Claims outstanding gross	95,595	70,275
Claims incurred but not reported (IBNR)	12,140	13,000
Gross claims reserve	107,735	83,275
Insurance provision	238,503	146,349

The claims incurred but not reported (IBNR) reserve of Rs. 12,140,000 has been certified by independent consultant actuary Asha Joshi, Fellow of the Institute of Actuaries of India according to the actuary certificate dated 12 March 2009.

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

6a. Technical reserve	2008 Rs. '000	2007 Rs. '000
Insurance provision	238,503	146,349
Reinsurance receivable on outstanding claims	(80,499)	(64,609)
	158,004	81,740

7. Provision for retirement benefits	2008 Rs. '000	2007 Rs. '000
Balance as at 1 January	567	355
Provision made during the year	399	212
Balance as at 31 December	966	567

The retirement benefit plan entitles retired employee to receive payment equal to 1/2 of final salary multiplied by the number of completed years of service. However, under the payment of Gratuity Act No. 12 of 1983, the liability of the employee arises only on completion of 5 years of continued service. The retirement benefit plan valuation is carried out based on the gratuity formula method in accordance with SLAS 16.

Notes to the Financial Statements (Contd.)

Principal assumptions as at the balance sheet date

(expressed as weighted averages) as follows:

	2008
Discount rate at 31 December 2008	12.00%
Future salary increase	14.86%

8. Other liabilities

	2008 Rs. '000	2007 Rs. '000
Agency commission payable	19,561	11,598
Government levies	7,125	5,536
Tax payable	12,234	4,580
Other creditors and accrued expenses	7,961	7,240
	46,881	28,954

9. Stated capital

	2008 Rs. '000	2007 Rs. '000
Issued and fully paid		
Opening Balance	67,510	67,570
Issued during the year	121,125	-
18,863,463 ordinary shares	188,635	67,510

The holders of ordinary shares are entitled to one vote per individual present at meetings of the share holders and one vote per share in case of a poll and are also entitled to receive dividends as declared from time to time.

10. Revenue reserve

Revenue reserve consists only of retained earnings.

	Rs. '000
Retained earnings	
Balance as at 1 January 2007	1,363
Net profit for the period	49,538
Balance as at 31 December 2007	50,901
Net profit for the period	72,744
Balance as at 31 December 2008	123,645

10a. Revenues

	2008 Rs. '000	2007 Rs. '000
Gross written premium	601,103	414,017
Less: Premium ceded to reinsurers	(423,915)	(352,002)
Net written premium	177,188	62,015
Net change in reserve for unearned premium	(61,953)	(9,244)
Net earned premium	115,235	52,771
Income from investments	38,531	18,741
Other income	7,109	2,457
Total revenue	160,875	73,969

Notes to the Financial Statements (Contd.)

10b. Gross written premium

The premium income for the year by major classes of business is as follows.

	2008 Rs. '000	2007 Rs. '000
Accident	125,261	53,534
Fire	408,457	319,827
Marine	17,615	11,348
Motor	49,770	29,308
	601,103	414,017

11. Insurance claims and benefits (net)

	2008 Rs. '000	2007 Rs. '000
Gross claims		
Accident	21,843	20,230
Fire	107,940	41,473
Marine	4,790	1,350
Motor	24,439	10,590
	159,012	73,643
Reinsurance recoveries	(99,834)	(40,424)
Insurance claims and benefits (net)	59,178	33,219

12. Income from investments

	2008 Rs. '000	2007 Rs. '000
Interest income	38,531	18,741

13. Other income

	2008 Rs. '000	2007 Rs. '000
Gain on foreign currency translation	5,873	1,930
Other	1,236	527
	7,109	2,457

14. Other operating, investment related and administrative expenses

	2008 Rs. '000	2007 Rs. '000
Staff expenses 14a	19,919	9,986
Administration and establishment expenses	48,209	17,957
Selling expenses	8,359	7,527
Depreciation and amortisation	4,367	2,079
	80,854	37,549

Notes to the Financial Statements (Contd.)

14a. Staff expenses	2008	2007
	Rs. '000	Rs. '000
Wages and salaries	13,280	6,999
Compulsory social security contributions	1,585	951
Provision during the year	363	212
Staff welfare	1,044	173
Training expenses	1,467	798
Other costs	2,180	853
	19,919	9,986
Contributions made to the Provident and Trust Funds		
Company contribution		
Provident fund	1,268	761
Trust fund	317	190
	1,585	951
Employee contribution		
Provident fund	845	507
	2,430	1,458

15. Profit before taxation

The profit before taxation for the year is stated after charging the following expenses

	2008	2007
	Rs. '000	Rs. '000
Audit fees	625	582
Depreciation	4,087	2,079

16. Income tax expenses

Taxation charge is made up as follows

	2008	2007
	Rs. '000	Rs. '000
Current tax expense		
Current period	11,600	6,873
Social responsibility levy	237	69
Deemed dividend tax	1,964	-
Deferred tax expense		
Origination and reversal of temporary differences	389	(3,273)
Income tax expense from continuing operations	14,190	3,669
Total income tax expense	14,190	3,669

Notes to the Financial Statements (Contd.)

16 a. Income Tax Expense	2008	2008 Rs. '000	2007	2007 Rs. '000
Profit for the period		72,744		49,537
Total tax expense		(14,190)		(3,669)
Profit excluding income tax		86,934		53,207
Income tax using the company's domestic tax rates	35%	30,427	35%	18,623
Non-deductible expenses	4%	3,704	8%	4,401
Tax exempt income	(20%)	(17,379)	(27%)	(14,512)
Notional tax credits	(3%)	(2,747)	(2%)	(1,172)
Allowable expenses	(3%)	(2,404)	(1%)	(467)
Current income tax expense	13%	11,600	13%	6,873
Statutory tax rate		35%		35%

16 b. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Plant and equipment	-	206	(1,148)	-	(1,148)	206
Employee benefit plans	339	3,067	-	-	339	3,067
Provisions	3,693	-	-	-	3,693	-
Tax (assets) liabilities	4,032	3,273	(1,148)	-	2,884	3,273
Set off of tax	-	-	-	-	-	-
Net tax (assets) liabilities	4,032	3,273	(1,148)	-	2,884	3,273

17. Premium receivable

	2008 Rs. '000	2007 Rs. '000
Premium receivable	131,474	84,717
Provision for bad debts	(26,881)	(8,197)
Premium receivable net of the provision	104,593	76,520

18. Key management personnel

Key management personnel includes the Board of Directors.

There is no remuneration or fees paid to key management personnel, for the year ended 31 December 2008.

19. Related party transactions

The company has reinsurance arrangements and has placed business of Rs.152,742,175 (2007 - Rs. 248,445,881) with the Allianz Group.

20. Capital commitments

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

21. Number of employees

The total number of employees of the company as at 31 December 2008 was 55 (2007 - 21).

22. Contingent liabilities

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

23. Events after the balance sheet date

Subsequent to the balance sheet date, no events have occurred necessitating adjustments to or disclosure in the Financial Statements.

24. Litigations and claims

There were no litigations and claims filed against the company as at the balance sheet date.

Content

Directors' Report	40
Actuary's Report - Life	41
Independent Auditor's Report	42
Balance Sheet	43
Statement of Income	44
Statement of Changes in Equity	45
Cash Flow Statement	46
Accounting Policies	48
Notes to the Financial Statements	51

Financial Information

ALLIANZ LIFE INSURANCE LANKA LTD.



Directors' Report

The Directors of Allianz Life Insurance Lanka Ltd., present their report together with the audited Financial Statements of the company for the period from 24 March 2008, being the date of incorporation of the company, to the financial year ended 31 December 2008 and the Report of the Auditors thereon.

Principal Activity

The principal activity of the company is the transaction of Life insurance business. The company obtained registration from the Insurance Board of Sri Lanka (IBSL) to carry on Life insurance business from 1 July 2008 and commenced operations in November 2008.

Stated Capital

The stated capital of the company as at 31 December 2008 was Rs.249,998,500 comprising of 24,999,850 ordinary shares.

Shareholding

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

Turnover

The Gross Written Premium (GWP) for the two months was Rs. 4,013,420.

Plant and Equipment

The details of plant and equipment are given in Note 2 to the Financial Statements.

Investments

The details of investments held by the company are disclosed in Note 1 to the Financial Statements.

Employment Policy

The company policy reflects our belief that motivated and skilled employees are critical to

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

The company continues to focus on the development of employees to deliver high levels of performance. Allianz employees continue to receive global training opportunities within 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 a competitive advantage by building and maintaining a high performance culture in the company.

Directors

The Directors of the Company as at 31 December were as follows:

Heinz Dollberg
Kamesh Goyal

Directors' Interest in Contracts with the Company

None of the Directors had any material interest either directly or indirectly in any transaction or contract with the Company other than as disclosed in Notes to the Financial Statements (Note 18).

Going Concern

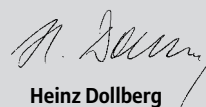
The Board of Directors is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the financial statements are prepared based on the going concern concept.

Auditors

The Financial Statements for the year ended 31 December 2008 have been audited by

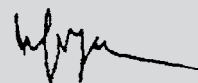
Messrs. KPMG Ford, Rhodes, Thornton & Company (Chartered Accountants), who will retire from office at the end of this Annual General Meeting. They have expressed their willingness to be re-appointed until the next Annual General Meeting at a remuneration to be agreed upon.

On behalf of the Board.



Heinz Dollberg

Director



Kamesh Goyal

Director

Secretaries to the Company

EM & EN Agents and Secretaries (Pvt) Limited

18 March 2009

Actuary's Report - Life

To the Shareholders of Allianz Life Insurance Lanka Limited

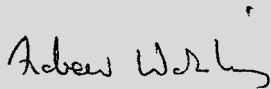
I have investigated the financial condition of the business as at 31 December 2008.

Business has only been written for two months and the amount written is small.

There is as yet insufficient data to carry out any analysis of experience.

There is no doubt that the assets in the business are very much more than is needed to meet the liabilities and provide for the statutory solvency margin.

I am satisfied I have been provided with adequate records in order to determine an appropriate value of liabilities as at 31/12/2008.



Andrew Wakeling

Fellow of the Institute of Actuaries (UK)

Fellow of the Institute of Actuaries of Australia

Fellow of the Institute of Actuaries of India

21 January 2009

Independent Auditor's Report



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

Tel : +94 - 11 242 6426
: +94 - 11 542 6426
Fax : +94 - 11 244 5872
: +94 - 11 244 6058
: +94 - 11 254 1249
: +94 - 11 230 7345
Internet : www.lk.kpmg.com

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ALLIANZ LIFE INSURANCE LANKA LTD.

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Life Insurance Lanka Ltd, which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the period ended December 31, 2008 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2008 and its loss and cash flows for the period then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

Chartered Accountants

18th March 2009
Colombo

KPMG Ford, Rhodes, Thornton & Co, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved.

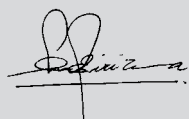
A.N. Fernando FCA
M.R. Mihular FCA
P.Y.S. Perera FCA
T.J.S. Rajakarier FCA
Ms. S. Joseph ACA

S. Sirikananathan FCA
Ms. M.P. Perera FCA
C.P. Jayatilake FCA
W.W.J.C. Perera FCA

Balance Sheet

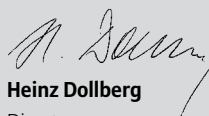
As at 31 December	Note	2008 Rs.'000
Assets		
Investments	01	231,775
Plant and equipment	02	6,210
Other assets	03	19,238
Cash and cash equivalents	04	2,522
Total Assets		259,745
Liabilities and Shareholders' Equity		
Liabilities		
Insurance provision - Life	05	684
Other liabilities	06	18,713
Provision for retirement benefits	07	-
Total Liabilities		19,397
Shareholders' Equity		
Stated Capital	08	249,999
Revenue Reserves	09	(9,651)
Total Shareholders' Equity		240,348
Total Liabilities and Shareholders' Equity		259,745

The above Balance Sheet is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 48 to 54. These Financial Statements have been prepared in accordance with the Companies Act, No. 7 of 2007.

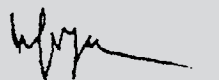


Dineth Ediriweera
Chief Financial Officer

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



Heinz Dollberg
Director



Kamesh Goyal
Director

18 March 2009

Statement of Income

For the period ended 31 December

	Note	2008 Rs.'000
Revenues	10	26,171
Gross written premium	11	4,013
Less: premium ceded to reinsurers		(173)
Net Written Premium		3,840
Benefits, losses and expenses		
Insurance claims and benefits (Net)	12	-
Underwriting and net acquisition costs	13	(1,744)
Increase in Life Insurance provision		(684)
Other insurance related costs		(105)
Total benefits, losses and expenses		(2,533)
Net written premium less benefits, losses and expenses		1,307
Other revenue		
Income from Investments	14	22,331
Expenses		
Other operating, investment related and administrative expenses	15	(33,289)
Loss before taxation	16	(9,651)
Income tax	17	-
Net Loss after taxation		(9,651)
Basic loss per share (Rs.)		(0.86)

The above Statement of Income is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 48 to 54.

Statement of Changes in Equity

For the period ended 31 December 2008

	Stated capital Rs.'000	Revenue reserves Rs.'000	Total Rs.'000
Balance as at 1 January 2008	-	-	-
Shares issued during the period	249,999	-	249,999
Net Loss for the period	-	(9,651)	(9,651)
Balance as at 31 December 2008	249,999	(9,651)	240,348

The above Statement of Changes in Equity is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 48 to 54.

Cash Flow Statement

For the period ended 31 December

	2008 Rs.'000
Cash flow from operating activities	
Premium received from customers	7,412
Reinsurance premium paid	-
Claims paid	-
Reinsurance receipts in respects of claims	-
Cash paid to and on behalf of employees	(14,352)
Interest received	19,484
Other operating cash payments	(21,108)
Cash flow from operating activities (Note A)	(8,564)
Income tax paid	-
Net cash from operating activities	(8,564)
Cash flow from investing activities	
Purchase of liquid investments (other than cash equivalents)	(1,015,860)
Proceeds on maturity of liquid investments (other than cash equivalents)	784,085
Purchase of plant and equipment	(7,138)
Net cash from investing activities	(238,913)
Net cash flow before financing activities	(247,477)
Cash flow from financing activities	
Proceeds from issue of shares	249,999
Net cash flow from financing activities	249,999
Increase in cash and cash equivalents (Note B)	2,522

Cash Flow Statement (Contd.)

For the period ended 31 December

	Note	2008 Rs.'000
A. Reconciliation of loss before taxation with cash flow from operating activities		
Loss before taxation		(9,651)
Depreciation charge		927
Increase in other assets		(19,238)
Increase in Life insurance provision		684
Increase in creditors		18,714
Cash flow from operating activities		(8,564)
B. Increase in cash and cash equivalents		
Cash at bank and in hand and cash equivalents	04	2,522
Bank overdrafts		-
Net cash and cash equivalents for the current period		2,522
Net cash and cash equivalents at the beginning of the period		-
Increase in cash and cash equivalents		2,522

The above Cash Flow Statement is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 48 to 54.

Accounting Policies

The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

1. Corporate Information

1.1 Reporting Entity

Allianz Life Insurance Lanka Limited is a limited liability company incorporated and domiciled in Sri Lanka, having its registered office at No. 92, Glennie Street, Colombo 2.

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.

2. Summary of Significant Accounting Policies

2.1. Basis of preparation

2.1.1 Statement of Compliance

The Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLAS), and the requirements of the Companies Act, No. 7 of 2007, the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 and the Regulation of Insurance Industry Act, No. 43 of 2000. The formats and disclosures prescribed in the Statement of Recommended Practice for Insurance Contracts (SoRP) introduced by the Institute of Chartered Accountants of Sri Lanka (ICASL) have been followed, except in the accounting for investment as agreed by the IBSL in the preparation of Financial Statements.

2.1.2 Responsibility for Financial Statements

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

2.1.3 Basis of measurement

The Financial Statements are presented in Sri Lankan Rupees and rounded to the nearest thousand and prepared on the historical cost basis. The balance sheet represents the assets, liabilities and equity of the shareholders. The statement of income reflects the results of underwriting and investment and other income of the shareholders.

2.1.4 Use of Estimates and Judgements

The preparation of Financial Statements in conformity with SLAS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the

results of which form the basis of making the judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2.1.5 Foreign Currency Transactions

Transactions in foreign currencies are translated to rupees at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to rupees at the rate of exchange prevailing at the date of the balance sheet. Foreign exchange gains and losses arising on translations are recognised in the statement of income.

3. Assets and Bases of their Valuation

3.1 Investments

Investments in Government securities

Investments in treasury bills and repurchase agreements are stated at cost and interest is accrued upto year end. Treasury bonds stated are at historical cost adjusted for amortisation of premium or accretion of discount on constant yield to maturity basis over the period held to maturity.

3.2 Plant and equipment

a) Cost

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

The cost of plant and equipment is the cost of acquisition or construction together with any expenses incurred in bringing assets to their working condition for its intended use. Subsequent expenditure incurred for the purpose of acquiring, extending or improving assets of a permanent nature by means of which to carry on the business or to increase the earning capacity of the business is treated as capital expenditure.

b) Subsequent costs

The cost of replacing 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 carrying amount of the replaced

Accounting Policies (Contd.)

part is de-recognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

c) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment.

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

Office equipment	3 years
Computer equipment and software	3 years
Furniture and fittings	5 years
Motor vehicles	5 years

Assets were depreciated from the month it was available for use and no depreciation is provided in the month of disposal. Gains and losses on disposal of plant and equipment are determined by reference to their carrying amount and are taken into account in determining the operating profit.

d) De-recognition

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

When replacement costs are recognised in the carrying amount of an item of plant and equipment, the remaining carrying amount of the replaced part is derecognised.

e) Impairment of Assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the assets recoverable amount is estimated. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

3.3 Reinsurance Receivable

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

3.4 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and deposits held at call with banks. Bank overdrafts are included in the balance sheet. For the purpose of the cash flow statement cash and cash equivalents are presented net of bank overdrafts.

4. Liabilities and Provisions

A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, except for insurance related contracts.

4.1 Provision for Taxation

The company is liable to taxation in accordance with the Inland Revenue Act No. 10 of 2006 and its amendments thereto.

4.2 Deferred Taxation

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised 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.

4.3 Trade and Other Liabilities

Trade and other payables are stated at their cost.

4.4 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the company are disclosed in the Financial Statement.

4.5 Retirement Benefits

Defined Benefit Plan

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the SLAS 16 (Revised). However under the Payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The liability is not externally funded nor actuarially valued.

Accounting Policies (Contd.)

Defined Contribution Plan

Obligations for contributions to the provident and trust funds covering all employees are recognised as an expense in the income statement as incurred.

5. Stated Capital

Ordinary shares are classified as equity.

6. Life Insurance Business

6.1 Gross Written Premium

Premium is accounted as and when cash is received and in the same period as the policy liabilities are created

6.2 Reinsurance Premium

Reinsurance premium expense is accrued on active policies on a monthly basis and reinsurance premium expense is accounted for in the same accounting period as the gross written premium to which it relates.

6.3 Insurance Claims and Benefits

Expenses relate to acquisition and maintenance of Long Term Insurance business. Claims by death or maturity are charged against revenue on notification of death or on expiry of the term.

Claims payable includes direct cost of settlement. Interim payments and surrenders are accounted for at the time of settlement.

7. Expenses

All expenses incurred in the day-to-day operation of the business and in maintaining the capital assets in a state of efficiency are charged to revenue in arriving at the profit /loss for the year.

8. Investment Income and Other Income

Interest income is recognised as the interest accrued (taking into account the effective yield on the assets).

Other income is recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of plant and equipment and other non current assets including investments have been accounted for in the income statement, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

9. Cash Flow Statement

The cash flow statement has been prepared using the direct method. Interest received is classified as operating cash flows. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

10. Comparative Figures

Since the company is in the first year of operation there were no comparative figures available

11. Events after the Balance Sheet Date

All material post balance sheet events have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the Financial Statements.

Notes to the Financial Statements

1. Investments	2008 Rs.'000
Repurchase Agreements on Government securities	231,775

2. Plant and equipment	Office equipment Rs. ' 000	Furniture and fittings Rs. ' 000	Computer equipment Rs. ' 000	Total Rs. ' 000
Cost				
Balance as at 1 January 2008	-	-	-	-
Additions	69	4,953	2,115	7,137
Balance as at 31 December 2008	69	4,953	2,115	7,137
Depreciation				
Balance as at 1 January 2008	-	-	-	-
Depreciation charge for the period	10	473	444	927
Balance as at 31 December 2008	10	473	444	927
Carrying amount				
Balance as at 31 December 2008	59	4,480	1,671	6,210

3. Other assets	2008 Rs.'000
Interest receivable	2,847
Refundable deposits	1,180
Advance payments	1,927
Other debtors	13,284
	19,238

4. Cash and cash equivalents	2008 Rs.'000
Cash in hand and at bank	2,236
Cash in transits	286
	2,522

5. Insurance provision - Life

The Life insurance liabilities are long term and are all in respect of Universal Life contracts which have only been written in the last two months of the year. The actuarial reserves have been established as the sum of investment accounts. Life cover is charged from the investment accounts every month and as at 31/12/2008 there was no unearned premium component. A further 20% contingency reserve is being held to allow for the guaranteed crediting rates and temporary expense overruns which are quite normal while business volumes are building up.

The actuarial reserves have been certified by the appointed actuary, Andrew Wakeling who is a Fellow of the Institute of Actuaries (UK). He has certified that in his opinion the reserve is sufficient to meet the liabilities.

6. Other liabilities	2008 Rs.'000
Policyholders advance payments	3,440
Commission payable	1,605
Reinsurance creditors	937
Other creditors	12,731
	18,713

Notes to the Financial Statements (Contd.)

7. Provision for retirement benefits

No provision has been made for retirement gratuities payable as there were no employees who have completed more than one year's service with the company as at 31 December 2008.

8. Stated Capital

	2008 Rs. '000
Issued and fully paid	
24,999,850 ordinary shares	249,999

The holders of ordinary shares are entitled to one vote per share at meetings of the share holders and one vote per share in the case of a poll and are also entitled to receive dividends as declared from time to time.

9. Revenue reserves

Revenue reserves consist only of retained earnings.

	Retained loss Rs. '000
Balance as at 1 January 2008	-
Net loss for the period	(9,651)
Balance as at 31 December 2008	(9,651)

10. Revenues

	2008 Rs. '000
Gross written premium	4,013
Less: Premium ceded to reinsurers	(173)
Net written premium	3,840
Income from investments	22,331
Total revenue	26,171

11. Gross written premium

	2008 Rs. '000
Individual policies	4,013

12. Insurance claims and benefits (net)

No claims were reported in respect of Life insurance policies as at the end of the period.

13. Underwriting and net acquisition costs

	2008 Rs. '000
Commission cost	1,744

14. Income from investments

	2008 Rs. '000
Interest Income from repurchase agreements on Government securities	22,331

15. Other operating, investment related and administration expenses

		2008 Rs. '000
Staff expenses	15a	14,352
Administration and establishment expenses		10,448
Selling expenses		7,562
Depreciation		927
		33,289

Notes to the Financial Statements (Contd.)

15a. Staff expenses

	2008 Rs.'000
Staff salaries	8,898
EPF and ETF	716
Other costs	4,738
	14,352
Contributions made to the Provident and Trust Funds	
Company contribution	
Provident fund	573
Trust fund	143
	716
Employee contribution	
Provident fund	382
	1,098

Total number of employees as at 31 December 2008 was 17.

16. Loss before taxation

Loss before taxation for the period is arrived at after charging all the following expenses.

	2008 Rs.'000
Audit fees	50
Depreciation	927

17. Income tax

The company is liable to pay tax based on Inland Revenue Act No. 10 of 2006 and amendments thereto. However, no provision has been made in respect of income tax in view of tax losses Rs. 6,789,405 incurred during the period.

17a. Deferred tax assets and liabilities

	2008 Rs. '000
Unrecognised deferred tax assets	
Tax losses carried forward	6,789
Total deductible temporary differences	1,018

Unrecognised deferred tax liabilities

No provision has been in respect of deferred taxation as the Company has incurred tax losses and the timing differences are not expected to reverse due to the above component and it is not probable that future taxable profit will be available against which the company can utilise the benefits therefore, the amount of taxable temporary differences and the resultant tax effects are as follows:

	2008 Rs. '000
Plant and equipment	601
Total taxable temporary differences	601
Unrecognised deferred tax liabilities	90

Notes to the Financial Statements (*Contd.*)

18. Related party transactions

There were no transaction entered during the financial period ended 31 December 2008.

19. Key management personnel

Key management personnel includes Board of Directors.

There is no remuneration or fees paid to key management personnel, for the period ended 31 December 2008.

20. Capital commitments

There were no capital commitments outstanding as at the balance sheet date other than the company has entered in to several rent agreements as at 31 December 2008 and total rent commitment arising from such agreements amounted to Rs. 1,642,319.

21. Contingent liabilities

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

22. Events after the balance sheet date

There were no events after the balance sheet date which require disclosure in the Financial Statements.

Four Year Summary

ALLIANZ INSURANCE LANKA LTD

Statement of Income for the year ended 31 December

	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000
Gross written premium	601,103	414,017	300,949	75,402
Net earned premium	115,236	52,771	24,922	6,775
Income from investment and other income	45,640	21,199	11,394	3,996
Insurance claims and benefits (net)	(59,178)	(33,219)	(18,239)	(7,503)
Underwriting and net acquisition cost/income (including reinsurance)	66,090	50,006	19,293	4,340
Expenses	(80,854)	(37,549)	(22,503)	(16,508)
Profit before taxation	86,934	53,207	14,867	(8,900)
Income tax expense	(14,190)	(3,669)	(2,105)	-
Net profit for the year	72,744	49,538	12,762	(8,900)

Balance Sheet as at 31 December

	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000
Assets				
Investments	347,368	151,914	93,388	55,618
Plant and equipment	22,963	2,287	3,708	4,77
Intangible assets	9,802	-	-	-
Reinsurance receivable	133,939	104,561	75,308	12,948
Premium receivable	104,593	76,520	57,937	24,939
Other assets	23,680	4,022	2,148	2,485
Deferred tax assets	2,884	3,273	-	-
Cash and cash equivalents	54,804	43,618	31,000	7,861
Total assets	700,033	396,195	263,488	108,624
Liabilities and shareholders' equity				
Liabilities				
Insurance provision - General	238,503	146,349	112,811	24,587
Reinsurance creditors	86,537	88,505	56,121	19,734
Provision for retirement benefits	966	567	355	126
Other liabilities	46,881	28,954	19,043	15,575
Bank overdraft	14,866	3,409	6,285	-
Total liabilities	387,753	267,784	194,615	60,022
Shareholders' equity				
Stated capital	188,635	67,510	67,510	60,001
Revenue reserve	123,645	50,901	1,363	(11,399)
Total shareholders' equity	312,280	118,411	68,873	48,602
Total liabilities and shareholders' equity	700,033	386,195	263,488	108,624

Glossary of Insurance Terms

Accumulation

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

Acquisition Expenses

All expenses which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts. e.g. commissions.

Actuary

An expert concerned with the application of probability and statistical theory to problems of insurance, investment, financial management and demography.

Administrative Expenses

Costs of an administrative nature including those arising from premium collection, portfolio administration, handling of bonuses and rebates, and inward and outward reinsurance, including staff costs and depreciation provisions in respect of property, plant and equipment.

Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000.

Annual Basis of Accounting

A basis of accounting for General insurance business whereby a result is determined at the end of the accounting period reflecting the profit or loss from providing insurance cover during that period, and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Annuity

A series of regular payments. Annuities include annuities certain, where payments depend on the survival of an annuitant. A Life annuity is a contract that provides a regular payment,

typically monthly, during the lifetime of the policyholder or a fixed period if less. If the payments start at the outset of the contract, 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 policy holder as the recipient of the sum insured and other benefits due in the event of the policyholders' death.

Cedent

Client of a reinsurance company (also see primary insurers)

Claims

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

Claims Incurred

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

Claims Incurred But Not Reported (IBNR)

Claims arising out of events which have occurred by the balance sheet date but have not been reported to the insurer at that date.

Claims outstanding – General Insurance Business

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

Claims outstanding – Life Insurance Business

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

Co Insurance

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

Commissions

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

Deferred Acquisition Costs – General Insurance Business

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date which are carried forward from one accounting period to subsequent accounting periods.

General Insurance Business

Insurance (including reinsurance) business falling within the classes of insurance specified as General insurance business, under the Regulation of Insurance Industry Act No.43 of 2000.

Insurance Risk

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

Insurance Provision – General

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

Insurance Provision – Life

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

Life Insurance Business

Insurance (including reinsurance) business falling within the classes of insurance specified

Glossary of Insurance Terms (Contd.)

as long term insurance business under the Regulation of Insurance Industry Act No.43 of 2000.

Net Combined Ratio – General Insurance

This indicates the profitability of the insurer's operations by combining the net loss ratio with the net expenses ratio. The combined ratio does not take account of investment income.

Net Earned Premium

In the case of general 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 insurance companies to relate income to acquisition and administrative expenses (e.g. commission, taxes, staff, selling and operating expenses).

Formula:

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

Net Loss Ratio

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

Formula:

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

Non-Participating Business

Life insurance business where the policy holders are contractually entitled to share in the surplus of the relevant life fund.

Policy Loans

A loan from the insurer to a policy holder on

the security of the surrender value of a life insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

Primary insurers

Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

Reinsurance

An arrangement whereby one party (the reinsurer), in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

Reinsurance Commission

Commission received or receivable in respect of premiums paid or payable to a reinsurer.

Reinsurance Inwards

The acceptance of risks under a contract of reinsurance.

Reinsurance Outwards

The placing of risks under a contract of reinsurance.

Reinsurance Profit Commission

Commission received or receivable by the cedent (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty.

Retention

That part of the risk assumed which the insurer/reinsurer does not reinsure/retrocede, i.e. retained net for own account.

Solvency margin - General

The difference between the value of assets and value of liabilities, required to be maintained by the insurer who carries on general insurance business as defined in Solvency Margin (General Insurance) Rules, 2004 made under

section 26 of the Regulation of Insurance Industry Act No. 43 of 2000.

Surrender Value

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

Underwriting Profit

The underwriting result generated by transacting general insurance business, without taking into account the investment income.

Written Premium – General Insurance Business

Premiums 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.

Corporate Information

Company Name	- Allianz Insurance Lanka Ltd.
Legal Form	- A private limited liability company incorporated in Sri Lanka on 22 May 2008, under the Companies Act No.7 of 2007.
Company Registration Number	- PB 323
Tax Identification Number (TIN)	- 114011487
VAT Registration Number	- 114011487- 7000
Directors	- Kamesh Goyal Heinz Dollberg Don Tri Nguyen
Auditors	- KPMG Ford Rhodes, Thornton & Co. (Chartered Accountants), 32A, Sir Mohamed Macan Markar Mawatha, Colombo 3.
Consultant Actuaries	- Asha Joshi B607, Daffodils Apartments, 6/36 Dwarka, New Delhi, India.
Secretaries	- EM &EN Agents and Secretaries (Pvt) Ltd. M & N Building, No. 2, Deal Place, Colombo 3.
Bankers	- Citibank Hongkong & Shanghai Banking Corporation Bank of Ceylon
Registered Office of the Company	- No. 92, Glennie Street, Colombo 2.

Company Name	- Allianz Life Insurance Lanka Ltd.
Legal Form	- A private limited liability company incorporated in Sri Lanka on 24 March 2008, under the Companies Act No.7 of 2007.
Company Registration Number	- PB 3493
Tax Identification Number (TIN)	- 134034939
Directors	- Heinz Dollberg Kamesh Goyal
Auditors	- KPMG Ford Rhodes, Thornton & Co. (Chartered Accountants), 32A, Sir Mohamed Macan Markar Mawatha, Colombo 3.
Consultant Actuaries	- Andrew Wakeling Regional Chief Actuary, Allianz MENA & South Asia
Secretaries	- EM &EN Agents and Secretaries (Pvt) Ltd. M & N Building, No. 2, Deal Place, Colombo 3.
Bankers	- Deutsche Bank AG Standard Chartered Bank
Registered Office of the Company	- No. 92, Glennie Street, Colombo 2.

ALLIANZ INSURANCE LANKA LTD. | ALLIANZ LIFE INSURANCE LANKA LTD.

No. 92, Glennie Street, Colombo 2, Sri Lanka. Tel: +94 11 2300400 Fax: +94 11 2304404 email: info@allianz.lk