

Annual Report 2007

Allianz Insurance Lanka Ltd.



About Us...

Allianz Insurance Lanka Ltd is a fully owned subsidiary of Allianz Group in Germany.

The Allianz Group is one of the leading integrated financial services providers worldwide. With over 181,000 employees, the Allianz Group serves more than 80 million customers in more than 70 countries. Allianz Group is able to offer its clients a wide range of insurance and finance products, as extensive advisory capacity through its subsidiaries under strong and well-known brands.

In 2006 Allianz SE, the parent company became the first company in the Dow Jones EURO STOXX 50 index to adopt the legal form of a Societas Europaea, which is a new European legal form for Stock Corporation. Allianz SE is headquartered in Munich, Germany.

Beyond the quality of our financial performance, a number of other activities and factors are important for the sustainable growth and competitive strength and company value. These include, but are not limited to, our global diversification, the reduction of complexity, our value-based management approach, and our crucially important employees.

Owing to its strong global business position in the insurance and financial services industry and its solid capitalization, Allianz is rated financially strong by the global rating agencies Standard & Poor's and the US insurance rating body, A. M Best. Allianz is the largest general insurance company and it ranked 19th in the 2007 Fortune Global Top 500.

Allianz provides insurance to about half of the Fortune 500 companies and has insured some of the world's largest infrastructure projects in

Asia, including, the new Hong Kong, Kuala Lumpur and Bangkok International Airport, the Mass Rapid Transit in Singapore and Bangkok, and the famous Petronas Towers in Malaysia-one of the world's tallest buildings.

Locally, Allianz commenced operations in 2005 in Sri Lanka as Allianz Insurance Lanka Limited. The Local Company is expert in all lines of general insurance business namely, Fire, Accident, Marine and Motor, and uses a wide variety of innovative distribution channels. The Company's insurance products includes policies for Machinery Breakdown, Workmen Compensation, Boiler and Pressure Plant Insurance, Contractor's Plant, Machinery and All Risk, Machinery Loss of Profits, Erection All Risk, Electronic Equipment Insurance, Consequential Loss (Fire) Insurance, Motor insurance, Fire and Allied Perils, Industrial All Risk etc.

Guiding Principle

The customer is our most valuable assets and everything we do is aimed at either winning or retaining customers.

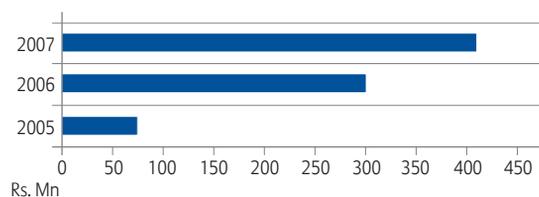
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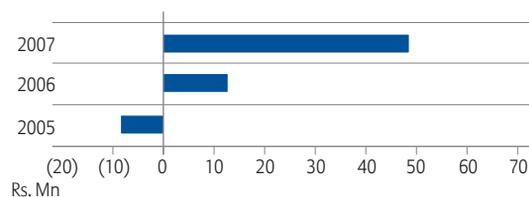
Financial Highlights

	2007	2006	2005
Total Revenue (Rs.000)	73,970	36,316	10,771
Underwriting Profit after Expenses (Rs.000)	32,008	3,473	(15,417)
Profit/(loss) before Tax (Rs.000)	53,207	14,867	(8,900)
Net Assets (Rs.000)	118,411	68,873	48,602
Return on Net Assets (%)	44.93	21.6	(18.3)
Earnings per Share (Rs)	7.34	2.10	(1.48)

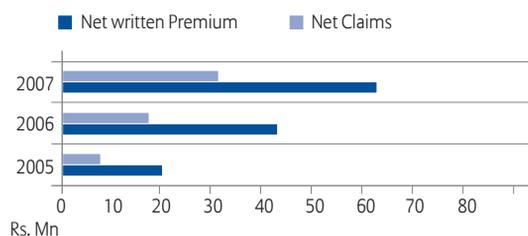
Growth in GWP



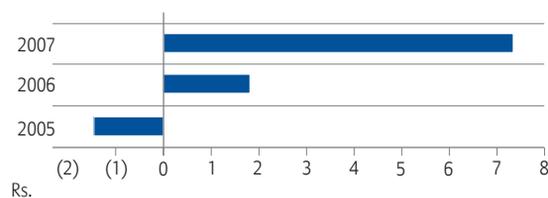
Profit / (Loss) after Tax



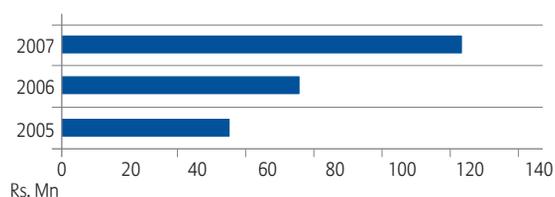
Net written Premium vs. Net Claims



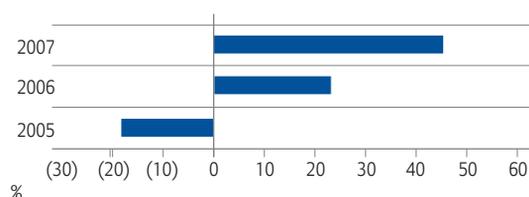
Earnings per Share



Net Assets



Return on Net Assets



CEO's Review



The year 2007 was another excellent financial year for Allianz Insurance Lanka Ltd. I am pleased to state that the company was able to deliver growth in revenue and profits in the year that has been a challenging one for both country and the Insurance Industry.

Company performance

Allianz Insurance Lanka completed its 3rd year in the field of insurance in Sri Lanka and has the honour of being the first and the only general insurance company in the post privatisation insurance history of Sri Lanka to record a profit before tax of Rs. 14.9 Mn in its 2nd year of operation and maintaining that same position in the year 2007 by flagging Rs. 53.2 Mn PBT a growth of more than 257% never achieved before by any other insurer in Sri Lanka.

The gross written premium grew by 37.6% from Rs. 301 Mn in 2006 to Rs. 414 Mn in 2007 a growth that far exceeded the industry average. The company recorded a growth in all classes of general insurance, with the highest growth being recorded in Motor business from Rs. 18 Mn to Rs. 29.3 Mn in 2007 an increase of 63%. However, our main achievement has been in Fire insurance

business which grew from Rs. 230.8 Mn in 2006 to Rs. 319.8 Mn in 2007 a growth of more than 38%. We are very happy with the composition of the business with Fire insurance leading the way with 77% followed by Miscellaneous Accident insurance 13%, Motor insurance 7% and Marine insurance 3%.

Allianz Insurance Lanka may be one of the few insurance companies that chart a pure underwriting profit after deducting all expenses arising out of its operations. We recorded an underwriting profit growth of more than 800% from Rs. 3.4 Mn in 2006 to Rs. 32 Mn in 2007. This is an excellent performance in any standards given the fact that the company is only 3 years old and in a fiercely competitive market. We had to be very conscious about the types of businesses that we underwrote by benchmarking standards set by our parent company Allianz SE and tapping into their technical resource bank.

The company maintained a very healthy combined ratio, after carefully underwriting the risks presented and through operational excellence. The Earnings per Share (EPS) increased from Rs. 2.10 in 2006 to Rs. 7.34 a

250% increase year on year. The Return on Equity (ROE) further improved from 18.5% in 2006 to 41.8% in 2007. These achievements speak volumes of the determination, customer centric and risk prudence displayed by my staff at all levels.

Achieving objectives

Since the beginning of the company in 2005, the year 2007 is the most successful up to now as the company was able to over achieve most of its set objectives. The company has placed more emphasis on sharpening the technical and managerial skills of the staff many of whom were provided with number of local and overseas training opportunities.

We had planned for a more spacious and comfortable office in order to serve our customers and intermediaries with even more efficient and personalized service and was able to achieve it in January 2008. We strengthened our existing cadres by recruiting new members.

Future strategies

I am happy to note that the company has earned recognition from customers, investors and all its

CEO's Review *Contd...*

stakeholders as one of the most successful and growing companies in the insurance industry and I am confident that the company will sustain this growth momentum into the future by way of implementing different market friendly strategies.

The shareholders have expressed their confidence in the company's performance, especially in the past two years and have infused capital and would continue to do so to meet the regulatory requirements in the event regulations are amended from time to time in this regard. Allianz Insurance Lanka is here to stay to provide our growing global and local customer base with insurance solutions second to none with our globally reputed financial backing and expertise.

Having established our presence in the corporate sector, especially in Colombo and its environments, we have planned to open up branches in the outstations to reach out and share our wealth of experience and strength with the semi-corporate and retail customers with custom designed retail products and services.

The company will be venturing into new classes of insurance business and will be designing new products and services to meet the ever increasing customer needs.

We will be establishing a direct sales force channel which was lacking in the company from the inception.

We have also planned to improve the information and communication technology of the company by investing in an integrated ICT System.

Acknowledgements

I thank the board of directors for their trust, confidence and support extended to me since the inception of the local entity which enabled me to achieve a commendable performance during the year and meeting Allianz Group overall goals.

I sincerely thank my team for their contribution, dedications and commitment to face the challenges successfully. They amply demonstrated the age-old saying that team work allows ordinary people to attain extraordinary results.

I also thank our business partners, insurance brokers and intermediaries for their cooperation and support. We greatly appreciate and value their continued confidence in us.

My warm thanks to our valued customers for their patronage and confidence placed in us.

We look forward to the future with great enthusiasm and confidence that the company has the ability to serve all our stakeholders and achieve our goals in a challenging and vibrant industry.

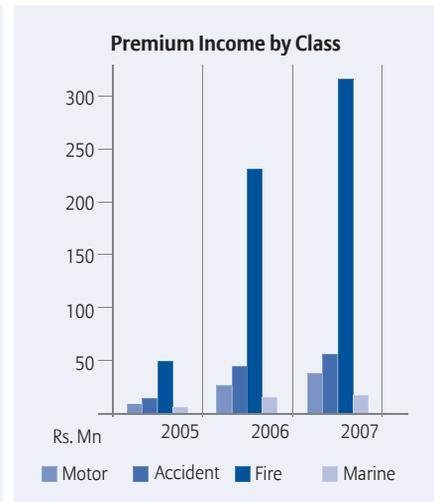
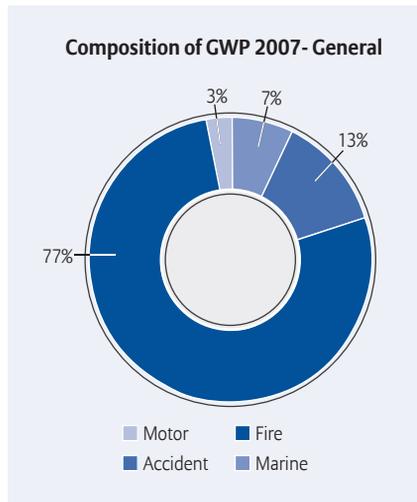


Surekha Alles
Chief Executive Officer

14th March 2008

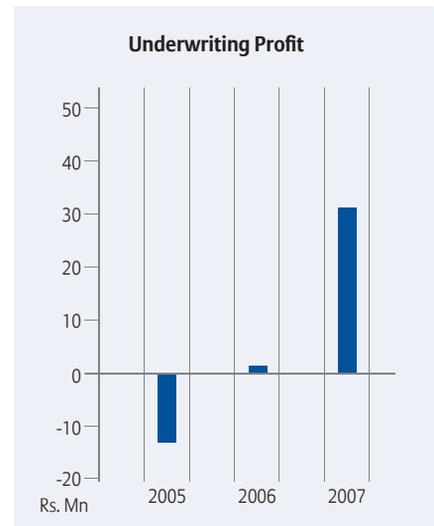
Financial Review

2007 was a successful year as the company recorded a revenue of Rs. 73.9 Mn which is an 104% increase when compared to the revenue in 2006 amounting to Rs. 36.3 Mn. The increase is mainly due to growth in gross written premium of 38% and an increase of investment and other income by 86% over the previous period. Growth of 38% in GWP exceeds the industry growth reported in 2007, despite of intense competition experienced in the market.



Underwriting Profit

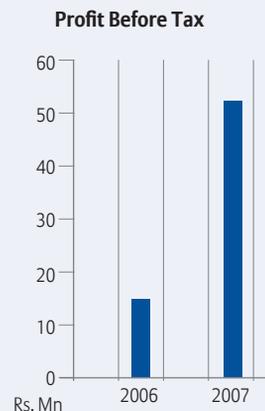
Company shows an underwriting profit of Rs. 32 Mn which is a significant achievement, as this represents the management excellence in implementing proper underwriting technique throughout the period. In 2006, underwriting profit recorded by the company was Rs. 3.4 Mn against the loss reported in 2005, amounting to Rs.15 Mn.



Financial Review Contd...

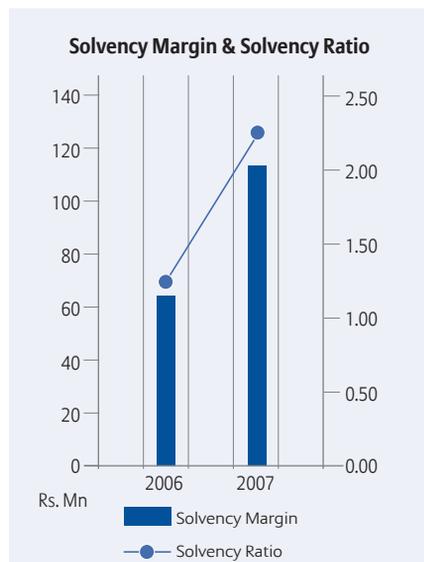
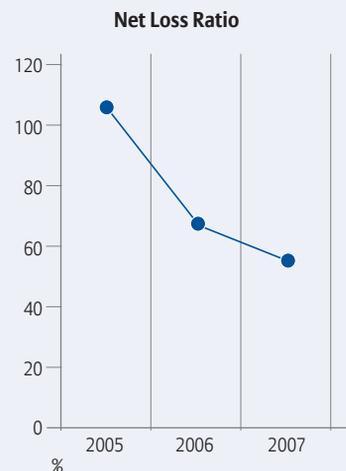
Profitability

Improved profitability by way of recording a Rs. 53.2 Mn profit before tax in 2007, against that of 2006, Rs.14.9 Mn symbolises exceptional performances of the company, as the growth reported in profit before tax was 258% over the previous year. Net profit of the company also has increased by 288%, showing the company's long term growth potential.



Net Loss Ratio

Loss ratio has been improved during the year to 58% from 68% recorded in 2006. Prudent underwriting and thorough assessment of the individual claims have been mainly contributed towards this results. Company always strive to maximise customer satisfaction by speedy claims settlement.



Solvency Margin & Solvency Ratio

Solvency ratio expresses an insurer's ability to pay insurance benefits and other payments. The company's solvency margin ratio for the year was 2.25 times, which is a good sign on the company's solvency, as it has improved from the previous year's level of 1.25 times.

Statement of Solvency as at 31 December 2007

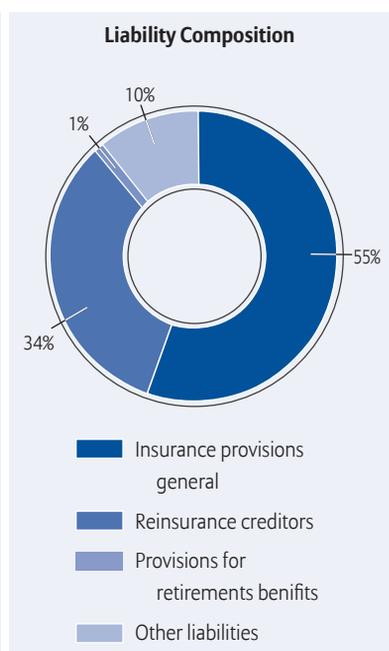
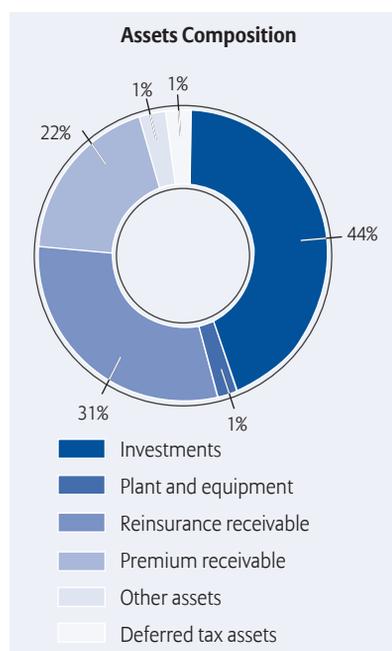
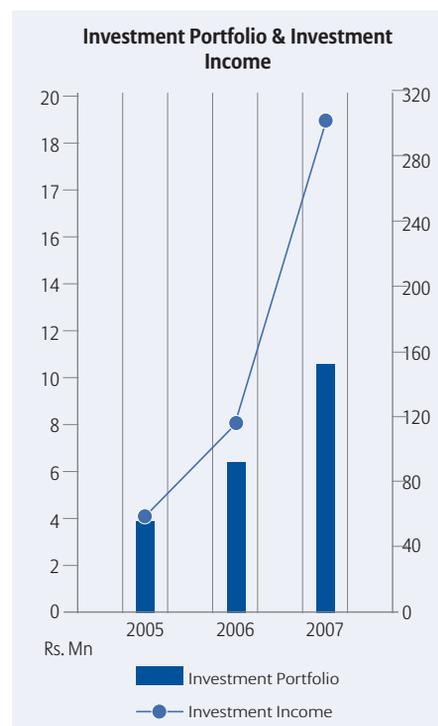
	(Rs. '000)
Value of Admissible Assets	315,907
Value of Liabilities	203,175
Difference	112,732
Required Solvency Margin	50,000
Solvency Ratio	2.25

Financial Review *Contd...*

Investment

As at the end of 2007, the investment portfolio of the company stood at Rs. 151.9 Mn. The year has shown a growth of 63% in the year 2006, to the current figure of Rs. 151.9 Mn from Rs. 93.4 Mn.

Company has mainly focused on short term investment as the interest rates kept increasing in the market. Investment income for the year was Rs. 18.7 Mn, showing a growth of 134% during the period.



Directors' Report

The Directors of Allianz Insurance Lanka Ltd., have pleasure in presenting to the members their report together with the audited Financial Statements of the Company for the financial year ended 31 December 2007 and the Report of the Auditors thereon.

Financial Results

	2007 Rs. '000	2006 Rs. '000
Profit before Taxation	53,207	14,867
Taxation	(3,669)	(2,105)
Profit after Taxation	49,538	12,762
Profit/(Loss) brought forward from previous year	1,363	(11,399)
Accumulated profit at the end of the year	50,901	1,363

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 is to respect the merits of the individuals and provide career opportunities, irrespective of gender, race or religion. Allianz employees continued to receive global training opportunities in the Allianz Group on current trends and developments in insurance worldwide that ensures Allianz team has the required expertise, towards the achievement of corporate objectives.

Company Activity

The principal activity of the Company is Insurance. The Company commenced Non-Life Insurance business in January 2005.

Directors

The Directors of the Company during the year were as follows:

Mr. Heinz Dollberg
Mr. Don Tri Nguyen
Mr. Soumen Ghosh
Mr. 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 Note 19 to the Financial Statements.

Shareholding

Allianz SE of Munich Germany is the immediate and the ultimate shareholder of the company.

Gross Written Premium

The Company has underwritten a total amount of Rs. 414,016,589 during the year 2007 (2006 Rs. 300,948,746)

Going Concern

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

Auditors

The Financial Statements for the year ended 31st December 2007 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, have expressed their willingness to be re-appointed until the next Annual General Meeting at a remuneration to be agreed. Their fees for the year is disclosed in note 16 to the financial statements.

On behalf of the Board.



Heinz Dollberg

Director



Kamesh Goyal

Director

Secretaries to the Company

Sgd.

K. Neelakandan

Director

EM & EN Agents and Secretaries (Pvt) Limited

14th March 2008

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 have not independently verified the data supplied beyond checks to satisfy ourselves as to the reasonability of the data. Analysis 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 Rs. 4,063,000 as on 31st December 2007.

sgd.

Asha Joshi

Fellow of the Institute of Actuaries of India

B 607, Daffodils Apartments,

6/36 Dwarka, New Delhi

India.

Independent Auditor's Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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Colombo 00300,
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TO THE SHAREHOLDERS OF ALLIANZ INSURANCE LANKA LTD (Formerly known as ALLIANZ INSURANCE COMPANY LANKA LTD)

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Insurance Lanka Limited, which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 11 to 26 of this Annual Report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting 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, 2007 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2007 and its profit 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 section 47(2), we also report, so far as appears from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

Chartered Accountants

14th March 2008
Colombo

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member firms affiliated with KPMG International, a Swiss
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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

<i>As at 31 December</i>	Note	2007 Rs.	2006 Rs.
Assets			
Investments	1	151,913,888	93,387,655
Plant and equipment	2	2,286,586	3,707,691
Reinsurance receivable		104,561,337	75,307,484
Premium receivable		76,519,767	57,937,054
Other assets	3	4,023,465	2,147,791
Deferred tax assets	17b	3,272,564	-
Cash and cash equivalents	4	43,617,654	31,000,219
Total assets		386,195,261	263,487,894
Liabilities and shareholders' equity			
Liabilities			
Insurance provision - general	5	146,348,894	112,810,578
Reinsurance creditors		88,505,005	56,121,389
Provision for retirement benefits	6	567,075	354,750
Other liabilities	7	28,954,095	19,043,444
Bank overdraft		3,409,159	6,285,113
Total liabilities		267,784,228	194,615,274
Shareholders' equity			
Stated capital	8	67,509,500	67,509,500
Revenue reserves	9	50,901,533	1,363,120
Total shareholders' equity		118,411,033	68,872,620
Total liabilities and shareholders' equity		386,195,261	263,487,894

The above Balance Sheet is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 16 to 26. 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

14th March 2008

Statement of Income

For the year ended 31 December

	Note	2007 Rs.	2006 Rs.
Revenues	10	73,970,017	36,316,440
Gross written premium	11	414,016,589	300,948,746
Less: premium ceded to reinsurers		(352,001,773)	(258,062,905)
Net written premium		62,014,816	42,885,841
Net change in reserve for unearned premium		(9,243,767)	(17,963,789)
Net earned premium		52,771,049	24,922,052
Benefits, losses and expenses			
Insurance claims and benefits (net)	12	(33,218,625)	(18,238,683)
Underwriting and net acquisition costs/income (including reinsurance)		50,005,962	19,292,569
Total benefits, losses and expenses		16,787,337	1,053,886
Net premium less benefits, losses and expenses		69,558,386	25,975,938
Other revenue			
Income from investments	13	18,741,481	7,986,285
Other income	14	2,457,488	3,408,103
Expenses			
Other operating, investment related and administrative expenses	15	(37,550,010)	(22,503,002)
Profit before taxation	16	53,207,345	14,867,324
Taxation	17	(3,668,932)	(2,105,197)
Profit after taxation		49,538,413	12,762,127
Earnings per share	18	7.34	2.10

The above Statement of Income is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 16 to 26.

Statement of Changes in Equity

For the year ended 31 December 2007

	Stated capital Rs.	Revenue reserve Rs.	Total Rs.
Balance as at 31 December 2005	60,000,600	(11,399,007)	48,601,593
Net Profit for the year	-	12,762,127	12,762,127
Share issued during the period	7,508,900	-	7,508,900
Balance as at 31 December 2006	67,509,500	1,363,120	68,872,620
Net Profit for the year	-	49,538,413	49,538,413
Balance as at 31 December 2007	67,509,500	50,901,533	118,411,033

Cash Flow Statement

For the year ended 31 December

	2007 Rs.	2006 Rs.
Cash flows from operating activities		
Premium received from customers	395,433,876	267,950,420
Reinsurance premium paid	(319,618,157)	(218,425,176)
Claims paid	(59,792,105)	(22,278,772)
Reinsurance receipts in respects of claims	34,371,607	6,887,016
Cash paid to and on behalf of employees	(10,152,032)	(7,789,576)
Interest received	18,174,412	7,785,948
Other operating cash payments	18,954,479	13,506,668
Cash flow from operating activities (Note A)	77,372,080	47,636,528
Income tax paid	(4,466,209)	-
Net cash flow from operating activities	72,905,871	47,636,528
Cash flows from investing activities		
Purchase of liquid investments (other than cash equivalents)	(1,011,372,686)	(584,137,451)
Sale of liquid investments (other than cash equivalents)	952,846,452	546,368,089
Purchase of property, plant and equipment	(832,292)	(1,087,359)
Proceeds on sale of plant and equipment	16,000	-
Net cash from investing activities	(59,342,526)	(38,856,721)
Net cash flow before financing activities	13,563,345	8,779,807
Cash flow from financing activities		
Proceeds from issuance of share capital	-	7,508,900
Net cash from financing activities	-	7,508,900
Increase in cash and cash equivalents (Note B)	13,563,345	16,288,707

Cash Flow Statement Contd...

<i>For the year ended 31 December</i>	2007 Rs.	2006 Rs.
Notes to the cash flow statement		
A. Reconciliation of profit before taxation with cash flow from operating activities		
Profit before taxation	53,207,345	14,867,324
Depreciation charge	2,078,355	1,798,236
Increase in debtors	(49,712,239)	(95,020,770)
Increase in unearned premiums and deferred acquisition costs	16,892,183	29,383,561
Increase in claims provisions	16,646,134	58,839,533
Increase in creditors	39,977,980	38,104,841
Exchange gain	(1,930,045)	(565,247)
Loss on sale of property, plant and equipment	42	-
Provision for gratuity	212,325	229,050
Cash flow from operating activities	77,372,080	47,636,528
B. Increase in cash and cash equivalents		
Cash at bank and in hand and cash equivalents	43,617,654	31,000,219
Bank overdraft	(3,409,159)	(6,285,113)
Net cash at bank and in hand and cash equivalents	40,208,495	24,715,106
Effect of exchange rate changes	(1,930,044)	(565,247)
Net cash and cash equivalents for the current period	38,278,451	24,149,859
Net cash and cash equivalents for the previous year	24,715,106	7,861,152
Increase in cash and cash equivalents	13,563,345	16,288,707

Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

1. General

1.1 Company

Allianz Insurance Lanka Limited is a limited liability company incorporated and domiciled in Sri Lanka, having its registered office at No. 92, Glenie Street, Colombo 02.

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

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

1.2 Statement of Compliance

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLASs), 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 for, accounting for investment as agreed by the IBSL in preparation of financial statements.

1.3 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the financial statements.

1.4 Basis of Preparation

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

The accounting policies have been applied consistently by the company. The preparation of financial statements in conformity with SLAS require management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These 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 judgments 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 recognized 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.

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 recognized in the statement of income.

2. Assets and Bases of their Valuation

2.1 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.

2.2 Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation.

Cost

The cost of plant and equipment is the cost of acquisition or construction together with any expenses incurred in

Accounting Policies Contd...

bringing assets to its 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.

Depreciation

Depreciation is charged on cost, on a straight-line basis to write off the assets over the estimated useful lives as follows.

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

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

Gain 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.

2.3 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.

2.4 Premiums Receivable and other assets

Premiums receivable and other assets are stated at their net estimated realizable 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.

2.5 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 purpose of cash flow statement cash and cash equivalents are presented net of book overdrafts.

3. Liabilities and Provisions

All known liabilities have been accounted for in preparing the financial statements.

3.1 Provision for Taxation

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

3.2 Deferred Taxation

Deferred tax is provided using the balance sheet liability method, on temporary differences as at the balance sheet date between the tax bases of

assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the assets are realized or the liability is settled, based on tax rates and tax laws that have been enacted as at the balance sheet date.

3.3 Trade and Other Liabilities

Trade and other payables are stated at their cost.

3.4 Provisions (excluding insurance contracts)

A provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefit will be required to settle the obligation, except for insurance related contracts.

3.5 Capital Commitments and Contingencies

Capital commitments and contingent liabilities of the company are disclosed in the financial statement.

3.6 Retirement Benefits

Defined Benefit Plan

Provision has been made for retirement

Accounting Policies Contd...

gratuities from the first year of service for all employees in conformity with the SLAS 16. 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. The gratuity liability would be actuarially valued from year 2008 onwards, as required by the revised Sri Lanka Accounting Standard 16.

Defined Contribution Plan

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

4. Stated Capital

Ordinary shares are classified as equity.

5. Non-life Insurance Business

5.1 Gross Written Premium

Premium is generally recognized 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.

5.2 Reinsurance Premium

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

5.3 Unearned Premium

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

5.4 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 amortized over the period in which the related written premiums are earned.

5.5 Claims

Claims expenses and liabilities for outstanding claims are recognized 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.

6. Expenses

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

7. 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.

8. Comparative Figures

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

Notes to the Financial Statements

1. Investments

	2007 Rs.	2006 Rs.
Sri Lanka Government Securities		
Repurchase Agreements on Government Securities	151,913,888	93,387,655

2. Plant and equipment

	Office equipment Rs.	Furniture and fittings Rs.	Computer equipment and software Rs.	Motor vehicle Rs.	Total Rs.
Cost					
Balance as at 1 January 2007	514,461	940,087	3,698,017	1,590,000	6,742,565
Additions during the year	63,250	55,382	554,660	-	673,292
Disposals	(17,500)				(17,500)
Balance as at 31 December 2007	560,211	995,469	4,252,677	1,590,000	7,398,357
Depreciation					
Balance as at 1 January 2007	179,848	251,346	1,888,180	715,500	3,034,874
Depreciation charge for the year	179,416	195,630	1,385,309	318,000	2,078,355
Accumulated Depreciation on disposals	(1,458)				(1,458)
Balance as at 31 December 2007	357,806	446,976	3,273,489	1,033,500	5,111,771
Carrying amount					
Balance as at 31 December 2007	202,405	548,493	952,688	583,000	2,286,586
Balance as at 31 December 2006	334,613	688,741	1,809,837	874,500	3,707,691

3. Other assets

	2007 Rs.	2006 Rs.
Interest receivable	1,061,548	494,479
Other debtors and receivables	2,961,917	1,653,312
	4,023,465	2,147,791

4. Cash & cash equivalents

	2007 Rs.	2006 Rs.
Cash in hand and at bank	43,617,654	31,000,219

Notes to the Financial Statements *Contd...*

5. Insurance provision

The Non-life insurance provision shown in the Balance Sheet represent the following:

	2007	2006
	Rs.	Rs.
Premiums		
Unearned premiums		
Gross	202,305,850	141,739,790
Reinsurance	(160,619,529)	(110,565,169)
Net	41,686,321	31,174,621
Deferred acquisition expenses	21,387,909	15,007,426
	63,074,230	46,182,047
Gross claims reserve		
Claims outstanding		
Gross	70,274,864	58,293,863
Claims incurred but not reported (IBNR)		
Gross	12,999,800	8,334,668
Gross claims reserve	83,274,664	66,628,531
Insurance provision	146,348,894	112,810,578

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.

5a. Technical reserve

	2007	2006
	Rs.	Rs.
Insurance provision	146,348,894	112,810,578
Reinsurance receivable on outstanding claims	(64,608,975)	(55,954,961)
	81,739,919	56,855,617

Notes to the Financial Statements *Contd...*

6. Provision for retirement benefits

	2007 Rs.	2006 Rs.
Balance as at 1st January	354,750	125,700
Provision made during the year	212,325	229,050
Balance as at 31st December	567,075	354,750
Contributions made to the Provident and Trust Funds		
	2007 Rs.	2006 Rs.
Company contribution		
Provident fund	760,887	646,492
Trust fund	190,222	161,623
	951,109	808,115
Employee contribution		
Provident fund	507,258	430,995
	1,458,367	1,239,110

7. Other liabilities

	2007 Rs.	2006 Rs.
Agency commission payable	11,597,719	10,227,225
Government levies	5,536,033	2,713,420
Tax payable	4,580,484	2,105,197
Other creditors and accrued expenses	7,239,859	3,997,602
	28,954,095	19,043,444

Notes to the Financial Statements *Contd...*

8. Stated Capital

	2007 Rs.	2006 Rs.
Issued and fully paid		
6,750,950 ordinary shares	67,509,500	67,509,500

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.

9. Revenue reserve

Revenue reserve consists only of retained earnings.

	Accumulated Profit / (loss) Rs.
Balance as at 1 January 2006	(11,399,007)
Net profit/(loss) for the period	12,762,127
Balance as at 31 December 2006	1,363,120
Net profit for the period	49,538,413
Balance as at 31 December 2007	50,901,533

Notes to the Financial Statements *Contd...*

10. Revenue	2007	2006
	Rs.	Rs.
Gross written premium	414,016,589	300,948,746
Less: Premium ceded to reinsurers	(352,001,773)	(258,062,905)
Net written premium	62,014,816	42,885,841
Net change in reserve for unearned premium	(9,243,767)	(17,963,789)
Net earned premium	52,771,049	24,922,052
Income from investments	18,741,481	7,986,285
Other income	2,457,487	3,408,103
Total revenue	73,970,017	36,316,440

11. Gross written premium

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

	2007	2006
	Rs.	Rs.
Accident	53,534,473	41,968,579
Fire	319,827,113	230,814,366
Marine	11,347,677	10,194,225
Motor	29,307,326	17,971,576
	414,016,589	300,948,746

12. Insurance claims and benefits (net)

	2007	2006
	Rs.	Rs.
Gross claims		
Accident	20,229,928	13,939,920
Fire	41,473,077	68,656,824
Marine	1,350,112	898,564
Motor	10,590,086	4,689,330
	73,643,203	88,184,638
Reinsurance recoveries	(40,424,578)	(69,945,956)
Total insurance claims and benefits (net)	33,218,625	18,238,683

Notes to the Financial Statements *Contd...*

13. Income from investments		2007	2006
		Rs.	Rs.
Interest income		18,741,481	7,986,285
14. Other income		2007	2006
		Rs.	Rs.
Gain on foreign currency translation		1,930,044	565,247
Other		527,444	2,842,856
		2,457,488	3,408,103
15. Other operating, investment related and administrative expenses		2007	2006
		Rs.	Rs.
Staff expenses	15a	9,986,495	8,903,718
Administration and establishment expenses		17,956,566	9,156,975
Selling expenses		7,528,594	2,644,073
Depreciation		2,078,355	1,798,236
		37,550,010	22,503,002
15a. Staff expenses		2007	2006
		Rs.	Rs.
Wages and salaries		6,999,636	7,129,685
Compulsory social security contributions		951,109	808,115
Provision during the year		212,325	229,050
Staff welfare		172,973	154,774
Training expenses		797,686	192,929
Other costs		852,766	389,165
		9,986,495	8,903,718
15b. Number of Employees		2007	2006
As at the end of financial year		21	18

Notes to the Financial Statements *Contd...*

16. Profit before taxation

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

	2007 Rs.	2006 Rs.
Audit fees	582,000	425,000
Depreciation	2,078,355	1,798,236

17. Taxation

Taxation charge is made up as follows

		2007 Rs.	2006 Rs.
Current income tax expense	17 a	6,872,768	2,071,575
Social responsibility levy		68,728	33,622
Deferred tax	17 b	(3,272,564)	-
		3,668,932	2,105,197

17a. Income tax expense

	2007 Rs.	2006 Rs.
Accounting profit	53,207,345	14,867,324
Aggregate disallowable expense	12,574,930	3,701,613
Aggregate allowable expense	(1,333,790)	(4,864,432)
Aggregate disallowable income	(39,502,682)	(2,613,047)
Taxable profit	24,945,803	11,091,458
Tax losses brought forward	(5,309,323)	(5,172,671)
Net taxable profit	19,636,480	5,918,787
Statutory tax rate	35%	35%
Current income tax expense	6,872,768	2,071,575

17b. Deferred tax

	2007 Rs.	2006 Rs.
Plant and equipment	205,080	-
Employee benefit and other provision	3,067,484	-
	3,272,564	-

Notes to the Financial Statements *Contd...*

18. Basic Earnings per share

The calculation of basic earnings per share as at 31 December 2007 was based on the profit attributable to ordinary shareholders of Rs. 49,538,413 (2006 - Rs. 12,762,127) and weighted average number of ordinary shares outstanding during the year ended 31 December 2007 of 6,750,950 (2006-6,084,407), calculated as follows.

	2007	2006
	Rs.	Rs.
Profit after taxation	49,538,413	12,762,127
Weighted average number of ordinary shares	6,750,950	6,084,407
Earnings per share	7.34	2.10

19. Related party transactions

Company has reinsurance arrangements and has placed business of Rs. 248,445,881 (2006 - Rs. 170,297,688) with Allianz Group on terms applicable to the group.

19a. Key management personnel

Key management personnel includes Board of Directors.

There is no remuneration or fees paid to key management personnel, for the year ended 31 December 2007.

20. Capital commitments

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

21. Contingent liabilities

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

22. Events after the balance sheet date

Subsequent to the balance sheet date the company has changed its name as Allianz Insurance Lanka Ltd with effect from 10th January 2008.

Other than the above no events have occurred necessitating adjustments to or disclosure in the financial statements.

Three Year Summary

Statement of Income

	2007 Rs. '000	2006 Rs. '000	2005 Rs. '000
Gross written premium	414,017	300,949	75,402
Net earned premium	52,771	24,922	6,775
Income from investment and other income	21,199	11,394	3,996
Net claims incurred	(33,219)	(18,239)	(7,503)
Underwriting and net acquisition cost/income	50,006	19,293	4,340
Expenses	(37,550)	(22,503)	(16,508)
Profit before taxation	53,207	14,867	(8,900)
Income tax expense	(3,669)	(2,105)	-
Net profit for the year	49,538	12,762	(8,900)

Balance Sheet

	2007 Rs.000	2006 Rs.000	2005 Rs.000
Assets			
Investments	151,914	93,388	55,618
Plant and equipment	2,287	3,708	4,773
Reinsurance receivable	104,561	75,308	12,948
Premium receivable	76,520	57,937	24,939
Other assets	4,023	2,148	2,485
Deferred tax assets	3,272	-	-
Cash and cash equivalent	43,618	31,000	7,861
Total assets	386,195	263,488	108,624
Liabilities and shareholders' equity			
Liabilities			
Insurance provision-general	146,349	112,811	24,587
Reinsurance creditors	88,505	56,121	19,734
Provision for retirement benefits	567	355	126
Other liabilities	28,954	19,043	15,575
Bank overdraft	3,409	6,285	-
Total liabilities	267,784	194,615	60,022
Shareholders' equity			
Stated capital	67,510	67,510	60,001
Revenue reserve	50,901	1,363	(11,399)
Total shareholders' equity	118,411	68,873	48,602
Total liabilities and shareholders' equity	386,195	263,488	108,624

Glossary of Insurance Terms

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.

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.

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.

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.

Glossary of Insurance Terms *Contd...*

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:

Reinsurance commission (net of acquisition expenses) and expenses
$$\frac{\text{Net Earned Premium}}{\text{Net Earned Premium}}$$

Net Loss Ratio

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

Formula:

$$\frac{\text{Net Claims Incurred}}{\text{Net earned Premium}}$$

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 organization).

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.

Underwriting

The process of selecting which an insurance company can cover, and deciding the premiums and terms of acceptance.

Underwriting profit

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

Unearned Premium / Unearned Premium Reserve

It represents the portion of premiums already entered in the accounts as due but which relates to a period of risk subsequent to the Balance Sheet date.

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 limited liability company incorporated in Sri Lanka on 20th January 2004, under the Companies Act No.17 of 1982.

Company registration Number - N (PBS) 1148

Tax Identification Number (TIN) - 114011487

VAT Registration Number - 114011487- 7000

Directors - Mr. Heinz Dollberg
Mr. Don Tri Nguyen
Mr. Soumen Ghosh
Mr. Kamesh Goyal

Auditors - KPMG Ford Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha, Colombo 03.

Consultant Actuaries - Asha Joshi
B607, Daffodils Apartments,
6/36 Dwarka, New Delhi, India.

Secretaries - EM & EN Agents and Secretaries (Pvt) Limited.
M & N Building, No. 02, Deal Place, Colombo -03.

Bankers - Citibank
Hongkong & Shanghai Banking Corporation

Registered Office of the Company - No. 92, Glennie Street, Colombo 02.

Allianz Insurance Lanka Ltd.

No.92, Glennie Street, Colombo 02, Sri Lanka. Tel: 2300400, Fax: 2304404, Email: info@allianz.lk