Allianz Lanka

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

Financial Information 2012

Allianz

Content

Allianz at a Glance

	2012	Change from previous year	2011	Change from previous year	2010	Change from previous year	2009	Change from previous year	2008	Change from previous year	2007
GENERAL INSURANCE											
Income Statement											
Gross Written Premium (Rs. '000)	1,521,463	1%	1,501,300	2%	1,469,538	25%	1,174,822	95%	601,103	45%	414,017
Underwriting profit after expenses (Rs. '000)	183,401	4%	175,737	40%	125,926	101%	62,603	52%	41,294	29%	32,009
Profit/(Loss) before tax (Rs. '000)	310,899	11%	281,191	27%	221,305	40%	158,312	82%	86,934	63%	53,207
Balance Sheet											
Total assets (Rs. '000)	1,970,061	10%	1,793,914	11%	1,615,454	46%	1,105,444	58%	700,033	81%	386,195
Shareholders' equity (Rs. '000)	780,285	16%	671,743	8%	620,122	44%	431,946	38%	312,280	164%	118,411
Return on net assets (%)	29.41%	-16%	34.92%	29%	26.98%	-3%	27.7%	19%	23.3%	-44%	41.8%
Earnings per share (Rs.)	9.18	-2%	9.38	40%	6.69	40%	4.79	38%	3.47	-53%	7.34

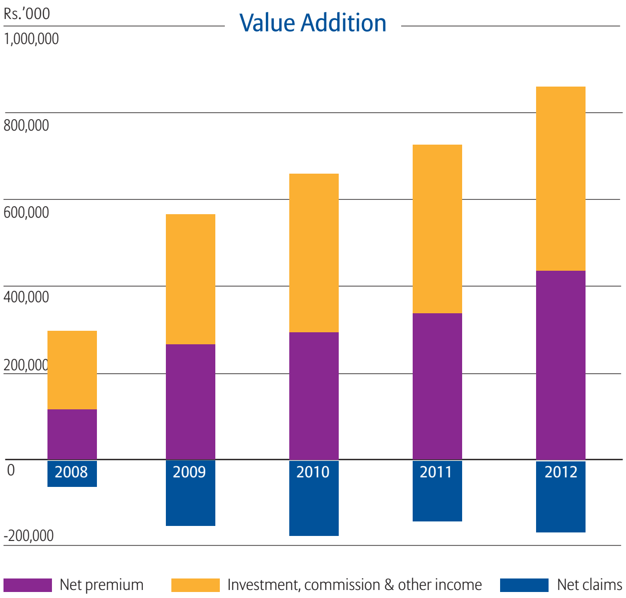
	2012	Change from previous year	2011	Change from previous year	2010	Change from previous year	2009	Change from previous year	2008 *
LIFE INSURANCE									
Gross Written Premium (Rs. '000)	532,141	51%	351,299	72%	204,814	101%	101,816	2,437%	4,013
Loss for the period (Rs. '000)	59,196	1%	58,506	-53%	123,978	64%	75,716	685%	9,651
Investments (Rs. '000)	508,214	29%	393,807	78%	221,193	17%	189,150	-18%	231,775
Shareholder' Equity (Rs. '000)	155,106	-30%	221,480	40%	158,086	-4%	164,632	-32%	240,348

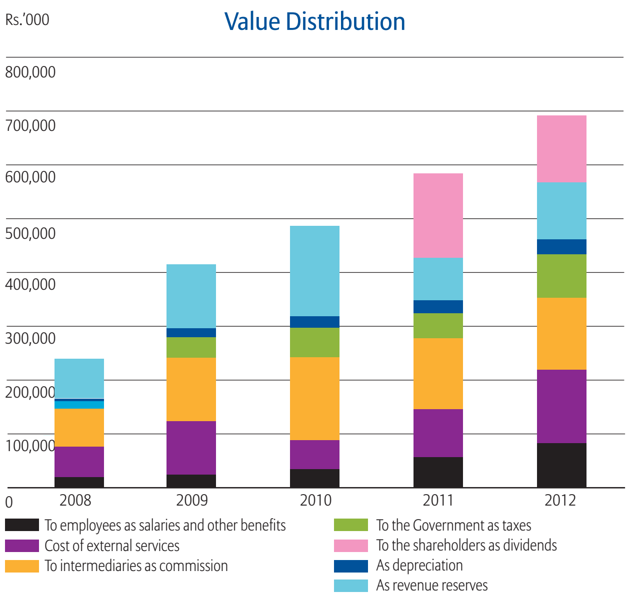
** Commenced business in November 2008.*

Contribution to the National Economy

GENERAL INSURANCE

Value Addition	2012 Rs.'000		2011 Rs.'000		2010 Rs.'000		2009 Rs.'000		2008 Rs.'000	
Net premium	435,561		336,747		293,437		265,074		115,236	
Investment, commission and other income	424,328		389,323		365,336		301,132		181,652	
Net claims	(163,837)		(139,168)		(172,754)		(150,698)		(59,178)	
Cost of external services	(116,399)		(91,867)		(53,152)		(99,454)		(56,568)	
Total value added	**579,653**		**495,035**		**432,867**		**316,055**		**181,142**	
Value Distribution	**Rs.'000**	**%**	**Rs.'000**	**%**	**Rs.'000**	**%**	**Rs.'000**	**%**	**Rs.'000**	**%**
To employees as salaries and other benefits	117,508	20	61,575	12	34,534	8	24,245	8	19,919	11
To intermediaries as commissions	133,191	23	132,260	27	154,898	36	117,328	37	69,922	39
To the Government as taxes	81,382	14	46,594	9	53,996	12	38,646	12	14,190	8
To the shareholders as dividends	125,000	22	158,333	32	-	-	-	-	-	-
Retained with the business - as depreciation	18,109	3	14,748	3	22,130	5	16,170	5	4,367	2
- as revenue reserves	104,463	18	81,525	16	167,309	39	119,666	38	72,744	40
Total value distributed	**579,653**	**100**	**495,035**	**100**	**432,867**	**100**	**316,055**	**100**	**181,142**	**100**



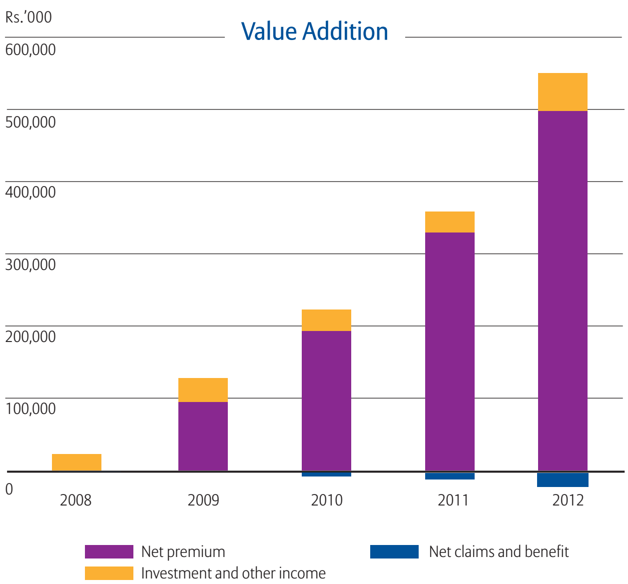


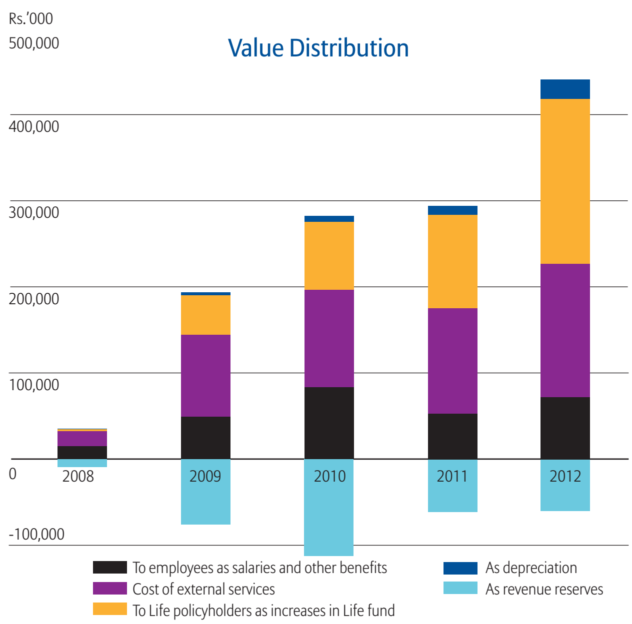
Contribution to the National Economy

LIFE INSURANCE

Value Addition	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000
Net earned premium	497,452	329,558	192,569	94,322	3,280
Investment and other income	52,753	31,087	30,092	33,819	22,331
Net claims and benefits	(15,877)	(12,612)	(5,715)	(3,283)	-
Cost of external services	(154,946)	(122,044)	(112,991)	(95,056)	(17,856)
Total value added	**379,383**	**255,989**	**103,955**	**29,802**	**8,315**

Value Distribution	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	71,649	19	52,765	23	83,365	80	49,136	165	14,611	176
To intermediaries as commissions	152,276	40	108,781	48	78,926	76	45,781	154	1,744	21
To Life fund	191,675	51	112,933	50	58,289	56	7,317	24	684	8
Retained with the business										
- as depreciation	22,979	6	10,015	4	7,352	7	3,284	11	927	11
- as revenue reserves	(59,196)	-16	(58,506)	-26	(123,977)	-119	(75,716)	-254	(9,651)	-116
Total value distributed	**379,383**	**100**	**255,989**	**100**	**103,955**	**100**	**29,802**	**100**	**8,315**	**100**

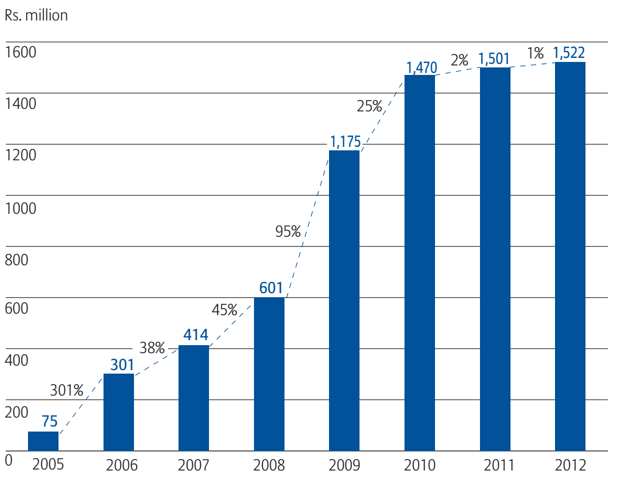




Financial Overview

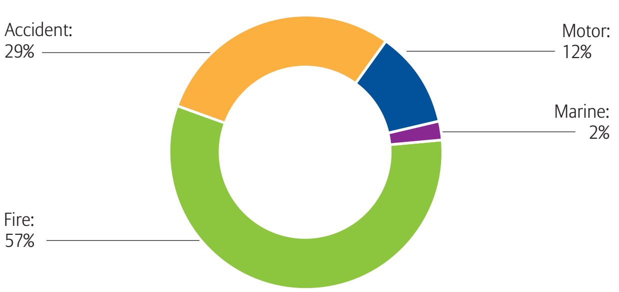
GENERAL INSURANCE

Gross Written Premium (GWP)



During the year Company recorded a GWP of Rs. 1,522 million against the GWP of Rs. 1,501 million in 2011. The Company writes business from selected classes rather than focusing on a higher GWP growth.

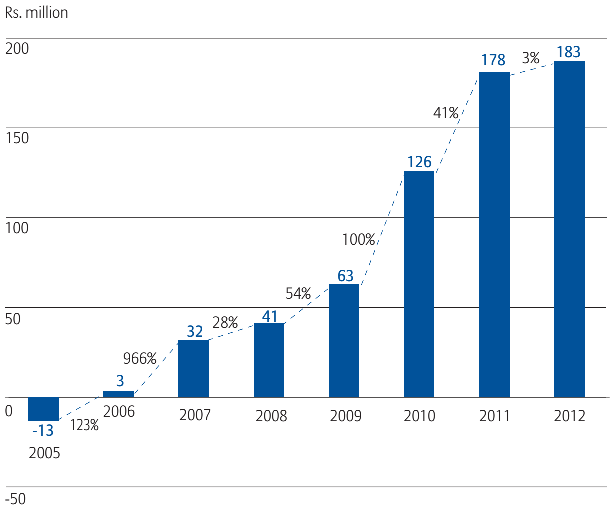
Premium by Classes



The Company continued to grow it non-motor portfolio which has been the highest contributior to the Company despite the industry highest contributor been Motor. The non-motor classes consists of 88% of the total GWP of the company and Motor business segment constituted only 12% of the Company's GWP in 2012.

Financial Overview - **General Insurance** *(Contd.)*

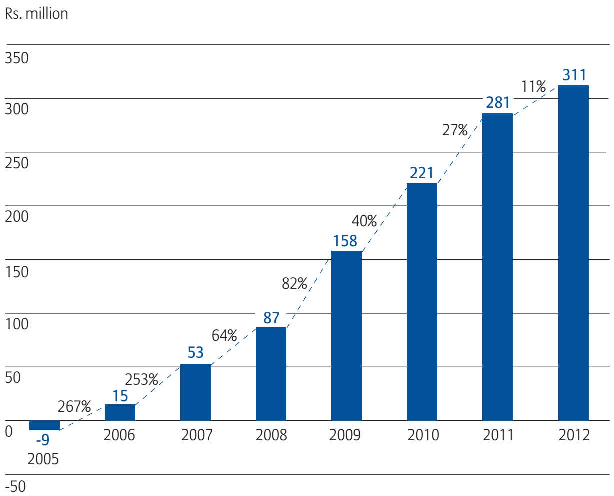
Underwriting Profit



The Company completed another successful year by continued display of sustainability of its core business model to improve in its profitability record. Underwriting profit is an indication of the net result generated solely from General insurance business carried out during the year, before considering investment and any other income generated by the Company in the same period.

Underwriting Profit generated by the company was Rs. 183 million which resulted in a 4% increase over the previous year's achievement of Rs. 178 million. Allianz Lanka attributes its underwriting success to prudent underwriting practices, efficient operating cost management and favourable reinsurance arrangements.

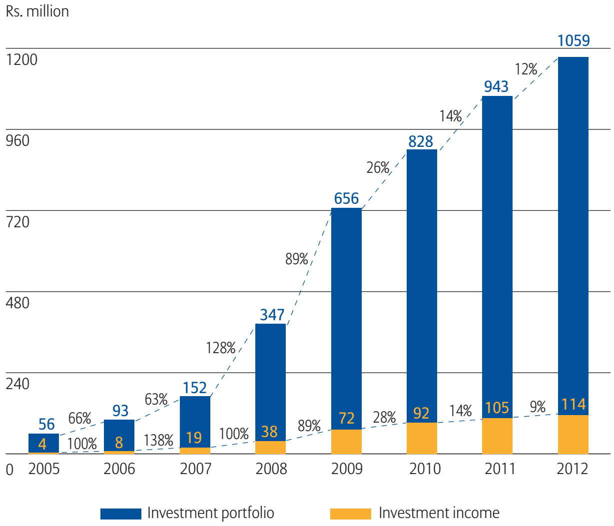
Profit Before Tax (PBT)



The company kept up the momentum and generated yet another excellent operating result by recording a profit before tax growth of 11% to Rs. 311 million, compared with Rs. 281 million in 2011. This profitability has been derived after charging Rs. 251 million as staff, selling, depreciation and other expenses. Allianz Lanka will continue to focus on growth in profitable lines.

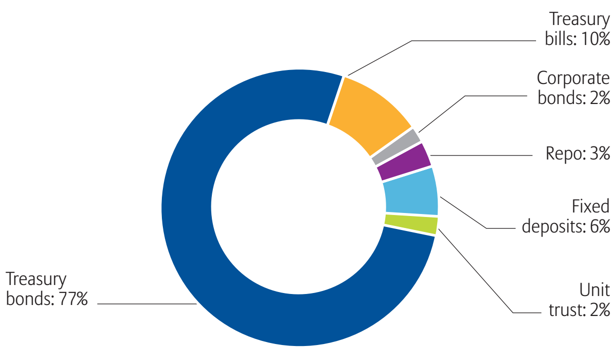
Financial Overview - **General Insurance** *(Contd.)*

Investment Portfolio



Given the current interest rate environment the Company's investment strategy remains focused on generating attractive returns and on minimizing vulnerability to price fluctuations. The investments of the Company has grown by12% during 2012 to Rs. 1,059 million, from Rs. 943 million in 2011. Investment income for 2012 has increased by 8% to Rs. 114 million. The company ensures that the investment decisions taken are well within the risk appetite laid down by its risk strategy.

Investment Portfolio - Asset Allocation

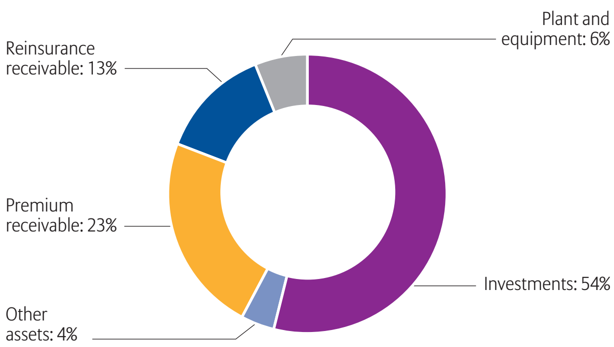


The Company's investment strategy is aligned to the guidelines set out by the Allianz Group, which serves as the basis for investment decisions.

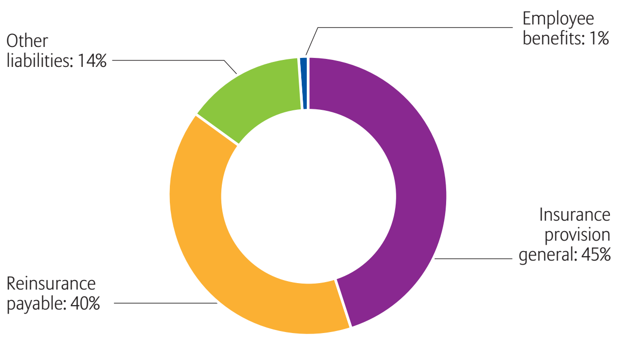
The strategic asset allocation focuses on matching liability duration, in line with our operating business profile. Given the erratic nature in terms of size and frequency of liability claims it is of paramount importance that we maintain a highly liquid portfolio mainly consisting of short-end Government securities. Consequently, over 90% of the investments were held in Government securities with an average duration of 11 years.

Financial Overview - **General Insurance** *(Contd.)*

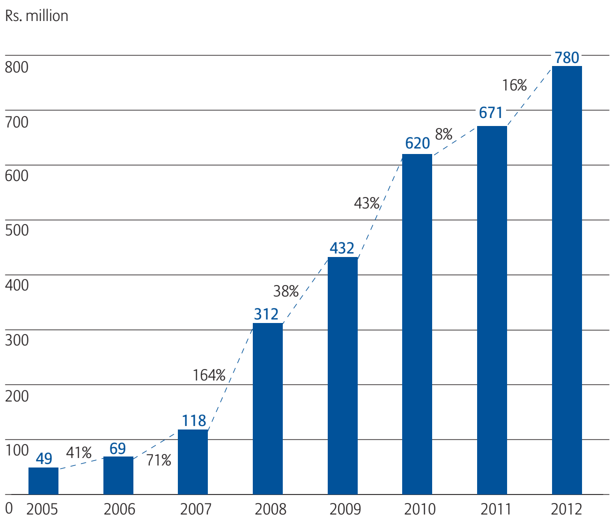
Asset Composition



Liability Composition



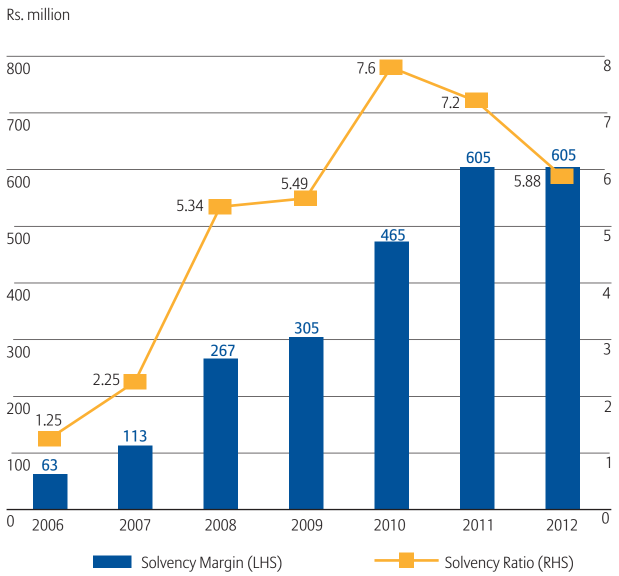
Net Assets



The net assets of the Company grew by 16% during the year to Rs. 780 million, compared with Rs. 671 million in 2011 due to the improved profitability. The dividend payout of Rs. 125 million during the year to the shareholder has resulted in Net assets increase being lowered.

Financial Overview - **General Insurance** *(Contd.)*

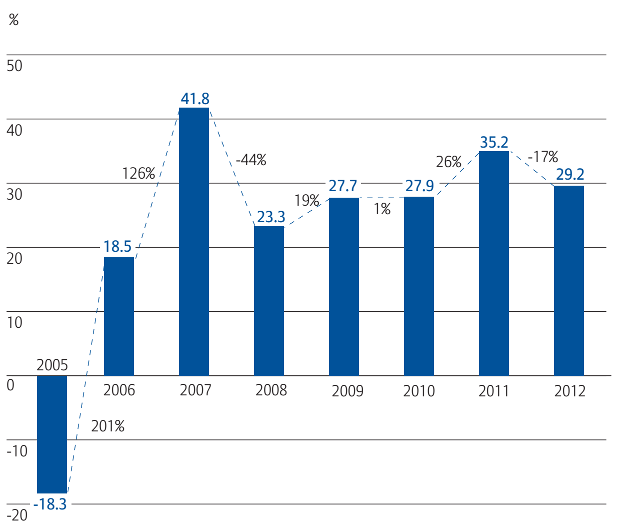
Solvency Margin



The solvency margin expresses an insurer's ability to pay insurance benefits and other payments. This is an important measure for an insurance company and measures its financial stability.

The Company's year-end regulatory solvency margin level stood at a comfortable 576%, which is well above the regulatory minimum of 100%. Higher profitability and a prudent investment strategy have helped the Company maintain a strong level of solvency even following a dividend distribution to shareholders.

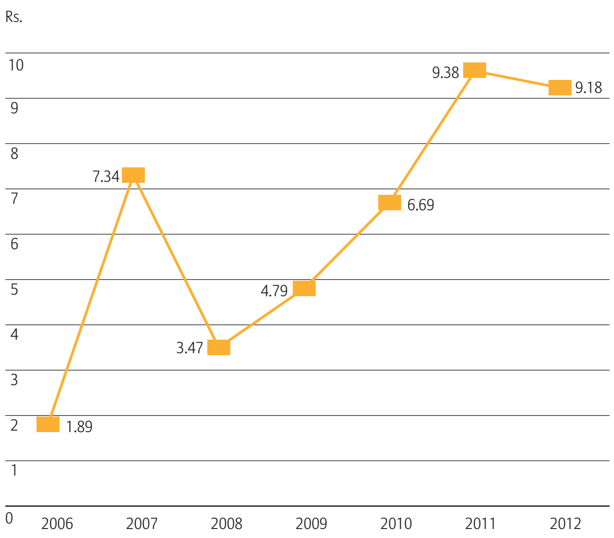
Return on Equity (ROE)



Return on equity is 29%, compared to 35% recorded last year; the significant increase of corporate taxes compared to previous year profit was the main reason for the decline. Despite the decline on ROE the Company continued to create value to its shareholders.

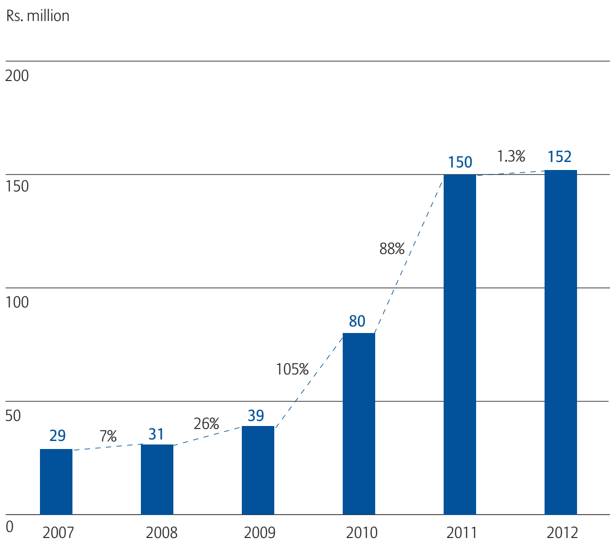
Financial Overview - **General Insurance** *(Contd.)*

Earnings per Share (EPS)



The earnings per share (EPS) for the year ended 31 December 2012 was Rs. 9.18, a decrease from Rs. 9.38 recorded in 2011. However during the year the company has a higher earning before tax, due to a significant increase tax amount compared to previous year, EPS has come down marginally.

Economic Value Added (EVA)



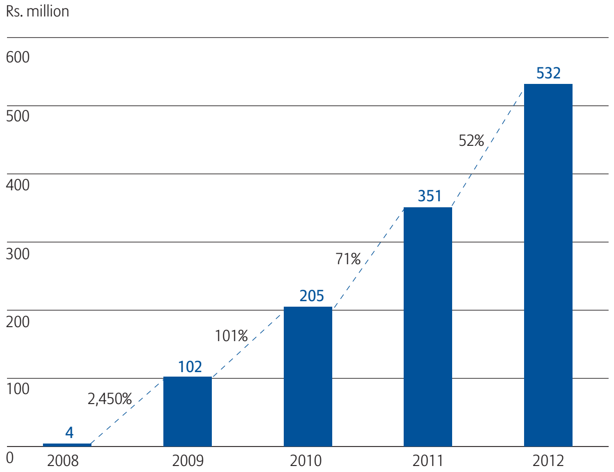
The Economic Value Added (EVA) measures the profitability of the Company after taking into account the cost of invested equity.

The Company has continued to improve it's EVA during 2012, to Rs. 152 million. This is an increase of 1.3% from 2011 and due mostly to the effects of the increase in profitability during 2012.

Financial Overview

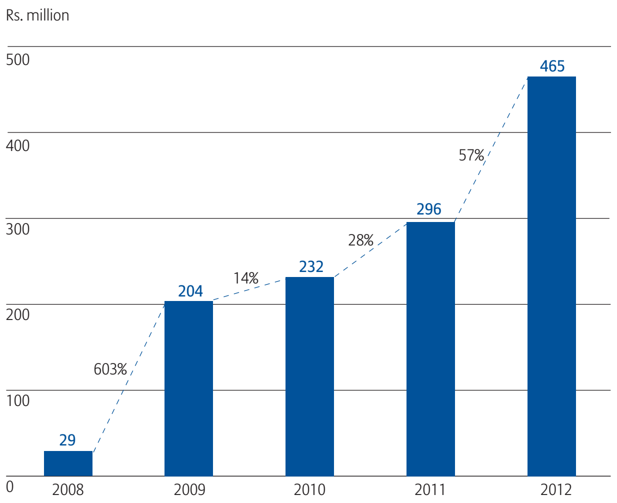
LIFE INSURANCE

Gross Written Premium (GWP)



The company recorded 52% growth in GWP and kept an industry record of achieving a half a billion GWP in completion of four full years operation. This is a remarkable growth when compare with the industry.

Annualized New Business Premium (ANBP)

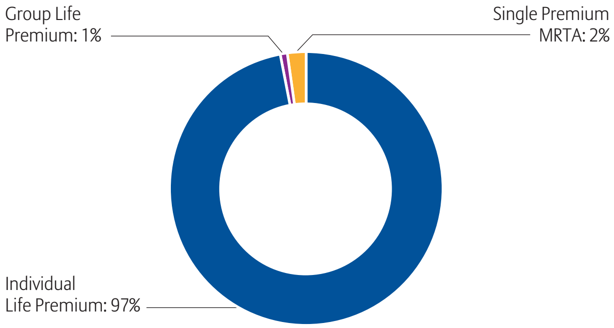


The company recorded an impressive growth in ANBP of Rs. 465 million, which is 57% compare to 2011. This was resulted with the increasing of customer accessibility through the wide branch network and the committed agency sales force and the introduction of new product.

Maintaining the new business growth is always a challenge in terms of sales force capacity due to the high turnover rate as a result of increased competition and new entrants to the Life insurance business. In order to maintain and improve Allianz service standards, the strength of our sales force is expected to be increased to targeted levels

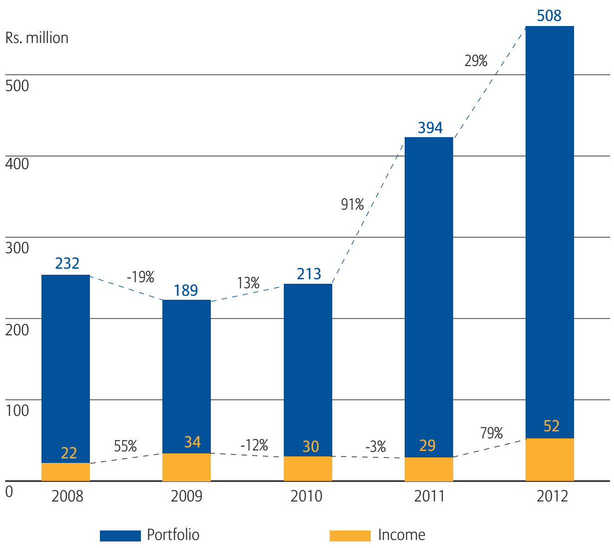
Financial Overview - **Life Insurance** *(Contd.)*

Premium by Insurance Type



The individual Life segment continued to be the biggest contribution to GWP, recording a total GWP for the segment of Rs. 513 million. During the year the Company successfully launched two new products under the Universal Life platform namely 'Vishrama' and 'Ithurum' as retirement plan and savings plan respectively.

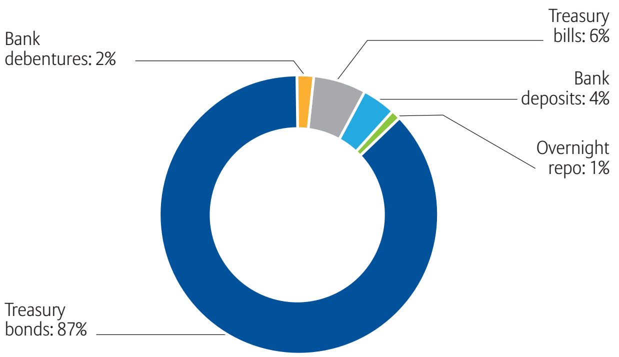
Investments



The market value of the portfolio experienced a 29% growth in 2012 to Rs. 508 million on the back of new investments flowing from increased GWP while investment income grew by 79% to Rs. 52 million over the same period.

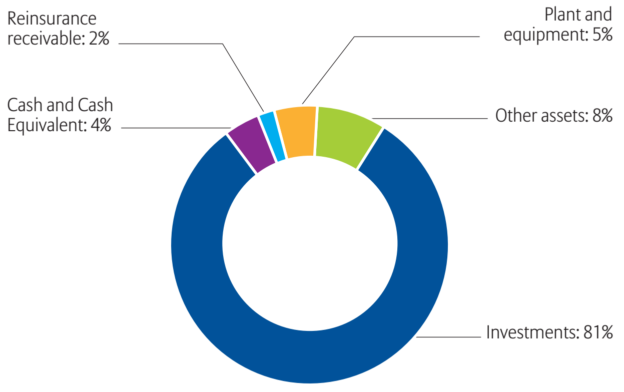
Financial Overview - **Life Insurance** *(Contd.)*

Investment Portfolio - Asset Allocation

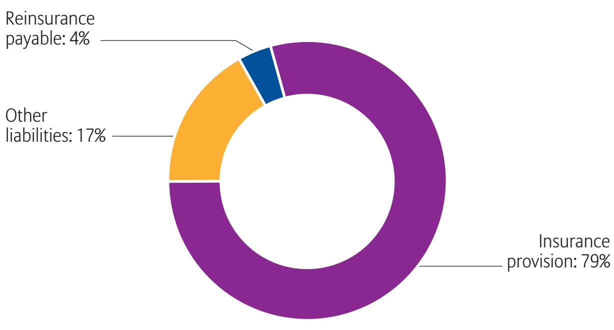


The Company continued to maintain its prudent investment strategy, in line with guidelines set forth by the Allianz Group, with the objective of preserving its capital whilst earning a competitive risk adjusted return. Increased focus on matching portfolio duration along with liability duration resulted in an increase in investments in Treasury bonds to 87% in 2012 compared to 81% in 2011.

Asset Composition

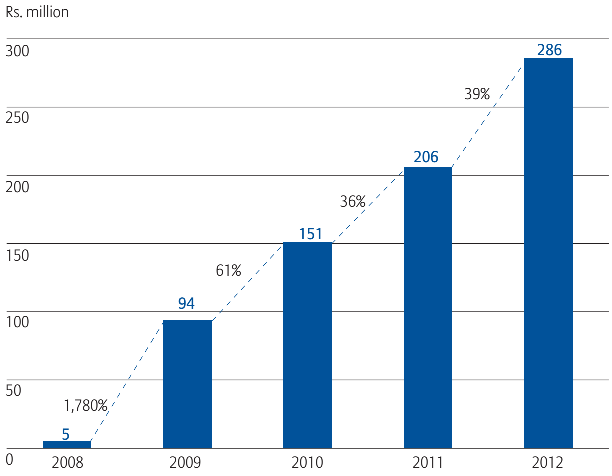


Liability Composition



Financial Overview - **Life Insurance** *(Contd.)*

First Year Premium



The Company records a first year premium of Rs. 286 million, which is 39% growth compare to last year and which contributed 54% to overall GWP.

Content

Allianz Insurance Lanka Ltd.

Financial Information

Allianz

Certification of Incurred But Not Reported (IBNR) Reserve

Certification by the Actuary

We hereby certify that the IBNR provision of Rs. 18,170,404 is adequate in relation to the Claim Liabilities of Allianz Insurance Lanka Ltd as at 31st December 2012, net of reinsurance. This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate to meet the future liabilities in respect of the Company's incurred claims obligations as at 31st December 2012, in many but not all scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). We hereby certify that the UPR provision of Rs. 302,501,227 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of Allianz Insurance Lanka Ltd as at 31 December 2012, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

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

We have relied upon information and data provided by the management of the above company and we have not independently verified the data supplied, beyond applying checks to satisfy ourselves as to the reasonability of the data.

Matthew Maguire
Fellow of the Institute of Actuaries (FIA)
Fellow of the Institute of Actuaries of Australia (FIAA)
For and on behalf of NMG Financial Services Consulting
Dated 26 February 2013

Independent Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha ,
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TO THE SHAREHOLDERS OF ALLIANZ INSURANCE LANKA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Insurance Lanka Limited ("the Company"), which comprise the statement of financial position as at December 31, 2012, the statements of comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 18 to 49 of the Financial Statements.

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 policies 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, 2012 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2012, and of its financial performance and its cash flow 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 Section 47(2) of the Regulation of Insurance Industry Act No.43 of 2000, 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.

KPMG

Chartered Accountants
Colombo
27th March 2013

Statement of Financial Position

As at 31 December	Notes	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Assets				
Intangible Assets	4	24,870	10,122	11,233
Property Plant and Equipment	5	34,999	19,020	26,330
Financial Investments	6	1,058,704	943,206	828,458
Reinsurance Receivable on Outstanding Claims		43,548	50,599	186,606
Reinsurance Receivable on Settled Claims		217,500	290,544	109,899
Premium Receivable	7	451,657	379,806	334,602
Other Assets	8	74,917	77,072	95,316
Deferred Tax Assets	21b	7,616	5,060	3,183
Cash and Cash Equivalents	9	56,250	18,485	19,827
Total Assets		**1,970,061**	**1,793,914**	**1,615,454**
Equity and Liabilities				
Equity				
Stated Capital	10	250,000	250,000	250,000
Fair Value Reserves		(4,421)	(8,500)	20,676
Revenue Reserves	11	534,706	430,243	349,446
		780,285	**671,743**	**620,122**
Liabilities				
Insurance Liabilities	12	529,878	468,653	520,252
Employee Benefits	13	5,890	4,112	4,899
Reinsurance Creditors		469,908	535,829	336,200
Other Liabilities	14	168,117	91,037	105,524
Bank Overdraft		15,983	22,540	28,457
Total Liabilities		**1,189,776**	**1,122,171**	**995,332**
Total Equity and Liabilities		**1,970,061**	**1,793,914**	**1,615,454**

The above balance sheet is to be read in conjunction with the Notes to the Financial Statements on pages 23 to 49.

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 by:

Heinz Dollberg
Director

Surekha Alles
Director

Colombo
27 March 2012

Statement of Comprehensive Income

For the year ended 31st December	Notes	2012	2011
		Rs.'000	Rs.'000
Gross Written premium	15(a)	1,521,463	1,501,300
Premiums ceded to reinsurers		(876,244)	(994,230)
Compulsory cession to NITF		(119,534)	(86,689)
Net Written Premium	15(b)	**525,685**	**420,381**
Net Change in Reserve for Unearned Premium		(90,124)	(83,634)
Net Earned Premium		**435,561**	**336,747**
Other Revenue			
Investment Income	16	113,823	105,041
Realized gains/(losses)		13,614	(5,132)
Other operating revenue		61	5,545
		127,498	**105,454**
Net Income		**563,059**	**442,201**
Gross benefits and claims paid		(322,545)	(387,311)
Claims ceded to reinsurers		169,786	262,472
Gross change in contract liabilities		222	122,423
Change in contract liabilities ceded to reinsurers		(11,300)	(136,752)
Net benefits and claims	17	**(163,837)**	**(139,168)**
Underwriting and net acquisition costs	18	163,639	151,610
Other Operating and Administrative Expenses	19	(250,902)	(171,570)
Finance costs		(1,060)	(1,882)
Other Expenses		**(88,323)**	**(21,842)**
Profit before tax	20	310,899	281,191
Income tax expense	21	(81,382)	(46,594)
Profit for the year		**229,517**	**234,597**
Earnings per share	22	9.18	9.38
Other Comprehensive Income			
Profit for the year		229,517	234,597
Actuarial Gains/(Losses) on Defined Benefit Plan		(54)	4,533
Fair value Gains/(Losses) On Available for sale of investments		4,079	(29,176)
		4,025	**(24,643)**
Total Comprehensive Income for the year		**233,542**	**209,954**

The above Statement of Comprehensive income is to be read in conjunction with the Notes to the Financial Statements on pages 23 to 49.

Statement of Changes in Equity

	Stated Capital Rs.'000	Revenue Reserves Rs.'000	Fair value Reserves Rs.'000	Total Rs.'000
Audited Balance as at 31 December 2009 as reported under SLAS	**250,000**	**181,946**	**-**	**431,946**
Total Comprehensive Income for the year				
Net Profit for the year		167,309		167,309
EIR Adjustments for Investments		191		191
Fair Value adjustment for AFS Investments			20,676	20,676
EIR Adjustments for Staff Loans		2.475		2.475
Amortisation of Prepaid Staff Cost		(2.475)		(2.475)
	250,000	**349,446**	**20,676**	**620,122**
SLFRS adjusted balance as at 31 December 2010	**250,000**	**349,446**	**20,676**	**620,122**
Total Comprehensive Income for the year				
Net Profit for the year		234,597		234,597
Fair Value adjustment for AFS Investments			(29,176)	(29,176)
Actuarial Gains/(Losses) on Retirement Benefits		4,533		4,533
Dividend paid		(158,333)		(158,333)
	250,000	**430,243**	**(8,500)**	**671,743**
SLFRS adjusted balance as at 31 December 2011	**250,000**	**430,243**	**(8,500)**	**671,743**
Total Comprehensive Income for the year				
Net Profit for the year		229,517		229,517
Fair Value adjustment for AFS Investments			4,079	4,079
Actuarial Gains/(Losses) on Retirement Benefits		(54)		(54)
Dividend paid		(125,000)		(125,000)
SLFRS adjusted balance as at 31 December 2012	**250,000**	**534,706**	**(4,421)**	**780,285**

The above Statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements on pages 23 to 49.

Statement of Cash Flows

For the year ended 31 December	2012 Rs. '000	2011 Rs. '000
Cash Flow From Operating Activities		
Premium received from Customers	1,450,207	1,456,096
Reinsurance Premium paid	(784,405)	(650,143)
Claims Paid	(313,158)	(389,211)
Reinsurance receipts in respects of Claims	231,404	131,481
Cash paid to and behalf of employees	(82,054)	(57,655)
Operating Cash Payments	(223,248)	(223,337)
Cash inflow/ (Out flow) from Operating Activities (Note A)	**278,746**	**267,231**
Employees benefit Paid	-	(44)
Tax Paid	(56,934)	(49,022)
Net Cash Flow From Operating Activities	**221,812**	**218,165**
Cash Flow From Investing Activities		
Purchase of investments	(7,063,696)	(584,925)
Proceeds on Sale of Investment	6,952,066	440,999
Purchase of Intangible Assets	(24,608)	(7,560)
Purchase of Property and Equipment	(34,088)	(7,438)
Interest income received	117,835	102,498
Proceeds on sale of Property and Equipment	-	1,169
Net Cash Flow from Investing Activities	**(52,491)**	**(55,257)**
Net Cash Flow Before Financing Activites	**169,322**	**162,908**
Cash Flow From Financing Activities		
Dividend paid	(125,000)	(158,333)
Net Cash Flow From Financing Activities	**(125,000)**	**(158,333)**
Net Increase / (Decrease) in Cash and Cash Equivalents (Note B)	**44,322**	**4,575**

Statement of Cash Flows *(Contd.)*

For the year ended 31 December	2012	2011
Notes to Cash flow statement	Rs. '000	Rs. '000
A. Reconciliation of Operating Profit with Cash Flow from Operating Activities		
Profit before taxation	310,899	281,191
Depreciation Charge	18,109	14,748
Provision for Employee Benefits	1,724	3,791
Amortization of Intangible Assets	9,860	8,671
Interest and other Income	(113,823)	(106,210)
Increase in Debtors	6,487	(65,817)
Increase in Unearned Premiums and Deferred acquisition Costs	104,247	80,270
Increase / (Decrease) in Claims Provisions	(43,022)	(131,870)
Increase/ (Decrease) in Creditors and accruals	(15,735)	182,457
Cash Inflow / (Outflow) from Operating Activities	**278,746**	**267,231**
Employee benefit Paid		(44)
Tax paid	(56,934)	(49,022)
Net Cash inflow /(Outflow) From Operating Activities	**221,812**	**218,165**
B. Net Increase / (Decrease) in Cash and Cash Equivalents		
Cash in hand and at Bank	56,250	18,485
Bank Overdraft	(15,983)	(22,540)
Net Cash and Cash Equivalents as at 31 December 2012	40,267	(4,055)
Net Cash and Cash Equivalents as at 31 December 2011	(4,055)	(8,630)
Net Increase / (Decrease) in Cash and Cash Equivalents	**44,322**	**4,575**

The above cash flows statement is to be read in conjunction with the notes to the Financial Statements on pages 23 to 49.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1. Reporting Entity

Allianz Insurance Lanka Limited is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company and the principal place of business are located at No. 92, Glennie 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 insurance business in January 2005.

1.2. Principal Activity

The Company is engaged in the business of underwriting Non-Life Insurance.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The Institute of Chartered accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which became applicable for financial periods beginning on or after 1st January 2012. The Financial Statements of the company which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with these Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No.7 of 2007 and the Regulation of Insurance Industry Act No. 43 of 2000.

These are the company's first Financial Statements prepared in accordance with Sri Lanka Accounting Standard prefixed SLFRS and LKAS and SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standard has been applied.

An explanation of how the transition from SLAS to SLFRS has affected the company's statement of financial position, financial performance and cash flows is provided in the note 28.

2.2. Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently subject to the impact in note 2.1, with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

- Available-for-sale financial assets are measured at fair value
- Employee Benefits - Gratuity

The Company presents its Statement of Financial Position broadly in the order of liquidity.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a basis, or to realise the assets and settle the liability simultaneously.

2.3. Date of Authorization of Issue

The Financial Statements of Allianz Insurance Lanka Ltd for the year ended 31 December 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 27th March 2013.

2.4. Functional and Presentation Currency

The Financial Statements are presented in Sri Lanka Rupees (LKR), which is the Company's functional currency rounded to the nearest thousand, unless otherwise stated.

Notes to the Financial Statements *(Contd.)*

2.5. Use of Estimates & Judgements

The preparation of Financial Statements in conformity with SLFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are included in the following notes.

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Unearned Premium	12a	41
Deferred Acquisition Cost	12b	41
Provision for Gross Outstanding Claims	12c	41
Provision for IBNR/IBNER	12d	41
Employee Benefits	13	42
Deferred Taxation	21b	45

2.5.1 Insurance Contract Liabilities- Non Life Insurance

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

2.6. Materiality and Aggregation

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

2.7. Foreign Currency Transactions

All foreign exchange transactions are converted to the functional currency, at the rates of exchange prevailing at the time the transactions were effected. Insurance contracts which were underwritten in foreign currency are converted to functional currency at the rates of exchange prevailing at the time of underwriting and Revenue is recognised accordingly.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non- monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the Statement of Income.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and in preparing the opening SLFRS statement of financial position at 1 January 2011 for the purposes of the transition to SLFRSs, unless otherwise indicated.

3.1. Insurance Contacts

As permitted by SLFRS 4 Insurance Contracts, the Company continues to apply the existing accounting policies for Insurance Contracts that were applied prior to the adoption of SLFRS.

Product classification

SLFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred.

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

All the products sold by the Company are insurance contracts and therefore classified as Insurance contracts under the SLFRS 4 – Insurance Contracts. Thus, the Company does not have any investment contracts within its product portfolio as at the reporting date.

3.2. Assets and Liabilities and Basis of their Valuation

3.2.1 Intangible Assets

Software

Basis of Recognition

An Intangible Asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

Software acquired by the Company is stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the Statement of Income as incurred.

Amortization

Amortization is recognized in the Statement of Income on a straight line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

The estimated useful life of an intangible asset in a service concession arrangement is the period when it is available for use to the end of the concession period.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Notes to the Financial Statements *(Contd.)*

De-recognition

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

3.2.2. Property Plant and Equipment

Basis of Recognition

Property, Plant and Equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

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

Measurement

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

Gains and losses on disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income/other expenses” in the Statement of Income.

Subsequent Costs

The cost of replacing a part of an item of Plant and Equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The cost of day to day servicing of Property, Plant and Equipment is charged to the Statement of Income as incurred.

Depreciation

Depreciation is charged on property, plant & equipment on the straight line basis to write-off the cost over the estimated useful lives as follows,

Office equipment	3 Years
Computer equipment	3 Years
Furniture & 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.

Depreciation methods, useful lives and residual values are reviewed and adjusted if appropriate at each reporting date.

De-recognition

The carrying amount of an item of Property, Plant and Equipment is de-recognized on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment is included in the Statement of Income when the item is de-recognized.

When replacement costs are recognized in the carrying amount of an item of property and equipment, the remaining carrying amount of the replaced part is de-recognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost of inspection is de-recognized.

3.2.3. Leased Assets – Lessee

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

Operating Leases

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term.

3.2.4. Impairment of Non-Financial Assets

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

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in the Statement of Income.

3.2.5. Financial Assets

3.2.5.1. Initial recognition and subsequent measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit or loss where the Company's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortized cost.

The Company's financial assets include Government Securities, Fixed deposits, Debentures and Unit Trust.

The financial assets are recorded based on trade date.

Loans and other receivables

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

These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recorded at fair value.

After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income (OCI) in the Fair Value Reserve until the investment is derecognized or the investment is determined to be impaired.

Interest earned whilst holding available-for-sale investments is reported as 'Interest Income' using the EIR.

On de-recognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the income statement.

3.2.5.2 De-recognition of financial assets

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

- The rights to receive cash flows from the asset have expired
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement
- The Company has transferred its rights to receive cash flows from the asset and either:
- has transferred substantially all the risks and rewards of the asset, or

- has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

  When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

3.2.5.3 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3.2.5.4. Amortized cost measurement

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

3.2.2.5 Fair Value of Financial Instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date, without any deduction for transaction costs.

For financial instruments where there is not an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions.

Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognized only when the inputs become observable or on de-recognition of the instrument.

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

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

3.2.5.6. Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

- **Assets carried at amortized cost**

  If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recorded in the income statement.

  The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each balance sheet date.

  If, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss

Notes to the Financial Statements *(Contd.)*

is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

- **Available-for-sale financial investments**

If an available-for-sale financial asset is impaired, an amount comprising the difference between its costs (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in other comprehensive income, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the income statement.

Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognized in the income statement.

3.3. Deferred Acquisition Cost

The costs of acquiring new businesses including commission which vary with and directly related to production of new businesses are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, DAC for general insurance is amortized over the period on the basis UPR is amortized

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

DAC are derecognized when the related contracts are either expired or cancelled.

3.4. Reinsurance

The Company cedes insurance risk in the normal course of business to recognized reinsurers through formal reinsurance arrangements.

Reinsurance assets represent 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 receivables are recorded gross in the balance sheet unless a right to offset exists.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

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

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

Notes to the Financial Statements *(Contd.)*

Reinsurance commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortized over the period in which the related written premiums are earned

3.5. Premium Receivable

Premium receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement

3.6. Other Receivables

Other receivables and dues from Related Parties are recognised at cost.

3.7. Cash & Cash Equivalents

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

3.8. Liabilities and Provisions

3.8.1. Insurance contract liabilities

3.8.1.1 Non-Life insurance contract liabilities

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities, known as the Policy Liability provisions include the Premium and Claim Liabilities. The Premium Liabilities relate to policies for which the premium has been received but the exposure has not fully expired, while the Claim Liabilities relate to claims that have been incurred but not yet settled.

The provision for Unearned Premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income. At each reporting date the Company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. If these calculations show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the income statement by setting up a provision for liability adequacy.

The Claim Liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, with a reduction for the expected value of salvage and other recoveries.

Delays can be experienced in the notification and settlement of claims, therefore the ultimate cost of these cannot be known with certainty at the balance sheet date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the contract expires, is discharged or is cancelled.

3.8.1.2. Liability Adequacy Test

At each reporting date the Company reviews its unexpired risk and a liability adequacy test is performed as laid out under SLFRS 4 to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognized in the income statement by setting up a provision for liability adequacy.

3.8.2. Employee Benefit Obligation

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; and discounting that benefit to determine its present value. The calculation is performed annually by a qualified independent actuary using the projected unit credit (PUC) method as recommended by LKAS 19 - Employee Benefits.

The assumptions based on which the results of the actuarial valuation was determined, are included in note 13 to the Financial Statements.

However, according to the Payment of Gratuity Act no.12 of 1983, the liability for the gratuity payment to an employee arises only on the completion of 5 years of continued service with the Company.

The provision is not externally funded.

The Company recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and expenses related to defined benefit plans in personnel expenses in profit or loss

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

A defined contribution plan is a post-employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to Provident Fund under the Provident Fund Act no. 15 of 1958 as amended and Trust Fund under the Trust Fund Act no. 46 of 1980 covering all employees, are recognized as an employee benefit expense in profit and loss when they are due.

The Company contributes 12% and 3% of gross emoluments of employees as provident fund and trust fund contribution respectively.

3.8.4. Provisions

A provision is recognized 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.

Notes to the Financial Statements *(Contd.)*

3.9. Revenue recognition

3.9.1. Gross premiums

Gross Written 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 365 basis except for marine business, which is computed on a 60-40 basis.

3.9.2. Reinsurance premiums

Reinsurance premium expense is recognised in the same accounting period as the gross written premium to which it relates or in accordance with the pattern of reinsurance services received.

3.9.3 Unearned premium reserve

The unearned premium reserve represents the portion of the gross written premium and reinsurance premium written in the current year but relating to the unexpired period of coverage.

Unearned premiums are calculated on the 365 basis except for marine business, which is computed on a 60-40 basis.

3.9.4 Investment income

Interest income is recognized in the income statement as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

3.9.5. Realized gains and losses

Realized gains and losses recorded in Statement of Income on investments include gains and losses on financial Assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the Original or amortized cost and are recorded on occurrence of the sale transaction.

3.9.6. Other Income

Other income is recognised on an accrual basis.

3.10. Benefits, claims and expenses recognition

3.10.1Gross benefits and claims

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

Claims expenses and liabilities for outstanding claims are recognized in respect of direct and inward reinsurance business. The liability covers claims reported but not yet paid, Incurred But Not Reported claims (IBNR), Incurred But Not Enough Reserved(IBNER) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. The provision in respect of IBNR, IBNER is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

Notes to the Financial Statements *(Contd.)*

While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

3.10.2 Reinsurance Claims

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

3.11. Expenditure Recognition

a) Expenses are recognised in the Statement of Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to Statement of Income in arriving at the profit for the year.

b) For the purpose of presentation of the Statement of Income the directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

3.12. Taxation

3.12.1Current Taxes

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

3.12.2 Deferred Taxation

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

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

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

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

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

3.13. Stated Capital

Company's Stated Capital comprises of ordinary shares which are classified as equity.

3.14. Earnings Per Share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Notes to the Financial Statements *(Contd.)*

3.15. Cash Flow Statements

The cash flow statement has been prepared using the direct method. Interest received, interest paid and dividend received are classified as operating cash flows while dividends paid is classified as financing cash flow.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

3.16. Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be concerned only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control. Contingent liabilities are disclosed in note 26 to the Financial Statements. Commitments are disclosed in note 25 to the Financial Statements.

3.17. Events occurring after the Reporting Date

All material post balance sheet events have been considered and where appropriate adjustments or disclosures have been made in note no 27 to the Financial Statements on Page 46.

3.18. Proposed Dividends

Dividend proposed / declared by the Board of Directors after the reporting sheet date is not recognized as a liability and is disclosed as a note to the Financial Statements.

3.19. Comparative Information

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation. The details of such re-classifications have been provided in Note 28.

3.20. Nature and extent of risks arising from financial instruments

The Company discloses information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Company is exposed at the end of the reporting period.

The disclosures focus on the risks that arise from financial instruments and how they have been managed. These risks typically include credit risk and liquidity risk.

Qualitative disclosures

For each type of risk arising from financial instruments, the Company has disclosed:

(a) The exposures to risk and how they arise;

(b) Its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) Any changes in (a) or (b) from the previous period.

Quantitative disclosures

For each type of risk arising from financial instruments, the Company has disclosed:

(a) Summary quantitative data about its exposure to that risk at the end of the reporting period.

Credit risk

The Company has disclosed by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements.

(b) Information about the credit quality of financial assets that are neither past due nor impaired.

Liquidity risk

The Company has disclosed:

Notes to the Financial Statements *(Contd.)*

(a) A maturity analysis for financial liabilities that shows the remaining contractual maturities; and

(b) A description of how it manages the liquidity risk inherent in (a).

3.20.1 Credit Risk

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

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

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

Credit Risk Exposure on Assets

31st December 2012

Financial Instruments	Government Guaranteed Rs'000	AAA Rs'000	AA+ Rs'000	TOTAL Rs'000
Available for Sale				
Government securities	943,272	-	-	943,272
Unit Trust	26,227	-	-	26,227
Loans and Receivables				
Debentures	-	-	20,000	20,000
Fixed Deposit		35,000	34,205	69,205
Total	969,499	35,000	54,205	1,058,704

31st December 2011

Financial Instruments	Government Guaranteed Rs'000	AAA Rs'000	AA+ Rs'000	TOTAL Rs'000
Available for Sale	**908,926**	**-**	**-**	**908,926**
Government securities	-	-	-	-
Unit Trust				
Loans and Receivables	-	-	20,000	20,000
Debentures		15,000	-	15,000
Fixed Deposit				
Total	908,926	15,000	20,000	943,926

3.20.2Liquidity Risk of Debt Instruments

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments. The table below summarises the maturity profile of the financial assets of the company based on their market value.The Company maintains a portfolio of highly marketable securities that can be easily liquidated in the event of an unforseen interruption of cash flow. Some of the specific actions by the Company to mitigate the liquidity risk are shown below;

Notes to the Financial Statements *(Contd.)*

- Cash outflows identified in advance are matched through short term deposits.

- The company maintains a foreign currency deposit which can be liquidated in the event of unexpected cash outflows.

Maturity Analysis of Financial Assets 2012

	Cost of Investment Rs'000	Less than 1 year Rs'000	1-3 years Rs'000	More than 3 years Rs'000	No Maturity Rs'000	Carrying Value Rs'000
Available for Sale	**962,624**	**279,668**	**663,604**	**-**	**26,227**	**969,499**
Treasury bonds	779,236	121,040	663,604	-	-	784,644
Treasury bills	107,985	108,225	-	-	-	108,225
REPO	50,403	50,403	-	-	-	50,403
Unit Trust	25,000	-	-	-	26,227	26,227
Loans & Receivables	**89,205**	**54,205**	**35,000**	**-**	**-**	**89,205**
Debentures	20,000	-	20,000	-	-	20,000
Fixed deposits	69,205	54,205	15,000	-	-	69,205

Maturity Analysis of Financial Assets 2011

	Cost of Investment Rs'000	Less than 1 year Rs'000	1-3 years Rs'000	More than 3 years Rs'000	No Maturity Rs'000	Carrying Value Rs'000
Available for Sale	**916,706**	**358,383**	**405,728**	**144,816**	**-**	**908,927**
Treasury bonds	864,696	306,373	405,728	144,816	-	856,917
Treasury bills	24,523	24,523	-	-	-	24,523
REPO	27,487	27,487	-	-	-	27,487
Unit Trust	-	-	-	-	-	
Loans & Receivables	**35,000**	**-**	**15,000**	**20,000**	**-**	**35,000**
Debentures	20,000	-	-	20,000	-	20,000
Fixed deposits	15,000	-	15,000	-	-	15,000

3.20.3. Interest Rate Risk

Interest rate risk is the risk of interest rate volatility adversely affecting the market value of the investment portfolio. In an increasing interest rate environment, there will be a drop in the value of treasury bills and bonds when they are marked-to-market.

The company monitors its interest rate risk on a monthly basis by analyzing the movement in the interest rate-sensitive asset duration, the allocation to interest-rate sensitive assets, and the sensitivity of interest rate movements on the Solvency Margin.

The report is reviewed by the local CRO and the Allianz Asia Pacific Risk Team."

Notes to the Financial Statements *(Contd.)*

4 Intangible Assets	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Acquisition Cost			
Balance as at 1 January	33,035	25,475	25,267
Additions	24,608	7,560	208
Balance as at 31 December	57,643	33,035	25,475
Amortisation			
Balance as at 1 January	22,913	14,242	5,814
Amortisation charge for the year	9,860	8,671	8,428
Balance as at 31 December	32,773	22,913	14,242
Carrying Amount as at 31 December	24,870	10,122	11,233

Intangible assets represent the cost of acquisition (Rs.31.5 million) of an Insurance Management System from Data Quest S.A.L and HR system of Rs.1.5 million
The assets have been amortised during the period as per the LKAS 37- Intangible Assets

5. Property, 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 2011	7,363	14,102	33,986	10,098	65,549
Additions during the year	3,280	5,798	24,858	152	34,088
Disposals	-	-	-	-	-
Balance as at 31 December 2012	10,643	19,900	58,844	10,250	99,637
Depreciation					
Balance as at 1 January 2011	5,695	7,703	26,124	7,007	46,529
Depreciation charge for the year	1,332	2,966	11,774	2,037	18,109
Balance as at 31 December 2012	7,027	10,669	37,898	9,044	64,638
Carrying amount					
Balance as at 31 December 2012	3,616	9,231	20,946	1,206	34,999
Balance as at 31 December 2011	1,668	6,399	7,862	3,091	19,020
Balance as at 31 December 2010	2,182	7,001	12,153	4,994	26,330

6 Financial Investments	2012		2011		2010	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
	Cost of Investment	Carrying Value	Cost of Investment	Carrying Value	Cost of Investment	Carrying Value
Available for Sale Financial Assets (6a)	962,624	969,499	916,706	908,206	772,782	793,458
Loans and Receivables (6b)	89,205	89,205	35,000	35,000	35,000	35,000
	1,051,829	1,058,704	951,706	943,206	807,782	828,458

Notes to the Financial Statements *(Contd.)*

	Available for Sale Investment	2012		2011		2010	
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
		Cost of Investment	Carrying Value	Cost of Investment	Carrying Value	Cost of Investment	Carrying Value
6a	Sri Lanka Government securities	937,624	943,272	916,706	908,206	772,782	793,458
	Unit Trust	25,000	26,227	-	-	-	-
		962,624	969,499	916,706	908,206	772,782	793,458

6b	Loans and Receivable	2012		2011		2010	
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
		Cost of Investment	Carrying Value	Cost of Investment	Carrying Value	Cost of Investment	Carrying Value
	Fixed deposit	69,205	69,205	15,000	15,000	15,000	15,000
	Corporate Debentures	20,000	20,000	20,000	20,000	20,000	20,000
		89,205	89,205	35,000	35,000	35,000	35,000

7	Premium receivable	2012	2011	2010
		Rs.'000	Rs.'000	Rs.'000
	Premium Receivable	480,657	392,488	340,649
	Provision for bad debts	(29,000)	(12,682)	(6,047)
	Premium receivable Net of Provision	451,657	379,806	334,602

8	Other assets	2012	2011	2010
		Rs.'000	Rs.'000	Rs.'000
	Interest receivable	39,847	43,859	41,316
	Other debtors and receivables	28,943	28,662	23,848
	Staff Loan and Advance	264	697	243
	Prepaid Cost on Staff Loan	55	68	22
	Amounts due from Allianz Life Insurance Lanka Ltd.	5,808	3,786	29,887
		74,917	77,072	95,316

9	Cash and Cash Equivalents	2012	2011	2010
		Rs.'000	Rs.'000	Rs.'000
	Cash in hand	17,162	447	247
	Cash at Bank	39,088	18,038	19,580
		56,250	18,485	19,827

10	Stated capital	2012	2011	2010
		Rs.'000	Rs.'000	Rs.'000
	Balance as at 1 January	250,000	250,000	250,000
	Issued during the year	-	-	-
	25,000,000 fully paid ordinary shares at Rs .10	250,000	250,000	250,000

Notes to the Financial Statements *(Contd.)*

11 Revenue Reserves	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Balance as at 1st January	430,243	349,446	181,946
Profit for the year	229,519	234,597	167,500
Actuarial Gains/(Losses) on Retirement Benefits	(54)	4,533	-
Dividend paid	(125,000)	(158,333)	-
Balance as at 31st December	534,706	430,243	349,446

12 Insurance Provision-General	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Reserve for net unearned premium (12a)	302,502	212,378	128,744
Reserve for net deferred acquisition cost (12b)	105,493	91,370	94,734
Reserve for gross outstanding claims (12c)	100,743	91,578	215,902
Reserve for IBNR (12d)	21,140	73,327	80,872
	529,878	468,653	520,252

12a Reserve for Net Unearned Premium	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	212,378	128,744	116,337
Transfers during the year	90,124	83,634	12,407
Balance as at 31 December	302,502	212,378	128,744

12b Reserve for Net Deferred Acquisition Cost	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	91,370	94,734	67,331
Transfers during the year	14,123	(3,364)	27,403
Balance as at 31 December	105,493	91,370	94,734

12c Reserve for Gross Claims Outstanding	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	91,578	215,902	99,635
Transfers during the year	331,488	140,563	448,925
Claims approved during the year	(322,323)	(264,887)	(332,658)
Balance as at 31 December	100,743	91,578	215,902

12d Reserve for IBNR	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	73,327	80,872	31,802
Transfers during the year	(52,187)	(7,545)	49,070
Balance as at 31 December	21,140	73,327	80,872

Notes to the Financial Statements *(Contd.)*

12e Reconciliation between Insurance Provision and Technical reserve	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
General Insurance Provision	529,878	468,652	520,252
Reinsurance receivables on claims outstanding	(43,548)	(50,599)	(186,606)
Technical Reserve	486,330	418,053	333,646

The General insurance technical reserve of Rs. 486Mn as at 31 December 2012 includes the provision of IBNR claims of Rs.21Mn that has been certified by an independent consultants actuaries, NMG Consultants Singapore. According to the actuaries certificate dated 26 February 2013 the IBNR reserve as at 31 December 2012 is Rs. 21Mn.

13 Employee Benefits	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Balance as at 1 January	4,112	4,899	2,856
Provision made during the year	1,778	(743)	2,043
Payments during the year	-	(44)	-
Balance as at 31 December	5,890	4,112	4,899

As at 31 December 2012,the gratuity liability was actuarially valued under the Projected Unit Credit(PUC) by M/S.K.A.Pandit Consultants & Actuaries (ISO 9001;2008 Certified).The actuarial valuation will be performed on an annual basis (2010 - No actuarial valuation). In year 2010 the Gratuity liability was valued under gratuity formula method.

Movement in the Present Value of the Defined Benefit Obligations	2012 Rs.'000	2011 Rs.'000
Opening Net Liability	4,112	4,899
Expense Recognized in P&L	1,724	3,789
Expense/(Income) Recognized in the Statement of OCI	54	(4,532)
Benefit Paid	-	(44)
Closing Net Liability	5,890	4,112

Acturial assumptions

Principal Acturial Assumptions as at the reporting date expressed as weighted averages were

	2012	2011	2010
Discount rate per Annum	11%	10%	8%
Future salary Increment rate per Annum	12%	12%	12%
Normal retirement age	55 & 60 years	55 & 60 years	55 years
Attrition rate	For 0 Yrs to 4 Yrs 25% and 5 Yrs and above	2% at each Age +25% Service	N/A
Mortality table	LIC (1994-96) Ultimate	LIC (1994-96)	N/A

Notes to the Financial Statements *(Contd.)*

14 Other liabilities

	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Agency commission payable	33,034	19,383	24,835
Government levies	35,552	18,577	8,190
Tax payable	56,053	29,048	29,600
Other creditors and accrued expenses	43,478	24,029	42,899
	168,117	91,037	105,524

15 Gross Premiums on Insurance Contracts

	2012 Rs. '000	2011 Rs. '000
15a Gross written premium		
Accident	444,132	568,822
Fire	868,110	768,189
Marine	33,120	31,860
Motor	176,101	132,429
	1,521,463	1,501,300
Premium ceded to reinsurers	(876,244)	(994,230)
Compulsory Cession to NITF	(119,534)	(86,689)
15b Net Written Premium	525,685	420,381

16 Interest Income from AFS Investments

	2012 Rs. '000	2011 Rs. '000
Interest Income	113,823	105,041

17 Net Insurance Claims and Benefits

	2012 Rs. '000	2011 Rs. '000
Gross Benefits and claims paid		
Accident	165,934	128,020
Fire	19,008	52,214
Marine	11,374	(283)
Motor	73,820	77,391
	270,136	257,342
Reinsurance recoveries	(106,299)	(118,175)
	163,837	139,168

18 Underwriting and net acquisition cost

	2012 Rs. '000	2011 Rs. '000
Net Policy Acquisition Cost	177,763	148,838
Increase/(Decrease) in Deferred Acqusition Expenses	(14,124)	2,772
	163,639	151,610

Notes to the Financial Statements *(Contd.)*

19 Operating and Administration Expenses	2012 Rs. '000	2011 Rs. '000
Staff Expenses (19a)	117,508	61,575
Administration and establishment expenses	70,610	70,811
Selling expenses	32,810	13,759
Depreciation	18,109	14,748
Amortization	9,860	8,671
Nations building tax	2,005	2,006
	250,902	171,570

19a Staff Expenses	2012 Rs. '000	2011 Rs. '000
Wages and salaries	42,196	33,301
EPF and ETF (18b)	6,389	4,533
Provision for Employee Benefits(12)	1,724	(743)
Staff welfare	4,632	2,974
Training expenses	2,700	1,290
Other costs	59,867	20,220
	117,508	61,575

19b Contributions made to the Provident and Trust Funds	2012 Rs. '000	2011 Rs. '000
Provident fund	5,068	3,614
Trust fund	1,321	919
	6,389	4,533

19c Number of Employees	2012	2011
As at the end of the financial year	214	120

20 Profit Before Taxation	2012	2011
Profit before tax for the year is stated after charging following expenses		
Depreciation	18,109	14,748
Legal Fees	146	207

21 Tax Expenses	2012 Rs. '000	2011 Rs. '000
Current tax expense		
Current Period (20a)	83,938	52,914
Social responsibility levy	-	-
Deemed dividend tax Provision/(Reversal)	-	(4,443)
Deferred tax expense		
Reversal and origination of temporary differences (20b)	(2,556)	(1,877)
Income tax expense from continuing operations	81,382	46,594
Total income tax expense	81,382	46,594

Notes to the Financial Statements *(Contd.)*

21a Current Income Tax Expense

	2012	2011
	Rs. '000	Rs. '000
Accounting profit	310,899	286,452
Aggregate disallowed items	47,447	32,581
Aggregate allowable expenses	(23,903)	(19,467)
Aggregate exempt income	(34,666)	(110,589)
Taxable profit	299,777	188,977
Statutory tax rate	28%	28%
Current income tax expense	83,938	52,914

21b Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Property,plant and equipment	1,388	358	-	-	1,388	358
Employee benefits	1,649	1,151	-	-	1,649	1,151
Provisions	4,579	3,551	-	-	4,579	3,551
Net tax (assets) / liabilities	**7,616**	**5,060**	**-**		**7,616**	**5,060**

Reversal and (origination) of temporary differences	**(2,556)**	**(1,877)**

	2012		2011	
Differed Tax Assets	Temporary Difference	Tax	Temporary Difference	Tax
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Property and Equipment	4,956	1,388	1,275	358
Employee Benefits	5,890	1,649	4,112	1,151
Bad Debt Provision	16,354	4,579	12,682	3,551
	27,200	**7,616**	**18,069**	**5,060**

Movement in deferred tax balance during the year	Balance 1 January 2011	Recognised in profit or loss	Balance 31 December 2011	Recognised in profit or loss	Balance 31 December 2012
Property and Equipment	118	240	358	1,030	1,388
Employee Benefits	1,372	(221)	1,151	498	1,649
Bad Debt Provision	1,693	1,858	3,551	1,028	4,579
	3,183	1,877	5,060	2,556	7,616

Notes to the Financial Statements *(Contd.)*

22 Earnings Per Share

Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding as at year end.

	2012 Rs.'000	2011 Rs.'000
Profit attributable to ordinary shareholders	229,517	234,597
Weighted average no.of ordinary shares	25,000	25,000
Earnings per share (Rs.)	9.18	9.38

23 Transactions with Group Companies

Company	Relationship	Nature of Transaction	2012 Rs.'000	2011 Rs.'000
Allianz SE	Group Company	Reinsurance arrangement	70,686	536,088
		Dividend paid	125,000	158,333
Allianz Life Insurance Lanka Ltd.	Group Company	Reimbursable expenses (net)	2,023	26,101

24 Transactions with Key Management Personnel

The key management personnel includes the Board of Directors. There was no remuneration or fees paid and there were no transactions with key management personnel for the year ended 31 December 2012.

25 Capital Commitments

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

26 Contingent Liabilities

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

27 Events after the Reporting Date

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

28 Explanation on Transition to SLFRS

As stated in note 2.1 these are the company's first financial statements prepared in accordance with SLFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2012, the comparative information presented in these financial statements for the year ended 31 December 2011 and in the preparation of an opening SLFRS statement of financial position at 1 January 2011 (the Company's date of transition).

In preparing its opening SLFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with SLAS (previous GAAP). An explanation of how the transition from previous GAAP to SLFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the Financial Statements *(Contd.)*

Reconciliation of comprehensive income for the year ended 31 December 2011

	Note	Previous GAAP Rs.'000	Effect of Transition to SLFRS Rs.'000	SLFRS Rs.'000
Gross Written premium		1,501,300		1,501,300
Premiums ceded to reinsurers		(1,080,919)		(1,080,919)
		420,381		**420,381**
Net Change in Reserve for Unearned Premium		(83,634)		(83,634)
Net Earned Premium		**336,747**		**336,747**
Other Revenue				
Investment Income	28a	105,768	(727)	105,041
Realized gains/(losses)		(5,132)		(5,132)
Other operating revenue	28b	5,415	130	5,545
		106,051		**105,454**
Total Revenue		**442,798**		**442,201**
Gross benefits and claims paid		(387,311)		(387,311)
Claims ceded to reinsurers		262,472		262,472
Gross change in contract liabilities		122,423		122,423
Change in contract liabilities ceded to reinsurers		(136,752)		(136,752)
Net benefits and claims		**(139,168)**		**(139,168)**
Underwriting and net acquisition costs		151,610		151,610
Other operating and administrative expenses	28c	(166,907)	(4,663)	(171,570)
Finance costs		(1,882)		(1,882)
Other Expenses		**(17,179)**		**(21,842)**
Profit before tax		**286,451**		**281,191**
Income tax expense		(46,594)		(46,594)
Profit for the year		**239,857**	**(5,260)**	**234,597**
Other Comprehensive Income				
Profit for the year		239,857	(5,260)	234,597
Acturial Gains/(Losses) on Defined Benefit Plan	28c	-	4,533	4,533
Investments classified as Available for Sale				
Fair value Gains/(Losses)	28d		(29,176)	(29,176)
Total Comprehensive Income for the year		**239,857**	**(29,903)**	**209,954**

Notes to the Financial Statements *(Contd.)*

Material adjustments to the statement of cash flows for 2011

There are no material differences between the statement of cash flows presented under SLFRSs and the statement of cash flows presented under previous GAAP.

Reconciliation of equity			2011			2010	
As at 31 December	Note	Previous GAAP	Effect of Transition to SLFRS	SLFRS	Previous GAAP	Effect of Transition to SLFRS	SLFRS
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Assets							
Intangible Assets		10,122		10,122	11,233		11,233
Plant and Equipment		19,020		19,020	26,330		26,330
Financial Investments	28d	952,243	(9,037)	943,206	807,591	20,867	828,458
Reinsurance Receivable		341,143		341,143	296,505		296,505
Premium Receivable	28e	376,570	3,236	379,806	326,035	8,567	334,602
Other Assets		77,072		77,072	95,316		95,316
Deferred Tax Assets		5,060		5,060	3,183		3,183
Cash and Cash Equivalents		18,485		18,485	19,827		19,827
Total Assets		**1,799,715**	**(5,801)**	**1,793,914**	**1,586,020**	**29,434**	**1,615,454**
Equity and Liabilities							
Equity							
Stated Capital		250,000		250,000	250,000		250,000
Fair Value Reserves	28d	-	(8,500)	(8,500)	-	20,676	20,676
Revenue Reserves		430,780	(537)	430,243	349,255	191	349,446
		680,780		**671,743**	**599,255**		**620,122**
Liabilities							
Insurance Liabilities - General		468,653		468,653	520,252		520,252
Reinsurance Creditors		535,829		535,829	336,200		336,200
Provision for Retirement Benefits		4,112		4,112	4,899		4,899
Other Liabilities	28e	87,801	3,236	91,037	96,957	8,567	105,524
Bank Overdraft		22,540		22,540	28,457		28,457
Total liabilities		**1,118,935**		**1,122,171**	**986,765**		**995,332**
Total equity and liabilities		**1,799,715**	**(5,801)**	**1,793,914**	**1,586,020**	**29,434**	**1,615,454**

28a The Company changed its method of recognizing interest on Available for Sale treasury bills and bonds to Effective Interest Rate (EIR) method in accordance with LKAS 39 - Financial Instruments - Recognition & Measurement where by the interest was previously accounted for on a straight line basis.

The impact arising from the change is summarized as follows:

For the year ended 31st December	2011
	Rs'000
Statement of comprehensive income	105,768
EIR Adjustment	(727)
Adjustment before income tax	105,041

Notes to the Financial Statements *(Contd.)*

28b Staff Loan which was previously measured at cost with zero interest rate are now recognised at Fair Value and interest at AWPLR is recognized on the fair value of staff loans given.

	2011 Rs'000
Statement of comprehensive income	5,415
Interest Income on Staff Loans	130
Adjustment before income tax	5,545

28c Actuarial gains and losses were recognized in Other Comprehensive Income as per LKAS 19- Employee Benefits and prepaid staff cost of Staff Loans recognized at fair value was amortized.

	2011 Rs'000
Statement of comprehensive income	166,907
Amortization of Prepaid Staff Cost	130
Actuarial Gains recognized on OCI	4,533
Adjustment before income tax	171,570

28d Company changed the basis of measurement for its available-for-sale investments portfolio from cost method to fair value method in line with LKAS 39."

The impact arising from the change is summarized as follows:

For the year ended 31st December	2011 Rs' 000
Statement of comprehensive income	
Net change in fair value on available-for-sale financial assets	(29,176)
Adjustment before income tax	(29,176)

As at 31st December	2011 Rs' 000	2010 Rs' 000
Statement of financial position		
Investment as per previous SLAS	952,243	807,591
EIR Adjustment	(537)	191
Cost of Investment	951,706	807,782
Available-for-sale financial assets	(943,206)	(828,458)
Adjustment to Fair Value Reserve	8,500	(20,676)

28e Company reclassified credit balances recorded under premium receivable as other creditors.

As at 31st December	2011 Rs' 000	2010 Rs' 000
Statement of financial position		
Reclassified Creditors	3,256	8,567

Content

Allianz Life Insurance Lanka Ltd.

Financial Information

Actuary's Report - Life

To the shareholders of Allianz Life Insurance Lanka Limited

I have conducted a liability valuation for the business as at 31 December 2012.

I am satisfied that I have been provided with adequate records in order to determine an appropriate value of liabilities as at 31 December 2012.

I am satisfied that, as at 31 December 2012, the Company is capable of meeting all liabilities to policyholders, as well as meeting the statutory solvency margin with a considerable buffer.

C. R. Barnard

Chris Barnard

Fellow of the Institute of Actuaries (UK)
20 March 2013

Independent Auditors' Report

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

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TO THE SHAREHOLDERS OF ALLIANZ LIFE INSURANCE LANKA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Life Insurance Lanka Limited ("the Company"), which comprise the statement of financial position as at December 31, 2012, the statements of comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 54 to 83 of the Financial Statements.

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 policies 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, 2012 and the financial statements give a true and fair view of the financial position of the Company as at December 31, 2012, and of its financial performance and its cash flow 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. However, it should be noted that the Company's net assets are less than half of the stated capital which results in a serious loss of capital situation in terms of Section 220 of the same Act.

Pursuant to Section 47(2) of the Regulation of Insurance Industry Act No.43 of 2000, 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.

KPMG

Chartered Accountants
Colombo
27th March 2013

Statement of Financial Position

As at 31 December	Note	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Assets				
Intangible Assets	03	3,128	4,738	-
Property, Plant & Equipment	04	25,635	25,065	23,787
Investments	05	508,214	393,807	221,193
Reinsurance Receivable		13,389	10,710	3,108
Other Assets	06	52,767	34,936	43,358
Cash & Cash Equivalents	07	23,039	15,778	8,351
Total Assets		626,172	485,034	299,797
Equity and Liabilities				
Equity				
Stated Capital	11	492,499	492,499	349,999
Revenue Reserves	12	(318,131)	(258,935)	(200,429)
Fair Value Reserves		(19,263)	(12,084)	8,516
Total Equity		**155,106**	**221,480**	**158,086**
Liabilities				
Insurance Provision - Life	08	370,897	179,223	66,290
Reinsurance Creditors		18,277	10,645	7,252
Other Liabilities	09	75,857	69,803	65,484
Employee Benefits	10	1,602	1,254	820
Bank Overdraft		4,434	2,629	1,865
Total Liabilities		**471,067**	**263,554**	**141,711**
Total Equity and Liabilities		**626,172**	**485,034**	**299,797**

The above Balance Sheet is to be read in conjunction with the Notes to the Financial Statements on pages 59 to 83.
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 by:

Heinz Dollberg
Director

Surekha Alles
Director

Colombo
27 March 2013

Statement of Comprehensive Income

For the year ended 31st December	Note	2012	2011
Revenue		**Rs.000**	**Rs.000**
Gross Written Premium	13	532,141	351,299
Premium Ceded to Reinsurers		(34,689)	(21,741)
Net Written Premium		497,452	329,558
Other Revenue			
Income from Investments	16	52,753	31,087
Total Revenue		**550,205**	**360,645**
Gross Claims and Benefits Paid	14	(27,422)	(23,138)
Claims ceded to reinsurers	14	11,545	10,526
Net Benefits and Claims		**(15,877)**	**(12,612)**
Net Acquisition Costs	15	(152,276)	(111,814)
Other Operating, and Administrative Expenses	17	(249,574)	(181,792)
Total Expenses		(401,850)	(293,606)
Increase in Life Insurance Provision	**8.a**	**(191,674)**	**(112,933)**
Loss before Taxation	**18**	**(59,196)**	**(58,506)**
Income Tax	19	-	-
Loss for the Year		**(59,196)**	**(58,506)**
Earnings/ (Loss) per Share (Rs.)	26	(1.20)	(1.51)
Other comprehenceive income			
Loss for the Year		(59,196)	(58,506)
Fair Value Gains / (Losses) on Avilable for sale Investments		(7,179)	(20,600)
Total comprehensive income/ (Loss) for the year, net of tax		**(66,375)**	**(79,106)**

The above Statement of Income is to be read in conjunction with the Notes to the Financial Statements on pages 59 to 83.

Statement of Changes in Equity

Statement of Changes in Equity for the yearended 31st December 2012

	Stated Capital	Revenue Reserves	Fair Value Reserves	Total
	Rs.000	Rs.000	Rs.000	Rs.000
Balance as at 1 January 2012	**492,499**	**(258,935)**	**(12,084)**	**221,480**
Loss for the year	-	(59,196)		(59,196)
Other Comprehensive income			(7,179)	(7,179)
Total Comprehensive Income	-	(59,196)	(7,179)	(66,375)
New Share Issue	-	-		-
Balance as at 31st December 2012	**492,499**	**(318,131)**	**(19,263)**	**155,106**

“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 59 to 83

Statement of Changes in Equity for the yearended 31st December 2011

	Stated Capital	Revenue Reserves	Fair Value Reserves	Total
	Rs.000	Rs.000	Rs.000	Rs.000
Balance as at 1January 2011	**349,999**	**(200,429)**	**8,516**	**158,086**
Loss for the year	-	(58,506)		(58,506)
Other Comprehensive income			(20,600)	(20,600)
Total Comprehencive Income	-	(58,506)	(20,600)	(79,106)
New Share Issue	142,500	-		142,500
Balance as at 31st December 2011	**492,499**	**(258,935)**	**(12,084)**	**221,480**

Cash Flow Statement

For the year ended 31st December	Note	2012	2011
		Rs.000	Rs.000
Cash Flows from Operating Activities			
Premium Received from Customers	13	532,141	351,299
Reinsurance Premium Paid		(27,055)	(18,351)
Claims Paid		(27,304)	(14,085)
Reinsurance Receipts in Respects of Claims		8,865	2,925
Cash Paid to and on behalf of Employees		(71,649)	(52,765)
Other Operating Cash Payments		(322,925)	(227,688)
Cash Inflow from Operating Activities (Note A)		92,073	41,335
Income Tax Paid		-	-
Net Cash from Operating Activities		**92,073**	**41,335**
Cash Flows from Investing Activities			
Purchase of Liquid Investments (Other than Cash Equivalents)		(700,568)	(615,002)
Proceeds on maturity Investment (Other than Cash Equivalents)		578,995	421,787
Interest Income Received		46,782	32,074
Disposal of Tangible Assets		-	-
Purchase of Intangible Assets		(53)	-
Purchase of Tangible Assets	4	(11,773)	(16,031)
Net Cash from Investing Activities		**(86,617)**	**(177,172)**
Net Cash Inflow before Financing		5,456	(135,837)
Cash Flows from Financing Activities		**-**	**-**
Cash Flows from Financing Activities		-	-
Issue of Share Capital		-	142,500
Increase in Cash and Cash Equivalents (Note B)		**5,456**	**6,663**

Cash Flow Statement *(Contd.)*

For the year ended 31st December	Note	2012	2011
		Rs.000	Rs.000
A. Reconciliation of Operating Profit with Cash Flows from Operating Activities			
Loss before Tax		59,196	(58,506)
Depreciation Charge		12,867	10,015
Interest Income	16	(52,753)	(31,087)
Increase in Other Assets		(14,543)	(166)
Increase in Life Insurance Provision		191,674	112,933
Increase in Creditors		14,024	8,146
Cash Flows from Operating Activities		92,073	41,335
B. Increase in Cash and Cash Equivalents			
Cash at Bank and in Hand and Cash Equivalents	07	23,039	15,778
Bank Overdrafts		(4,434)	(2,629)
Net Cash and Cash Equivalents for the Current Year		18,605	13,149
Net Cash and Cash Equivalents at the begining of the year		13,149	6,486
Increase/(Decrease) in Cash and Cash Equivalents		5,456	6,663

The above Cash Flow Statement is to be read in conjunction with the Accounting Policies and Notes to the Financial Statements on pages 59 to 83.

Notes to the Financial Statements

1. CORPORATE INFORMATION

1.1. Reporting Entity

Allianz Life Insurance Lanka Limited is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company and the principal place of business is located at No. 92, Glennie Street, Colombo 02.

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

The Company was incorporated on 24th March 2008 and commenced Life insurance business in November 2008.

1.2. Principal Activity

The Company is engaged in the business of Life Insurance. There were no significant changes in the nature of the principal activities of the company during the financial year under review.

1.3. Responsibility for Financial Statement

The Board of Directors is responsible for the preparation and presentation of the Financial Statements in accordance with the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which became applicable for financial periods beginning on or after 1st January 2012. The Financial Statements of the company which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with these Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No.7 of 2007 and the Regulation of Insurance Industry Act No. 43 of 2000.

These are the company's first financial statements prepared in accordance with Sri Lanka Accounting Standard prefixed SLFRS and LKAS and SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standard has been applied.

An explanation of how the transition from SLAS to SLFRS has affected the company's statement of financial position, financial performance and cash flows is provided in the note 27 to the material reconciliation items.

2.2. Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently subject to the impact in note 2.1, with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

- Available-for-sale financial assets are measured at fair value

The Company presents its statement of financial position broadly in the order of liquidity.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a basis, or to realise the assets and settle the liability simultaneously.

2.3. Date of Authorization of Issue

The financial statements were authorized for issue by the Board of Directors on 27th March 2013.

2.4. Functional and presentation currency

The Financial Statements are presented in Sri Lanka Rupees (LKR), which is the Company's functional currency.

Notes to the Financial Statements *(Contd.)*

Except as indicated, financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

2.5. Use of Estimates & Judgements

The preparation of Financial Statements in conformity with SLFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are included in the following notes.

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Insurance provision - Life	8	76
Employee Retirement benefit	10	77
Deferred Taxation - Utilisation of Losses	19b	79

2.5.1. Insurance Contract Liabilities-Life Insurance

The valuation of the Long Term insurance business as at 31st December 2012 was carried out by the Appointed Actuary based on the assumptions set out in Note No. 8 to the Financial Statements on Page 76.

2.6. Materiality and Aggregation

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and in preparing the opening SLFRS statement of financial position at 1 January 2011 for the purposes of the transition to SLFRSs, unless otherwise indicated.

3.1. Insurance Contacts

As permitted by SLFRS 4 Insurance Contracts, the Company continues to apply the existing accounting policies for Insurance Contracts that were applied prior to the adoption of SLFRS.

Product classification

SLFRS 4 requires contracts written by insurers to be classified as either “insurance contracts” or “investment contracts” depending on the level of insurance risk transferred.

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

All the products sold by the Company are insurance contracts and therefore classified as Insurance contracts under the SLFRS 4 – Insurance Contracts. Thus, the Company does not have any investment contracts within its product portfolio as at the reporting date.

3.2. Assets and Liabilities and Basis of their Valuation

3.2.1. Intangible Assets

Software

Basis of Recognition

An Intangible Asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Company and the cost of the asset can be measured reliably.

Software acquired by the Company is stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the Statement of Income as incurred.

Amortization

Amortization is recognized in profit or loss on a straight line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is three years.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

De-recognition

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

3.2.2. Property Plant and Equipment

Basis of Recognition

Property, Plant and Equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

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

Measurement

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

Gains and losses on disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within "other income/other expenses" in profit or loss.

Subsequent Costs

The cost of replacing a part of an item of Plant and Equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The cost of day to day servicing of Property, Plant and Equipment is charged to the Statement of Comprehensive Income as incurred.

Depreciation

Depreciation is charged on property, plant & equipment on the straight line basis to write-off the cost over the estimated useful lives as follows,

Office equipment	3 Years
Computer equipment	3 Years
Furniture & 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.

Depreciation methods, useful lives and residual values are reviewed and adjusted if appropriate at each reporting date.

De-recognition

The carrying amount of an item of Property, Plant and Equipment is de-recognized on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment is included in the Statement of Comprehensive Income when the item is de-recognized.

3.2.3. Leased Assets – Lessee

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

Operating Leases

Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term.

3.2.4. Impairment of Non-Financial Assets

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

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in profit or loss.

3.2.5. Financial Assets and Financial Liabilities

3.2.5.1. Initial recognition and subsequent measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. Financial assets are classified as at fair value through profit or loss where the Company's documented investment strategy is to manage financial investments on a fair value basis, because the related liabilities are also managed on this basis. The available-for-sale and held-to-maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortized cost.

The financial assets are recorded based on trade date.

The Company's existing types of Financial Assets and their classifications are shown in the table below.

Financial Assets	Category
Treasury Bonds	Available for Sale
Treasury Bills	Available for Sale
Corporate Debt.	Loans and Receivable
Term Deposits	Loans and Receivable
Policy Loans	Loans and Receivable
Staff and Advisors Loans	Loans and Receivable

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. These investments are initially recorded at fair value.

After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income (OCI) in the Fair Value Reserve until the investment is derecognized or the investment is determined to be impaired.

Interest earned whilst holding available-for-sale investments is reported as 'Interest Income' using the

EIR.

On de-recognition or impairment, the cumulative fair value gains and losses previously reported in equity are transferred to the income statement.

Loans and other receivables

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

These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

3.2.5.2. De-recognition of financial assets

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

- The rights to receive cash flows from the asset have expired
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement
- The Company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

3.2.5.3 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under SLASs, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

3.2.5.4. Amortized cost measurement

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

3.2.5.5. Fair Value of Financial Instruments

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction for transaction costs.

For financial instruments where there is not an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist and other relevant valuation models. Certain financial instruments are recorded at fair value using valuation techniques because current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognized only when the inputs become observable or on de-recognition of the instrument.

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

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

3.2.5.6. Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

- Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recorded in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each reporting date.

If, in a subsequent period, the amount of the impairment loss decreases and that decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

- Available-for-sale financial investments

  If an available-for-sale financial asset is impaired, an amount comprising the difference between its costs (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in other comprehensive income, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the income statement.

  Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognized in the income statement.

3.3. Reinsurance

The Company cedes insurance risk in the normal course of business to recognized reinsurers through formal reinsurance arrangements.

Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

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

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

3.4. Premium Receivable

Insurance receivables are recognized when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

3.5. Other Receivables

Other receivables and dues from Related Parties are recognised at cost.

3.6. Cash & Cash Equivalents

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

3.7. Liabilities and Provisions

3.7.1. Insurance contract liabilities

3.7.1.1 Life insurance contract liabilities

Life Insurance Liabilities are recognized when contracts are entered into and premiums are charged.

Long duration contract liabilities included in the Insurance fund reserving for in-force and lapsed policies, non-fund (sterling) reserves, interest credit reserves, Unearned Premium Reserves, IBNR reserves, reserves for guarantees, reserves for premium on deposits and contingency reserves resulting primarily from non-participating Universal Life Insurance products.

Short duration contract liabilities are primarily Group Term insurance products, where reserving was done on a Unearned Premium Reserve basis and additional IBNR.

The Liabilities are de recognized when the contract expires, is discharged or is cancelled.

3.7.1.2. Liability Adequacy Test

At each reporting date, an assessment is made of whether the recognized life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows. To the extent that the test involves discounting of cash flows, the interest rate applied based on management's prudent expectation of current market interest rates.

Fund value plus non-fund sterling reserves valuation methodology has been used with prudent assumption considering all expenses and option costs. Hence actuarial valuation has concluded that a liability adequacy test is not required for the company.

3.7.2 Employee Benefits

3.7.2.1. Defined Benefit Plan-Gratuity

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the 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 is valued using a Gratuity Formula with actuarial assumptions.

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

A defined contribution plan is a post employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay a further amount. Obligations for contributions to Provident Fund under the Provident Fund Act no. 15 of 1958 as amended and Trust Fund under the Trust Fund Act no. 46 of 1980 covering all employees, are recognized as an employee benefit expense in profit and loss when they are due.

The Group contributes 12% and 3% of gross emoluments of employees as provident fund and trust fund contribution respectively.

3.7.3. Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.7.4. Interest bearing loans and borrowings

All borrowings and loans are initially recognized at fair value, less directly attributable transaction costs. After Initial recognition, they are measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

3.8 Revenue recognition

3.8.1 Gross premiums

Gross recurring premiums on life insurance contracts are recognized as revenue when payable by the policyholder. Any premiums received in advance is not recorded as revenue and recorded as a liability until the premium is due. Benefits and expenses are provided against such revenue to recognize profits over the estimated life of the policies.

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

3.8.2 Reinsurance premiums

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

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

3.8.3 Investment income

Interest income is recognized in the income statement as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognized as an adjustment to the effective interest rate of the instrument.

3.8.4 Realized gains and losses

Realized gains and losses recorded in the income statement on investments include gains and losses on financial Assets. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the Original or amortized cost and are recorded on occurrence of the sale transaction.

3.8.5 Other Income

Other income is recognised on an accrual basis.

3.9. Benefits, claims and expenses recognition

3.9.1 Gross benefits and claims

Gross benefits and claims for life insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims, as well as changes in the gross valuation of insurance. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Interim payments and surrenders are accounted at the time of settlement.

Claims expenses and liabilities for outstanding claims are recognized in respect of direct and inward reinsurance business. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims.

While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

3.9.2 Reinsurance Claims

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

3.10 Expenditure Recognition

a) Expenses are recognised in the Statement of Income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to Statement of Income in arriving at the profit for the year.

b) For the purpose of presentation of the Statement of Income the directors are of the opinion that function of expenses method presents fairly the elements of the Company's performance, and hence such presentation method is adopted.

.3.11. Taxation

3.11.1. Current Taxes

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

3.11.2. Deferred Taxation

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

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

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

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

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

3.12. Stated Capital

Company's Stated Capital comprises of ordinary shares which are classified as equity.

3.13. Earnings Per Share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

3.14. Cash Flow Statements

The cash flow statement has been prepared using the direct method. Interest received, interest paid and dividend received are classified as operating cash flows while dividends paid is classified as financing cash flow.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

3.15. Commitments and Contingencies

Contingencies are possible assets or obligations that arise from a past event and would be concerned only on the occurrence or non-occurrence of uncertain future events, which are beyond the Company's control. Contingent liabilities are disclosed in note 23 to the Financial Statements on page 80 Commitments are disclosed in note 22 to the Financial Statements on page 80.

Notes to the Financial Statements *(Contd.)*

3.16. Events occurring after the Reporting Date

All material post balance sheet events have been considered and where appropriate adjustments or disclosures have been made in note no 24 to the Financial Statements on Page 80.

3.17. Proposed Dividends

Dividend proposed / declared by the Board of Directors after the reporting date is not recognized as a liability and is disclosed as a note to the Financial Statements.

3.18. Comparative Information

The comparative information is re-classified wherever necessary to conform with the current year's classification in order to provide a better presentation. The details of such re-classifications have been provided in Note 27 to the fiancial statement on page 81.

3.19. Nature and extent of risks arising from financial instruments

The Company discloses information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the Company is exposed at the end of the reporting period.

The disclosures focus on the risks that arise from financial instruments and how they have been managed. These risks typically include credit risk and liquidity risk.

Qualitative disclosures

For each type of risk arising from financial instruments, the Company has disclosed:

(a) The exposures to risk and how they arise;

(b) Its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) Any changes in (a) or (b) from the previous period.

Quantitative disclosures

For each type of risk arising from financial instruments, the Company has disclosed:

(a) Summary quantitative data about its exposure to that risk at the end of the reporting period.

Credit risk

The Company has disclosed by class of financial instrument:

(a) the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements.

(b) Information about the credit quality of financial assets that are neither past due nor impaired;

Liquidity risk

The Company has disclosed:

(a) A maturity analysis for financial liabilities that shows the remaining contractual maturities; and

(b) A description of how it manages the liquidity risk inherent in (a).

3.19.1Credit Risk

Credit risk is counter-party default risk, and includes the risk of failure of financial institutions with which the Company has placed deposits/investments to meet obligations, and the failure of reinsurers to meet claims when they fall due. It also includes the risk of default by policyholders on premium receivable, and failure of employees to meet loans provided by the company. In addition to strict limits on single counter-party exposure, the Company follows a prudent credit policy which limits its investments to high grade corporate credit

Notes to the Financial Statements *(Contd.)*

in line with the Allianz Group policy, and above the regulatory minimum criteria. Single counter-party exposure is monitored on a monthly basis by the CRO, and any deviations require special approval. The Company's investment approach is also guided and monitored by Allianz Insurance Management Singapore as per Allianz Group policies on investment.

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

Reinsurance companies with which the Company conducts business and their credit ratings are provided below:

Reinsurer	Rating	Rating Agency
Munich Re-insurance Company	A+	A.M. Best
Allianz Re- Insurance Company	AA	Standard and poor

Credit Risk Exposure on Assets

31st December 2012

Financial Instruments	Government Guaranteed Rs'000	AA+ Rs'000	TOTAL Rs'000
Available for Sale			
Government securities	478,214	-	478,214
Loans and Receivables			
Debentures	-	10,000	10,000
Fixed deposits	-	20,000	20,000
Total	478,214	30,000	508,214

31st December 2011

Financial Instruments	Government Guaranteed	AA+	TOTAL
Available for Sale			
Government securities	383,807	-	383,807
Loans and Receivables			
Debentures	-	10,000	10,000
Total	383,807	10,000	393,807

3.19.2 Liqudity Risk of Debt Instruments

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.

The table below summarises the maturity profile of the financial assets of the company based on their current market value.

The company maintains a portfolio of highly marketable securities that can be easily liquidated in the event of an unforeseen interruption of cash flow.

Maturity Analysis of Assets 2012

	Carrying Value Rs'000	Less than 1 year Rs'000	1 - 3 years Rs'000	3 - 5 years Rs'000	5 - 15 years Rs'000	Over 15 year Rs'000	Total Rs'000
Available for Sale	**499,427**	**41,371**	**113,615**	**95,807**	**192,958**	**34,464**	**478,215**
Treasury bonds	465,209	5,464	113,615	95,807	192,958	34,464	442,308
Treasury bills	26,518	28,207	-	-	-	-	28,207
REPO	7,700	7,700	-	-	-	-	7,700
Loans & Receivables	**30,000**	**20,000**	**10,000**	**-**	**-**	**-**	**30,000**
Debentures	10,000	-	10,000	-	-	-	10,000
Fixed deposits	20,000	20,000	-	-	-	-	20,000

Maturity Analysis of Assets 2011

	Carrying Value Rs'000	Less than 1 year Rs'000	1 - 3 years Rs'000	3 - 5 years Rs'000	5 - 15 years Rs'000	Over 15 year Rs'000	Total Rs'000
Available for Sale	**396,566**	**66,347**	**5,671**	**152,940**	**158,849**	**-**	**383,807**
Treasury bonds	330,224	-	5,671	152,940	158,849	-	317,460
Treasury bills	49,047	49,047	-	-	-	-	49,047
REPO	17,300	17,300	-	-	-	-	17,300
Loans & Receivables	**10,000**	**-**	**-**	**10,000**	**-**	**-**	**10,000**
Debentures	10,000	-	-	10,000	-	-	10,000
Fixed deposits	-	-	-	-	-	-	-

Notes to the Financial Statements *(Contd.)*

Some of the specific actions by the company to mitigate the liquidity risk are shown below:

Cash outflows identified in advance are matched through short term deposits.

The company maintains a foreign currency deposit which can be liquidated in the event of unexpected cash outflows.

3.19.3 Interest Rate Risk

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

Notes to the Financial Statements *(Contd.)*

3 Intangible Assets

	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000
Acquisition Cost			
Balance as at 1 January	4,896	-	-
Additions	53	4,896	-
Balance as at 31 December	4,949	4,896	-
Amortization			
Balance as at 1 January	158		
Amortization charge for the year	1,663	158	-
Balance as at 31 December	1,821	158	-
Carrying Amount as at 31 December	3,128	4,738	-

Intangible assets represent the cost of acqusition of an actuarial software (Prophet Professional) from SunGard iWorks Ltd. The assets has been amortised during the period as per the LKAS 37 (Intangible Assets)

4 Property, Plant & Equipment

	Computer Equipment Rs.'000	Office Equipment Rs.'000	Motor Vehicle Rs.'000	Furniture and Fittings Rs.'000	Total Rs.'000
Cost					
Balance as at 1st January 2012	9,540	7,561	5,500	23,854	46,455
Additions	3,231	4,970	-	3,572	11,773
Disposals	-	-	-	-	-
Balance as at 31st December 2012	12,771	12,531	5,500	27,426	58,228
Depreciation					
Balance as at 1st January 2012	6,038	3,671	2,017	9,664	21,390
Charge for the Year	2,319	2,586	1,100	5,199	11,204
Disposals	-	-	-	-	-
Balance as at 31st December 2012	8,357	6,257	3,117	14,863	32,594
Carrying amount					
Balance as at 31st December 2012	4,414	6,275	2,383	12,563	25,635
Balance as at 31st December 2011	3,501	3,891	3,483	14,190	25,065
Balance as at 31st December 2010	2,979	3,115	4,583	13,110	23,787

Notes to the Financial Statements *(Contd.)*

5 Financial Investment	2012			2011			2010		
	Face Value	Cost of Investment	Carrying Value	Face Value	Cost of Investmen	Carrying Value	Face Value	Cost of Investmen	Carrying Value
	Rs'000	Rs '000	Rs '000	Rs'000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Available for Sale Investment (5a)	593,140	482,909	478,214	377,740	396,566	383,807	201,874	202,677	211,193
Loans and Receivables (5b)	30,000	30,000	30,000	10,000	10,000	10,000	10,000	10,000	10,000
	623,140	512,909	508,214	387,740	406,566	393,807	211,874	212,677	221,193

5a Available for Sale Investment	2012			2011			2010		
	Face Value	Cost of Investment	Carrying Value	Face Value	Cost of Investment	Carrying Value	Face Value	Cost of Investment	Carrying Value
	Rs'000	Rs '000	Rs '000	Rs'000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Treasury Bonds	563,140	472,909	450,008	377,740	347,524	334,760	201,874	202,677	211,193
Treasury Bills	30,000	10,000	28,206	50,000	49,042	49,047	-	-	-
	593,140	482,909	478,214	427,740	396,566	383,807	201,874	202,677	211,193

5b Loans and Receivable	2012			2011			2010		
	Face Value	Cost of Investment	Carrying Value	Face Value	Cost of Investment	Carrying Value	Face Value	Cost of Investment	Carrying Value
	Rs'000	Rs '000	Rs '000	Rs'000	Rs '000	Rs '000	Rs '000	Rs '000	Rs '000
Term Deposits	20,000	20,000	20,000	-	-	-	-	-	-
Debenture (Quoted)									
- Bank of Ceylon- 11.5% p.a.	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
	30,000	30,000	30,000	10,000	10,000	10,000	10,000	10,000	10,000

6 Other Assets	2012	2011	2010
	Rs.000	Rs.000	Rs.000
Premium Receivable	580	-	-
Interest Receivable	15,045	9,074	10,061
Other Debtors and Receivables	37,142	25,862	33,297
	52,767	34,936	43,358

7 Cash and Cash Equivalents	2012	2011	2010
	Rs.000	Rs.000	Rs.000
Cash at Bank	10,372	8,365	8,135
Cash in Hand	12,667	7,413	216
	23,039	15,778	8,351

8 Insurance Provision-Life

"The Valuation of the Life Insurance business as at 31 December 2012 was made by Mr. Chris Bernard., a Fellow of the Institute of Actuaries, for and on behalf of Allianz Life Insurance Lanka Ltd.

In accordance with the Actuary's report, the sum of provision Rs.370.9 million includes the liability in respect of IBNR,UPR, Interest Credit reserves, Guarantee reserves and Contingency reserves. In the opinion of the Actuary, the provision is adequate to cover the liabilities pertaining to the long term Insurance."

	2012	2011	2010
Actuarial Assumptions	A67/70	A67/70	A67/70
Mortality table used			

Notes to the Financial Statements *(Contd.)*

8.a Movement in Insurance Provision -Life

	2012 Rs.000	2011 Rs.000	2010 Rs.000
Balance as at 1st January	179,223	66,290	8,001
Increase in the Life Fund	191,674	112,933	58,289
Balance as at 31st December	370,897	179,223	66,290

9 Other Liabilities

	2012 Rs.000	2011 Rs.000	2010 Rs.000
Commission payable	21,297	13,883	6,058
Claims Payables (9a)	12,297	12,179	3,126
Premium in Deposit	21,140	20,284	13,371
Other Creditors and Accrued Expenses	15,328	19,670	13,042
Amount due to Allianz Insurance Lanka Ltd	5,794	3,786	29,887
	75,856	69,802	65,484

9.a Movement of Claims Payable

	2012 Rs.000	2011 Rs.000	2010 Rs.000
Balance as at 1st January	12,179	3,126	489
Claims Approved During the Year	27,422	23,138	9,841
Claims Paid During the Year	(27,304)	(14,085)	(7,204)
Balance as at 31st December	12,297	12,179	3,126

10 Employee Benefits

	2012 Rs.000	2011 Rs.000	2010 Rs.000
Balance as at 1st January	1,254	820	508
Provision made during the year	348	434	312
Balance as at 31st December	1,602	1,254	820

The retirement benefit plan entitles a retired employee to receive payment equal to 1/2 of final salary multiplied by the number of completed years of service. However under the Payment of Gratuity Act No. 12 of 1983, the liability of the employee arises only on the completion of five year of continued service. The retirement benefit plan valuation is carried out in accordance with LKAS 19 “Employee Benefits”.

Actuarial Assumptions	2012	2011	2010
Discount rate at 31st December	10%	10%	10%
Future salary increase	12%	12%	12%
Normal Retirement Age	55	55	55

11 Stated Capital

	2012 Rs.000	2011 Rs.000	2010 Rs.000
Balance as at 1st of January	492,499	349,999	249,999
Issued during the year	-	142,500	100,000
49,249,850 fully paid ordinary shares	492,499	492,499	349,999

Notes to the Financial Statements *(Contd.)*

12 Revenue Reserve	2012	2011	2010
	Rs.000	Rs.000	Rs.000
Balance as at 1st January	(258,935)	(200,429)	(85,367)
Net loss for the year	(59,775)	(58,506)	(115,062)
Balance as at 31st December	(318,710)	(258,935)	(200,429)

13 Gross written premium	2012	2011
	Rs.000	Rs.000
Universal Life Premium	513,458	333,591
Group Life Premium	6,986	4,651
Single Premium	11,697	13,057
	532,141	351,299

14 Net Insurance claims and benefits	2012	2011
	Rs.000	Rs.000
Life insurance claims death, disabilities and hospitalisation	27,422	23,138
Reinsurance recoveries	(11,545)	(10,526)
	15,877	12,612

15 Underwriting and net acquisition costs	2012	2011
	Rs.000	Rs.000
Policy Acquisition cost	150,136	108,781
Other Insurance related cost	2,140	3,033
	152,276	111,814

16 Interest income from AFS Investments	2012	2011
	Rs.000	Rs.000
Income on Government Securities	50,257	30,052
Interest Income Debenture	1,037	1,035
Investment income from Deposits	1,459	-
	52,753	31,087

17 Operating and Administration Expenses	2012	2011
	Rs.000	Rs.000
Staff Expenses (17a)	71,649	52,765
Administration and Establishment Expenses	97,192	76,631
Selling Expenses	67,866	42,380
Depreciation	12,867	10,015
	249,574	181,791

Notes to the Financial Statements *(Contd.)*

17a Staff Expenses

	2012 Rs.'000	2011 Rs.'000
Staff Salaries	32,692	24,636
EPF and ETF (17b)	4,888	3,659
Provision for employee benefits (10)	348	434
Staff welfare	4,647	2,659
Training expenses	2,618	791
Other Costs	26,456	20,586
	71,649	52,765

17b Contributions made to the Provident and Trust Funds

	2012 Rs.'000	2011 Rs.'000
Provident fund	3,931	2,958
Trust fund	957	701
	4,888	3,659
Number of Employees		
As at the end of the Financial Year	63	44

18 Loss Before Tax

	2012	2011
Loss before tax for the year is stated after charging following expenses	Rs.'000	Rs.'000
Depreciation	11,204	9,857
Amortisation	1,663	158
Auditors' Remuneration - Audit	698	455

19 Income Tax Expense

The company is liable for income tax at 28% of its taxable profit. However, no provision is made in view of the tax loss. The tax loss carried forward as at 31st December 2012 is Rs.970,359,929 (2011 - Rs.646,730,946).

19a Current Income Tax Expense

	2012 Rs.'000	2011 Rs.'000
Accounting loss	(59,196)	(58,506)
Aggregate disallowed items	15,343	13,483
Aggregate exempt income	(279,776)	(203,475)
Taxable loss	(323,629)	(248,498)
Tax loss brought forward	(646,731)	(398,232)
Statutary tax rate	28%	28%
Current income tax expense	Nil	Nil

Previous year's tax loss was restated to Rs.248,498,454 based on the final tax computation

19b Deferred Tax Assets and Liabilities

Unrecognized Deferred Tax Assets	Rs.'000	Rs.'000
Deferred tax assets have not been recognized in respect of the following items.		
Tax loss carried forward	970,360	646,731
Provision for Retirement benefit	1,602	1,254
Total deductible temporary difference	971,962	647,985
Unrecognized deferred tax assets	272,149	181,436

Notes to the Financial Statements *(Contd.)*

Unrecognized Deferred Tax Liabilities

No provision has been made in respect of deferred taxation as the Company has incurred tax losses and the temporary differences are not expected to reverse due to the above component and it is not probable that future taxable profits will be available against which the Company can utilise the benefits there from. Taxable temporary differences do not arise as the claiming of capital allowances is governed under Section 25 of Inland Revenue Act of 2006, which is not applicable to life insurance business as it should follow the provisions in Section 92 (1) of Inland Revenue Act of 2006, where the profits of a company whether mutual or proprietary, from the business of life insurance, shall be the investment income of the Life Insurance Fund, less the management expenses (including commissions) attributable to that business.

19c The Company is entitled to the following notional tax credit in case of a future tax liability

	2012 Rs.'000	2011 Rs.'000
Notional tax credit	16,149	11,566

20 Transactions with Group Companies

Company	Relationship	Nature of Transaction	2012 Rs.'000	2011 Rs'000
Allianz SE	Group Company	Reinsurance Agreement	2,658	1,468
Allianz Insurance Lanka Ltd	Group of Allianz SE	Reimbursable expenses (net)	2,023	26,101

21 Transactions with Key Management Personnel

Key management personnel includes the Board of Directors. There was no remuneration or fees paid and there were no transactions with key management personnel for the year ended 31 December 2012.

22 Capital Commitments

There were no capital commitments outstanding as at the Reporting date.

23 Contingent Liabilities

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

24 Events after the Reporting date

24.1 Company has incurred a loss of Rs. 59 mn for the year ended 31st December 2012 and the company has recorded an accumulated loss of Rs. 318 mn as at reporting date. Further company's net assets are less than half of its stated capital. This will be brought to the notice of the shareholders by calling an Extra Ordinary General Meeting. As an immediate remedial action the parent company Allianz SE has approved Rs. 100 mn capital infusion to the company for the year 2013. There were no other material events occurring after the Reporting date which require adjustments or disclosures in the Financial Statements.

25 Litigations and Claims

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

26 Earnings / (Loss) per Share

Loss per Share is calculated by dividing the net loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding as at year end.

	2012	2011
Net loss for the year (Rs.'000)	(59,196)	(58,505)
Weighted average No.of Ordinary Shares	49,250	38,854
Loss per share (Rs.)	(1.20)	(1.51)

Notes to the Financial Statements *(Contd.)*

27 Explanation on Transition to SLFRS

As stated in note 2.1these are the company's first financial statements prepared in accordance with SLFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2012, the comparative information presented in these financial statements for the year ended 31 December 2011 and in the prepration of an opening SLFRS statement of financial position at 1 January 2011 (the Company's date of transition).

In preparing its opening SLFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with SLAS (previous GAAP). An explanation of how the transition from previous GAAP to SLFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of comprehensive income for the year ended 31 December 2011.

	Note	Previous GAAP Rs.'000	Effect of Transition to SLFRS Rs.'000	SLFRS Rs.'000
Gross Written Premium		351,299	-	351,299
Premium Ceded to Reinsurers		(21,741)	-	(21,741)
Net Written Premium		329,558	-	329,558
Other Revenue				
Income from Investments	27a	28,979	2,108	31,087
Total Revenue		358,537	2,108	360,645
Benefits, Losses and Expenses				
Gross Claims and Benefits Paid		(23,138)	-	(23,138)
Claims ceded to reinsurers		10,526	-	10,526
Net Benefits and Claims		(12,612)	-	(12,612)
		345,925		348,033
Net Acquisition Costs		(111,814)		(111,814)
Other Operating, and Administrative Expenses		(181,792)		(181,792)
Total Expenses		(293,606)		(293,606)
Increase in Life Insurance Provision		(112,933)	-	(112,933)
Loss before Taxation		(60,614)	2,108	(58,506)
Income Tax		-		-
Net Loss for the Year		(60,614)	2,108	(58,506)
Other comprehenceive income				
Profit / (Loss) for the Year		(60,614)	2,108	(58,506)
Fair Value Gains/ (Losses) on Available for sales Investments	27b	-	(20,600)	(20,600)
Total comprehensive income for the year, net of tax		(60,614)	(18,492)	(79,106)

Material adjustments to the statement of cash flows for 2011

There are no material differences between the statement of cash flows presented under SLFRSs and the statement of cash flows presented under previous GAAP.

Notes to the Financial Statements *(Contd.)*

Reconciliation of equity	Note	2011 Previous GAAP Rs. '000	2011 Effect of Transition to SLFRS Rs. '000	2011 SLFRS Rs. '000	2010 Previous GAAP Rs. '000	2010 Effect of Transition to SLFRS Rs. '000	2010 SLFRS Rs. '000
Assets							
Investments	27b	406,430	(12,623)	393,807	212,677	8,516	221,193
Property, Plant & Equipment		25,065	-	25,065	23,787	-	23,787
Intangible Assets		4,738	-	4,738	-	-	-
Reinsurance Receivable		10,710	-	10,710	3,108	-	3,108
Other Assets	27c	23,373	11,563	34,936	34,442	8,916	43,358
Cash & Cash Equivalents		15,778	-	15,778	8,351	-	8,351
Total Assets		486,094	(1,060)	485,034	282,365	17,432	299,797
Equity and Liabilities							
Equity							
Stated Capital		492,499	-	492,499	349,999	-	349,999
Revenue Reserves		(269,958)	11,024	(258,934)	(209,345)	8,916	(200,429)
Fair Value Reserves	27b	-	(12,084)	(12,084)	-	8,516	8,516
Total Equity		222,541	(1,060)	221,481	140,654	17,432	158,086
Liabilities							
Insurance Provision - Life		179,223	-	179,223	66,290	-	66,290
Reinsurance Creditors		10,645	-	10,645	7,252	-	7,252
Other Liabilities		69,802	-	69,802	65,484	-	65,484
Employee Benefits		1,254	-	1,254	820	-	820
Bank Overdraft		2,629	-	2,629	1,865	-	1,865
Total Liabilities		263,553	-	263,553	141,711	-	141,711
Total Equity and Liabilities		486,094	(1,060)	485,034	282,365	17,432	299,797

27a The Company changed its method of recognising interest on Available for Sale treasury bills and bonds to Effective Interest Rate (EIR) method in accordance with LKAS 39 - Financial Instruments - Recognition & Measurement where by the interest was previously accounted for on a straight line basis and company changed the bas on accouting for interest on a gross basis.

The impact arising from the change is summarised as follows:

For the year ended 31st December	**2011 Rs'000**
Statement of comprehensive income	
Withholding Tax	2,647
EIR Adjustment	(539)
Adjustment before income tax	2,108

Notes to the Financial Statements *(Contd.)*

27b Company changed the basis of measurement for its available-for-sale investments portfolio from cost method to fair value method in line with LKAS 39.

The impact arising from the change is summarised as follows:

For the year ended 31st December	2011 Rs' 000
Statement of comprehensive income	
Net change in fair value on available-for-sale financial assets	(20,600)
Adjustment before income tax	(20,600)

As at 31st December	2011 Rs' 000	2010 Rs' 000
Statement of financial position		
Investment as per previous SLAS	406,430	212,677
EIR Adjestment	(539)	-
Cost of investment	405,891	212,677
Available for sale financial assets	(393,807)	(221,193)
Adjestment to fair value Reserve	12,084	(8,516)

27c Company changed the base on accounting for interest to gross basis.

The impact arising from the change is summarised as follows:

As at 31st December	2011 Rs' 000	2010 Rs' 000
WHT Receivable	11,563	8,916

Eight Year Summary

ALLIANZ INSURANCE LANKA LTD

Statement of Income for the year ended 31 December	2012	2011	2010	2009	2008	2007	2006	2005
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	1,521,463	1,501,300	1,469,538	1,174,822	601,103	414,017	300,949	75,402
Net Earned Premium	435,561	336,747	293,436	265,074	115,236	52,771	24,922	6,775
Income from Investments and Other Income	127,498	105,454	95,379	95,709	45,640	21,199	11,394	3,996
Insurance Claims and Benefits (net)	(163,837)	(139,168)	(172,754)	(150,698)	(59,178)	(33,219)	(18,239)	(7,503)
Underwriting and Net Acquisition Cost/ Income (Including Reinsurance)	163,639	151,610	115,060	88,096	66,090	50,006	19,293	4,340
Expenses	(251,962)	(173,452)	(109,816)	(139,869)	(80,854)	(37,549)	(22,503)	(16,508)
Profit Before Taxation	310,899	281,191	221,305	158,312	86,934	53,207	14,867	(8,900)
Income Tax Expenses	(81,382)	(46,594)	(53,996)	(38,646)	(14,190)	(3,669)	(2,105)	-
Net Profit for the Year	229,517	234,597	167,309	119,666	72,744	49,538	12,762	(8,900)

Balance Sheet as at 31 December	2012	2011	2010	2009	2008	2007	2006	2005
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets								
Investments	1,058,704	943,206	828,458	656,207	347,368	151,914	93,388	55,618
Property, Plant & Equipment	34,999	19,020	26,330	31,988	22,963	2,287	3,708	4,773
Intangible Assets	24,870	10,122	11,233	19,453	9,802	-	-	-
Reinsurance Receivables	261,048	341,143	296,505	125,480	133,939	104,561	75,308	12,948
Premium Receivables	451,657	379,805	334,602	130,678	104,593	76,520	57,937	24,939
Other Assets	74,917	77,072	95,316	111,342	23,680	4,022	2,148	2,485
Deferred Tax Assets	7,616	5,060	3,183	7,124	2,884	3,273	-	-
Cash & Cash Equivalents	56,250	18,485	19,827	23,172	54,804	43,618	31,000	7,861
Total Assets	**1,970,061**	**1,793,914**	**1,615,454**	**1,105,444**	**700,033**	**386,195**	**263,488**	**108,624**
Liabilities and Shareholders' Equity								
Liabilities								
Insurance Provision-General	529,878	468,653	520,252	315,105	238,503	146,349	112,811	24,587
Reinsurance Creditors	469,908	535,829	336,200	240,657	86,537	88,505	56,121	19,734
Employee Benefits	5,890	4,112	4,899	2,856	966	567	355	126
Other Liabilities	168,117	91,037	105,524	107,535	46,881	28,954	19,043	15,575
Bank Overdraft	15,983	22,540	28,457	7,345	14,866	3,409	6,285	-
Total Liabilities	**1,189,776**	**1,122,171**	**995,332**	**673,498**	**387,753**	**267,784**	**194,615**	**60,022**
Shareholders' Equity								
Stated Capital	250,000	250,000	250,000	250,000	188,635	67,510	67,510	60,001
Revenue Reserves	534,706	430,243	349,446	181,946	123,645	50,901	1,363	(11,399)
Fair Value Reserve	(4,421)	(8,500)	20,676	-	-	-	-	-
Total Shareholders' Equity	**780,285**	**671,743**	**620,122**	**431,946**	**312,280**	**118,411**	**68,873**	**48,602**
Total Liabilities and Shareholders' Equity	**1,970,061**	**1,793,914**	**1,615,454**	**1,105,444**	**700,033**	**386,195**	**263,488**	**108,624**

Five Year Summary

ALLIANZ LIFE INSURANCE LANKA LTD

Statement of Income for the year ended 31 December	2012	2011	2010	2009	2008*
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	532,141	351,299	204,814	101,816	4,013
Net Earned Premium	497,452	329,558	192,569	94,322	3,840
Income from Investments and Other Income	52,753	31,087	30,092	33,819	22,331
Insurance Claims and Benefits (net)	(15,877)	(12,612)	(5,715)	(3,283)	-
Net Acquisition Cost	(152,276)	(111,814)	(81,149)	(48,014)	(1,849)
Increase in Life Insurance Provision	(191,674)	(112,933)	(58,289)	(7,317)	(684)
Expenses	(249,574)	(181,792)	(201,486)	(145,243)	(33,289)
Profit before taxation	(59,196)	(58,506)	(123,978)	(75,716)	(9,651)
Income Tax Expenses	-	-	-	-	-
Net Profit for the year	(59,196)	(58,506)	(123,978)	(75,716)	(9,651)

Balance sheet as at 31 December	2012	2011	2010	2009	2008*
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Investments	508,214	393,807	221,193	189,150	231,775
Property, Plant & Equipment	25,635	25,065	23,787	18,147	6,210
Intangible Assets	3,128	4,738	-	-	-
Reinsurance Receivables	13,389	10,710	3,108	2,376	-
Other Assets	52,767	34,936	43,358	57,981	19,238
Cash & Cash Equivalents	23,039	15,778	8,351	5,849	2,522
Total Assets	**626,172**	**485,034**	**299,797**	**273,503**	**259,745**
Liabilities and Shareholders' Equity					
Liabilities					
Insurance Provision-Life	370,897	179,223	66,290	8,001	684
Reinsurance Creditors	18,277	10,645	7,252	5,098	937
Other Liabilities	75,857	69,803	65,481	93,179	17,776
Employee Benefits	1,602	1,254	820	508	-
Bank Overdraft	4,434	2,629	1,865	2,085	-
Total Liabilities	**471,067**	**263,554**	**141,711**	**108,871**	**19,397**
Shareholders' Equity					
Stated Capital	492,499	492,499	349,999	249,999	249,999
Revenue Reserves	(318,131)	(258,935)	(200,429)	(85,367)	(9,651)
Fair Value Reserve	(19,263)	(12,084)	8,516		
Total Shareholders' Equity	**155,106**	**221,480**	**158,086**	**164,632**	**240,348**
Total Liabilities and Shareholders' Equity	**626,172**	**485,034**	**299,797**	**273,503**	**259,745**

*Commenced business in November 2008

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 starts at the outset of the contract, it is an immediate annuity. If they start at some point in the future, it is a deferred annuity.

Beneficiary
A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the 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 that 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 that have occurred by the balance sheet date, including IBNR claims and claims handling expenses, less amounts already paid in respect of those claims.

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

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

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

Glossary of Insurance Terms *(Contd.)*

Crediting Rate
This is the interest rate declared to the policyholder by the Company at the end of every year, based on the investment performance of the policyholder's fund.

Deferred Acquisition 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 that 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, that are deferred to subsequent accounting periods, the related net acquisition costs and gross claims outstanding.

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

Life Insurance Business
Insurance (including reinsurance) business falling within the classes of insurance specified as long term insurance business under the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

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 and other 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 the Company to relate income to acquisition and administrative expenses excluding Nation Building Tax (NBT) (e.g. commission, 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 policyholder is not entitled to a share of the Company's profits and surplus but entitled to receive benefits based on the contractual agreement.

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

Glossary of Insurance Terms *(Contd.)*

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.

Solvency Margin - Life
The difference between the value of admissible assets and the value of liabilities required to be maintained by the insurer who carries on Life insurance business as defined in Solvency Margin (Life Insurance) rules 2002 made under the 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 Lnsurance).

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.**	**Allianz Life Insurance Lanka Ltd.**
Legal Form	-	A public limited liability company incorporated as Allianz Insurance Company Lanka Ltd., on 20 January 2004 under the companies Act No 17 of 1982 in Sri Lanka. The company was re-registered as Allianz Insurance Lanka Ltd., under the companies Act No. 7 of 2007.	A public limited liability company incorporated in Sri Lanka on 24 March 2008, under the Companies Act No 7 of 2007.
Company Registration Number	-	PB 323	PB 3493
Tax Identification Number (TIN)	-	114011487	134034939
VAT Registration Number	-	114011487- 7000	
Board of Directors	-	Heinz Dollberg Surekha Alles David Lawrence Fried	Heinz Dollberg Surekha Alles Saloon Tham David Lawrence Fried
Auditors	-	KPMG (Chartered Accountants), 32A, Sir Mohamed Macan Markar Mawatha, Colombo 3.	KPMG (Chartered Accountants), 32A, Sir Mohamed Macan Markar Mawatha, Colombo 3.
Consultant Actuaries	-	NMG Financial Services Consulting 65 Chulia Street, #37-07/08, OCBC Centre, 049513 Singapore.	Chris Barnard Allianz SE, Koeniginstrasse 28, 80802 Munich, Germany
Secretaries	-	EM & EN Agents and Secretaries (Pvt) Ltd. M & N Building, No. 2, Deal Place, Colombo 3.	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 Sampath Bank PLC Peoples Bank Commercial Bank of Ceylon PLC	Deutsche Bank AG Standard Chartered Bank Commercial Bank of Ceylon PLC. Sampath Bank PLC National Development Bank PLC National Savings Bank Bank of Ceylon
Registered Office	-	No. 92, Glennie Street, Colombo 2.	No. 92, Glennie Street, Colombo 2.

Corporate Information *(Contd.)*

Branches

Colombo City
46/7,Valient Towers Level3,
NawamMawatha, Colombo 2.
Fax :011 2303116
Tel : 011 2303171 / 112303192
E-mail : City@allianz.lk

Chilaw
No: 105/1/2, Colombo rd, Chilaw.
Fax :032 22224831
Tel : 032 2224832
E-mail : chilaw@allianz.lk

Galle
1st Floor, No. 141, Colombo Road,
Kaluwelle, Galle.
Tel 091-2227392
Fax 091-2227393
E-mail: galle@allianz.lk

Gampaha
No. 6/2, Sri Kurusa Road, Gampaha.
Tel: 033-2234995
Fax: 033-2234994
E-mail: gampaha@allianz.lk

Jaffna
No. 100, Manipay Road
Jaffna.
Tel: 021-2221761, 021-2224963
Fax: 021-2221762
E-mail: jaffna@allianz.lk

Kandy
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Cross Street, Kandy.
Tel: 081-2205152
Fax: 081-2205153
E-mail: kandy@allianz.lk

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No. 245, Colombo Road,
Kegalle.
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E-mail: kegalle@allianz.lk

Kurunegala
No. 174, Negombo Road,
Kurunegala.
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Fax: 037-2230535
E-mail: kurunegala@allianz.lk

Matara
No: 31/1,
AnagarikaDharmapalaMw,Matara
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Negombo
No. 51, Thammita Road, Negombo.
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Fax: 031-2228477
E-mail: negombo@allianz.lk

Nugegoda
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Nugegoda.
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Tissamaharama
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Vavuniya
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Seylan Bank Building, Vavuniya.
Tel: 024-2225473
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Agency Offices

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Kilinochchi
No 404, Railway Station Road,
Kilinochchi.
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Fax: 021-2285441
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