

# LIVE LONGER HEALTHIER BETTER LIVES



## **Our Vision**

To become the pre-eminent Life insurance provider in Sri Lanka.

## **Our Purpose**

To play a leadership role in driving economic and social development in Sri Lanka.

## **Our History**

In December 2012, AIA Company Limited, Hong Kong acquired the entirety of the shareholding in AIA Holdings Lanka (Private) Limited, the majority shareholder of AIA Insurance Lanka PLC. AIA also acquired a direct 5.00 per cent of the shareholding and through a voluntary offer, acquired a further 4.88 per cent direct holding in May 2013.

AIA now owns an effective shareholding of 97.16 per cent in AIA Insurance Lanka PLC.



Please scan the QR code to obtain an e-version of the Annual Report 2016.

# LIVE LONGER HEALTHIER BETTER LIVES

At AIA, we believe in the power of insurance to make a positive difference in people's lives. We do this through our propositions as well as by actively promoting the health and well-being of our customers, Wealth Planners, employees, and the communities in which they live and work. We are committed to helping people to live longer, healthier, better lives.

**AIA Insurance Lanka PLC.**  
**LIVE LONGER, HEALTHIER, BETTER LIVES.**

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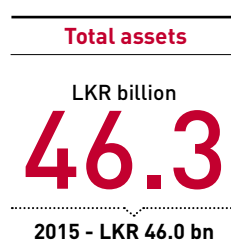
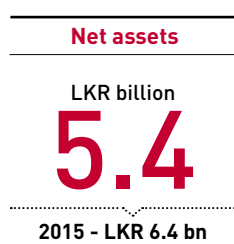
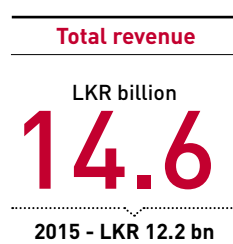
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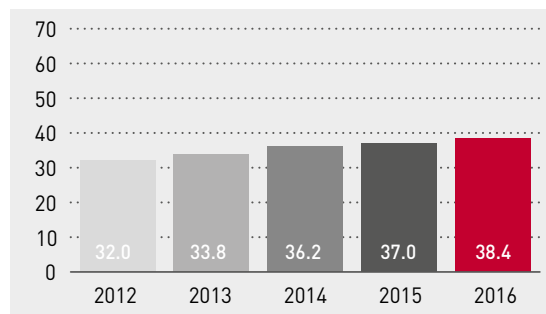
## FINANCIAL HIGHLIGHTS

Financial Highlights - Group		2016	2015	%
Total revenue	(LKR mn)	14,633	12,221	20
Profit before tax	(LKR mn)	794	519	53
Gross written premium	(LKR mn)	10,104	8,433	20
Net assets	(LKR mn)	5,366	6,367	(16)
Total assets	(LKR mn)	46,327	45,962	1
Insurance liabilities	(LKR mn)	38,431	37,028	4
Basic earnings per share	(LKR)	16.61	9.86	68
Dividend per share	(LKR)	49.50	7.07	600
Market capitalisation	(LKR mn)	8,613	8,979	(4)



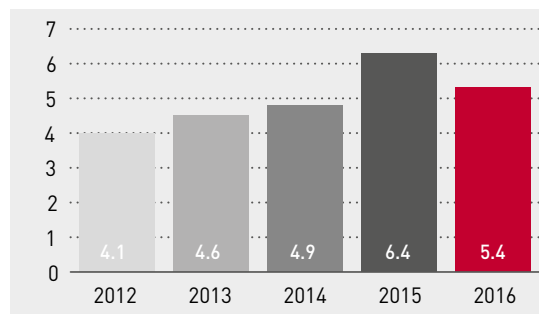
### Insurance liabilities

LKR billion



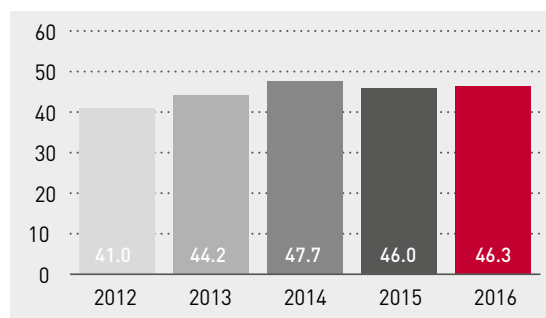
### Net assets

LKR billion



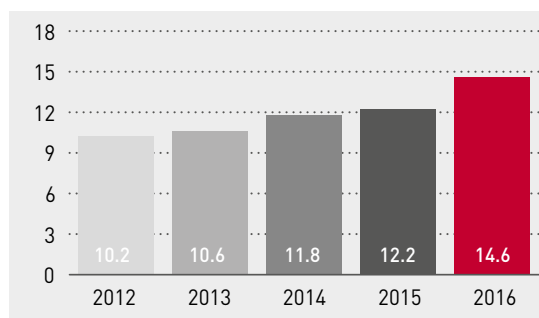
### Total assets

LKR billion



### Total revenue

LKR billion



# MILESTONES 2016

## FEBRUARY:

### AIA's retirement social experiment goes viral!

In an eye opening social experiment, AIA made people come face-to-face with their future retirement life. This was the first time AIA had conducted a social experiment of this nature, which turned out to be a great hit on social media, recording a considerable amount of engagement.



## MARCH:

### AIA tops MDRT in Sri Lanka

AIA boasted the most number of qualifiers for the 2016 Million Dollar Round Table (MDRT) from Sri Lanka. With a total of 63 qualifiers, comprising of 48 Wealth Planners and 15 Bancassurance Executives, these highflyers are testament that AIA has the best Agency and Bancassurance expertise in the country.

MDRT is internationally recognised as the standard of excellence in the life insurance and financial services business. Notably, AIA Group was also number one MDRT in the world, for 2016.

## APRIL:

### Customer convenience with the e-wallet

AIA was the first insurer in the country to equip its entire Wealth Planner force with the revolutionary mobile insurance premium payment platform, the e-wallet. AIA joined forces with Sri Lanka's national mobile service provider, to offer its customers the best of convenience and cutting edge technology with the innovative e-wallet, which lets you pay your insurance premiums instantly.

## AIA tops MDRT in Sri Lanka



## MAY:

### AIA Sales Convention

Top-rung sales performers at AIA Sri Lanka were honoured and recognised at a gala awards night that packed the grand auditorium at Nelum-Pokuna. Over 1,200 Wealth Planners attended the event.



## JUNE:

### Poson Safety Programme

Now in its 23rd consecutive year, AIA's Poson Safety Programme is aimed at protecting the lives of Poson pilgrims who visit the sacred cities of Anuradhapura, Polonnaruwa and Dambulla. Bathing in the reservoirs in these areas is a popular, yet dangerous past-time. That is why, AIA plays the role of educator, by creating awareness on the risks of drowning. More so, AIA facilitates the presence of lifeguards around these tanks, so as to physically save lives when necessary. As a result, there have been zero deaths due to drowning, since the inception of the programme.



### AIA Sri Lanka declares an outstanding dividend:

AIA Sri Lanka declared an outstanding dividend of 9.55 per cent for its policyholders in 2016. This was despite the slowing GDP growth and increasing inflation scenario that prevailed. This showcases the strength and enduring investment strategy of AIA's Life fund, which now stands at LKR 30 billion.

### Father's Day video tugs at heart-strings and becomes a social media hit

Released on Father's Day, AIA's second viral hit was intended at highlighting the importance of ensuring protection for your family. The video logged over 5,500 views on YouTube and almost 115,000 views and 2,000 shares on Facebook, in just a week since posting.

### JULY:

#### AIA partners GMOA

AIA partnered with the Government Medical Officers' Association (GMOA), opening the door for AIA to add greater value to its 'healthy living' endeavours while enhancing awareness among doctors on the importance of retirement planning and ensuring protection for their families.

#### Swarna achieves MDRT Honour Roll!



AIA Wealth Planner D.G.A. Swarna from Anuradhapura Region became the first female insurance sales professional in Sri Lanka to achieve honour roll at Million Dollar Round Table (MDRT). This prestigious global recognition for a life insurance sales person is an achievement awarded for 15 years of MDRT membership.

#### AIA Wealth Planners meet and greet with the national cricketers

It was memorable day for some of AIA's Wealth Planners and their families who got a once-in-a-lifetime opportunity to meet, greet and lunch with the Sri Lankan national cricket team. This rare chance for AIA Wealth Planners and their families was made possible as a result of AIA being the Official Insurance Partner of Sri Lanka Cricket.



#### AIA wins Great Place to Work® for fourth consecutive year

AIA was amongst the twenty five best companies to work for in Sri Lanka, also winning the bronze award in the Large Enterprise Category.

### AUGUST:

#### More holiday destinations for Real Rewards

In celebration of the completion of its first year, AIA's Real Rewards scheme was expanded from the three destinations of Singapore, Kuala Lumpur and Bangkok previously offered to customers, to a choice of six destinations by adding Bali, Kerala and Chennai to the list.

### SEPTEMBER:

#### Fire Boys and SLC break records!

AIA organised a surprise match for the biggest fans of Sri Lanka Cricket - the Fire Boys - a team of street cricketing kids who are passionate about the sport. Needless to say, it was a monumental event in their lives. The Fire Boys AV was an unprecedented viral success, as views and shares broke records. Facebook statistics as

at end of 2016 was 56,000 reactions, 51,000 shares, 549,000 views and 349 comments.



### OCTOBER:

#### AIA Higher Education Scholarship Awards

AIA's Higher Education Scholarships Programme, now in its 22nd consecutive year, rewards the top performer from each district at the Grade 5 scholarship examination, by giving them a monthly bursary from the Advanced Level (A/L) class right up to the completion of their University degree. Started in 1994, the programme was initiated to lend a hand to Sri Lanka's brightest and most promising students, as they are the future of this nation.



#### AIA Pensions Month

AIA's Pensions Month was rolled out in October, for the second consecutive year. AIA's nationwide team of Wealth Planners put all their energy into guiding Sri Lankans to a more secure and ideal retirement. AIA's team, through a host of sustained activities, helped people realise the need to bridge the gap between what people will have and what they will need, to afford the retirement they deserve.

#### Sponsoring the bikes at Bellanwilla Park!

AIA is sponsoring the bicycles at the highly visited Bellanwilla Park, as part of the company's dedication to promoting healthy living. This is one of many initiatives by AIA to help people live longer, healthier, better lives.



### NOVEMBER:

#### New CEO

AIA announced the appointment of Pankaj Banerjee as its new Chief Executive Officer. The move coincided with Shah Rouf assuming a new role at AIA Group Hong Kong.

## CHAIRMAN'S REVIEW



**The Company delivered a strong performance during 2016, with Gross Written Premiums of the life insurance business that increased 20 per cent to LKR 10,104 million compared to LKR 8,433 million recorded last year.**

AIA Sri Lanka continues to generate strong results and it's my pleasure as Chairman of the Board of Directors to report that the Company concluded another year of broad based growth.

The Asian region's economic performance remains robust and steady, and we remain optimistic that Asia will continue to be the world's engine of growth in the years ahead. Despite local challenges, the Sri Lankan economy is expected to gather momentum with conducive conditions and an enabling policy framework, and we believe that these would enhance the longer term potential and opportunity for expansion in the country's life insurance sector.

GWP

LKR billion

**10.1**

2015 - LKR 8.4 bn

Gross written premiums of life insurance business increased 20 per cent for the year and crossed a landmark to record LKR 10.1 billion.



**The performance was primarily driven by the effective and efficient execution of the 'Premier Agency 2.0' strategy which focused on enhancing the quality of the agency force, the sales process and customer experience.**

The Company delivered a strong performance during 2016, with Gross Written Premiums of the life insurance business that increased 20 per cent to LKR 10,104 million compared to LKR 8,433 million recorded last year. The growth was reflected in our financial performance, with consolidated profit after tax that increased 68 per cent to LKR 511 million from LKR 303 million recorded last year.

The performance was primarily driven by the effective and efficient execution of the 'Premier Agency 2.0' strategy which focused on enhancing the quality of the agency force, the sales process and customer experience. Our bancassurance channel has made strong progress during 2016 by focusing on customer penetration and greater presence in partner banks. For example, the Company established an exclusive long term bancassurance partnership with one of the premier development banks in Sri Lanka, DFCC.

In 2016, AIA Sri Lanka launched a mobile premium payment platform providing greater convenience to both customers and agents.

Adding to its range of new initiatives, the company introduced AIA Vitality to its employees and Wealth Planners. AIA Vitality is a science backed wellness programme that gives users the tools, knowledge and motivation to improve their health.

The achievements of 2016 by Team AIA Sri Lanka are a true representation of its dedicated, committed and focused employees, Wealth Planners and bank partners. I take this opportunity on behalf of the Board to thank all of those who contributed to the success over the past year, including our former CEO Mr. Shah Rouf.

**Profit after tax**

LKR million

**511**

2015 - LKR 303 mn

The profit after tax includes the transfer of Life business surplus for 2016 to shareholders of LKR 315 million which increased from LKR 100 million reported for financial year 2015.

We still have a lot to achieve and we remain committed to forge ahead with a strategy designed to ensure that AIA Sri Lanka becomes the pre-eminent life insurer in Sri Lanka.



**William Lisle**  
Chairman



**The efficient execution of the 'what' as articulated in the Pioneer 2 strategies and the 'how' as given in AIA's operating philosophy of 'Doing the Right Thing, in the Right Way, with the Right People, and be confident the Right Results will come' was the key driver of the superior performance recorded during 2016**

Looking back at yet another year of sustained outperformance, I take great pleasure and satisfaction in presenting the review of AIA Sri Lanka's performance during the 12 months of 2016. The efficient execution of the 'what' as articulated in the Pioneer 2 strategies and the 'how' as given in AIA's operating philosophy of 'Doing the Right Thing, in the Right Way, with the Right People, and be confident the Right Results will come' was the key driver of the superior performance recorded during 2016.

The Sri Lankan economy was impacted by the challenging external environment for the majority of the year with the government primarily focusing its efforts on regaining the momentum of attracting investment and continuing to invest in infrastructure, whilst containing the budget deficit and managing the impact of those policy decisions. The outcome of some of these policies was a reduction in disposable income which had an impact on the amount of income committed by consumers towards Life insurance protection, savings and retirement planning needs.

The IMF in its November/December 2016 review revealed that the country's economic performance meets satisfactory levels but it added that Sri Lanka needs to concentrate on increasing its depleted foreign reserves.

In its latest ratings, Moody's has rated Sri Lanka at B1 with a negative outlook stating that any drop in momentum towards reaching 2017 fiscal targets would increase debt levels, impacting investor confidence and creating instability.

The World Bank forecasts Sri Lanka to return a GDP growth rate of 4.8 per cent in 2016 i.e. remain constant with the levels recorded in 2015, however forecasts the GDP growth rate to increase to 5.0 per cent in 2017, indicating that Sri Lanka's economy is poised to gather momentum provided that a conducive environment and supporting policy framework is in

place. Evidencing its level of confidence, the World Bank agreed to provide a soft loan of USD 1.3 billion to Sri Lanka over the next three years.

Against this backdrop it is commendable that AIA Sri Lanka delivered yet another year of strong growth in 2016. Moreover, the year also witnessed AIA Sri Lanka embedding its Life only focus subsequent to the divestment of its General Insurance business in the closing months of 2015.

The upbeat performance was primarily attributed to the successful execution of 'Premier Agency 2.0' and was complemented by the growth in the Bancassurance channel. 'Premier Agency 2.0', AIA Sri Lanka's Agency strategy was launched in December 2015 based on Group wide and international best practices. The key focus in Agency throughout 2016 has been to rollout, socialize and embed the components of this strategy which focused on improved sales quality and superior customer engagement.

During 2016, AIA Sri Lanka upgraded its cash collection methods by launching a mobile cash remittance platform, with the aim of increasing premium collection and to provide greater convenience to both our customers and agents. The year further marks the launch of AIA Sri Lanka's first ever trilingual website, where we have improved user friendliness and needs responsiveness capacities. We also launched the 'Get Real Close' corporate brand campaign which highlights AIA Sri Lanka's role in bringing people even closer to achieving their real life dreams and aspirations.

The Bancassurance channel continued to focus on broadening and deepening its customer penetration during the year with its growing presence in partner banks. The channel established an exclusive long term partnership with a premier development bank in Sri Lanka 'DFCC'. The Bancassurance channel continued to maintain its remarkable pace of growth throughout the last 12 months.

2016 marked an important juncture for the operations function as it implemented the phase of its Target Operating Model focused on improving premium collections and Life policy conservation.

AIA Sri Lanka believes in creating a conducive environment to attract and nurture the right talent, focused on the principle of meritocracy. Endorsing this, the Company was adjudged one of the 25 best companies to work for by the globally renowned "Great Place to Work®" study with 2016 representing the fourth consecutive year of recognition.

In 2016, AIA Sri Lanka launched AIA Vitality, Asia's first science backed wellness programme, for its employees and agents. AIA Vitality uses behavioural economics and incentives to encourage people to adopt and sustain healthier behaviours. The concept

of AIA Vitality is in line with AIA's mission which is to help people live, longer, healthier, better lives. AIA Vitality will be launched to the public in early 2017.

The Company's financial performance reflected sustained growth with Gross Written Premium of LKR 10.1 billion, 20 per cent growth over 2015 and consolidated profit after tax of 511 million that increased 68 per cent over 2015.

The Life business of AIA Sri Lanka has consistently added value to its shareholders and policyholders. During 2016 the Life policyholders' fund increased to LKR 38.4 billion and an amount of LKR 315 million was declared as a surplus and was transferred to shareholders.

From January 2016 the insurance industry in Sri Lanka adopted the Risk-Based Capital solvency regime (RBC). Life business solvency on this measure stands at 361 per cent as at 31 December 2016 and reflected the strong financial position of the Company.

Looking ahead to 2017, the Company will continue to pursue the next phase of Premier Agency 2.0 which was launched in October 2016. We believe this would enable the company to stay committed to delivering the market leadership ambition of AIA Sri Lanka.


I recognise and congratulate our Wealth Planners and Bancassurance Executives for the growth AIA Sri Lanka has witnessed over the last 12 months owing to their commitment, focus and dedication.

I extend my sincere appreciation and gratitude to the Board of Directors and all my AIA Sri Lanka colleagues for their tireless efforts, commitment and dedication during another challenging year. I thank all our business partners for their professionalism and support.

I thank and offer my utmost gratitude to our most important stakeholder, our customers for their consistent trust and confidence in us and our capabilities and capacity to offer them protection and hope.

I trust and believe that AIA Sri Lanka can only get better from this juncture and its best is yet come.

Best Regards,



**Pankaj Banerjee**  
Chief Executive Officer



**LIVE LONGER**

MD&A



# MANAGEMENT DISCUSSION & ANALYSIS

**2016 will stand out for the significant events that took place in the geo-political arena. During the year, it was evident that Sri Lanka was working towards consolidating the stable economic and political conditions locally and building on the foundation of international relations to set-up a strong platform for future economic growth.**

It is evident that Asia continues to be the engine of growth, withstanding the headwinds and volatile conditions emanating from other parts of the globe. The economic performance of Sri Lanka during 2016 and the impact on AIA Sri Lanka is briefly discussed in this report.

The report presents AIA Sri Lanka's performance during the year with a strong set of financial results being reported. The Company's strong performance is mainly attributed to the successful execution of 'Premier Agency 2.0' during 2016 as well as the growth in the Bancassurance channel. Through 'Premier Agency 2.0' implementation, the Company enhanced the quality of its Agency force, sales process, and the customer experience. For Bancassurance, the Company broadened and deepened customer penetration with a greater presence within partner banks. AIA Sri Lanka has built a solid foundation to progress towards the stated ambition of market leadership in the local Life insurance industry and be the pre-eminent Life insurer in Sri Lanka.

## ENVIRONMENT

### Economic update

The economic environment directly impacts AIA Sri Lanka's business operations and financial performance. Sales are impacted by economic growth, operating and capital expenses are impacted by inflation, and investment income is influenced by movements in interest rates and the equity market performance.

### Economic growth

Sri Lanka's Gross Domestic Product (GDP) is estimated to have grown moderately in 2016, as reflected by the annual GDP growth rates presented in Figure 1. The services sector which is the mainstay of the economy reported higher performance, particularly in the financial services sector. The industry sector showed encouraging growth stemming from the resumption of construction activities. The agriculture sector continued to be affected by unfavourable weather conditions, which were prevalent during parts of the year.

Higher economic growth together with lower inflation, and the resultant higher GDP per capita and disposable income, is an enabling environment for growth in the Life insurance industry.

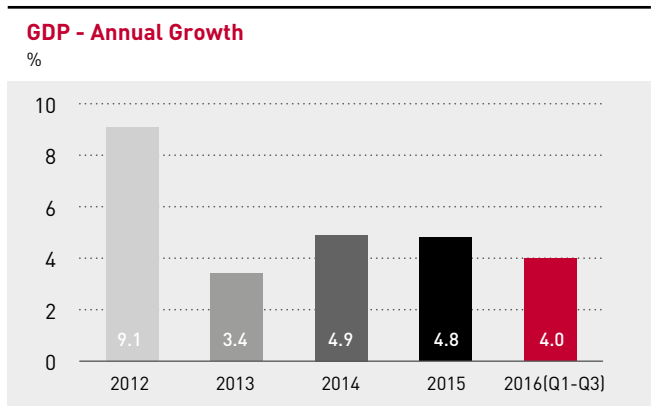


Figure 1

### Inflation

Inflation remained at mid-single digit levels in 2016. However, the increase in private sector credit and growth in broad money (M<sub>2</sub>b) in much of 2016, as reflected in Figures 2 to 4, indicated the possible build-up of inflationary pressure in the economy. Increases in indirect tax rates and supply side pressures due to adverse weather conditions further contributed to increase pressure on inflation. The increase in inflation could be moderated due to the tempering of private sector credit levels towards the end of 2016 with higher interest rates.

An increase in inflation leads to near or above double digits would reduce an individual's disposable income and capacity to save, and may impact sales of Life insurance.

An increase in inflation is expected to lead to an increase in interest rates in due course, in order to provide savers and investors with positive real returns on their savings and investments.

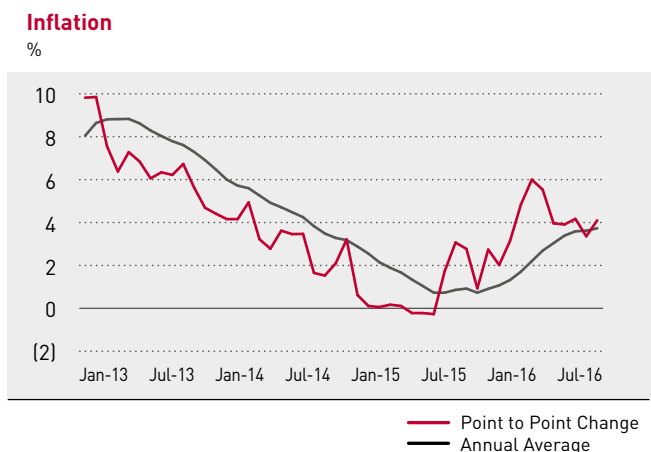


Figure 2

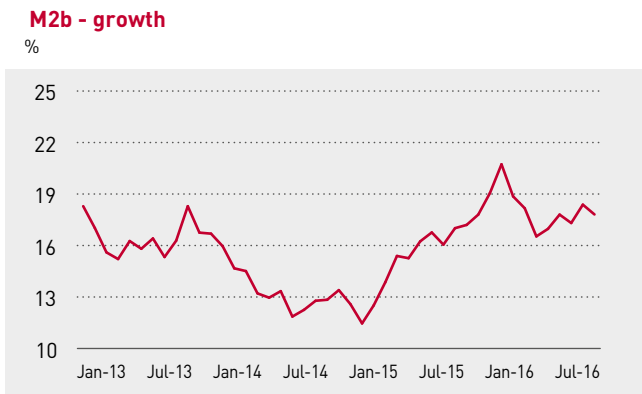


Figure 3

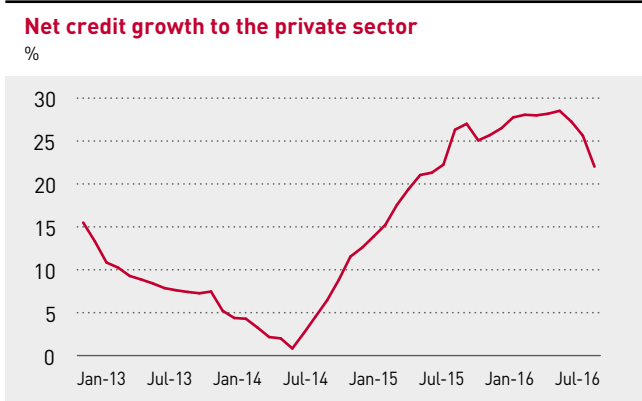


Figure 4

**Interest rates**

The benchmark 364-day T-bill rate increased significantly to 10.17 per cent at December 2016, an increase of 306 bps during 2016, as shown in Figure 5. The five year bond interest rate has increased by 270 bps over 2016. The increase in interest rates was a result of monetary tightening measures adopted by the Central Bank in response to the heightened demand for credit by both government and private sectors in much of 2016, and possibly as a reaction to the anticipated hike in US federal rates which materialised towards the end of 2016.

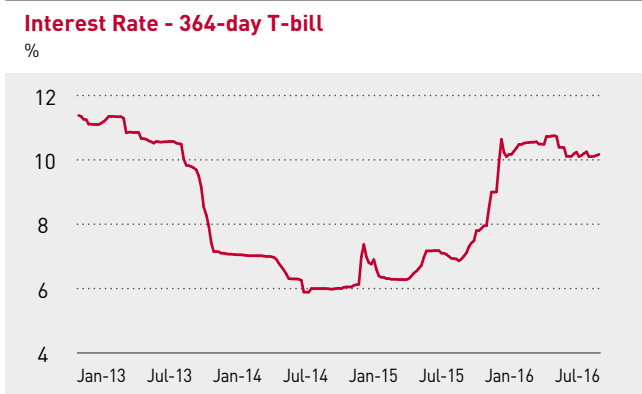


Figure 5

A sustained rise in interest rates results in an increased cost of capital to businesses which may stifle economic activity. It would increase returns to investors in fixed and variable income securities such as insurance companies, as it enables investors to lock new money and maturing investments at these higher rates. However, it could lead to unrealised losses to be reported on existing investments that are valued on a market value basis.

**External reserves and exchange rates**

Sri Lanka’s gross official reserves are estimated to be USD 6.0 billion in November 2016, mainly strengthened by the dual tranche international bond issue and a three year Extended Fund Facility (EFF) from the IMF. These were obtained with the view of strengthening the external reserve position of the country and supporting the government’s broad economic reform agenda. In July 2016 the government issued USD 1.5 billion dual tranche sovereign bonds (USD 500 million for 5.5 years and USD 1.0 billion for ten year) and in June 2016 the government secured USD 1.5 billion EFF from the IMF.

During the year, there was an increase in long term loans to the government, even though foreign investments in government securities witnessed a decrease due to the generally expected hike in US interest rates prompting some withdrawal of funds from Asian markets. Increased earnings from tourism and worker remittances supported Sri Lanka’s foreign reserves.

The LKR depreciated 3.8 per cent during 2016 as reflected in Figure 6. The strain on foreign reserves and movements in foreign exchange rates in international markets has limited the ability of the government to maintain a steady exchange rate. This together with the further anticipated increase in US interest rates during 2017 and the foreign debt repayments scheduled for 2017 may lead to further weakening of the rupee.

The weakening of external reserves and possible depreciation of the LKR will impact inflation due to the increase in prices of imported items, and impact interest rates due to monetary policy action to maintain appropriate levels of foreign currency reserves.

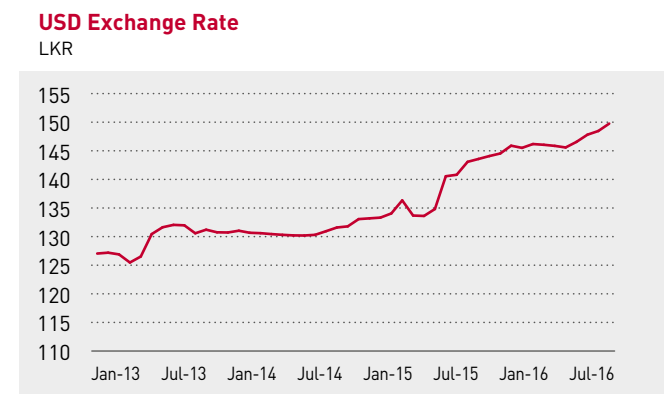


Figure 6

## MANAGEMENT DISCUSSION & ANALYSIS

### Fiscal outturn

The overall fiscal deficit is estimated at 5.4 per cent of GDP and is forecast to decline further to 4.6 per cent in 2017, and in this context revenue collection is a key focus for the Government Treasury.

Increased borrowing by the government to fund its obligations may lead to inflationary and interest rate pressure.

### Equity market performance

The equity market declined in 2016 and may continue to remain volatile in the foreseeable future given the domestic and international environmental conditions and their impact on investor activity on the Colombo Stock Exchange.

Any downturn in domestic equity markets may adversely affect the Company's equity investment portfolios maintained for the unit-linked business.

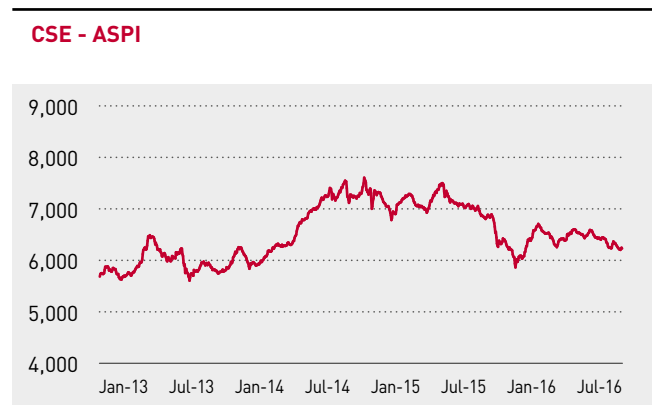


Figure 7

### INDUSTRY REVIEW

The insurance industry in Sri Lanka is composed of 30 insurance companies, reflecting the outcome of regulation on segregation of composite insurance companies which was effective from 2015.

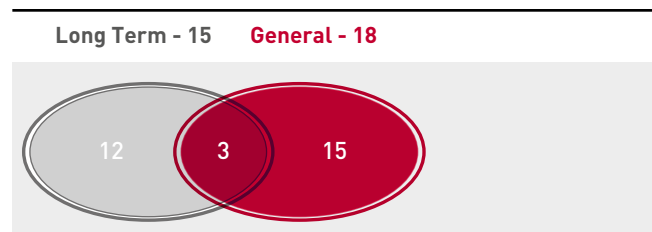


Figure 8

The industry review is based on 2015 official figures published by the Insurance Board of Sri Lanka (IBSL), the local insurance regulator.

### Life insurance industry performance

The Life insurance industry reported a growth rate of 20.1 per cent during 2015 on the industry measure of GWP and is attributable to factors driven by the industry such as innovative products, creative marketing campaigns, expansion in distribution channels especially with regard to the agency force, and also socio economic factors such as increased per capita income, greater awareness of the benefits and need for insurance. AIA Sri Lanka accounted for 6.7 per cent of the total branches and 9.6 per cent of insurance agents of the Life insurance industry. Concurrent with the increase in GWP, the industry sold a record number of 650,786 new long term insurance policies during 2015, the highest on record over the past five years and which is a testimony to the increased awareness and demand for life insurance policies.

Industry growth	2011	2012	2013	2014 (a)	2015 (b)
Long term insurance GWP - Industry (LKR mn)	35,162	37,477	41,676	44,596	53,575
Growth rate in long term insurance premium (%)	12.9	6.6	11.2	7.0	20.1

Source: IBSL Annual Report 2015

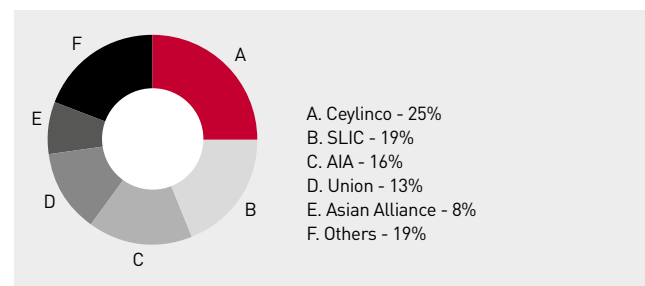
(a) Reinstated Audited figures

(b) Provisional figures

Figure 9

The industry remained concentrated among the key players with a market share of 81 per cent being shared by the top five companies during 2015, marginally less than the 82 per cent market share in 2014. With a market share of 16 per cent, AIA Sri Lanka ranked third in the industry in terms of GWP.

### Industry GWP - by company



Source: IBSL Annual Report 2015

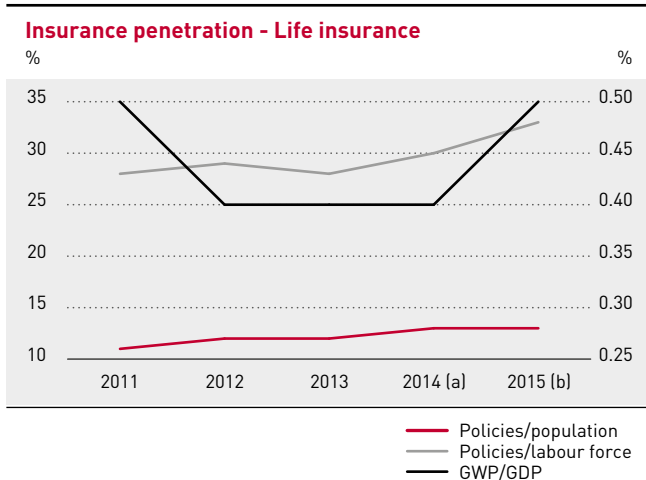
Figure 10

Conventional Life insurance remained dominant in the insurance books for 2015 representing 96 per cent of insurance provision, recording a marginal growth in comparison to 95 per cent in 2014.



Agency remained the key distribution channel for Life Insurance business contributing 90.0 per cent of overall GWP volumes. Both Direct and Bancassurance channels expanded during 2015 contributing to 4.8 per cent and 4.0 per cent of GWP of Life Insurance, which stood at 3.2 per cent and 3.0 per cent in 2014.

Insurance penetration albeit being low compared to many other economies in the Asian region, increased during 2015 compared to 2014.



	2011	2012	2013	2014 (a)	2015 (b)
Policies/population	11%	12%	12%	13%	13%
Policies/labour force	28%	29%	28%	30%	33%
GWP/GDP	0.5%	0.4%	0.4%	0.4%	0.5%

Source: IBSL Annual Report 2015

(a) Reinstated Audited figures

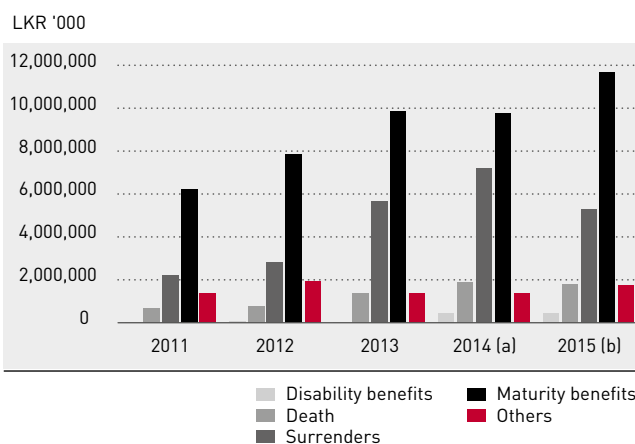
(b) Provisional figures

Figure 11

### Claims and maturity benefits

The industry in total paid LKR 20.9 billion in claims and maturity benefits during 2015. Maturity benefits increased significantly during the year and represented 55.8 per cent of the total outgo. Surrenders paid reduced by 26.5 per cent during the year, however, the surrender/GWP ratio of 9.9 per cent suggests that managing surrenders still warrants attention. The number of policies surrendered reduced during the year by 5.7 per cent and surrenders to enforce policies marginally reduced to 1.6 per cent in 2015 from 1.8 per cent in 2014.

### Claims incurred by insurance companies - Life insurance business



LKR '000	2011	2012	2013	2014 (a)	2015 (b)
Disability benefits	31,183	77,717	45,457	436,518	425,213
Death	681,111	789,166	1,358,337	1,889,289	1,795,361
Surrenders	2,225,506	2,823,924	5,677,638	7,184,611	5,278,539
Maturity benefits	6,242,096	7,860,715	9,839,833	9,754,751	11,683,143
Others	1,367,512	1,920,859	1,388,698	1,378,929	1,754,618

Source: IBSL Annual Report 2015

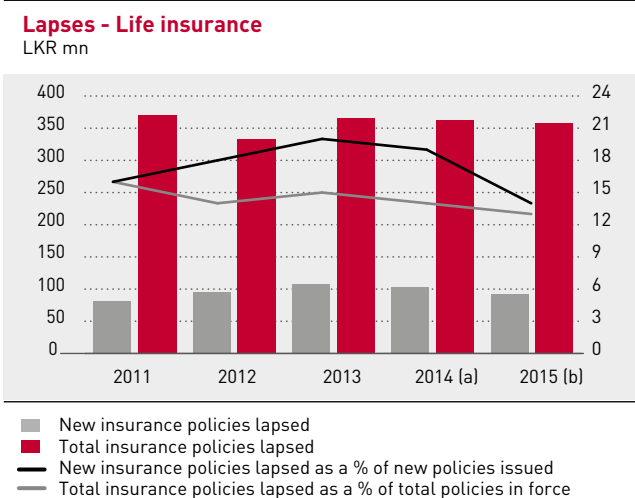
(a) Reinstated Audited figures

(b) Provisional figures

Figure 12

### Lapses

Lapse rates remained high during 2015 despite recording the lowest proportion of new policies lapses as a percentage of new policies issued over the past five years, and will be a key challenge for the industry.



	2011	2012	2013	2014 (a)	2015 (b)
New insurance policies lapsed	82,080	94,936	107,906	103,500	92,222
Total insurance policies lapsed	371,196	332,707	366,506	362,664	358,748
New insurance policies lapsed as a % of new policies issued	16%	18%	20%	19%	14%
Total insurance policies lapsed as a % of total policies in force	16%	14%	15%	14%	13%

Source: IBSL Annual Report 2015

(a) Reinstated Audited figures

(b) Provisional figures

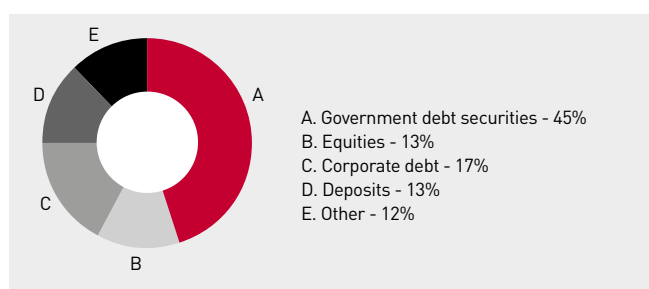
Figure 13

### Assets of long term insurance business

Total assets held by the Life Insurance business increased by 23.8 per cent during the year, and the composition of investment assets remained relatively similar to the previous year. Growth in investment in equity was led by the increase in investments in subsidiaries as a result of segregation of composite insurance companies, and the decrease in investment in deposits was due to low interest rates during 2015 (IBSL Annual Report 2015).

The industry adopted a Risk-Based Capital regime in 2016 after years of road tests and parallel submission, which ensures that companies hold capital commensurate with their risk profile.

### Concentration of assets as at 31 December 2015 - Life insurance business



LKR '000	2014	2015
Government debt securities	111,153,045	136,831,589
Equities	31,048,723	40,595,129
Corporate debt	40,743,451	51,895,159
Deposits	37,473,905	38,643,918
Other	26,642,042	37,930,871

Source: IBSL Annual Report 2015

(a) Reinstated Audited figures

(b) Provisional figures

Figure 14

### Regulatory

The Company was impacted by new regulatory requirements that came into effect during 2016.

From 1 January 2016, compliance with the Colombo Stock Exchange (CSE) circular pertaining to the related party transactions was made mandatory with the objective of ensuring that the interests of all shareholders are considered and protected by a listed company when entering into related party transactions. The company established the Related Party Transactions Review Committee effective January 2016 with the objective of reviewing and approving related party transactions of the Company as prescribed by the Code of Best Practices on Related Party Transactions and the Listing Rules of the CSE.

The Insurance Regulator required the full implementation of the Risk-Based Capital Regime by 1 January 2016. The objective of maintaining appropriate level of capital commensurate with the risk profile is to ensure that the insurance industry remains financially viable. The Company adopted the Risk-Based Capital Regime from 1 January 2016 in line with the regulations.

As per the Directives issued by the SEC (the Securities & Exchange Commission of Sri Lanka), the Listing Rules of the Colombo Stock Exchange (the CSE) applicable to the Company mandates (among other) of a Continuous Listing Requirement in relation to the maintenance of a minimum public float. Accordingly, it is mandatory that the Company being listed on the Main Board, maintained by 31 December 2016, a minimum public float of 20 per cent of its total listed ordinary shares in the hands of a minimum of 750 public shareholders.

The Company sought and received an exemption from the SEC initially until 31 December 2016 and thereafter an extension for the said exemption until 31 December 2017, from having to comply with the said Listing Rule of the CSE relating to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. This is on the basis of a proposed pending statutory exemption to the Regulation of the Insurance Industry Act No.43 of 2000, as amended (the Insurance Act). The SEC has reserved the right to re-visit the said extension to the exemption if the proposed legislation to the Insurance Act is not passed by the Parliament by 31 December 2017.

### BUSINESS REVIEW

Sri Lanka is a country that is undergoing rapid change. In tandem, Sri Lankan society is experiencing a demographics transition with a steadily aging population. The ageing population number is expected to peak by 2041 where one out of every four persons is expected to be an elderly person. This will make Sri Lanka the oldest population in South Asia (World Bank).

There is another crucial factor to take into consideration - the rise in prevalence of Non-Communicable Diseases (NCD's). As per the health ministry statistics, 70 per cent of deaths of those aged between 30 and 70 years are due to NCD's. This is a significant percentage, and tragically most NCD's are due to lifestyle decisions and therefore preventable.

## As the 'Real Life Company', we have made it our priority and mission to help Sri Lankans live longer, healthier and better lives. We offer solutions to meet both the long term savings needs such as retirement planning as well as health and protection needs.

As the 'Real Life Company', we have made it our priority and mission to help Sri Lankans live longer, healthier and better lives. We offer solutions to meet both the long term savings needs such as retirement planning as well as health and protection needs.

Our product suite and solutions are designed and enriched by the understanding and experience acquired over many years and supplemented by the Asian experience and expertise of AIA Group. This enables us to have meaningful conversations with our customers about their lifestyles, their future expectations and give them the best advice and world class solutions that meet their needs.

### Distribution

AIA Sri Lanka's main distribution channels are the Agency and Bancassurance channels. The Agency channel accounted for 89 per cent of the reported GWP for the year 2016, and the Bancassurance channel maintained its steady growth over 2016.

As the leading insurer in Asia Pacific, AIA is changing peoples' lives by providing 'Real Life' solutions. These 'Real Life' solutions have been delivered to our customers through AIA Sri Lanka's primary channel, Agency.

'Premier Agency Training' was a top priority for the agency team under Pioneer 2 (P2) strategic priorities in 2016 with the objective of equipping Wealth Planners to serve customers better. This new initiative has taken the agency force to new heights in professionalism and the adoption of latest technology.

Recruitment of the right talent to the agency force was a key priority during 2016 and a structured series of training was implemented as a management guide and tool, which provided the required quality standards of recruitment in order to enhance the quality of recruitment.

The Road to MDRT programme was launched in 2014 and has continued ever since. AIA Sri Lanka became the first local insurance company to produce 100+ MDRT members with a total of 110 MDRT qualifiers during 2016.

The AIA Premier Academy launched the diploma in personal finance management as the next level of certification in personal finance management for Wealth Planners and Wealth Planner Managers. The learning outcome of this diploma is to

enhance the knowledge in insurance, personal finance, and professionalism of the Wealth Planners. The diploma is offered by the Department of Insurance and Valuation of the Faculty of Business Studies and Finance of the Wayamba University. It has equipped AIA Wealth Planners with the financial planning skills to provide a better service to customers.

In the year 2016, new recruits were inducted at a regional level to strengthen the agency force. A revamped onboarding programme for newly recruited Wealth Planners and Wealth Planner Managers was designed and implemented in three stages in accordance with the AIA Group standards. This enabled new recruits to acquire new knowledge on the insurance industry, workplace and be competent in achieving sales success. Newly appointed agency managers are required to complete the revamped skill development programmes to enhance their skills in effectively managing their teams. The programmes designed and rolled out ensured that the Wealth Planners' Managers acquire critical habits needed for their new role at AIA Sri Lanka. Also, continuous professional development programmes have been introduced, aimed at enhancing the career development of Wealth Planner Managers.

During 2016, many initiatives were taken to expand the use of digital solutions in sales and servicing to benefit both Wealth Planners and customers. The use of iPads in the sales process has provided a unique competitive advantage to AIA. E-submission of insurance proposals has enhanced the customer experience, and added a dimension of professionalism and efficiency to our services. Currently, a notable proportion of Wealth Planners use the iPoS system for proposal submissions. To ensure they are well versed with the latest technology, a series of training programmes have been delivered during the year.

An internet based learning platform for Wealth Planners and Wealth Planner managers was launched during the year to enhance their career through different aspects of learning. The introduction of e-learning in the year 2016 has transformed the landscape of learning and development as it has improved the connectivity between the Premier Academy and agents at regional level.

In relation to Bancassurance, a growth of 55 per cent in GWP was recorded in comparison to the previous year. The channel recorded a significant milestone in 2016, when it entered into a long term exclusive partnership with DFCC Bank PLC, expanding AIA's Bancassurance footprint.

## MANAGEMENT DISCUSSION & ANALYSIS

The Bancassurance channel strengthened its operating model during the year, putting in place several initiatives to improve service delivery and key performance drivers, and these resulted in the enhancement of the quality and efficiency of the channel. The channel also doubled the number of MDRT members in comparison to the previous year, including two Court of the Table (COT) members and one Top of the Table (TOT) member.

With the objective of ensuring that newly recruited Bancassurance executives are competent to provide the best financial advice to customers, a revamped induction programme, with input from AIA Group Partnership Distribution was rolled out. A Bancassurance Leadership Academy was also launched to provide coaching sessions for the sales management team to enhance their management and leadership skills. Bank partners were supported through ongoing bank staff training programmes, which are designed and rolled out from the top management to the operational level of the bank.

### Operations

During 2016, AIA Sri Lanka continued to inculcate AIA Group's Operating Philosophy of "Doing the Right Thing, in the Right Way with the Right People" and be confident that the right results will come, under which several key initiatives were launched to increase the effectiveness and efficiency of the operations that focus on customer experience and service.

AIA Sri Lanka upgraded its cash collection method by launching a mobile cash remittance platform during the year, with the aim of increasing premium collection and provide greater convenience to both customers and Wealth Planners. The e-platform provides a secure alternative to cash collection and will provide the customers with the convenience of submitting the premiums directly via the e-wallet. Enhancing its presence in the e-wallet space, AIA Sri Lanka launched its collaboration with a second mobile cash platform.

During 2016, AIA Sri Lanka launched its first ever trilingual website. The design is akin to a sales/advisor tool and to be more user friendly and needs responsive.

Creating greater focus on existing customers, AIA Sri Lanka launched the Existing Customer Marketing Framework during the period. In expanding AIA Sri Lanka's service to its customers, a 'shadow call centre' was created to reach out to customers both on the 'Welcome call' and the 'Revival call' initiatives. The 'shadow call centre' was created through an internal departmental mobility programme, which enabled employees to engage in call centre activities through the efficient allocation of time. The overall call centre was primarily involved in renewal premium communication and follow up, focusing on the continuity of customer policies towards reduction in policy lapses.

2016 signified the implementation of AIA Group's Target Operating Model in Operations. 'Branch Office Associates' were identified from existing internal roles and were allocated the responsibility of customer relationship management at the regional branches. The designated employees were actively engaged in proposal submission and pre-submission calls for new business.

AIA Sri Lanka embedded cutting edge technology platform namely Ariba, Concur and FAM into the business for managing procurements, expense reimbursements and investment management respectively. "Ariba" is an end-to-end source to pay platform which aims at sustainable supplier relationships founded on a robust governance framework for procurements, while "Concur" facilitates expense reimbursements via a digital and paperless process flow. The implementation of these systems began in May 2016 and were deployed as business processes on 3 January 2017. All such systems are integrated with AIA Group's version of SAP, which supports multi-ledger, multi-currency, multi-dimensional data processing and management reporting.

### Investment strategy

AIA Sri Lanka maintains a prudent investment strategy for its investment portfolios in line with its investment philosophy and as detailed in its investment policy. The Company believes in a long term investment strategy to provide long term growth, while also ensuring that funds are available when needed. The fixed income investment strategy focuses on a duration strategy together with investments being made into high grade financial instruments. Equity investments are made for the unit-linked insurance business only, and the equity investment strategy focuses on liquid blue chip stocks with sound fundamentals.

The Company does not maintain exposure to quoted equity in its conventional Life Policyholders' fund, in line with the portfolio's risk appetite, except for a strategic holding. Exposure into quoted equity is maintained at present in two unit-linked funds that are required to maintain exposure to equity in line with their policyholder expectations and requirements. The asset allocations of the Company's investments as at 31 December 2016 are given in Figure 15.

#### Investment portfolio - 2016 asset allocation

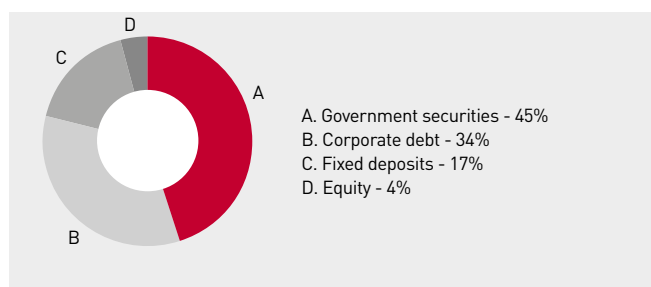


Figure 15

## CUSTOMER REVIEW

### Creating value for our customers

The customer is at the heart of AIA's business philosophy. That is why everyone at AIA Sri Lanka works as a united team to provide a unique customer experience via a well-established Customer Management Framework, focused on delivering excellence throughout the 'Customer Journey'. The key components of AIA Sri Lanka Customer Management Framework are briefly explain below.

#### 1 Engaging customers

Our customer engagement activities are not only for the customer but also for their loved ones. These activities are designed to add value to their lives and make them feel appreciated and rewarded. Among them, 'Real Rewards', the Company's flagship customer engagement initiative offers exciting rewards every month. Ten winners get a three-day holiday for two at a choice of six holiday destinations – Bali, Bangkok, Chennai, Kuala Lumpur, Kerala or Singapore. This has inspired more policyholders to opt for a standing order for premium payments to ensure protection without interruption.

#### 2 Bringing convenience to customers

We continue to review and expand our premium payment network bringing greater convenience to customers. The avenues open to customers vary from mobile/e-wallet, banks, supermarket chains, electrical and home appliance stores, mobile banking networks to allow customers to pay their premiums at any time. Our customers now have over 2,000 premium payment points for their convenience.

#### 3 Listening to customers

Our centralised customer feedback and complaints management process empowers all employees to act on behalf of customers in resolving complaints. Customer Feedback Review Forum comprising all key customer unit heads and complaints resolving champions meet regularly to take corrective measures and implement initiatives to keep our customers satisfied. Our streamlined process of resolving customer complaints helps the Company to identify and prioritise emerging issues, finding permanent solutions on a timely basis.

#### 4 Making it easy for customers

Ease of doing business (EODB) is crucial to our Company in making it customer-centric. We strive to make our processes simple, clear, easy, effective and efficient. This includes the simplification of our customer communications and the digitisation of key customer processes. We have also launched a 'mystery customer' survey to gain valuable insights from our sales process to make EODB truly effective.

#### 5 Gathering insights of customers

Valuable insights through research plays an important role in identifying process improvements, developing need-based products and designing customer engagement initiatives. Research studies are conducted to identify emerging customer needs and changing dynamics. Research is conducted in wide ranging areas of customer need identification, market understanding, brand strength and equity, concept testing and campaign testing whenever a need arises. We constantly monitor the perceptions of our current and potential customers via research.

#### 6 Enhance customer lifetime value

Customers' requirements and lifestyles evolve over time and so do their needs. We continuously keep track of their changing lifestyles and financial needs to offer them the right solution at the right time.

## OUR PORTFOLIO OF PRODUCTS

Our product portfolio offers world class protection and long term savings solutions to meet a wide range of customer needs.

### Products in a nutshell

Name of product	For Whom
AIA SmartBuilder	For individuals who seek life protection and savings with the convenience of short premium paying term options
AIA Pensions Premier Gold	Our flagship product for individuals who are seeking an affordable comprehensive solution to build a solid retirement fund and earn a monthly income after retirement
AIA Savings Plus Gold	For individuals who seek both insurance and long-term savings solutions in one package
AIA Pensions	A comprehensive retirement solution for individuals who desire greater investment choice to build their retirement fund
AIA Education Plan	For parents who have the need to build an education fund for their children even if they are not around
AIA Protected Savings	For individuals who are married and have the need for a higher protection coverage to safeguard the future of their loved ones
AIA SavingsPlan	For individuals who seek both insurance and savings solutions under one package and who desire greater investment choice to build their savings fund
AIA InvestmentPlan	For individuals who wish to build a savings fund in the short term
AIA Fund Builder 10	For individual who seeks both fund building and protection

**At AIA, we constantly focus on understanding what drives our diverse workforce. So, in order to achieve our strategic priorities and business excellence, we create synergy and build a balanced environment for our employees. We want our people excited and motivated to give their best at work... every day.**

**OUR PEOPLE**

At AIA, our people truly come first. In supporting AIA Group’s journey to be the pre-eminent Life insurer in the Asia Pacific region, the quality and professionalism of our people are very important to us. We foster a culture of care and respect and strive to develop leaders and people from within. It is our aspiration to raise our talent bar each year in meeting our customer needs and creating shareholder value.

We consider our employees to be our brand ambassadors. They exemplify our Operating Principles in how we interact with our customers, other stakeholders and the community at large. Thus, it is important that they feel proud to be a part of AIA.

**A Great Place to Work®**

A great place to work is a place where you feel trusted and connected with your colleagues across the Company. It is a place where your ambition and that of the Company aligns, where you are empowered and provided with opportunities to learn and grow, personally and professionally.

At AIA, we constantly focus on understanding what drives our diverse workforce. So, in order to achieve our strategic priorities and business excellence, we create synergy and build a balanced environment for our employees. We want our people excited and motivated to give their best at work... every day. We recognise and reward our employees’ efforts, their trusting work relationships with their leaders and peers and the pride they hold in being members of the global AIA family.

Contributing towards this is our leadership at all levels. Guided by the three leadership essentials of Clarity, Courage and

Humanity, our leaders enable our employees’ psychological commitment towards the Company.

These continuous efforts to ensure sustainability in having in place best of class people practices was validated for the fourth consecutive year when the Company was adjudged as one of Sri Lanka’s ‘Best companies to Work For’ in 2016 by the globally renowned Great Place to Work® Institute.

**Employee Engagement Survey**

Administered by Gallup, a distinguished, independent research agency, this Survey is conducted across all entities of our parent Company AIA Group annually, to measure the engagement levels of our employees. Their collective responses evidence the success of the people practices that govern our business.

We concluded the 2016 Employee Engagement Survey with an overall engagement level of 68 percent. We are also amongst the five AIA entities to achieve 100 percent participation rate at this Survey. With a Grand Mean of 4.42, AIA Sri Lanka now proudly occupies the 92nd percentile on the Gallup Finance and Insurance Industry database. Despite a challenging 2016, this is one of the highest engagement levels our Company recorded within the last four years.

2016’s positive and strong Survey feedback signifies that our employees feel ‘well heard’ and are appreciative of the ‘opportunities to learn and grow’. They also affirm that the Company has built a strong foundation on role clarity of expectations at work, the availability of right material and the opportunity to do their best at work... every day.



**Talent attraction and retention**

We deliver our brand promise of being a 'Real Life Company', not just to our customers, but also to our employees. Our Employee Value Proposition is built around supporting our employees' capabilities and career growth. Caring for our employees' mental and physical well-being is as equally important.

Our dedication towards attracting the right talent is further enriched each year through various employer branding initiatives.

Our career fairs link us with the undergraduate talent pool across the island providing them many career guidance opportunities. Our hallmark 'AIA Work n' Learn' Internship programme provided ten undergraduates the opportunity to work and learn at AIA for a period of six months. At the end of these internships, three of these interns were given the opportunity to continue at AIA.

During 2016, the Company's workforce included 815 employees in the permanent cadre, with our growing Bancassurance business taking a lion share of the increased headcount.

**Total employee category breakdown**

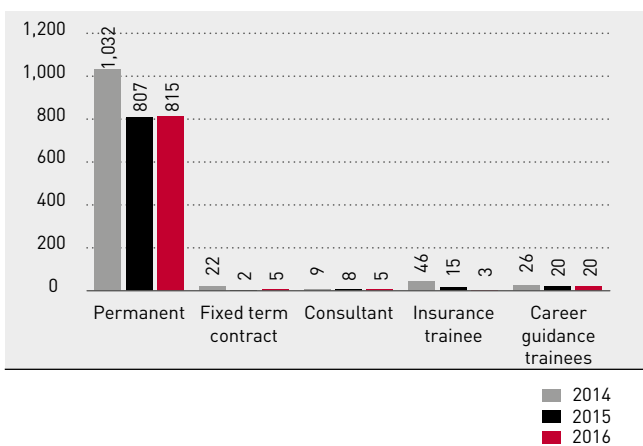


Figure 16

**Total employees - gender breakdown**

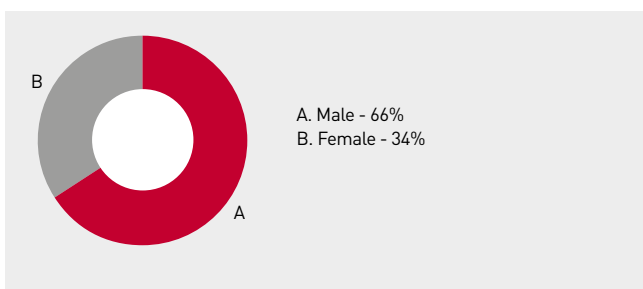


Figure 17

Our conscious efforts to maintain a healthy mix of female and male employee ratios saw the increase of the female employee population by 8 percent over the last three years. Our comprehensive '100 working day motherhood benefits' allow our female employees extended maternity leave and flexi work arrangements to help them return to work after a well-deserved time away with their newborns.

**Staff age analysis**

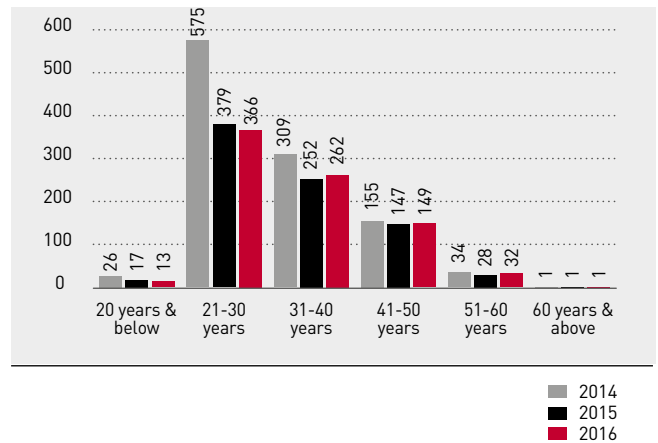


Figure 18

**Staff service period analysis**

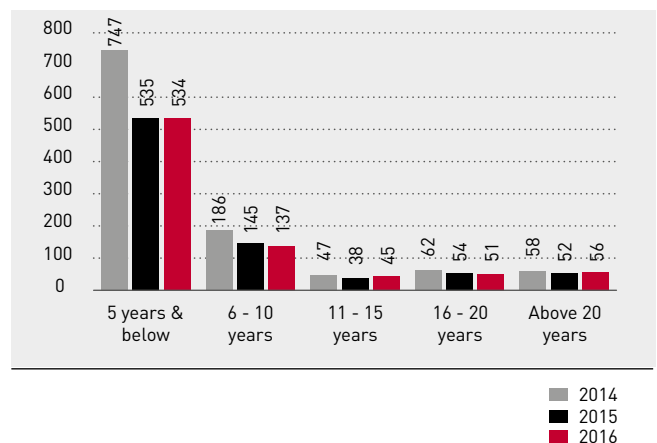


Figure 19

Another unique feature of our workforce demographics is the age and experience mix. 46 per cent of our employees are aged below 30 years whilst 18 per cent have been with the Company for over 10 years. This diverse combination creates the perfect balance at work, of a 'tech savvy new blood' mixed with those 'mature and experienced'.

## MANAGEMENT DISCUSSION & ANALYSIS

### Performance Development Dialogue (PDD)

We measure our employees' success in achieving their goals by way of a unique process called Performance Development Dialogue (PDD). Our PDD process focuses not just about 'WHAT' employees need to deliver but also on 'HOW' they deliver it.

To achieve long term sustainable business results, we encourage our employees to challenge status quo and make step changes in how they think and do the right things at work. Hence, 'WHAT' they need to achieve is linked to our strategic priorities. 'HOW' they achieve it, is linked to our Operating Philosophy of 'Doing the Right thing, in the Right way with the Right People' assuring us of the right results.

This approach to performance management has been a key contributor to our successful business performance over the year.

### Our 'Total Rewards' philosophy

Our performance-driven environment at work, rewards our people both financially and non-financially for their contributions to the Company. AIA's "Total Rewards" philosophy is not limited to benefits and remuneration but extends to career development and the overall working experience at AIA. It offers the flexibility and environment needed to realise one's career aspirations. The scope and depth of Total Rewards is indicative of the Company's intent to nurture and provide long-term and sustained career development for our people.

### Developing our people

We continued to invest significantly to develop our talent during the year. In 2016, our key focus was leadership and technical competency development through which we were able to successfully deliver our strategic priorities and business goals.

A total of 145 training programmes were conducted during 2016 at a total investment of over LKR 48 million. Employees participated in over 16,000 hours of training (internally and externally) during the year. We also provided best of class foreign exposures to 63 individuals including many learning exposures within AIA Group. Continuous development of our employees is our forte. Hence leadership and people development will continue to be a key focus of our future success.

### Transitioning seamlessly

2016 saw a smooth leadership transition at AIA where Shah Rouf, the CEO since 2010 took a new senior management role at AIA Group Hong Kong. Our people bid farewell to Shah appreciating his valued contribution much affectionately and welcomed Pankaj Banerjee the incoming CEO, in an equally warm and caring manner.

### Our journey continues

Summing up our business focus and people's contribution as we move forward, Chathuri Munaweera, Director Human Resources had this to say "Our journey continues with our focus on outperformance as a part of our DNA and our culture. At AIA we will refuse to accept the status quo and will strive to be at the forefront of creating constant and market leading innovation and change. This is the process our people will lead collectively, creating win-win for all."





**FINANCIAL REVIEW**

The financial review reflects the 2016 business performance of AIA Insurance Lanka PLC. The Company reported another strong set of financial results for the year under review.

**Gross Written Premium (GWP)**

Total GWP of the life business increased to LKR 10.1 billion in 2016 recording a growth rate of 20 per cent over LKR 8.4 billion in 2015.

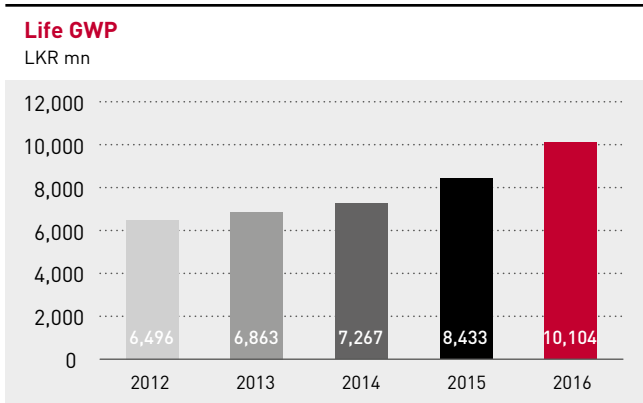


Figure 20

**GWP - product mix**

Conventional premium increased by LKR 1.8 billion while unit linked premium decreased by LKR 174 million compared to 2015. The conventional insurance business accounted for 89 per cent of total life insurance GWP in 2016, recording a growth of 26 per cent and offset the negative growth of 16 per cent reported by the unit-linked business. The low volumes of unit-linked business is attributed to the weak equity market performance as most unit-linked policyholders are observed to have opted for equity exposures in their unit-linked policy fund choice.

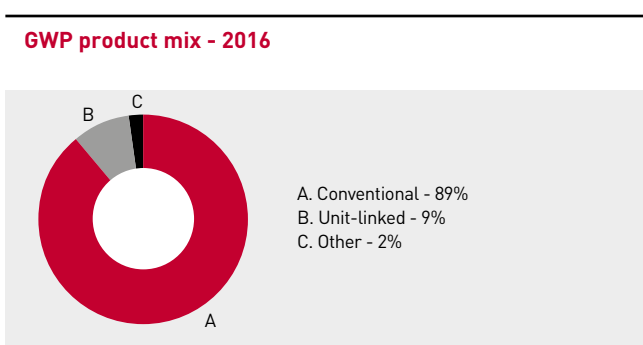


Figure 21

**GWP product mix - 2015**

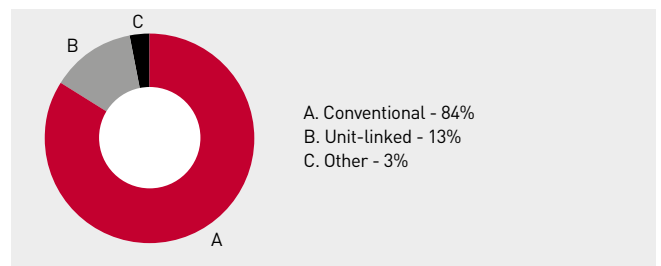


Figure 22

**GWP - channel mix**

The Agency channel continues to dominate the channel mix of the business and accounted for 89 per cent of GWP, 1 percentage point lower vs the proportion in 2015. The Bancassurance channel accounted for 9 per cent of GWP mix which is a 2 percentage point increase compared to the previous year, and is all resulted to continuation of its target operating model and strengthening of its partnership with banks.

**GWP channel mix - 2016**

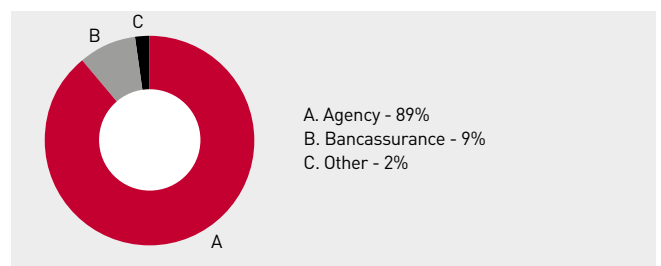


Figure 23

**GWP channel mix - 2015**

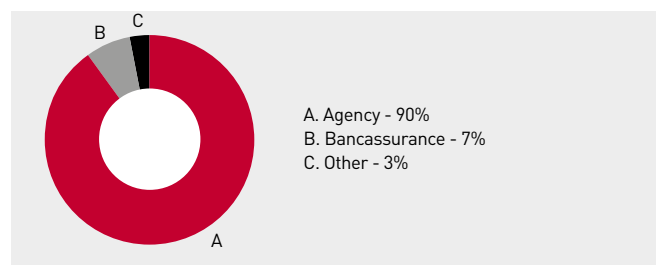


Figure 24

### Investment income

Investment income in 2016 increased by LKR 879 million compared to the prior year, recording a growth of 23 per cent for the year. The investment performance is a result of the timely execution of investment strategy. Previous long term investments made during higher interest rate periods provides the conventional fund, the Life Policyholders' fund, with a sound locked-in yield base while the sharp movements in interest rates during 2015 and 2016 provided the opportunity to further strengthen this position by locking in fresh investments. The Company also continued to deploy funds into selected listed corporate debt instruments.

A combination of the lock-in of attractive interest rates together with the increase in the portfolio size contributed to the growth in investment income.

### Net claims and benefits

Life insurance net claims and benefits of the Company decreased by 2 per cent to LKR 4.8 billion in 2016 compared to LKR 4.9 billion in 2015.

During the current year, the Company transferred LKR 3.1 billion to the Long-term insurance fund which is an increase of LKR 1 billion when compared to the previous year. The increase in transfer to the Long-term insurance fund during the year was supported by both increase in net earned premium.

### Operating expenses

The Company's operating and administrative expenses grew by 34 per cent during the year under review due to an increase in both administrative and establishment expenses, and selling expenses. The increase in selling expense is driven by the new business acquisition cost which linked to the growth in new business premium.

### Profit after tax

The Company recorded a profit after tax of LKR 510 million for the year 2016 which is a 59 per cent growth compared to 2015.

The Life insurance business surplus contribution for the year is LKR 315 million, which is significantly higher than 2015, and this is backed by admissible assets after having adequately satisfied solvency margin requirements.

The Group, including the wholly owned subsidiary, reported a profit after tax for the current year of LKR 511 million recording 68 per cent growth compared to last year.

## ANALYSIS OF STATEMENT OF FINANCIAL POSITION

### Financial assets

Financial assets accounted for 87 per cent of the total asset base as of 31 December 2016 which is similar to the position in 2015. Financial assets comprise investments in government securities, listed debentures, bank deposits and listed shares and reflect a portfolio quality AA+ based on the weighted average portfolio rating using the local currency rating by Fitch Ratings Lanka. The details of the investments including the movement during the year is presented in note 9 to the financial statements.

### Property, plant & equipment

Net book value of property, plant and equipment as at 31 December 2016 was LKR 229 million compared with LKR 300 million in the previous year. The accounting policies and detailed notes to property, plant and equipment are presented in note 7 to the financial statements.

### Intangible assets

The net book value of intangible assets as at 31 December 2016 was LKR 958 million compared to LKR 478 million in the previous year, and further details are provided in note 6 to the financial statements.

### Reinsurance receivable

No significant movement in reinsurance receivables was reported in 2016 when compared to the previous year as LKR 87 million was reported in 2016 vis-à-vis LKR 94 million reported in 2015.

### Life insurance fund

The life insurance fund includes the reserves created to satisfy future claim obligations and maturity value payable to life insurance policyholders. The gross life insurance fund as at 31 December 2016 was LKR 38 billion in comparison with LKR 37 billion the previous year. The Company's appointed actuary Frank Munro's report is provided on page 72 of this report. Adequate provisions, including those for bonuses and dividends to life policyholders, solvency margins and other required reserves have been made from the life fund as recommended by the appointed actuary.

### Shareholders' equity

The shareholders' equity of the Company decreased from LKR 6.4 billion in 2015 to LKR 5.4 billion in 2016 primarily due to the dividend of LKR 1.5 billion distributed from profits made during 2015.

**During 2017, the Company will continue on the next phase of 'Premier Agency 2.0' which is focused on enhancing the quality of the Agency force, the sales process and the customer experience. The Company believes that this would be a sound foundation for the Company to achieve its stated ambition of local market leadership.**

#### **Solvency margin**

New RBC rules were legislated and effective from 1 January 2016. During the year, the Company maintained its solvency position in line with the RBC regulations.

AIA recorded a Capital Adequacy Ratio of 361 per cent in life insurance and it was 396 per cent on the same basis as at 31 December 2015. Total Available Capital is LKR 21.1 billion and the Risk-Based Capital requirement is LKR 5.9 billion as of 31 December 2016 with comparable prior year figures being Total Available Capital of LKR 19.6 billion and the Risk-Based Capital requirement of LKR 5.0 billion as of 31 December 2015.

#### **Dividends to shareholders**

The dividends paid in 2016 and 2015 were LKR 1,522 million (LKR 49.50 per share) and LKR 212 million (LKR 7.07 per share) respectively. The Board of Directors approved the distribution of an Interim Dividend of LKR 1,476 million (LKR 48.00 per share) on 19 January 2017 as authorised by the Company's Articles of Association, being a distribution out of retained profits of the Company. The Board of Directors of the Company has recommended a declaration of a final dividend of LKR 2 per share for the financial year ended 31 December 2016, subject to approval by shareholders.

#### **Outlook**

2017 is likely to pose its own challenges given the anticipated local weather phenomenon and its impact on the local economy, coupled with the anticipated conditions in the global political and economic environment. The government is committed to fiscal consolidation in 2017 and over the medium term, as well as containing inflationary pressures and tightening credit growth to stabilise macroeconomic conditions. These should augur well for the economy and the industry. Notwithstanding the challenging environment, AIA Sri Lanka looks to the future with optimism founded on progressing its Pioneer 2 strategy and journey, and working towards its vision of being the pre-eminent Life insurer in Sri Lanka.

During 2017, the Company will continue on the next phase of 'Premier Agency 2.0' which is focused on enhancing the quality of the Agency force, the sales process and the customer experience. The Company believes that this would be a sound foundation for the Company to achieve its stated ambition of local market leadership.

In line with AIA's mission of playing a leadership role in driving economic and social development all across the region, AIA Sri Lanka is committed to helping people to live, longer, healthier and better lives. With the launch of AIA Vitality - a science-backed health and wellness program which is designed to encourage an active lifestyle, AIA Sri Lanka believes that it can help Sri Lankans become more healthy and active. This program has already been launched in several AIA business units, and evidence shows that on average those who actively use AIA Vitality can expect to become healthier, helping us to give even deeper meaning to our brand promise.

We are looking forward to seeing the results of our commitment to our employees, our customers and other stakeholders in our journey to become the pre-eminent Life insurer in Sri Lanka. We are confident that by "Doing the Right Thing, In the Right Way, With the Right People" that the Right results will come.



**LIVE BETTER**

# GOVERNANCE



## BOARD OF DIRECTORS



**WILLIAM LISLE**  
Chairman - Non-executive Director



**MITCHELL DAVID NEW**  
Non-executive Director



**MANOJ RAMACHANDRAN**  
Non-executive Director



**ROBERT ALEXANDER HARTNETT**  
Non-executive Director



**DEEPAL SOORIYAARACHCHI**  
Independent Non-executive Director



**SARATH WIKRAMANAYAKE**  
Independent Non-executive Director

## BOARD OF DIRECTORS

### **WILLIAM LISLE**

Chairman - Non-executive Director

Appointed to the Board of Directors of the Company on 22 June 2015. Mr. William Lisle is the Regional Chief Executive responsible for AIA Group's businesses operating in Malaysia, Korea, Sri Lanka, India and Cambodia. Mr. Lisle was the Chief Executive Officer of AIA's operation in Malaysia from December 2012 to May 2015 including leading the large-scale and successful integration of AIA Bhd. post the acquisition of ING. Mr. Lisle joined the Group in January 2011 as Group Chief Distribution Officer.

Prior to joining AIA, Mr. Lisle was the Managing Director, South Asia for Aviva Asia Pte Ltd. from May 2009 until 2010. Before joining Aviva, Mr. Lisle held a number of senior positions at Prudential Corporation Asia, including as their Chief Executive Officer in Malaysia from 2008 to 2009 and their Chief Executive Officer in Korea from 2005 to 2008; as Chief Agency Officer for ICICI Prudential from 2002 to 2004 and as Director of Agency Development, South Asia in 2001.

He holds an executive masters degree in business management specialising in insurance management from National Institute of Management, Mumbai and is a member of the Life Insurance Association.

### **MITCHELL DAVID NEW**

Non-executive Director

Appointed to the Board of Directors of the Company on 28 June 2013. Mr. Mitchell David New is the Group General Counsel for AIA Group. He has held various senior management positions in the operations of leading multinational life insurers in Asia and North America over 20 years in the insurance business.

Prior to joining the insurance industry, Mr. New practiced law at the Canadian law firm Fasken Martineau where his clients included a number of domestic and international banks, trust and insurance companies.

He is a graduate of the Faculty of Law at the University of Western Ontario and holds a masters degree in business administration and a bachelor of commerce degree from McMaster University.

He is a qualified Barrister and Solicitor and a member of the Law Society of Upper Canada.

### **ROBERT ALEXANDER HARTNETT**

Non-executive Director

Appointed to the Board of Directors of the Company on 29 September 2015. Mr. Robert Alexander Hartnett is currently Regional Business Development Director and works with the AIA Group's businesses in Korea, Malaysia, India, Sri Lanka and Cambodia. Prior to this, Mr. Hartnett has also held leadership positions in AIA's New Zealand business where he was the Chief Financial Officer and Appointed Actuary and has also worked in AIA's Group Chief Actuary Office supporting AIA's Group Chief Actuary.

Before joining AIA in 2009, he was a Consulting Actuary working in the insurance and banking industries in Australia with PricewaterhouseCoopers performing both advisory and audit roles. He also worked with AIA for 9 years in both Australia and the Philippines in actuarial and related finance functions.

Mr. Hartnett holds a bachelor of commerce from the University of Melbourne and is a fellow of the Institute of Actuaries of Australia.

### **MANOJ RAMACHANDRAN**

Non-executive Director

Appointed to the Board of Directors of the Company on 4 December 2012. Mr. Manoj Ramachandran serves as the Group Senior Regional Counsel of AIA Group where he has responsibility for legal matters related to a number of markets of operation of the AIA Group along with merger and acquisitions, joint ventures and other strategic initiatives.

Prior to joining the AIA Group Mr. Ramachandran served as the Head of Legal-Asia, for Fidelity International, a global investment management company. Mr. Ramachandran has over 19 years experience in the financial services industry, principally in the Asia - Pacific region.

He graduated summa cum laude from the University of California and also holds a juris doctor degree. He is admitted as an Attorney-at-Law in the State of California, USA and as a Solicitor in Hong Kong.



**DEEPAL SOORIYAARACHCHI**

Independent Non-executive Director

Appointed to the Board of Directors of the Company on 17 May 2005. Mr. Deepal Sooriyaarachchi functioned as the Managing Director until end February 2010 and continues as a Director from March 2010 onwards. He is a Director of Sampath Bank PLC, Panasian Power PLC, Hemas Manufacturing (Pvt) Ltd and Singer Sri Lanka PLC.

Mr. Sooriyaarachchi is a Management Consultant, author, trainer and speaker with specialisation in marketing, strategy and human resource development.

He is a fellow of the Chartered Institute of Marketing, UK, Chartered Marketer and has a masters in business administration from the University of Sri Jayawardenepura.

**SARATH WIKRAMANAYAKE**

Independent Non-executive Director

Appointed to the Board of Directors of the Company on 01 August 2016. Mr. Sarath Wikramanayake has worked with the Bank of Butterfield, a Bermuda-based international bank for 19 years, where he reached the position of Executive Vice-President. Since returning to Sri Lanka, he has been the Chief Executive Officer of Union Assurance Limited and the President of the Insurance Association of Sri Lanka in 2002.

He is a fellow of the Institute of Chartered Accountants of Sri Lanka since 1979.

He is currently engaged in providing consulting services to the Financial, IT and Hospitality industries. He is also a Director of several other companies including National Development Bank PLC, NDB Wealth Management Ltd, NDB Investment Bank Ltd, NDB Capital Holdings Limited and NDB Capital Limited (Bangladesh).

## SENIOR MANAGEMENT TEAM



**PANKAJ BANERJEE**  
Chief Executive Officer



**UPUL WIJESINGHE**  
Deputy Chief Executive Officer / Chief Agency Officer



**CHANDANA JAYASOORIYA**  
Chief Information Officer / Director Information Technology



**GAVIN D' ROSAIRO**  
Chief Financial Officer / Director Finance



**KELUM SENANAYAKE**  
Director Operations



**CHATHURI MUNAWEERA**  
Director Human Resources / Company Secretary



**AMAL PERERA**  
Director Partnerships



**NIKHIL ADVANI**  
Chief Marketing Officer

## SENIOR MANAGEMENT TEAM

### PANKAJ BANERJEE

Chief Executive Officer

Pankaj was appointed as the Chief Executive Officer / Principal Officer of the Company, effective 15 November 2016.

His most recent role prior to taking over the role of CEO in AIA Sri Lanka, was the Chief Executive Officer of Prudential (Cambodia) Life Assurance, where he successfully grew the Company from a start-up position in 2013 to a market leading position as it remains today. Prior to this, he was the Chief Officer – Partnership Distribution, Prudential Vietnam, where he played a crucial role in growing its Partnership Distribution four-fold within the space of two years. Pankaj's career to-date spans over 15 years of experience in the Life insurance industry.

He has also held senior roles at MetLife, Bharti AXA, and ICICI Prudential in the areas of product development, marketing and strategy.

He is a Chartered Financial Analyst from ICFAI, India and holds a post graduate diploma in business administration, specialising in marketing and finance.

### UPUL WIJESINGHE

Deputy Chief Executive Officer / Chief Agency Officer

Upul heads the Agency Distribution function of the Company. He also functions as the Deputy Chief Executive Officer. He holds a Bachelor of Science degree with honours from the University of Colombo and is an Associate of the Chartered Insurance Institute, UK. He holds a postgraduate diploma in actuarial science. He is an alumni of the International Center for Management Development, Switzerland. He was the President, Sri Lanka Insurance Institute in 2002 and 2003. He counts over 27 years of management experience in insurance.

### KELUM SENANAYAKE

Director Operations

Kelum is responsible for the Life Operations function of the Company of Underwriting, Reinsurance, Servicing, Call Centre, Claims Management and Branch Support. He holds a diploma in business management from World View Institute and a master's degree in business administration from the University of Western Sydney. He counts over 34 years of management experience in Life and General insurance business and has exposure in all facets of technical and operational areas in insurance.

### CHATHURI MUNAWEERA

Director Human Resources / Company Secretary

Chathuri heads the Human Resource function, and is also the Company Secretary. She is a Member of The Chartered Institute of Personnel Management UK, and also holds a postgraduate certificate in human resource management from the University of Sri Jayewardenepura. She is an Attorney at Law and holds a Bachelor of Laws and a Master of Laws from the University of Colombo. She has successfully completed the International diploma in compliance of the International Compliance Association, UK. Chathuri was the Chairperson of the HR Sub Committee of the Insurance Association of Sri Lanka for the years 2011 and 2012. She counts over 20 years of management experience in the fields of human resources, corporate law, litigation, compliance, company secretarial practice, customer service and business operations.

**CHANDANA JAYASOORIYA**

Chief Information Officer / Director Information Technology

Chandana heads the IT function of the Company. He holds a master's degree in information technology (MSc-IT) from the Keele University UK and is an Associate of the Bankers Institute of Sri Lanka (AIB). He is a passed finalist of Certified Information Security Manager (CISM) from the Information Systems Audit and Control Association (ISACA) USA and a Project Management Professional (PMP) from the Project Management Institute (PMI) USA. He is a Member of the Computer Society of Sri Lanka (CSSL) and Professional Member of the British Computer Society (BCS). He counts over 30 years of overall experience in information technology in the banking and insurance sectors.

**GAVIN D' ROSAIRO**

Chief Financial Officer / Director Finance

Gavin leads the Finance, Actuarial and Facilities functions of the Company with oversight responsibility for finance, actuarial, investments, strategy and facilities. He counts over 7 years experience in the insurance industry in the areas of investments, strategy, risk and finance, and over 16 years experience as a fund manager managing both fixed income and equity investment portfolios. His academic and professional exposure encompasses economics, investments, capital markets and finance. He is an Associate Member of the Chartered Institute of Management Accountants (UK) and has a bachelors degree in commerce from the University of Sri Jayawardenepura with honours, specialising in international trade.

**AMAL PERERA**

Director Partnerships

Amal is responsible for the development and implementation of the Company's Bancassurance and Partnership Distribution function. He holds a master's degree in business administration from the Postgraduate Institute of Management (PIM) of the University of Sri Jayawardenepura. He is a Chartered Marketer and a Member of the Chartered Institute of Marketing, UK. He counts over 20 years of management experience in the Company and has wide exposure in the fields of product, marketing, strategy development, corporate planning and sales.

**NIKHIL ADVANI**

Chief Marketing Officer

Nikhil leads the Marketing function of the Company and is responsible for the development and implementation of the marketing strategy for AIA Sri Lanka and oversees the Product Management, Brand and Communications, Channel and Digital Marketing. Nikhil also oversees the Corporate Solutions team, in addition to his role as Chief Marketing Officer. He has been with the AIA Group for 6 years and prior to this has held senior level positions in insurance companies in Asia and the US. He has over 22 years of work experience in financial services and holds a master's degree in business administration from Columbia Business School, New York.

# THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

## THE ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board of Directors (the Directors / the Board) of AIA Insurance Lanka PLC (the Company) has pleasure in presenting their Annual Report on the affairs of the Company during the financial year ended 31 December 2016, together with the audited financial statements for the year ended 31 December 2016 of the Company and of the Group.

The audited financial statements of the Company and of the Group for the said year and the Report of the External Auditors thereon are set out on pages 79 to 132 of the Annual Report.

## VISION

A statement of the Corporate Vision is given on the inner front cover of the Annual Report. The Company's business activities have been and are carried out within the framework of the objectives of the Corporate Vision Statement and in pursuance of the continued nurturing of business and work practices of the highest ethical standards.

## PRINCIPAL ACTIVITIES OF THE COMPANY AND OF ITS SUBSIDIARY

The principal activity of the Company during the year under review was exclusively Life insurance. Rainbow Trust Management Limited, a fully owned subsidiary of the Company, continued to provide trustee services during the year under review.

To the best of the knowledge of the Board, neither the Company nor the aforementioned subsidiary of the Company were engaged in any activities which contravened relevant local laws and regulations.

## REVIEW OF PERFORMANCE AND FUTURE DEVELOPMENTS

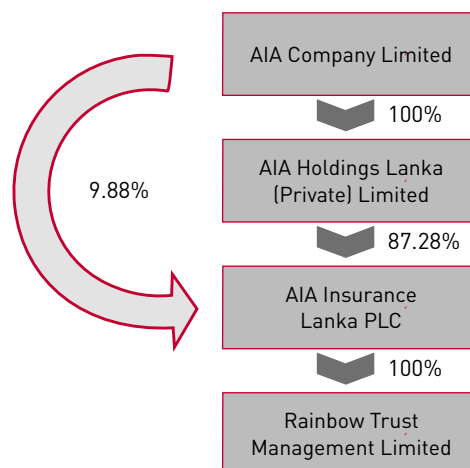
An overview of the Company's and of the Group's financial and operational performance for the year ended 31 December 2016 and of future developments is contained in the Chairman's Message and the Chief Executive Officer's Review with a detailed review being provided in the Management Discussion and Analysis segment on pages 12 to 25 of the Annual Report. These reports together with the audited financial statements reflect the state of affairs of the Company and of the Group as at 31 December 2016.

## SHAREHOLDING STRUCTURE

As at 1 January 2016, AIA Company Limited (AIA) based in Hong Kong, effectively held (directly and indirectly together with AIA Holdings Lanka (Private) Limited) 97.16 per cent of the issued and fully paid up shares of the Company. The said shareholding remained unchanged as at 31 December 2016.

The public holding of the Company is 2.84 per cent. This is distributed among the minority shareholders of the Company as at 31 December 2016 and remained unchanged during the year under review.

The Company's shareholding structure as at 31 December 2016 is as follows:



## STATED CAPITAL & RESERVES

The Company's stated capital as at 31 December 2016, was LKR 511,921,836 (Sri Lankan rupees five hundred eleven million nine hundred twenty one thousand eight hundred and thirty six only) represented by 30,749,370 (thirty million seven hundred forty nine thousand three hundred and seventy) ordinary shares.

There was no change in the stated capital during the year under review.

The total capital and reserves for the Group was at LKR 5,366 million as at 31 December 2016 (LKR 6,367 million as at 31 December 2015), details of which are provided in Notes 24 to 26 of the financial statements.

## SHAREHOLDING

The Company had 1,849 registered shareholders, as at 31 December 2016. The distribution of shareholding, the public holding percentage and the details of the 20 largest shareholders, are given on pages 138 to 139 of the Annual Report.

## SHARE INFORMATION

Information relating to share valuation and share performance is given on page 140 of the Annual Report.

## INTERIM FINANCIAL RESULTS

The interim financial results were prepared in conformity with the Sri Lanka Accounting Standards (SLFRS / LKAS) and submitted to the relevant regulators during the year under review.

## FINANCIAL STATEMENTS CONTAINED IN THE ANNUAL REPORT

The financial statements of the Company and of the Group, have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards (SLFRS / LKAS), the Companies Act No. 7 of 2007 and to the extent applicable, by the Regulation of the Insurance Industry Act No. 43 of 2000 (as amended).

The financial statements, duly signed by the Directors are published on pages 80 to 132 and the External Auditors Report thereon is provided on page 79 of the Annual Report.

## FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2016 and the state of Group's affairs at that date are set out in the financial statements on pages 80 to 132 of the Annual Report.

## REVENUE

The revenue of LKR 15 billion comprises of income generated from life insurance businesses, and trustee services.

## ACCOUNTING POLICIES

The significant accounting policies applied by the Group in preparing its consolidated financial statements are disclosed in pages 87 to 98 of this Annual Report. These policies have been consistently applied.

## LIFE SURPLUS AND POLICYHOLDERS' DIVIDENDS

The Board of Directors received and adopted the report of the Company's Chief Actuary Mr. Frank Munro, for Life insurance recommending the dividends that are payable to policyholders and of the transfer of the surplus thereof to the Income Statement. This is set out on page 72 of the Annual Report.

## PROPERTY, PLANT AND EQUIPMENT

As at the date of Statement of Financial Position, the net book value of property, plant and equipment of the Group amounted to LKR 229 million.

During the financial year the capital expenditure on property, plant and equipment for the Company and the Group amounted to LKR 31 million.

The details of the Company's property, plant and equipment and the movement in their values during the year are given in note 7 of the financial statements on pages 107 and 108 of the Annual Report.

## MARKET VALUE OF THE COMPANY'S PROPERTY, PLANT AND EQUIPMENT

The market values of the Company's property, plant and equipment are not materially different to the book values as given in the notes to the financial statements on page 108 of the Annual Report.

The Company owns 13.40 perches of freehold land at No.76, Kew Road, Colombo 2 and 12.09 perches of freehold land at No. 80, Kew Road, Colombo 2. These properties were subject to a valuation during the year 2007 and the revaluation surplus of LKR 39.9 million has been included in the accounts in that year. The Company's policy is to revalue these properties once in every five years. The properties were subject to a revaluation in 2012 in accordance with the Company policy and the revaluation surplus of LKR 32.2 million was included in the financial statements of 2012. As per the Valuer's report for 2016 there is an increase in the market value of the property of LKR 165 million. However this increase has not been accounted for, based on prudence, as the Company's policy is to revalue these properties once in every five years. The purpose of obtaining a letter confirming the value at the end of every financial year is to ensure that there is no decline in value that needs to be accounted for.

The details of the extents, locations, valuations of the Company's land holdings are given in note 7.1 of the financial statements on page 108 of the Annual Report.

## INVESTMENTS

A detailed description of the investments held as at the date of the Statement of Financial Position is given in note 9 of the financial statements on pages 108 to 111.

## DONATIONS

The Board of Directors having duly considered the standing of the Company as a good corporate citizen, resolved to ratify a total sum of LKR 6.6 million utilised as charitable donations for the year 2016. This amount is within 1 per cent of the average profits after tax for the preceding three years.

No donations or any other form of payments or facilities have been made to political parties or for politically oriented purposes.

## PROVISIONS

The Board of Directors has arranged for the Chief Actuary to review the Life fund valuations. (Please refer pages 97 to 98 for the policies adopted for provisioning and the basis thereof).

As at the date of the Report, the Board of Directors is not aware of any circumstances which would render inadequate the amounts provided for in the financial statements.

## RESERVES

The total reserves of the Group as at 31 December 2016, amounted to LKR 4,854 million consisting of the Resilience Reserve, Available for Sale Reserve, and Retained Earnings, all being revenue reserves and a Revaluation Reserve being a capital reserve. Movements in these reserves are given in the Group Statement of Changes in Equity set out on pages 83 and 84 of the Annual Report.

### PROVISION FOR TAXATION

Provisions for Taxation for the Company and its subsidiary have been computed at the rates given in notes 22 and 37 of the financial statements and are set out on pages 119, 125 and 126 of the Annual Report.

### OUTSTANDING LITIGATION

In the opinion of the Board of Directors and the Company's lawyers, pending litigation against the Company will not have a material impact on the reported financial results or future operations of the Company.

### EMPLOYEES

The Company continued to provide its employees a nurturing work environment conducive for learning and high performance. Developing the leaders and the workforce remained a key imperative to deliver our long term strategy for sustainable quality growth of our business. The high engagement scores year on year in addition to the accolades won as a Great Place to Work® demonstrated the level of empowerment and engagement within the organisation.

Shah Rouf the Chief Executive Officer / Principal Officer resigned from the Company to take up a senior management role in AIA Group, Hong Kong. With applicable regulatory approvals duly secured, Pankaj Banerjee was appointed as the Chief Executive Officer / Principal Officer of the Company effective 15 November 2016. The Board places on record its appreciation of Messrs. Rouf, Banerjee and the management for ensuring a smooth leadership transition.

The details of the unique people practices that enabled the success of the business performance is described in the Management Discussion & Analysis in pages 12 to 25 in the Annual Report.

### EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors approved the distribution of an Interim Dividend for 2016 of LKR 48.00 per share on 19 January 2017 as authorised by the Articles of Association of the Company, to be paid out of the retained profits of the Company.

The Board of Directors recommended a final dividend of LKR 2.00 per share for 2016 for declaration by the shareholders.

There have been no events subsequent to the Balance Sheet date that would have any material effect on the Company or the Group which would require adjustment or disclosure in the financial statements.

### CORPORATE GOVERNANCE AND INTERNAL CONTROLS

The Board of Directors of the Company acknowledges the responsibility of conducting the business activities of the Company in conformity with accepted good governance

practices. Having reviewed the effectiveness of the internal control systems, the Board of Directors is of the considered view that the Company has taken necessary precautions to safeguard the interests of its stakeholders.

### STATUTORY PAYMENTS

The Board of Directors confirms that to the best of their knowledge and belief, due payments to all relevant regulatory and statutory authorities, have been paid or provided for by the Company where necessary. A Statement of Compliance by the Board of Directors in relation to statutory payments is included in the Directors' Statement of Responsibilities on Financial Reporting, on page 78 of the Annual Report.

### INTERESTS REGISTER

In compliance with the requirements of the Companies Act No. 7 of 2007, the Company maintains an Interests Register. The particulars of entries made in the Interests Register during the financial year under review, are as stipulated below:

#### a) Directors' and Chief Executive Officer's interests in transactions with the Company

Directors' and Chief Executive Officer's interests in transactions of the Company, both direct and indirect, during the year under review are included in note 41 in the related party disclosures to the financial statements, set out on pages 130 to 131 of the Annual Report. These interests have been duly disclosed in compliance with the section 192(2) of the Companies Act No. 7 of 2007 and further declared at Board meetings and captured herein as appropriate.

#### b) Directors' and Chief Executive Officer's dealings with the shares of the Company

I. Disclosures in respect of shares held during the year ended 31 December 2016:

The Directors and the Chief Executive Officer have, in pursuance of section 200 of the Companies Act No. 7 of 2007, made appropriate disclosures at Board Meetings regarding their interests in the Company's shares, including of acquisitions or disposals of such shares.

II. Disclosures in respect of shares of the Company which have been acquired during the year

Neither of the Directors nor the Chief Executive Officer of the Company as at 31 December 2016 have acquired shares of the Company during the year under review.

III. Disclosures in respect of shares of the Company which have been disposed during the year:



Neither of the Directors nor the Chief Executive Officer of the Company as at 31 December 2016 have disposed shares in the Company during the year under review.

**c) Use of Company information by the Directors and the Chief Executive Officer**

This information is recorded in the Interests Register in pursuance of the provisions of section 197 of the Companies Act No. 7 of 2007.

Subject matter of information	Date of authorisation by the Board	Authorisation granted at a Board meeting / by circular resolution
None	None	None

**d) Details of remuneration and other benefits paid to the Directors and to the Chief Executive Officer**

The remuneration and fees of the Director(s) / the Chief Executive Officer are duly determined by the Company's Remuneration Committee and approved by the Board of Directors.

Efforts are made to maintain a balance between the suitability of the remuneration so determined and of its fairness in relation to the Company's interests. Directors' fees paid to Non-Executive Independent Directors are made in accordance with the specified scales of payments as determined by the Remuneration Committee and approved by the Board from time to time.

Details of the Directors' fees and emoluments paid during the financial year 2016, which have been duly approved by the Board of Directors, are stated below.

	Consolidated Fees	
	2016 LKR '000	2015 LKR '000
Directors' emoluments*	168,479	108,913
Directors' fees	5,950	2,350

\* The term "Director" referred under emoluments includes the Chief Executive Officer as well. Emoluments referred herein includes those made to both CEOs during the leadership transition period.

**e) Loans to Directors and the Chief Executive Officer**

No loans have been granted to any Director or to the Chief Executive Officer of the Company or of any related entity, during the year under review.

The Company has not provided any guarantee or any other form of security in connection with any loan made by any

person to a Director or to the Chief Executive Officer of the Company or of any related entity.

**f) Insurance and Indemnity coverage provided to Directors and/or Officers (D & O Cover) of the Company and of its subsidiary**

AIA Group wide D & O Cover has been in force to cover the Directors and Officers of the Company, its holding Company and the subsidiary respectively. AIA Group Limited maintains a D & O Cover worth USD 300 million, the coverage of which extends to all Directors and Officers of AIA Group, Hong Kong as well as its subsidiaries.

**Directors during the Year/Changes**

Name of Director	Date of Appointment	Date of Resignation/ Date of ceasing to be a Director
Deepal Sooriyaarachchi	17-May-2005	-
Manoj Ramachandran	4-Dec-2012	-
Heerak Basu	5-Dec-2012	8-Feb-2016
Mitchell David New	28-Jun-2013	-
William Lisle*	22-Jun-2015	-
Robert Alexander Hartnett	29-Sep-2015	-
Neilendra Iomal Russell DeMel	25-Jan-2016	15-May-2016
Drayton Sarath Palitha Wikramanayake	1-Aug-2016	-

\* Mr. William Lisle was appointed as the Chairman/ Director of the Company effective 22 June 2015.

In accordance with Article 30 of the Articles of Association of the Company, Messrs. Deepal Sooriyaarachchi and William Lisle shall retire by rotation at the Annual General Meeting and being eligible, are recommended by the Board for re-election.

**DIRECTORS' MEETINGS**

Set out below are the number of Directors' meetings (including meetings of the Sub Committees of the Board), which have been held during the year under review and the number of such meetings that have been attended by each Director of the Company during the period, correlated to the period during which each such Director actually held office within the year under review.

In addition to the attendance at physical meetings, the Board also attended to its duties and took decisions on matters relating to the Company via duly recorded Circular Resolutions during the year.

## THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

Director	Directors' Meetings		Audit & Compliance Committee Meetings		Investment Committee Meetings		Remuneration Committee Meetings		Related Party Transactions Review Committee	
	A	B	A	B	A	B	A	B	A	B
Shah Rouf*	-	-	-	-	4	4	-	-	-	-
Deepal Sooriyaarachchi	4	4	4	4	-	-	2	2	3	3
Manoj Ramachandran	4	4	-	-	-	-	-	-	-	-
Mitchell David New	3	4	-	-	-	-	2	2	-	-
William Lisle	4	4	-	-	-	-	-	-	-	-
Robert Alexander Hartnett	4	4	4	4	-	-	-	-	3	3
Neilendra Iomal Russell DeMel	1	2	1	2	-	-	1	1	1	1
Drayton Sarath Palitha Wikramanayake	2	2	2	2	-	-	1	1	2	2
Gavin D' Rosairo*	-	-	-	-	4	4	-	-	-	-
Benjamin Deng*	-	-	-	-	4	4	-	-	-	-

A = Number of meetings attended

B = Number of meetings held during the time the Director held office during the period

\* not members of the Board

### RELATED PARTY TRANSACTIONS

The Related Party Transactions Review Committee of AIA Insurance Lanka PLC recommended that there were no related party transactions which exceeded the lower of 10 per cent of equity or 5 per cent of the total assets of the Company as at 31 December 2016 to be disclosed herein. Appropriate disclosures have been made in terms of the Sri Lanka Accounting Standards LKAS 24 - Related Party Disclosures, in Note 41 in the financial statements.

### COMPLIANCE WITH THE ADOPTION OF CODE OF BEST PRACTICES ON RELATED PARTY TRANSACTIONS (THE CODE)

Ensuring compliance with the applicable provisions of the Code, the Company set up a Related Party Transactions Review Committee in January 2016 which has its oversight responsibility on the Related Party Transactions of the Company.

### CERTIFICATION OF COMPLIANCE IN REGARD TO THE TRANSFER PRICING REGULATION AND DECLARATION BY THE BOARD OF DIRECTORS

It is certified that the company has complied with the Transfer Pricing Regulations issued under Section 104 of the Inland Revenue Act, No. 10 of 2006. The information relating to these Regulations is given in approved accountant's certificate produced under Section 107(2) (a) of the Inland Revenue Act. We believe that the record of transactions entered into with associated undertakings during the period from 1 January 2016 to 31 December 2016 are at arm's length, not prejudicial to the interests of the company and not carried out for profit shifting purposes.

Records and information of all transactions have been submitted to the approved accountant who reviewed the transfer pricing records and no adverse remarks have been made in the certificate thereto.

### COMPLIANCE WITH THE SEC DIRECTIVE ISSUED ON THE REQUIREMENT FOR THE LISTED ENTITIES TO MAINTAIN A CONTINUOUS MINIMUM PUBLIC FLOAT

The Company sought and received an exemption from the SEC initially until 31 December 2016 and thereafter an extension for the said exemption until 31 December 2017, from having to comply with the Listing Rules of the CSE relating to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. This is on the basis of a proposed pending statutory exemption to the Regulation of the Insurance Industry Act No.43 of 2000, as amended (the Insurance Act). The SEC has reserved the right to re-visit the said extension to the exemption if the proposed legislation to the Insurance Act is not passed by the Parliament by 31 December 2017.

### RISK-BASED CAPITAL REQUIREMENT (RBC)

The Company has adopted the RBC solvency regime for solvency purposes with effect from 1 January 2016 in line with the regulations and guidelines issued by the Insurance Board of Sri Lanka.

### GOING CONCERN

The Board of Directors has, consequent to due inquiry and having taken into account the financial position and future prospects of the Company, a reasonable expectation that the Company has adequate resources to continue to be in operational existence for the foreseeable future. For this reason, the Company continues to adopt the going concern basis in the preparation of its financial statements.

### ENVIRONMENTAL PROTECTION

The Company has used its best endeavours to comply with the relevant environmental laws and regulations of the country. The Company has not, to the best of the knowledge of the Board of Directors, engaged in any activity which is or which would be harmful or hazardous to the environment.

### EQUITABLE TREATMENT TO STAKEHOLDERS

The Board of Directors has constantly endeavoured to ensure that the Company's operations are conducted in a manner which will secure equitable treatment to all stakeholders of the Company.

### RE-APPOINTMENT OF EXTERNAL AUDITORS

The present Auditors Messrs. PricewaterhouseCoopers Chartered Accountants, who was appointed at the last Annual General Meeting to hold office during the year under review, having communicated their willingness to continue in office, will be proposed for re-election. Resolution to this effect will be proposed at the Annual General Meeting to authorise the Directors to fix their remuneration.

### EXTERNAL AUDITORS' REMUNERATION

The remuneration paid to Messrs. PricewaterhouseCoopers the present Auditors, for both audit and non-audit services rendered for the year under review are stated below.

	Group	
	2016 LKR '000	2015 LKR '000
Audit and related services	4,136	4,176
Non-Audit services	1,198	2,158

Messrs PricewaterhouseCoopers does not have any relationship with the Company or with its subsidiary, other than that of External Auditors of the Company and its subsidiary.

### ANNUAL REPORT

The information provided herein is in pursuance of the requirements of the Companies Act No. 7 of 2007 and the Listing Rules of the Colombo Stock Exchange. In the preparation of this Report, recourse has also been made to other recommended best practice reporting guidelines.

The Board of Directors has approved the financial statements of the Company and the Group together with the reviews and other reports which form part of the Annual Report as signed off by the External Auditors on 22 February 2017. An appropriate number of copies of the Annual Report will be submitted to the Colombo Stock Exchange, the Insurance Board of Sri Lanka, the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Registrar General of Companies, within applicable time frames.

In terms of the applicable provisions of the Listing Rules of Colombo Stock Exchange, the Board of Directors has duly resolved to issue the Annual Report of the Company in CD ROM format to all shareholders.

### ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Monday, 27 March 2017 at 10.00 a.m. at AIA Premier Academy, AIA Office, third floor of Union of Post and Telecommunication Officers' Building, No.95, Sir Chittampalam A Gardiner Mawatha, Colombo 2.

The Notice of the Annual General Meeting, setting out the business which will be transacted thereat appears on page 151 of the Annual Report.

By order of the Board



**William Lisle**  
Chairman/Director



**Robert Hartnett**  
Director



**Chathuri Munaweera**  
Company Secretary

Colombo  
22 February 2017

# CORPORATE GOVERNANCE

**Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community.**

AIA Insurance Lanka PLC ('the Company') has adopted the required rules and practices by which the Board of Directors ensures accountability, fairness and transparency in the Company's relationship with all of its all stakeholders.

This report explains the status of compliance of the Company with the applicable laws and regulations laid down by regulators and the Company's internal governance structures. It provides an overview of the functions of the various committees established for the purpose of good governance.

The Company's core business is life insurance. It is duly licensed by the Insurance Board of Sri Lanka and is listed on the Colombo Stock Exchange (CSE). The Company has a fully owned subsidiary, Rainbow Trust Management Limited, which engages in trust management business.

## STATEMENT OF COMPLIANCE

AIA Insurance Lanka PLC is conscious of its responsibility to the shareholders, the government and its society and is unequivocally committed to upholding ethical behaviour in conducting its business. The Company believes that the transparency of business operations achieved through the application and execution of sound corporate governance principles is a must for all stakeholders to make their respective decisions on the Company. As such the corporate governance report of the Company provides information beyond the minimum requirements as specified by applicable legal and regulatory provisions.

The Company is compliant with the applicable Listing Rules of the Colombo Stock Exchange. The status of compliance together with relevant commentaries is provided in the report.

The Company has established its risk and compliance functions based on AIA Group standards that have contributed towards the advancement of corporate governance and transparency of the Company's activities. Further information on such functions is provided in page 61 of this report.

The Company is committed to steadfastly ensure that its operations are embedded with a sound corporate governance culture which provides substantial assurance to all the stakeholders of ethical and professional corporate performance.

## AIA Insurance Lanka PLC

The Company and its subsidiary were subject to various statutory and regulatory requirements in relation to governance and operations during the period under review. The ensuing segment provides details of the primary statutes applicable to the Company and its subsidiary, and provides confirmation of the Company's compliance with Sections 7 and 9 of the Listing Rules of the Colombo Stock Exchange.

### The primary statutes applicable to the Company and its subsidiary are:

- The Companies Act No. 7 of 2007 (as amended)
- Regulation of Insurance Industry Act No. 43 of 2000 (as amended)
- National Insurance Trust Fund Act No. 28 of 2006 (as amended)
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987
- Inland Revenue Act No. 10 of 2006 (as amended)
- Shop and Office Employees Act No. 15 of 1954
- Employees' Provident Fund Act No. 15 of 1958 (as amended)
- Employees' Trust Fund Act No. 46 of 1980 (as amended)
- Payment of Gratuity Act No. 12 of 1980 (as amended)
- Financial Transactions Reporting Act 6 of 2005 (as amended)
- Prevention of Money Laundering Act 5 of 2006
- Exchange Control Act No. 24 of 1953 (as amended)
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Various other laws that govern the tax regime for companies in Sri Lanka

It is also required that the Company and its subsidiary comply with the following rules, regulations and guidelines.

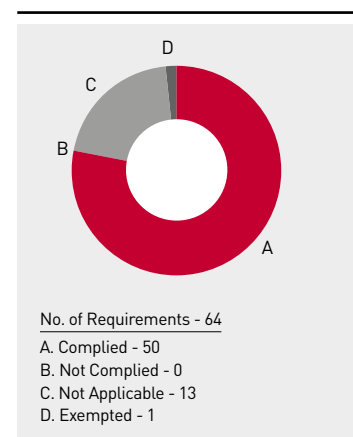
- Circulars issued by the Insurance Board of Sri Lanka (IBSL)
- Directives issued by the IBSL
- Guidelines issued by the IBSL
- Listing Rules of the CSE, Rules, Regulations and Guidelines issued by the Securities and Exchange Commission of Sri Lanka

#### Status of Compliance with Sections 7 and 9 of Listing Rules of the Colombo Stock Exchange

##### AT A GLANCE

The Company is compliant with the applicable requirements of Sections 7 and 9 of the Listing Rules (Continuous Listing requirements) and the status of compliance at a glance is graphically illustrated below.

Complied		Not Complied							Not Applicable								Exempted			
7.1	a	b	c	d	e	f	g													
7.2	7.2																			
7.3	7.3																			
7.4	a	b																		
7.5	a	b	c	d																
7.6	i	ii	iii	iv	v	vi	vii	viii	ix	x	xi	xii	xiii	xiv	xv	xvi				
7.7	7.7																			
7.8	7.8																			
7.9	7.9																			
7.10	a	b	c	1.a	1.b	1.c	2.a	2.b	3.a	3.b	3.c	3.d	4	5.a	5.b	5.c	6.a	6.b	6.c	
7.11	1	2	3																	
7.12	a	b																		
7.13	7.1.3																			
9.2.1	9.2.1																			
9.2.2	9.2.2																			
9.3.2	a	b	c																	



A detailed commentary on the specific requirements required to be complied with, under Sections 7 and 9 of the Listing Rules of the Colombo Stock Exchange is given below.

Requirement	Status of Compliance	Comment
<b>7.1</b>	<b>DIVIDEND PAYMENT ANNOUNCEMENT TO THE EXCHANGE</b>	
<b>7.1.a</b>	Complied	The announcement (with required information) was made in respect to the first and final dividend for the year ending 31 December 2015, on 17 February 2016.
<b>7.1.b</b>	Complied	Shareholder approval for the first and final dividend distribution for the year 2015 was obtained by way of an ordinary resolution at the Annual General Meeting held on 29 March 2016 as required by the Articles of Association of the Company.
<b>7.1.c</b>	Complied	The first and final dividend payment for the year 2015 was made on 7 April 2016 which was within the specified time period and the CSE was notified of the said date of dispatch on 17 February 2016.

Requirement		Status of Compliance	Comment
7.1.d	Date of dispatch of dividend payment when the approval of the shareholders is not required; the date of dispatch of the dividend payment shall be within seven (7) market days from the 'XD' date.	Not Applicable	An interim dividend for the year ended 31 December 2016 was declared on 19 January 2017 with the approval of the Board as per the Articles of Association of the Company and the date of dispatch was 8 February 2017 which was scheduled within seven (7) market days from the 'XD' date.
7.1.e	Once a dividend distribution has been announced an entity shall not alter the dividend per share without consulting the Exchange.	Not Applicable	This requirement was not applicable to the Company.
7.1.f	<b>Solvency Certificate</b> The Entity shall forward to the Exchange a certified copy of the certificate of solvency issued by a firm of auditors as soon as the same is issued and in any event prior to dispatching the dividend payment.	Complied	The Company forwarded to the CSE a certified copy of the Solvency Certificate issued by the External Auditors of the Company on 10 March 2016 in respect to the first and final dividend payment for the year 2015.  The Company forwarded to the CSE a certified copy of the Solvency Certificate issued by the External Auditors of the Company on 26 January 2017 in respect to the interim dividend payment for the year ended 31 December 2016.
7.1.g	Dividend distribution by way of a scrip dividend.	Not Applicable	This requirement was not applicable for the Company as there was no scrip dividend declared for the year 2016.
<b>7.2</b>	<b>RESOLUTIONS</b>		
	The Exchange must be notified at the same time as shareholders regarding any resolution to be voted on at any members' meeting. The Exchange shall be notified immediately after the meeting whether the resolution was passed or not.	Complied	The CSE was notified about the resolutions passed during the year as required.
<b>7.3</b>	<b>CIRCULARS TO SHAREHOLDERS</b>		
	Fifty (50) copies of circulars to shareholders should be sent to the Exchange at the same time as they are dispatched to the holders of Listed Securities.	Not Applicable	This requirement was not applicable to the Company.
<b>7.4</b>	<b>INTERIM FINANCIAL STATEMENTS</b>		
7.4.a	A listed entity shall give to the Exchange, an Interim Financial Statement prepared on a quarterly basis, as soon as the figures have been approved by the Board of Directors of the Entity and in any event not later than forty five (45) days from the end of the first, second and third quarters and two (2) months from the end of the fourth quarter.	Complied	The Company submitted the quarterly Financial Statements to the CSE in line with the requirements specified in terms of the formats and the number of copies within the specified time limits.
7.4.b	A listed entity shall ensure that the Financial Statements fulfil the specified requirements.	Complied	The Quarterly Financial Statements of the Company complied with the specified requirements including but not limited to statements to the effect that such financial statements are not audited and carried signatures of two Directors.
<b>7.5</b>	<b>CIRCULATION OF ANNUAL REPORT</b>		
7.5.a	A listed entity shall ensure that the Annual Report is issued to the Entity's shareholders and given to the Exchange within a period not exceeding five (05) months from the close of the financial year of the listed entity. The Audited Financial Statements shall be published in accordance with the Sri Lanka Accounting Standards.	Complied	The financial year of the company closes on 31 December and the Annual Report for the year 2015 was issued to the shareholders within the stipulated time lines and required copies were submitted to the CSE. The Audited Financial Statements published in the Annual Report were prepared in accordance with the Sri Lanka Accounting Standards.

Requirement	Status of Compliance	Comment
7.5.b	A listed entity may issue its Annual Report in a CD-ROM to its shareholders provided that the Entity complies with the specified requirements.	Complied The Annual Report for the year 2015 was issued in a CD-ROM. The Company has complied with the specified requirements applicable for such issuance as follows. Provided printed copies to shareholders upon written requests. A designated person was made available to attend to requests for printed copies of the Annual Report. Printed copies of the Annual Report were forwarded to shareholders who have requested for same within eight market days from the date of receipt of such request. A note with required statements/information was sent to the shareholders along with the CD-ROM.
7.5.c	The Entity shall give to the Exchange thirty five (35) copies of the Annual Report in printed form and one (1) copy in a CD-ROM.	Complied The Company submitted the required number of copies of the Annual Report of year 2015 to the CSE in the required formats.
7.5.d	If an entity prior to circulating the Annual Report, files copies of financial statements with the Registrar General of Companies in compliance with Section 170 (1) of the Companies Act, the Entity shall also simultaneously submit such financial statements to the Exchange.	Complied The Company submitted its financial statements to the Registrar General of Companies and the CSE, as required.
<b>7.6 CONTENTS OF ANNUAL REPORT</b>		
	A listed entity must include in its Annual Report and Accounts, inter alia;	
	i Names of persons who during the financial year were directors of the Entity.	Complied This information is provided on page 39 of this report.
	ii Principal activities of the Entity and its subsidiaries during the year and any changes therein.	Complied The principal activity of the Company during the year have been to engage in Life insurance business as per the license issued by the Insurance Board of Sri Lanka (IBSL). Further details of the activities of the Company are highlighted in the CEO's review and Management Discussion and Analysis on pages 8 and 12 respectively.
	iii The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	Complied This information is provided on page 139 of this report.
	iv The public holding percentage.	Complied This information is provided on page 36 of this report.
	v A statement of each director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year.	Complied This information is provided on pages 38 and 39 of this report.
	vi Information pertaining to material foreseeable risk factors of the Entity.	Complied This information is captured in Management Discussion and Analysis on page 12 of this report.
	vii Details of material issues pertaining to employees and industrial relations of the Entity.	Complied The Company did not have any material issues pertaining to employees and industrial relations during the year under review. Further information on HR practices of the Company is provided on page 20 of this report.
	viii Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	Complied This information is provided on page 108 of this report.

## CORPORATE GOVERNANCE

Requirement	Status of Compliance	Comment
ix Number of shares representing the Entity's stated capital.	Complied	This information is provided on page 119 of this report.
x A distribution schedule of the number of holders in each class of equity instruments, and the percentage of their total holdings in specified categories.	Complied	This information is provided on page 119 of this report.
xi Specified ratios and market price information.	Complied	Following information is provided on pages 137 to 140 of this report. 1. Dividend per share 2. Dividend pay out 3. Net asset value per share 4. Market value per share - highest and lowest values recorded during the financial year - value as at the end of financial year
xii Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Complied	There were no significant changes in the Company's fixed assets as at 31 December 2016.  Further information on this is provided on page 107 of this report.
xiii Specified information, In the event during the year the Entity has raised funds either through a public issue, Rights Issue, and private placement.	Not Applicable	This requirement is not applicable as the Company did not raise funds during the year from any of the specified methods.
xiv a. Employee Share Option Schemes.	Not Applicable	The Company did not operate any Employee Share Option Schemes in relation to shares of the Company.
b. Employee Share Purchase Schemes	Not Applicable	The Company did not operate any Employee Share Purchase Schemes in relation to shares of the Company.
xv Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules.	Complied	These disclosures are provided on pages 48 to 51 of this report respectively.
xvi Specified information on Related Party transactions exceeding 10 per cent of the Equity or 5 per cent of the total assets of the Entity as per Audited Financial Statements, whichever is lower.  Specified details of investments in a Related Party and/or amounts due from a Related Party to be set out separately.	Complied	This information is provided on page 129 of this report.
<b>7.7 SECURITIES CERTIFICATES</b>		
Listed entities shall issue Definitive Certificates in respect of Securities which are listed in the Exchange.	Complied	The Company actively encourages the dematerialisation of shares in line with the guidelines of the Securities & Exchange Commission of Sri Lanka.
<b>7.8 DISCLOSURES OF DEALINGS BY DIRECTORS</b>		
A listed entity shall make an immediate announcement to the Exchange of disclosures made by a director in terms of Section 200 of the Companies Act, of any acquisition or disposal of a relevant interest in shares issued by the Entity.	Complied	The Company has procedures in place to make these immediate disclosures. However, no such disclosures were made during the year as none of the Directors disclosed any dealings of shares of the Company.



Requirement	Status of Compliance	Comment
<b>7.9 LOSS OF CERTIFICATES</b>		
	Complied	The Company has procedures in place to make these notifications as and when required.
<b>7.10 CORPORATE GOVERNANCE</b>		
<b>Compliance</b>		
<b>7.10.a</b>	Complied	The Company is compliant with the Corporate Governance Rules of the Listing Rules. The statement is published on page 42 of this report.
<b>7.10.b</b>	Complied	The Company is compliant with the Corporate Governance Rules and respective affirmative statements and the statement of compliance is provided on page 42 of this report.
<b>7.10.c</b>	Complied	The Company sought and received an exemption from the SEC initially until 31 December 2016 and thereafter an extension for the said exemption until 31 December 2017, from having to comply with the Listing Rules of the CSE relating to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. The details of the said extension to the exemption is provided in page 51 of this report. Except for the said extension to the exemption, the Company has neither requested nor did the CSE grant any exemptions to the Company, in respect to the Corporate Governance Rules, either in full or in part.
<b>7.10.1 NON – EXECUTIVE DIRECTORS</b>		
<b>7.10.1.a</b>	Complied	Two or such number equivalent to one third of the total number of Directors, whichever is higher should be Non-executive Directors. There are six members on the Board of Directors all of whom are Non-executive Directors.
<b>7.10.1.b</b>	Complied	The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting. As at the last Annual General Meeting held on 29 March 2016, there were six members on the Board of Directors. Therefore, the requirement under rule 7.10.a is fully complied with.
<b>7.10.1.c</b>	Complied	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change. No change was reported to the ratio during the year under consideration.
<b>7.10.2 INDEPENDENT DIRECTORS</b>		
<b>7.10.2.a</b>	Complied	Two or one third of the Non-executive Directors appointed to the Board of Directors, whichever is higher shall be “independent”. There are six members on the Board of Directors and two are classified as Independent Non-executive Directors. Details of Independent, Non-executive Directors are given on pages 28 to 31 of this report.

Requirement	Status of Compliance	Comment
7.10.2.b	The Board shall require each Non-executive Director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	Complied The Board has obtained signed and dated declarations from each Non-executive Director on their independence or non-independence against the said criteria upon their appointment to the Board and also on an annual basis in terms of declaration specified in Appendix 7A of the CSE Listing Rules.
7.10.3	<b>DISCLOSURES RELATING TO DIRECTORS</b>	
7.10.3.a	The Board shall make a determination annually as to the independence or non-independence of each Non-executive Director based on such declaration and other information available to the Board and shall set out in the Annual Report the names of directors determined to be 'independent'.	Complied Upon the resignation of Mr. Russell DeMel, Mr. Sarath Wikramanayake was appointed to the Board of the Company on 1 August 2016 and having satisfied the criteria of independence is declared as independent Non-executive Director of the Company.  Mr. Deepal Sooriyaarachchi joined the Board as a Director in May 2005. He resigned from the Board in 2006 and was re-appointed to the Board in the same year of 2006 and was declared an independent Non-executive Director in 2010. In terms of Listing Rule 7.10.4.e., Mr. Sooriyaarachchi declared, during the year under review, that he has served the Board continuously for a period exceeding nine years, notwithstanding that his directorship was subject to retirement by rotation and re-appointment by the shareholders of the Company at respective general meetings. The Board taking this disclosure and his proposed re-appointment at the Annual General Meeting to be held on 27 March 2017, and on the authority permitted under Rule 7.10.3 b. of the CSE Listing Rules, forms its opinion that Mr. Sooriyaarachchi is nevertheless independent. The Board bases this opinion taking into account all the applicable circumstances as specified in disclosures made as per 7.10.4.a. below.
7.10.3.b	In the event a director does not qualify as 'independent' against any of the criteria set out below but if the Board, taking account all the circumstances, is of the opinion that the director is nevertheless 'independent', the Board shall specify the criteria not met and the basis for its determination in the Annual Report.	Complied The Board as per Rule 7.10.3 b. of the CSE Listing Rules takes the considerations herein mentioned, in declaring Mr. Sooriyaarachchi as a non-executive independent Director on the Board of the Company notwithstanding that Mr. Sooriyaarachchi, does not satisfy the "independence" criteria set out in Listing Rule 7.10.4 e. due to his tenure on the Board which now exceeds 9 years. Mr. Sooriyaarachchi has no economic interest in the Company. Neither Mr. Sooriyaarachchi nor his family members have entered into any direct or indirect transaction/s with the Company during the year under review which are of a material or significant business or commercial nature. Mr. Sooriyaarachchi holds no shares in the Company and in all circumstances act and function as an outside director and is remunerated for his function via the payment of Directors fees declared in this Annual Report. Hence it is the considered opinion of the Board that Mr. Sooriyaarachchi is not precluded in any circumstance or manner, in acting in the capacity of an independent director in spite of the disqualification in Listing Rule 7.10.4.e.

Requirement	Status of Compliance	Comment
<b>7.10.3.c</b> In addition to disclosures relating to the independence of a director set out above, the Board shall publish in its Annual Report a brief resume of each director on its Board which includes information on the nature of his/her expertise in relevant functional areas.	Complied	A brief resume of each Director is given on pages 28 to 31 of the Annual Report.
<b>7.10.3.d</b> Upon appointment of a new director to its Board, the Entity shall forthwith provide to the Exchange a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above.	Complied	One new appointment was made to the Board of Directors in 2016. Mr. Wikramanayake was appointed to the Board on 1 August 2016, and his brief resume was submitted to the CSE forthwith.
<b>7.10.4</b> <b>CRITERIA FOR DEFINING 'INDEPENDENCE'</b>	Complied	Please refer narrations in 7.10.3.a & b respectively.
<b>7.10.5 REMUNERATION COMMITTEE</b>		
<b>7.10.5.a</b> <b>COMPOSITION</b> The remuneration committee shall comprise of a minimum of two independent Non-executive Directors (in instances where an entity has only two directors on its Board); or of Non-executive Directors a majority of whom shall be independent, whichever shall be higher.  One Non-executive Director shall be appointed as Chairman of the Committee by the Board of Directors.	Complied	The Remuneration Committee consists of three Non-executive Directors two of whom are independent Non-executive Directors.  The Company has a separate Remuneration Committee.  Mr. New functions as the Chairman of the Committee from August 2013. Mr. New is a Non-executive Director of the Company.
<b>7.10.5.b</b> <b>FUNCTIONS</b> The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and Chief Executive Officer of the listed entity and/or equivalent position thereof, to the Board of the listed entity which will make the final determination upon consideration of such recommendations.	Complied	The Remuneration Committee recommends to the Board the remuneration payable to the Chief Executive Officer based on the performance ratings obtained at the annual performance appraisal, and the market standards applicable to foreign and local Chief Executive Officers, the value of the role and talent requirements of the Company. The Board placing due consideration of such criteria makes the final decision.
<b>7.10.5.c</b> <b>DISCLOSURE IN THE ANNUAL REPORT</b> The Annual Report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and Non-executive Directors.	Complied	Names of the Directors who are members of the Remuneration Committee are given on page 68 of this report. A statement of the remuneration policy is given under the Remuneration Committee Report on page 68 of this report. Disclosure of remuneration paid to Directors is given on page 39 of this report.

Requirement	Status of Compliance	Comment
<b>7.10.6 AUDIT COMMITTEE</b>		
<p><b>7.10.6.a COMPOSITION</b></p> <p>The audit committee shall comprise of a minimum of two independent Non-executive Directors (in instances where a Entity has only two directors on its Board);</p> <p>or</p> <p>of Non-executive Directors a majority of whom shall be independent, whichever shall be higher.</p> <p>One Non-executive Director shall be appointed as Chairman of the committee by the Board of Directors.</p> <p>The Chief Executive Officer and the Chief Financial Officer of the listed entity shall attend audit committee meetings.</p> <p>The Chairman or one member of the committee should be a Member of a recognised professional accounting body.</p>	Complied	<p>The Audit Committee of the Company is named as Audit and Compliance Committee and consists of three Non-executive Directors two of whom are Independent Non-executive Directors.</p> <p>The Chief Executive Officer and the Chief Financial Officer are considered as permanent invitees for the meetings of the Committee.</p> <p>Mr. Rusell DeMel resigned from the Board on 15 May 2016 and Mr. Wikramanayake was appointed on 1 August 2016, and Mr. Wikramanayake was appointed as a member of the Audit and Compliance Committee effective 8 August 2016.</p> <p>The Committee fulfils the required qualifications and the qualifications of respective members of the Committee are given in page 66 of the report.</p>
<p><b>7.10.6.b FUNCTIONS</b></p> <p>i. Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a listed entity, in accordance with Sri Lanka Accounting Standards.</p> <p>ii. Overseeing of the Entity's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.</p> <p>iii. Overseeing the processes to ensure that the Entity's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.</p> <p>iv. Assessment of the independence and performance of the Entity's External Auditors.</p> <p>v. To make recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors and to approve the remuneration and terms of engagement of the External Auditors.</p>	Complied	<p>The Terms of Reference of the Committee capture the required functions in addition to many other functions assigned by the Board. Accordingly, the Committee,</p> <p>i. Oversees the preparation, presentation and adequacy of disclosures in the financial statements of the Company in accordance with the Sri Lanka Accounting Standards.</p> <p>ii. Oversees the Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.</p> <p>iii. Oversees the processes to ensure that the Company's internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.</p> <p>iv. Assesses the independence and performance of the Company's External Auditors.</p> <p>v. Makes recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors and to approve the remuneration and terms of engagement of the External Auditors.</p> <p>Further information about the Committee and its functions are given on page 58 of this report.</p>

Requirement	Status of Compliance	Comment
<p><b>7.10.6.c DISCLOSURE IN THE ANNUAL REPORT</b> The names of the directors comprising the audit committee should be disclosed in the Annual Report.</p> <p>The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the Annual Report.</p> <p>The Annual Report shall contain a report by the audit committee, setting out the manner of compliance by the Entity in relation to the above, during the period to which the Annual Report relates.</p>	Complied	<p>The names of the Directors who are members of the Audit and Compliance Committee are given on page 58 of this report.</p> <p>The Committee determined the independence of the External Auditors and the basis of such determination is referred in the Audit and Compliance Committee Report on page 66 of this report.</p> <p>Audit and Compliance Committee Report is given on page 66 of this report.</p>
<p><b>7.11 RE-PURCHASE / REDEMPTIONS / MINORITY BUYOUTS</b> <b>7.11.1</b> <b>7.11.2</b> <b>7.11.3</b></p>	Not Applicable	The Company did not take any actions relating to repurchase of its own shares or redemptions of shares or minority buyouts. Therefore, this requirement was not applicable to the Company during the year under review.
<p><b>7.12 RATINGS / REVISIONS IN RATINGS ASSIGNED TO DEBT SECURITIES</b> <b>7.12.a</b> <b>7.12.b</b></p>	Not Applicable	The Company does not have any debt securities listed on a Stock Exchange; hence this requirement is not applicable to the Company during the year under review.
<p><b>7.13 MINIMUM PUBLIC HOLDING AS A CONTINUOUS LISTING REQUIREMENT</b></p>	Exempted	<p>As per the Directives issued by the SEC (the Securities &amp; Exchange Commission of Sri Lanka), the Listing Rules of the Colombo Stock Exchange (the CSE) applicable to the Company mandates (among other) of a Continuous Listing Requirement in relation to the maintenance of a minimum public float. Accordingly, it is mandatory that the Company being listed on the Main Board, maintained by 31 December 2016, a minimum public float of 20 per cent of its total listed ordinary shares in the hands of a stipulated number of minimum public shareholders.</p> <p>The Company sought and received an exemption from the SEC initially until 31 December 2016 and thereafter an extension for the said exemption until 31 December 2017, from having to comply with the said Listing Rule of the CSE relating to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. This is on the basis of a proposed pending statutory exemption to the Regulation of the Insurance Industry Act No.43 of 2000, as amended (the Insurance Act). The SEC has reserved the right to re-visit the said extension to the exemption if the proposed legislation to the Insurance Act is not passed by the Parliament by 31 December 2017.</p>

Requirement	Status of Compliance	Comment
<b>9. RELATED PARTY TRANSACTIONS REVIEW COMMITTEE</b>		
<b>9.2.1</b>	<b>FUNCTIONS</b> The Related Party Transactions Review Committee shall review in advance all proposed Related party transactions. At each subsequent scheduled meeting of the Committee, the management shall update the Committee as to any proposed material changes in any previously reviewed Related Party Transactions and seek approval of the Committee for such proposed material changes prior to the completion of the transaction. In the event a related party transaction will be ongoing, the Related Party Transactions Review Committee shall review and assess ongoing relationship with the related party to determine whether they are in compliance with the committee's guidelines and that such transactions remain appropriate.	Complied The Terms of Reference of the Committee capture the required functions in addition to many other functions assigned by the Board. Accordingly, the Committee, reviews in advance all proposed Related Party Transactions of the Company and its subsidiary that are submitted for the Committee except for such transactions which are specified as exempted under applicable regulations/statutes. The Committee reviews and approves as deemed fit, any proposed material changes in any previously reviewed Related Party Transactions, prior to completion of such transactions, which have been updated by the management of the Company provided that relevant facts and circumstances concerning the matter/s are provided along with same. The Committee also reviews and assesses the appropriateness of the ongoing transactions and their compliance with the guidelines established by the Committee.
<b>9.2.2</b>	<b>COMPOSITION</b> The Committee should comprise a combination of Non-executive Directors and independent Non-executive Directors. The composition of the Committee may also include executive directors, at the option of the listed entity. One independent Non-executive Director shall be appointed as Chairman of the Committee.	Complied The Related Party Transactions Review Committee consists of three Non-executive Directors two of whom are independent Non-executive Directors. Mr. Deepal Sooriyaarachchi functions as the Chairman of the Committee and he is an Independent Non-Executive Director of the Company. The Chief Executive Officer, Chief Financial Officer and the Head of Internal Audit are considered as permanent invitees for the meeting of the Committee. Mr. Russell DeMel resigned from the Board on 15 May 2016 and Mr. Wikramanayake was appointed on 1 August 2016, and Mr. Wikramanayake was appointed as a member of the Related Party Transactions Review Committee effective 8 August 2016.
<b>9.3.2</b>	<b>DISCLOSURE IN ANNUAL REPORT</b> a) In the case of non-recurrent Related party transactions, if aggregate value of the non-recurrent related party transactions exceeds 10 per cent of the equity or 5 per cent of the total assets, whichever is lower, as per the latest audited financial statements, the Annual Report should set out the name of the related party, relationship, value of the related party transactions entered into during the financial year, value of related party transactions as a percentage of equity and as a percentage of total assets, terms and conditions of the related party transactions and the rationale for entering into the transactions.	Not applicable This requirement is not applicable as the Company did not enter into any non-recurrent related party transactions that exceeded the thresholds prescribed giving rise to the disclosure requirements.

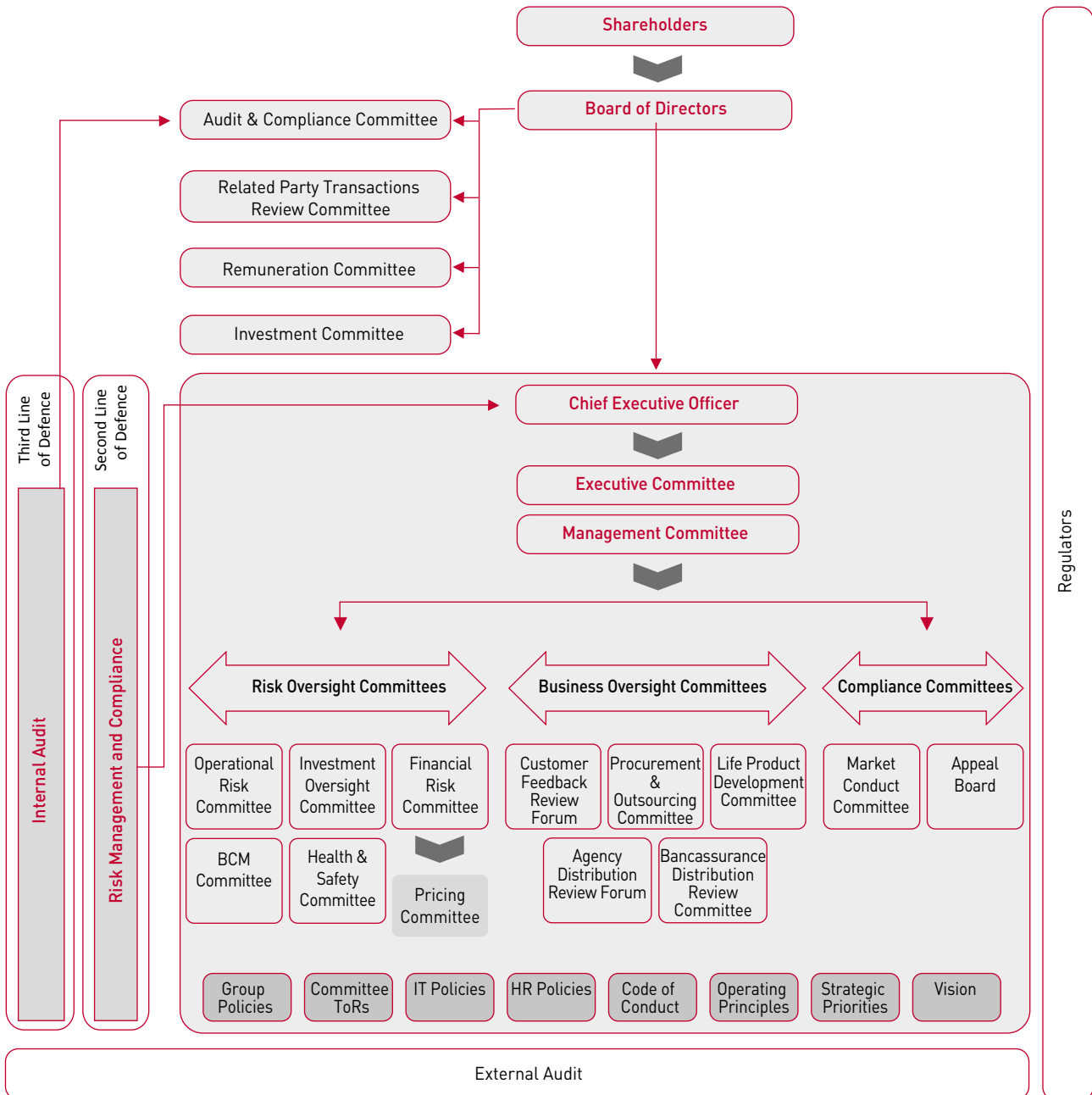
Requirement	Status of Compliance	Comment
<p>b) In the case of recurrent Related party transactions, if aggregate value of the recurrent related party transactions exceeds 10 per cent of the gross revenue/income, as per the latest audited financial statements, the Annual Report should set out the name of the related party, relationship, aggregate value of the related party transactions entered into during the financial year, aggregate value of related party transactions as a percentage of net revenue/income and terms and conditions of the related party transactions.</p>	Not applicable	This requirement is not applicable as the Company did not enter into any recurrent related party transactions that exceeded the thresholds prescribed giving rise to the disclosure requirements.
<p>c) The Annual Report shall contain a report by the Related Party Transactions Review Committee, setting out the names of the directors comprising the committee, a statement to the effect that the committee has reviewed the related party transactions during the financial year and has communicated the observations to the Board of Directors and the policies and procedures adopted by the committee for reviewing the related party transactions.</p>	Complied	Related Party Transactions Review Committee Report is given on page 69 of this report.

## CORPORATE GOVERNANCE

### GOVERNANCE STRUCTURE

The Company maintained a sound and effective governance structure to oversee the totality of the Company's business operations.

The corporate governance structure of the Company is graphically illustrated below.





## THE BOARD OF DIRECTORS

The Board of Directors has the overall responsibility to guide the direction of the Company and are accountable to the shareholders. The Board has delegated its authorities to a number of primary and or Sub Board Committees to support the Board in the discharge of its governance and oversight responsibilities. The governance and oversight of audit and compliance and remuneration are thus supported by the function of the Board's Audit and Compliance Committee and Remuneration Committee respectively. The Related Party Transactions Review Committee and the Investment Committee are committees appointed by the Board. The Committees are required to report their activities to the Board on a quarterly basis and communications between the Committees and the Board take place as appropriate. The reporting by the Board Committees covers the update of activities of regular meetings held on delegated authorities and decisions taken or recommendations made by these committees. The functions of the Board of Directors and Board Committees are regulated primarily by the Articles of Association, Board Terms of Reference, the respective Board Committee Terms of Reference and where applicable, rules, regulations and legislations in force. Further information about the Board of Directors are given in the page 30 and 31 of this report.

## THE CHIEF EXECUTIVE OFFICER (CEO)

The Articles of Association of the Company and the Board Terms of Reference recognise the role and position of the Chief Executive Officer of the Company and the duties and obligations of the role. They empower the Board to entrust such responsibilities on the CEO who is the senior most executive officer of the Company. The CEO reports to the Chairman of the Board of Directors on all matters pertaining to the day-to-day management of the Company's business, its direction and operations in accordance with the policies and objectives set by the Board.

## THE EXECUTIVE COMMITTEE

The Executive Committee reports to the CEO, and discharges the management and governance responsibilities of the Company as delegated by the CEO. The CEO heads the Executive Committee. He leads the collective decision making process of the Executive Committee in relation to the day-to-day management of the Company's business and its operation within the governance framework and objectives defined by the Board.

The Executive Committee functions within its Terms of Reference in collectively and individually supporting the CEO in operational, business and strategic decisions and the execution of the Company Strategic Plan.

### Members of the Executive Committee are;

- Chief Executive Officer

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- Deputy Chief Executive Officer / Chief Agency Officer

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- Director HR / Company Secretary

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- Director IT / Chief Information Officer

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- Chief Financial Officer / Director Finance

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- Director Operations

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- Director Partnerships

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- Chief Marketing Officer

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## THE MANAGEMENT COMMITTEE

Terms of Reference for the Executive Committee provide for designated invitees to the Committee. Thus when the Executive Committee functions together with the designated invitees, it functions under the reference of Management Committee. The Chief Actuary, the AGM Legal and the Head of Risk and Compliance are considered as designated invitees as the expertise of their specialised areas are recognised as important to evaluate day-to-day functions of the Company in the execution of the Company Strategic Plan.

The Management Committee met every fortnight with a structured agenda and reviewed the performance of the Company against the detailed Company Strategic Plan.

## CORPORATE GOVERNANCE

### GOVERNANCE COMMITTEES

Information on the other governance committees is provided in the table below.

	Committee	Responsibility	Membership	TOR/ Charter
1	Financial Risk Committee	Responsible for overseeing the aggregate financial risk exposure of the business and for managing the optimisation of capital and the risk and return profile of the business.	Chief Financial Officer (Chair) CEO, Chief Actuary Invitees - Investment Governance Manager, Head of Risk and Compliance and other officials as required.	✓
2	Operational Risk Committee	Responsible for reviewing, monitoring and providing oversight to the key operational risks of the business.  Key forum for the identification and escalation of current and emerging key operational risks of the business	CEO (Chair)  Members of the Management Committee	✓
3	Pricing Committee	Responsible for providing oversight to management decisions and activities that may impact the Company's revenue stream, operating expense base or capital base or result in a significant operating expense or capital investment commitment or leading to a potential liability.  Responsibilities include reviewing, evaluating, recommending and approving margins, incentive schemes, marketing expenses; evaluating and recommending the pricing policy, underwriting policy and claims policy.	Chief Financial Officer (Chair) CEO  Nominated members of management and functional experts representing Actuarial, Risk, Legal functions; the budget owner/ initiator of incentive/benefit/ expense.	✓
4	Investment Oversight Committee	Responsible for reviewing, monitoring and providing oversight to the investment portfolios, especially on investment strategy, investment exposures and investment performance.	Chief Financial Officer (Chair)  Nominated members of management and functional experts representing Investments, Finance, Actuarial, Risk and Compliance based on scope of the Committee  Invitees - representatives from NDB Wealth Management Ltd [External Fund Manager]	✓
5	Health & Safety Committee	Responsible for providing oversight to physical safety and security within the scope of the Company's business operations, and carrying out activities to ensure that relevant risks are identified, measured, monitored and managed.	CEO (Chair)  Director HR, Director IT, Director Operations and nominated members of management representing different locations.	✓
6	Customer Feedback Review Forum	Responsible for providing oversight to the management of customer interactions and customer feedback.  Responsible for reviewing customer feedback, providing solutions for issues, identifying and implementing proactive measures to mitigate customer dissonance and improve satisfaction and identifying actions to improve agreed customer experience measures.	Chief Marketing Officer (Chair)  Director Operations  Deputy CEO  Nominated members of management and functional experts representing Distribution, Marketing and Customer Management and Operations.	✓

	Committee	Responsibility	Membership	TOR/ Charter
7	Life Product Development Committee	Responsible for identifying, developing / modifying, launching and withdrawing Life product propositions. Responsible for reviewing and updating of the product development process, reviewing product propositions, ensuring products are developed within relevant Group, Company and regulatory requirements and processes.	Chief Actuary (Chair) Nominated members of management and functional experts representing Marketing and Customer Management, Actuarial, Operations, Distribution, Sales Training, Risk, Compliance, Legal, IT and Finance.	✓
8	Procurement & Outsourcing Committee	Responsible for providing oversight to the procurement and outsourcing activities of the Company. Responsibilities include setting out procurement guidelines for the Company, selecting and approving of Company procurements within threshold limits, evaluating contractual terms and conditions vis-à-vis impact on capital resources.	Chief Financial Officer (Chair) CEO Nominated members of management and functional experts representing Actuarial, Risk, Legal functions; the budget owner, beneficiary department, and technical support divisions.	✓
9	Agency Distribution Review Forum	Responsible for providing oversight to sales and performance of the Agency Direct Sales Force (Agency channel). Responsibilities include setting of goals of the Agency Direct Sales Force with stipulated key performance indicators and defined performance metrics.	Deputy CEO (Chair) Senior management of the Agency Direct Sales Force and distribution channel.	✓
10	Bancassurance Distribution Review Committee	Responsible for providing oversight to sales and performance of the Bancassurance distribution channel. Responsibilities include the setting of goals of the Bancassurance distribution with stipulated key performance indicators and defined performance metrics.	Director Partnerships (Chair) Senior management of Bancassurance channel and selected members of sales team.	✓
11	Business Continuity Management Committee	Responsible for ensuring the Business Continuity Management program of the business is complete and effective. The Committee monitors risks pertaining to business continuity and identify/ recommend procedure and controls for mitigating the risks.	CEO (Chair) Director HR Director IT Director Operations Chief Financial Officer Head of Risk and Compliance Chief Marketing Officer	✓
12	Market Conduct Committee	Responsible for implementing the penalty table and actions to be effected in substantiated intermediary misconduct incidents.	Director IT (Chair) Director Operations AGM Legal	✓
13	Appeal Board	Responsible for reviewing the decisions arrived at by the Market Conduct Committee upon the requests made by the aggrieved agents. The Appeal Board is responsible for making the final decision.	CEO (Chair) Director HR Chief Financial Officer	✓

## CORPORATE GOVERNANCE

Information on Board Committees and other Committees as appointed by the Board

### BOARD SUB-COMMITTEES

Audit and Compliance Committee	
<b>Chairman</b>	Robert Hartnett (Non-executive Director)
<b>Members</b>	Deepal Sooriyaarachchi (Independent Non-executive Director) Sarath Wikramanayake (Independent Non-executive Director)
<b>Secretary</b>	Thusara Ranasinghe (Assistant General Manager Legal)
<b>Agenda</b>	Available
<b>Invitees</b>	Chief Executive Officer Chief Financial Officer Chief Actuary Head of Risk and Compliance Internal Auditor External Auditors Director IT Other officials as required
<b>Frequency of Meetings</b>	Quarterly
<b>Professional Advice</b>	Available
<b>Terms of Reference</b>	Available
<b>Objectives</b>	<ul style="list-style-type: none"> <li>To review and make recommendations to the Board with regard to the approval of the Annual Report and accounts of the Company, including the interim financial statements.</li> <li>To review and report to the Board on the effectiveness of the systems of internal controls and risk management.</li> <li>To review the quality of internal and external audits and to secure the timely implementation of audit recommendations.</li> <li>To ensure that the Internal Audit function is adequately resourced and has an appropriate standing and to also ensure coordination between the Internal and External Auditors.</li> <li>To determine the fees to be paid to the External Auditors and to make recommendations to the Board with regard to their appointment and also with regard to their ceasing to hold office.</li> <li>To review reports from the External Auditor on significant issues arising from the audit of the Company's financial statements and on the Company's internal control environment, as well as to review regular updates on related matters.</li> <li>To review the effectiveness of the corporate compliance framework with financial services and other relevant legislation.</li> <li>To review the scope of each annual audit and its cost effectiveness with the External Auditors and the management.</li> <li>To perform an independent supervisory role in securing corporate compliance with the Regulation of the Insurance Industry Act and related regulations as well as with other applicable statutes and regulations.</li> </ul>
Remuneration Committee	
<b>Chairman</b>	Mitchell New (Non-executive Director)
<b>Members</b>	Deepal Sooriyaarachchi (Independent Non-executive Director) Sarath Wikramanayake (Independent Non-executive Director)
<b>Secretary</b>	Chathuri Munaweera (Director HR)
<b>Agenda</b>	Available
<b>Invitees</b>	Chief Executive Officer Other officials as required
<b>Frequency of Meetings</b>	As and when required
<b>Professional Advice</b>	Available
<b>Terms of Reference</b>	Available
<b>Objectives</b>	<ul style="list-style-type: none"> <li>To review and approve the remuneration policy applicable to employees of the Company.</li> <li>To recommend to the Board the remuneration to be paid to Directors, the CEO, and, their perquisites and allowances.</li> <li>To review and to approve the grant of employees' stock options (if and when applicable) subject to the approval of the Board.</li> </ul>

Related Party Transactions Review Committee	
<b>Chairman</b>	Deepal Sooriyaarachchi (Independent Non-executive Director)
<b>Members</b>	Robert Hartnett (Non-executive Director) Sarath Wikramanayake (Independent Non-executive Director)
<b>Secretary</b>	Devika Weerakoon (Manager - Legal and Regulatory)
<b>Agenda</b>	Available
<b>Invitees</b>	Chief Executive Officer Chief Financial Officer Company Secretary Assistant Company Secretary Director IT AGM Legal Head of Risk and Compliance Head of Internal Audit Other officials as required
<b>Frequency of Meetings</b>	Quarterly
<b>Professional Advice</b>	Available
<b>Terms of Reference</b>	Available
<b>Objectives</b>	<ul style="list-style-type: none"> <li>To oversee that all related party transactions of the Company are duly reviewed, undertaken and disclosed.</li> <li>To ensure compliance with the Code of Best Practices on Related Party transactions and the Listing Rules of the CSE.</li> </ul>

#### BOARD APPOINTED MANAGEMENT COMMITTEE

Investment Committee (Comprising non-Board members)	
<b>Chairman</b>	Pankaj Banerjee (Chief Executive Officer)
<b>Members</b>	Benjamin Deng (Head of Investment Solutions & Derivatives from AIA Group investment function) Gavin D' Rosairo (CFO)
<b>Secretary</b>	Zarah Juriansz (Investments Governance Manager)
<b>Agenda</b>	Available
<b>Invitees</b>	Chief Actuary Head of Risk and Compliance Other officials as required
<b>Frequency of Meetings</b>	Quarterly
<b>Professional Advice</b>	Available
<b>Terms of Reference</b>	Available
<b>Objectives</b>	<ul style="list-style-type: none"> <li>To set policy guidelines for the management of investment portfolios.</li> <li>To monitor investment performance and recommend appropriate investment strategies.</li> <li>To ensure that portfolios are managed to achieve their investment objectives whilst adhering to the regulatory requirements.</li> <li>To review the Company's Investment Policy and place the same before the Board for its approval thereof.</li> <li>To implement the investment policy as approved by the Board.</li> <li>To apprise the Board periodically on the Committee's activities.</li> <li>To liaise with the Insurance Regulator in connection with regulations pertaining to investments and to provide information to define the framework for the management of insurance portfolios.</li> </ul>

## CORPORATE GOVERNANCE

### FUNCTIONAL OVERSIGHT AND SUPPORT TO ENSURE SOUND CORPORATE GOVERNANCE

The Company has appointed a Head of Risk and Compliance who is responsible for the functions of the Chief Risk Officer and Chief Compliance Officer with a matrix reporting to the Group Chief Risk Officer and the CEO.

By establishing the risk function and the rollout of the risk management framework, the Company has ensured that prudent approach to understanding and managing the risks is in place, to safeguard the assets and interests. A comprehensive report on risk management of the Company is given on Page 61 of this report.

The compliance function established by the Company is responsible for promoting and establishing a culture of compliance within the Company. The position of the Chief Compliance Officer (CCO) is identified in the overall compliance structure, recognising the statutory / regulatory purposes of the role arising from the insurance regulations and Financial Intelligence Unit (FIU) established under the Central Bank of Sri Lanka. The insurance regulations recognise the function of a CCO and the FIU recognises the role and responsibility of the CCO to ensure compliance in terms of the Anti-Money Laundering regulations and Counter Terrorist Financing measures arising out of the Financial Transactions Reporting Act No. 6 of 2006 and Prevention of Money Laundering Act No. 5 of 2006 (as amended). The CCO's function is also responsible for matters arising from the operations of the Company. The

Compliance function of the Company maintains the second line oversight responsibility on sales compliance, investment compliance, anti-money laundering and counter terrorist financing, regulatory compliance, record management, data privacy and anti-fraud, anti-corruption and whistle blowing programme.

The frameworks within the Company lend support to the Board of Directors, Chief Executive Officer and the Executive Committee to ensure that a sound corporate governance framework is in place and is effective in order that the Company complies with applicable statutory and regulatory requirements, rules and guidelines and to manage the business operations in the best interests of all stakeholders.

## RISK MANAGEMENT REVIEW

**AIA Sri Lanka recognises the importance of sound risk management in every aspect of our business and to all our stakeholders. For policyholders it is the assurance that we provide that we will be there for them when they need it most, at the time of the claim or benefits being paid.**

For regulators sound risk management is vital to the stability of the insurance industry and the financial system. For shareholders and investors it is a means of protecting and enhancing the long-term value of their investment.

At AIA Sri Lanka, we recognise that strong corporate governance and sound risk management are at the core of our business proposition and our focus on these areas has been a significant contributor to our performance. As our business grows in scale and complexity, and given the dynamic nature of the external environment with changes and developments in the political, social and economic spheres, so evolves our approach to risk management to better align and stay relevant.

The Risk Management Framework (RMF) provides the structure for identifying, quantifying and mitigating risk across the company. An effective RMF is the key to avoiding the financial and non-financial risk that arises from inadequate or ineffective control of the risks in the business.

AIA Sri Lanka's RMF is founded on the principles of the 'three lines of defence' model and is built to support the business. The 'three lines of defence' model is described below, and consistent with that approach, Risk Management [RM] function provides support to the business with tools, processes and capabilities for the identification, quantification and management of risk. RM function also exercises oversight to provide objective judgement as to the appropriateness, sufficiency and effectiveness of the measures taken to manage risk.

Having aligned with the Group risk management framework in previous years AIA Sri Lanka further expanded its risk management processes by enhancing the risk management governance framework through intense second line monitoring oversight of the first line functions and governance committees to inculcate the culture of first line ownership of managing risk. In 2016, the company further developed the key operational risk analysis framework by adopting the 53 risk taxonomy standards rolled out by the group. Risk management function witness the adoption of risk appetite statement and the risk tolerances statement for financial risk management with the guidance of the Group risk management.

AIA Sri Lanka's risk management objectives can be outlined as:

- Embed the culture of risk management throughout the business with clear understanding of risk appetites and accountability to operate within these.
- Allocate capital where it will make the highest returns on a risk adjusted basis.
- Maintain sufficient capital buffer to ensure that AIA Sri Lanka fulfils its obligation to customers, investors and regulators.
- Ensure the business has internal readiness in terms of resources and processes to mitigate the negative impacts emanating from inadequate or failed internal processes, people, and systems, or from external events.

With the view of achieving the above objectives, AIA Sri Lanka has put in place a risk management framework and a risk management process that runs across different levels of management and functions. Risk management framework outlines the scope, boundaries and limitations that the business unit needs to stay within whilst operating its business. Risk management process is a mechanism which operates in different cycles with different frequencies, and is able to run independently, and to continuously feed information to the decision making process.

### RISK MANAGEMENT FRAMEWORK

AIA Sri Lanka's risk management framework is founded on seven broad themes or core principles i.e.

- 1 Three lines of defence**
- 2 First line ownership of risk management**
- 3 Governance committee oversight**
- 4 Risk appetite statements**
- 5 Risk policies and guidelines**
- 6 Delegated limits of authority**
- 7 Risk governance and risk reporting**

### 1 Three lines of defence

The three lines of defence model for risk management is a commonly used approach to managing risk in financial institutions globally. The objective of 'three lines' is to ensure that an appropriate system of checks and balances are in place to minimise unexpected losses and reputational damage. This is achieved by clearly defining roles and responsibilities for the management of risk between those taking executive decisions (the first line), the Risk and Compliance functions (the second line) and Internal Audit (the third line), with each of these working closely together but ultimately operating independently from each other.

First line of defence – is line management who are directly involved in the day-to-day decision making and running of the business. This will comprise all functions other than risk, compliance and internal audit. Within the three lines of defence model the first line is responsible for identifying, measuring, managing, monitoring and reporting risks within the business, and especially for their respective functional units.

Second line of defence – comprises the independent risk function and independent compliance function. These functions are independent from the first line but work closely with them to ensure that they are appropriately supported in meeting their obligations in respect of risk management, and to exercise effective oversight of first line activities. The risk function manages the RMF, ensuring that consistent policies and processes are adopted across the Company and that all decisions are made within policies and risk appetite following a full assessment of all risks associated with the Company providing review, challenge and support to the first line.

The Compliance function's prime responsibility is to ensure compliance with regulatory and with AIA Group standards pertaining to investments, sales compliance, market conduct, ethics, financial crime, anti-money laundering, counter terrorism financing, data privacy, and records management.

Third line of defence – is the independent internal audit function that provides independent assurance to the Board of Directors through the Audit and Compliance Committee.

### 2 First line ownership of risk management

The first line ownership in risk management is arguably the most critical component in a company's risk management framework as first line functions are best placed to identify and manage risks.

At AIA Sri Lanka, the responsibility in managing risks pertaining to the business is assumed by line management or the first line of defence.

Therefore, the first line is entrusted with ownership of and responsibility to implement risk policies and guidelines, risk appetite statements and running of the governance committee structure in an effective manner.

First line ownership of risk management is established via first line's active participation in the risk governance and risk reporting processes such as the quarterly Key Operational Risk (KOR) assessment, quarterly Operational Risk Committee (ORC), quarterly Financial Risk Committee (FRC) and weekly operational risk event reporting.

### 3 Governance committee oversight

The governance committee oversight is an important part of risk governance within the business as it facilitates management oversight over the various aspects and functioning of the business operations and exposures.

The governance oversight structure is built on defined governance committees and these encompass committees at Board of Directors' level and management level. Approved and effective Terms of Reference that define the scope and functioning of the respective committee are available for all committees of the Company.

The committees meet at regular intervals and the frequency is stipulated in the respective Terms of Reference. Frequency ranges from quarterly to fortnightly depending on the specific oversight requirement, with standard agendas to support its effectiveness.

Details of the Company's governance committees are described in the Corporate Governance Report on Page 42 of this report.

### 4 Risk appetite statements

Risk Appetite Statement (RAS) is a risk culture set at the highest level of the organisation. It gives guidance on the focus of risk management in setting boundaries. Risk tolerance specifies the quantitative test requirement to fulfil the risk principles.

At AIA Sri Lanka, the risk appetite framework has expressed the business unit's appetite in terms of capital risk, liquidity risk, credit risk and market risk. The exposures and management information pertaining to these four risk aspects are within the scope of identified governance committees based on the technical expertise required to provide oversight and input.

Management information to review and monitor the risks is provided to these governance committees that convene as per their defined frequency.



**5 Risk policies and guidelines**

Risk policies and guidelines are the foundation to a robust risk management culture within the organisation as these help raise the level of awareness of risk management within the business and helps maintain constant focus on key controls.

**6 Delegated limits of authority**

The delegated limits of authority framework communicate the authority, responsibility and accountability for business decisions and resources of the company. This is a key enabler for a robust governance and internal control environment within the Company.

AIA Sri Lanka, maintains current and effective delegated limits of authority document that cascades the limits of authority within the company to an appropriate level of management and functional oversight.

The delegated authority for the Chief Executive Officer flows through the Terms of Reference of the Board of Directors and this in turn is delegated in an appropriate manner to the Executive Committee by the Chief Executive Officer.

**7 Risk governance and risk reporting**

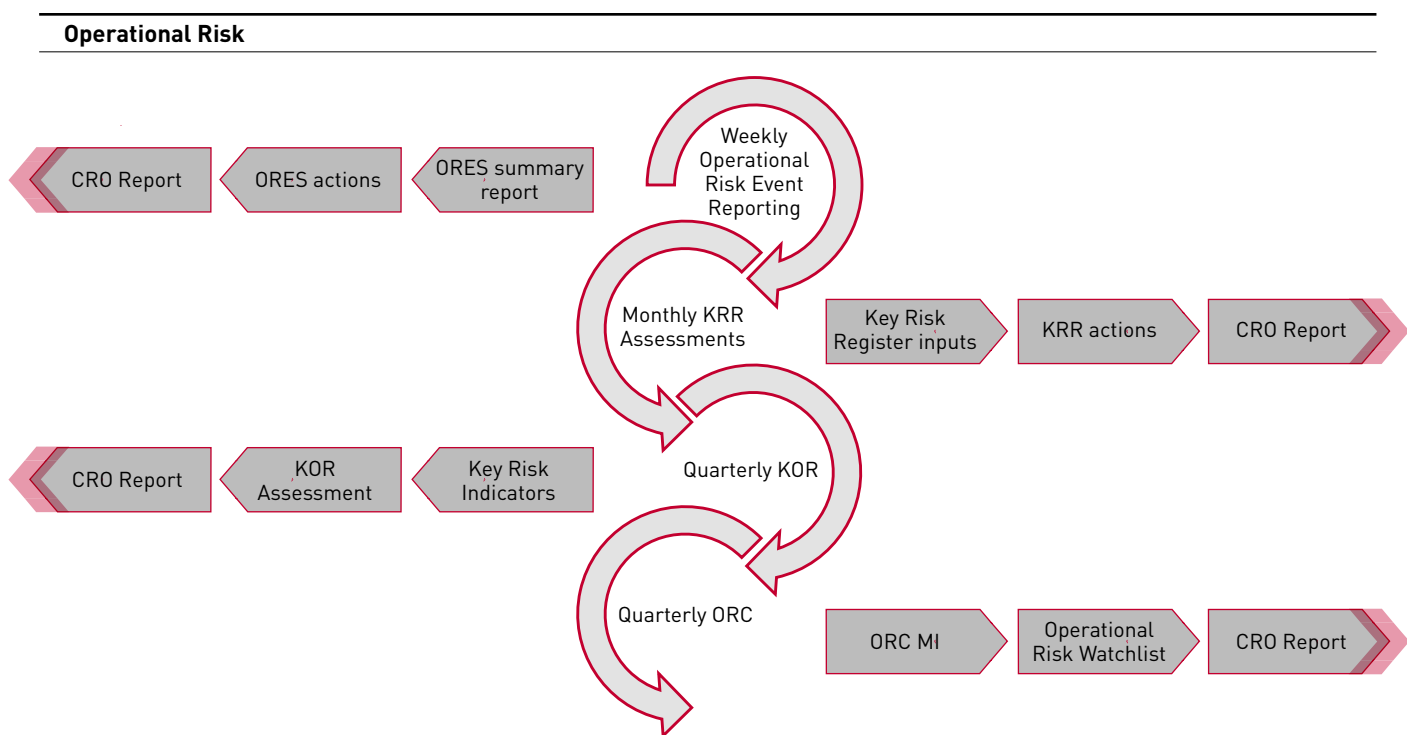
The risk governance and risk reporting within the Company is crucial to ensure that the process of risk escalation is both effective and independent.

The primary independent report from the risk function is the comprehensive Chief Risk Officer's (CRO) report that is prepared and submitted every quarter to the Board Audit and Compliance Committee. The CRO Report covers all relevant information and details to provide an independent overview of the key risks of the business and an independent review of the effectiveness of the business unit's risk management and reporting processes and frameworks.

**RISK MANAGEMENT PROCESS**

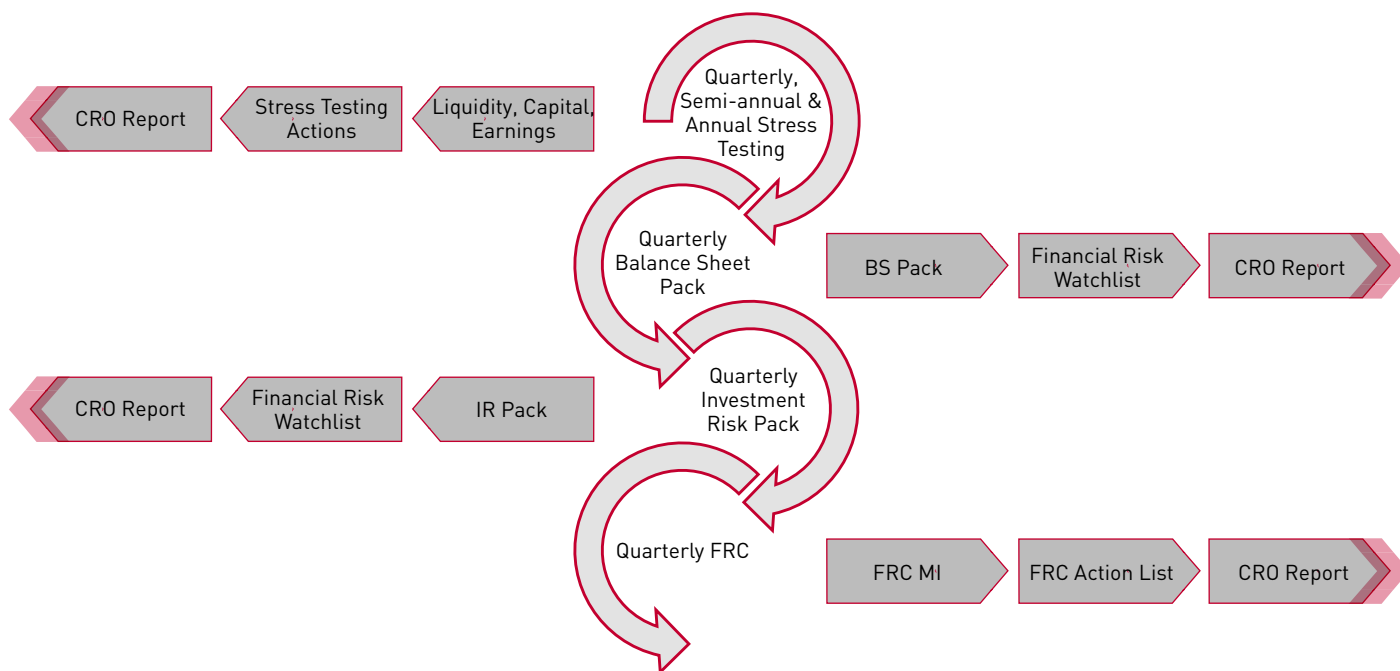
**Risk management processes at AIA Sri Lanka are designed to provide insight into risks emanating from the external environment and from within the organisation so that the Company is able to act early and decisively to mitigate or manage these risks.**

These processes are cascaded across the organisation encompassing all levels of management, and different components of the risk framework.



## RISK MANAGEMENT REVIEW

### Financial risk



### OPERATIONAL RISK EVENT REPORTING

Operational risk event reporting process feeds information pertaining to operational risk events into the business unit's decision making process and is the basic foundation for the business to identify the controls that prevent operational risk events and evidences their effectiveness. The robustness of the process lies in the simplicity of reporting which takes place every week, the outcome of which is reviewed and followed up by the Risk function and reported to the ORC.

### MONTHLY KEY RISK REGISTER UPDATING

The Company assesses and updates the key risk register on a monthly basis by reviewing risk incidents and key controls around the processes pertaining to each risk. AIA Sri Lanka's first line actively engage with the risk function in assessing the key risks and this provides an alert to the business and the risk function of any emerging risks/ areas that need special attention or management action.

### QUARTERLY KEY OPERATIONAL RISK (KOR) ASSESSMENT

The Company evaluates the Group defined 13 KORs on a quarterly basis by reviewing risk incidents, key controls around the processes pertaining to each risk and movement in key risk indicators defined for each category of KOR. AIA Sri Lanka's first line actively engage with the risk function in the KOR assessment process. Further, feedback is obtained from Legal, Compliance and Internal Audit functions on each of the 13 KORs, ensuring the KOR assessment captures any open legal, regulatory, compliance and audit issues.

### QUARTERLY OPERATIONAL RISK COMMITTEE MEETING

Operational Risk Committee (ORC) is the primary management level forum dedicated to review and discuss operational risks faced by the business unit. The ORC convenes quarterly, is chaired by the Chief Executive Officer and comprises Executive Committee members. Compliance and Internal Audit have been regular invitees to the ORC.

The Risk function compiles the ORC management information deck to support an effective review and discussion. The committee allocates adequate time and focus to monitor progress of actions to mitigate and manage the key operational risks of the business unit.

### STRESS TESTS

During the year, AIA Sri Lanka successfully carried out various stress testing on liquidity, capital, and earnings. The results of these stress testing further assured the strong financial position of the Company. The active participation of the first line is commendable and is a critical success factor in the stress testing exercise.

### QUARTERLY BALANCE SHEET PACK AND INVESTMENT RISK PACK

The Company commenced preparing and submitting the investment risk pack during the year under review, in addition to the balance sheet pack that the company has been submitting in the past. The balance sheet pack provides a comprehensive picture of balance sheet risks of the business covering capital,

earnings, liquidity, interest rate and foreign exchange risks. The investment risk pack reviews portfolio composition, strategic asset allocation and analyses risks associated with, credit, equity, property and other investments.

#### QUARTERLY FINANCIAL RISK COMMITTEE MEETING

The Financial Risk Committee (FRC) provides oversight of financial and insurance risk activities of the Company. These include market and insurance risks as well as the Company's balance sheet, liquidity and capital position. The FRC convenes quarterly and is chaired by the Chief Financial Officer.

The Risk function compiles the FRC management information deck which was considerably upgraded in 2016 to support an effective review and discussion. The committee allocates adequate time and focus to monitor progress of actions to mitigate and manage the financial risks of the business unit.

#### LOOKING BACK AT 2016

We made considerable progress to move to the next frontier of risk management across the Company by enhancing the knowledge and practices of all three lines of defence in managing risks. The following can be cited as key achievements for the year 2016.

- The implementation of the Risk-Based Capital solvency framework - AIA Sri Lanka's FRC reviewed the Company's RBC implementation and conducted the quarterly reviews on Group submissions on RBC.
- Developing a single location to refer and retrieve Group and local policies - The local Risk team drove a Group initiative of developing a repository of all Group and local policies and guidelines implemented.
- Risk Appetite & Tolerance statement - AIA Sri Lanka has developed risk appetite and tolerance statement for capital, earnings and liquidity.

#### OUTLOOK FOR 2017

Having rolled out the risk appetite statements during 2016, one of the key focus areas of the Risk Management function will be to adopt the risk tolerance limits to capital, earnings and liquidity during 2017. This will provide a more granular approach in allocating capital as well as managing the risks across the Company.

Adopting Group's Risk and Control Assessment (RCA) process would pave the way for first line ownership of identifying and assessing risks by each function. This process will be conducted on a quarterly basis and the results are to be tabled at the quarterly ORC.

Based on the Group framework of asset liability management, AIA Sri Lanka will embed the localised methodology for calculating the duration of both asset and liability of the Company. This will provide comfort to management in ensuring that AIA Sri Lanka holds sufficient assets to fulfil its obligations to policyholders.

With the above initiatives, AIA Sri Lanka will execute transformation strategies in many aspects of its business and operations led by ambition, changes in environment and regulatory requirements. Enterprise Risk Management would make further progress in working in collaboration with Compliance, making the business better equipped to may face the challenges that it faces in its journey forward.

# AUDIT & COMPLIANCE COMMITTEE REPORT

## COMPOSITION

The Audit and Compliance Committee ('the Committee') of AIA Insurance Lanka PLC is appointed by the Board of Directors in compliance with the Listing Rules of the Colombo Stock Exchange. The Committee comprises the following Directors of the Company.

1. Mr. Robert Hartnett – Chairman (Non-executive Director)
2. Mr. Deepal Sooriyaarachchi – Member (Independent Non-executive Director)
3. Mr. Sarath Wikramanayake – Member (Independent Non-executive Director)

(During the year 2016, Mr. Russell DeMel also functioned as a member of the Committee and resigned from the Board and the Committee effective 15 May 2016).

Mr. Deepal Sooriyaarachchi and Mr. Sarath Wikramanayake function in the Committee as Independent Non-executive Directors. Mr. Robert Hartnett is a fellow of the Institute of Actuaries of Australia and Mr. Sarath Wikramanayake is a Chartered Accountant and is a fellow of the Institute of Chartered Accountants of Sri Lanka. The members of the Committee who have been drawn from and out of the Non-executive Directors serving on the Board possess the required knowledge and expertise to perform their duties of the Committee.

## OBJECTIVE

The objectives and functions of the Committee are set out in the Terms of Reference of the Committee approved by the Board of Directors and encompass following areas.

### 1. Financial Reporting

The Committee is primarily tasked with assisting the Board in discharging its responsibilities for overseeing the preparation, presentation and the integrity of disclosures of the Company's financial statements as a public listed Company in accordance with the applicable accounting standards. The Committee recommends the quarterly financial statements, annual accounts and connected documents for approval of the Board as and when required. It focuses on a fair presentation and disclosure, reasonability of estimates and judgmental factors and appropriateness of significant accounting policies adopted in preparation of financial statements.

### 2. Internal Audit

The Committee is responsible for reviewing and approving the annual internal audit plan for the year as presented by the Internal Audit function of the Company. The Committee receives constant updates on matters relating to progress of the plan during the year. In addition the Committee reviews the quarterly reports presented by the Internal Audit function regarding audit reports and progress of

management actions in closing identified issues. Head of Internal Audit had unfettered access to the Committee and had private meetings with the Committee ensuring independence of the internal audit function. The Committee is satisfied with the independence of Internal Auditor.

### 3. Risk, Governance and Internal Control

The Committee receives quarterly reports from the Chief Risk Officer. During the year, the Committee reviewed the governance framework of the Company through the Chief Risk Officer's Reports. The Committee was updated on the effectiveness of the control framework and the top risks faced by the business together with the management action plans to mitigate the identified risks. During the year the Company continued with its commitment in developing its risk management framework to align with the business requirements. The Committee is satisfied that the internal controls and procedures in place for assessing and managing risks are adequately designed and operate effectively and is of the view that they provide reasonable assurance that the Company's assets are safeguarded and that the financial statements of the Company are reliable.

In addition, other assurance reports pertaining to Control Exceptions, Fraud and Malpractice and Anti-Money Laundering and other significant matters were tabled and reviewed by the Committee. The Committee further appraised the actions in place to control any issues identified in these reports.

### 4. External Audit

External Audit is another key area which receives attention of the Committee. The Committee received the External Audit Plan and approved same after having discussed with the management. External Auditors were invited to attend the Committee's quarterly meetings and also for private meetings. The External Auditors were given adequate access by the Committee to ensure independence and objectivity. Messrs. PricewaterhouseCoopers, Chartered Accountants, being the appointed External Auditor of the Company has submitted the Management Letter for the year 2015 with audit findings and the Committee reviewed the comments and undertakings by the management with regards to recommendations made by External Auditors.

### 5. Regulatory Compliance

The Committee received quarterly updates of regulatory liaisons. The Committee was updated with the regulatory changes that are being implemented and reviewed the action plans to ensure readiness of the Company in meeting such regulatory requirements. The Committee received reports on the status of regulatory compliance of the Company and the effectiveness of compliance monitoring programs during the year.

The Committee was constantly updated by the management on the following:

The Company sought and received an exemption from the SEC initially until 31 December 2016 and thereafter an extension for the said exemption until 31 December 2017, from having to comply with the said Listing Rule of the CSE relating to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. This is on the basis of a proposed pending statutory exemption to the Regulation of the Insurance Industry Act No.43 of 2000, as amended (the Insurance Act). The SEC has reserved the right to re-visit the said extension to the exemption if the proposed legislation to the Insurance Act is not passed by the Parliament by 31 December 2017.

#### 6. Any other significant matters

The Committee constantly reviewed the matters relating to tax assessments received by the Company which are being contested and under consideration and received constant updates on how those matters progressed during the said period.

#### MEETINGS

The Committee held four formal meetings during the year under review and the CEO, the Deputy CEO, the CFO, the Director IT, the Chief Risk Officer, Chief Actuary and the Head of Internal Audit attended these meetings as permanent invitees. The External Auditors attended three of the four scheduled meetings for the year and the Committee had private meetings with internal and External Auditors without the presence of any management staff. Other members of the senior management attended as invitees as and when required. Apart from the formal meetings there were numerous communications between the Chairman, members of the Committee and members of the Executive Committee of the Company.



**Robert Hartnett**

Chairman, Audit and Compliance Committee

22 February 2017

The Board receives a copy of the minutes of each meeting of the Committee.

#### INDEPENDENCE OF THE EXTERNAL AUDITORS AND THEIR APPOINTMENT

During the year under review Messrs. PricewaterhouseCoopers, Chartered Accountants functioned as the Statutory Auditors of the Company. As aforesaid, the Committee had continuous communications with the Auditors.

The Committee is of the view that Messrs. PricewaterhouseCoopers, Chartered Accountants who are the present External Auditors of the Company do not have any other relationship with the Company, its parent Company and its subsidiary other than that of the External Auditors of the respective entities, and they have been carrying out their duties independently with the support and facilitation of the management during the period under consideration.

Having duly noted the willingness of the External Auditors to continue in office, the Committee recommended to the Board that Messrs. PricewaterhouseCoopers, Chartered Accountants be re-appointed as Statutory Auditors of the Company for the financial year ending 31 December 2017, subject to approval by the shareholders at the forthcoming Annual General Meeting. The Committee will approve the terms of engagement of the auditors for 2017 subject to the approval of their re-appointment by the shareholders of the Company, and necessary recommendations be made to the Board as regards for their remuneration for 2017.

The Committee has conducted its affairs in compliance with the applicable requirements specified in the Listing Rules of the Colombo Stock Exchange.

# REMUNERATION COMMITTEE REPORT

The Remuneration Committee of AIA Insurance Lanka PLC is appointed by the Board of Directors from and amongst the Directors of the Company.

## COMPOSITION

The Remuneration Committee comprises three Non Executive Directors, two of whom are classified as independent Directors in terms of the requirements of the Corporate Governance provisions stipulated in the Listing Rules of the Colombo Stock Exchange.

As at 31 December 2016, the Committee comprised of the following Directors.

1. Mitch New (Non-executive Director / Chairman of the Committee)
2. Deepal Sooriyaarachchi (Independent / Non-executive Director / Committee Member)
3. Sarath Wickremanayake (Independent / Non-executive Director / Committee Member)

Mr. Russell DeMel was a member of the Committee from 9 February 2016 to 15 May 2016.

## SCOPE AND OBJECTIVES

The overall Objectives and Functions of the Remuneration Committee are:

1. to review and to approve the Remuneration Policy of the Company;
2. to recommend to the Board of Directors, the remuneration to be paid to the Chief Executive Officer and fees payable to the Directors, their perquisites and allowances;
3. to review and to approve the grant of employees' stock options (if and when such schemes are applicable) subject to the necessary approvals including the approval of the Board of Directors.



**Mitchell David New**  
Chairman, Remuneration Committee

20 February 2017

## REMUNERATION POLICY OF THE COMPANY

The Remuneration Policy sets out a total reward framework which allows the Company to align itself with the best of class reward practices of AIA Group and recognise superior performance and high potential in a market competitive manner within the Company's capacity to pay. In setting its guidelines, the Policy endeavours to be in line with the local statutory and regulatory obligations.

## PROCEEDINGS & REPORTING

The Remuneration Committee is empowered to invite the Chief Executive Officer and Director Human Resources to its meetings to offer support in its discussions and considerations and to seek external independent professional advice on matters within the purview of the Committee. Neither the Chief Executive Officer nor any other Directors are involved in the Committee meetings when determinations are made in relation to own remunerations of the respective Directors or the Chief Executive Officer.

The Remuneration Committee meets not less than two times a year. The Committee reports on its deliberations, activities, matters reviewed, recommendations and decisions reached to the Board of Directors of the Company for advice, approval and or ratification. In 2016, the Committee held two meetings in order to discharge its businesses.

## DISCLOSURES

The Remuneration Committee makes disclosures in the Annual Report as required by the Listing Rules of the Stock Exchange.

# RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

## COMPOSITION

The Related Party Transactions Review Committee ('the Committee') of AIA Insurance Lanka PLC ('the Company') was set up in January 2016 in compliance with the Code of Best Practices on the Related Party Transactions and the Listing Rules of the Colombo Stock Exchange.

The Committee comprises the following Directors of the Company as at 31 December 2016.

1. Mr. Deepal Sooriyaarachchi – Chairman (Independent, Non-executive Director)
2. Mr. Robert Hartnett – Member (Non-executive Director)
3. Mr. Sarath Wikramanayake – Member (Independent, Non-executive Director)

(Mr. Russell DeMel who functioned as the first Chairman of the Committee resigned from the Board and the Committee effective 15 May 2016).

## OBJECTIVE

The objectives and functions of the Committee are set out in the Terms of Reference of the Committee approved by the Board of Directors and encompass following areas.

1. To exercise oversight on behalf of the Board, on all related party transactions other than those exempted by the applicable regulations, of the Company and its subsidiary. To ensure that the same is reviewed, undertaken and disclosed in the manner consistent with the regulations/statutes governing the related party transactions of an entity.
2. To exercise oversight on behalf of the Board, on all related party transactions including international transactions entered into with associated undertakings, and policies/procedures influencing determination of transfer prices on same. To ensure that the same is reviewed, undertaken and disclosed in the manner consistent with the regulations/statutes governing such transactions inclusive of recommending for certification by the Board where required and further that such international related party transactions have been concluded on an arm's length basis and not prejudicial to the interests of the Company and its subsidiary, for the purposes of publication of annual accounts.

## SCOPE

The scope of the Committee shall encompass the oversight responsibility on matters as more fully described in the respective Terms of Reference of the Committee, pertinent to the Company and its subsidiary.

## THE POLICIES AND PROCEDURES ADOPTED BY THE COMMITTEE

### Related Party Transactions Monitoring

The Committee is responsible for discharging its duties and functions by constantly reviewing and updating the existing framework for capturing, monitoring and reporting on related party transactions based on the policies and procedures relating to same. In such process the committee considered related party transactions which require necessary approvals in compliance with the Code of Best Practices on the Related Party Transactions and the requirements of the Listing Rules of the Colombo Stock Exchange.

During the year under review the Committee reviewed and pre-approved all proposed non-recurrent related party transactions of the Company and its subsidiary. Further this information was also reviewed annually by the Committee. Transactions which are of recurrent nature and other transactions were presented for the review and approval of the Committee. The term "Key Management Personnel" ('KMP') is classified to include the Directors and Chief Executive Officer for the purpose of ensuring transparent disclosures where necessary. Annual disclosures on related party transactions included all KMP related disclosures/information as reviewed by the Committee.

The Committee further declares that:

- There were no related party transactions which exceeded the value of 10 per cent of equity or 5 per cent of the total assets of the Company (whichever is lower) as at 31 December 2016 to be disclosed in the Annual Report 2016.
- Appropriate disclosures have been made in terms of the Code of Best Practices on Related Party Transactions and Sri Lanka Accounting Standards LKAS 24 - Related Party Disclosures, in note 41 in the consolidated financial statements of the Company and its group.

## RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

### Transfer Pricing Regulation related Disclosures

The Company has in place a Transfer Pricing Policy which has been approved by the Board in accordance with the requirements of the Transfer Pricing Regulations issued by the Department of Inland Revenue under section 107 (2) (a) of the Inland Revenue Act, No. 10 of 2006 on Associated Undertakings. This policy was adopted by the Board in February 2016. Required disclosures and submissions have been made to the relevant authorities during the year after having reviewed the records of transactions with the Associated Undertakings.

### MEETINGS

The Committee held three formal meetings during the year under review. The CEO, CFO and Head of Internal Audit are considered as permanent invitees for the meetings while the other members of the senior management attend the meetings as invitees as and when required.

The activities and views of the Committee have been communicated to the Board of Directors quarterly through Board briefings, and by circulating the minutes of the Committee meetings.



**Deepal Sooriyaarachchi**

Chairman, Related Party Transactions Review Committee

9 February 2017



## INVESTMENT COMMITTEE REPORT

The Investment Committee of AIA Insurance Lanka PLC is appointed by the Board of Directors of the Company and comprises three members. The functions of the Investment Committee are defined in the Terms of Reference for the Investment Committee.

### SCOPE AND OBJECTIVES

The Investment Committee bears oversight responsibility as regards investments and investment management by the Company and designs the Investment Policy and investment governance framework of the Company.

The objectives of the Investment Committee include:

- Define framework and set policy guidelines for the management of investment portfolios
- Monitor investment performance and recommend appropriate investment strategies
- Ensure that the portfolios are managed to achieve their investment objectives whilst adhering to the regulatory requirements
- Design and review the Company's investment policy and place same before the Board of Directors for approval
- Implement the investment policy as approved by the Board of Directors
- Apprise the Board of Directors periodically on the Committee's activities
- Liaise with the Insurance Regulator in connection with regulations pertaining to investments and provide information to help define the framework of investment management of insurance portfolios

The Committee has the authority to seek external professional advice on matters falling within the purview of the Committee and is also authorised to invite professional advisers or others with relevant experience to assist it in its duties.



**Pankaj Banerjee**  
Chairman, Investment Committee

7 February 2017

### MEMBERS

The following members served on the Investment Committee during the year.

Member	Period	
	From	To
Shah Rouf (Chairman from 5 December 2012 to 4 November 2016)	5 December 2012	4 November 2016
Pankaj Banerjee (Chairman from 15 November 2016)	15 November 2016	To date
Benjamin Deng	5 December 2012	To date
Gavin D' Rosairo	14 August 2012	To date
Zarah Juriansz (Secretary from 5 May 2011)	5 May 2011	To date

### MEETINGS AND ATTENDANCE

The Investment Committee meets at least four times during the year and the Chief Financial Officer, Chief Actuary and the Fund Manager attends the meeting on invitation by the Committee.

The Investment Committee convened on four occasions during 2016 and given below is the members' attendance at the meetings.

### ATTENDANCE

Member	5-Feb 2016	6-May 2016	3-Aug 2016	4-Nov 2016
Shah Rouf	✓	✓	✓	✓
Pankaj Banerjee	N/A	N/A	N/A	N/A
Gavin D' Rosairo	✓	✓	✓	✓
Benjamin Deng	✓	✓	✓	✓

### REPORTING

The Investment Committee reports at every meeting of the Board of Directors of the Company on its deliberations, activities, matters reviewed, recommendations made and decisions reached.

# ACTUARY'S REPORT



**AIA Insurance Lanka PLC** (Co. No. PQ 18)

Head Office  
P O Box 2088  
75, Kumaran Ratnam Road,  
Colombo 2, Sri Lanka  
T : (+94 11) 231 0310  
F : (+94 11) 244 7620  
E : lk.info@aia.com  
AIALIFE.COM.LK

To the shareholder of AIA Insurance Lanka PLC

## **ACTUARIAL VALUATION AND SOLVENCY OF AIA INSURANCE LANKA PLC AS AT 31ST DECEMBER 2016**

I have enquired into the affairs of the life long-term insurance business and satisfied myself with the solvency position of the business as required under section 26 of the Regulation of the Insurance Industry Act No. 43 of 2000 read in conjunction with the Solvency Margin Rules (Long Term Insurance Rules 2002, amended in 2011), Guidelines on Linked Long Term Business effective from 1 May, 2007, and IBSL circular #22 dated 14 February, 2006 and Extraordinary Gazette dated 15 December, 2015.

The operations and finance functions have respectively certified the accuracy and completeness of the valuation policy and balance sheet data furnished to me.

I have comprehensively reviewed and revised the methodology and assumptions used in determining the life reserves of the company in accordance with the new risk-based capital framework. For areas not covered by IBSL regulations and guidelines, reserves are computed in accordance with generally accepted international actuarial principles.

Adequate reserves have been provided for all current and contingent liabilities in respect of the long term life business as of 31 December 2016, taking into account the dividend declared up to and including the date of valuation.

The liability so provided and the surplus of the fund transfer to the shareholders' account are matched by corresponding admissible assets whose values are not less than the total liabilities.

In accordance with the policy conditions of Insurance for Living policies, I have recommended an annual dividend of 11.36 per cent / 10.10 per cent / 9.46 per cent for policies with dividend rates of 90 per cent / 80 per cent / 75 per cent respectively for the financial year ending 31st December 2016.

**Frank Munro**

Fellow, Institute and Faculty of Actuaries UK

30 January 2017

## STATEMENT OF SOLVENCY

The statement of solvency for Life insurance has been prepared in accordance with the solvency margin (Risk-Based Capital) Rules 2015, with effect from 1 January 2016 and is in line with the formats stipulated by the Insurance Board of Sri Lanka.

	2016	2015 *
	LKR mn	LKR mn
1 Value of admissible assets	39,348	39,122
2 Value of liabilities		
2.1 Policy liabilities	15,579	16,922
2.2 Other liabilities	2,658	2,559
3 Total Available Capital (TAC)	21,111	19,641
4 Risk Based Capital Requirement (RCR)	5,854	4,962
5 Risk-based Capital Adequacy Ratio (CAR) = (TAC / RCR)	361%	396%

\* Comparative numbers of 2015 solvency is presented based on Risk-Based Capital ("RBC") solvency margin rules. RBC rules were effective from 1 January 2016 and prior to that Net Premium Valuation ("NPV") methodology is used to calculate solvency.

## STATEMENT OF APPROVED ASSETS

Determined as per section 25(1) of Regulation of Insurance Industry Act of No 43 of 2000 and the determination made by the Insurance Board of Sri Lanka in terms of the said Act as amended in March and October 2011, April 2016.

	2016	2015 *
	LKR mn	LKR mn
1 Approved assets maintained in long term insurance business	34,018	32,426
2 Long term insurance fund	33,236	31,557
3 Excess in approved assets over long term insurance fund	782	869
4 Excess in approved assets as a% of long term insurance fund	102.4%	102.8%
5 Ratio required	100%	100%



**LIVE HEALTHIER**

# FINANCIAL INFORMATION



## FINANCIAL INFORMATION

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## FINANCIAL CALENDAR

<b>Interim Results for 2016</b>	<b>Date of approval/publication of the information</b>
First Quarter	9 May 2016
Second Quarter	11 August 2016
Third Quarter	8 November 2016
Fourth Quarter	20 February 2017
<b>Audited Financial Statements</b>	
2015	16 February 2016
2016	22 February 2017
<b>Dividends</b>	
2015 - First and Final Dividend	29 March 2016
2016 - Interim Dividend	19 January 2017
2016 - Final Dividend	27 March 2017
<b>Annual General Meetings</b>	
2015, 30th AGM	29 March 2016
2016, 31st AGM	27 March 2017

## CHIEF EXECUTIVE OFFICER'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY

The financial statements are prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKAS), and the requirements of the Companies Act No. 7 of 2007 and the Regulation of Insurance Industry Act No 43 of 2000 (as amended). They have been prepared under the historical cost convention, and adjusted for the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

The accounting policies used in the preparation of the financial statements are appropriate and have been consistently applied during the year under review.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these financial statements to the best of our knowledge.

Material estimates and judgments of complexity have been made on a prudent and reasonable basis, and have been discussed with and approved by the Audit and Compliance Committee, and discussed with the External Auditors of the Company in the preparation and presentation of the financial statements in order to reflect a true and fair view.

The form and substance of transactions, reasonably represent the Company's state of affairs.

To ensure this, the Company has taken proper and sufficient care in maintaining systems, and designing and ensuring the effectiveness of key controls as specified in AIA Finance Controls Self Assessment together with all other internal controls and the maintenance of accounting records, to safeguard the assets and prevent and detect frauds as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis.

The Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system, process and internal control.

The financial statements were audited by M/s PricewaterhouseCoopers Chartered Accountants, the External Auditors of the Company.

The audit opinion issued by the External Auditors is provided on page 79.

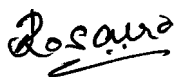
The Audit and Compliance Committee of the Company meets periodically with the Internal Auditors and External Auditors to review the manner in which the auditors carry out their responsibilities and perform their duties and to discuss audit findings, and any deficiencies in internal controls that may impact the accuracy and completeness of the financial reporting process.

The Audit and Compliance Committee has reviewed and recommended the scope and fees of audit and non-audit services provided by the External Auditors, for approval of the Board of Directors to ensure that the provision of such services do not impair the auditor's independence and objectivity.

To ensure independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit and Compliance Committee to discuss any matter of substance.



**Pankaj Banerjee**  
Chief Executive Officer



**Gavin D' Rosairo**  
Chief Financial Officer

22 February 2017

# DIRECTORS' STATEMENT OF RESPONSIBILITY ON FINANCIAL REPORTING

The Directors are responsible for the preparation of the consolidated financial statements of the Company and of its subsidiary in accordance with applicable laws and regulations. These responsibilities differ from the responsibilities of the External Auditors, which are set out in their Report on page 79 of this Annual Report.

In preparing these financial statements the Directors are required to:

- select appropriate accounting policies and bases and apply them consistently subject to any material departures being disclosed and explained;
- make judgments and estimates that are reasonable and prudent;
- ensure financial statements have been prepared in accordance with applicable accounting standards; and
- prepare the financial statements on a going concern basis.

The Companies Act No.7 of 2007 (the Act) requires the Directors to prepare financial statements of the Company and of its subsidiary complying with the requirements of the Act for each financial year comprising of:

- an Income Statement, which presents a true and fair view of the income and expenditure of the Company and of its subsidiary for the financial year under review;
- a Balance Sheet (Statement of Financial Position), which presents a true and fair view of the state of affairs of the Company and of its subsidiary as at the end of the financial year under review.

The financial statements of the Group are prepared in conformity with the requirements of the Sri Lanka Financial Reporting Standards (SLFRS / LKAS), the Companies Act No.7 of 2007, to the extent applicable, the Regulation of Insurance Industry Act No. 43 of 2000 (as amended) and the Listing Rules of the Colombo Stock Exchange.

The Directors, having reviewed the Company's strategic plan for the period 2017-2019, are of the considered view that the Company and its subsidiary have adequate resources to continue operations.

The Directors note that the actuarial valuation takes into account all liabilities including contingent liabilities and is based on the methodology and assumptions recommended by the Chief Actuary.

The Directors have also taken reasonable steps to establish and maintain appropriate systems of internal controls to safeguard the assets of the Group and to prevent and detect frauds and other irregularities. They have also ensured that proper records are maintained and that the information generated is reliable.

The Directors are responsible for providing the External Auditors with every opportunity to undertake whatever inspections they consider appropriate to enable them to form their opinion on the consolidated financial statements.

The Directors are satisfied that all statutory and regulatory payments in relation to all relevant statutory and regulatory authorities which were due and payable by the Company and its subsidiary as at the Balance Sheet date, have been paid or where relevant, provided for.

The Directors confirm to the best of their knowledge and belief that:

1. the consolidated financial statements of the Company and its subsidiary which are prepared in accordance with SLFRS / LKAS and other applicable rules and regulations and recommended best practices, give a true and fair view of the state of affairs as at 31 December 2016 and the profits and cash flows for the financial year then ended.
2. all financial and non-financial requirements stipulated under the Companies Act No. 7 of 2007 pertaining to Directors' duties and responsibilities have been complied with wherever applicable; and
3. the segment titled "Management Discussion and Analysis" included in this Annual Report presents a fair review of the progress and performance of the business and the financial standing of the Company and its subsidiary.

BY ORDER OF THE BOARD



**Chathuri Munaweera**  
Company Secretary

Colombo  
22 February 2017



# INDEPENDENT AUDITOR'S REPORT



## TO THE SHAREHOLDERS OF AIA INSURANCE LANKA PLC REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of AIA Insurance Lanka PLC ("the Company"), and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 December 2016, and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out in pages 80 to 132.

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by

management, as well as evaluating the overall presentation of the financial statements.

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

## OPINION

In our opinion, the financial statements of the Company and the consolidated financial statements of the Group give a true and fair view of the financial positions of the Company and the Group as at 31 December 2016, and of their financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

These financial statements also comply with the requirements of Section 151 (2) and Sections 153 (2) to 153 (7) of the Companies Act, No. 7 of 2007.

The accounting records of AIA Insurance Lanka PLC have also been maintained by the management in the manner required by the rules made by the Insurance Board of Sri Lanka established under the Regulation of Insurance Industry Act, No. 43 of 2000 so as to clearly indicate the true and fair view of the financial position of the insurer.

**CHARTERED  
ACCOUNTANTS  
COLOMBO**

22 February 2017

*PricewaterhouseCoopers, P. O. Box 918, 100 Braybrooke Place, Colombo 2, Sri Lanka  
T: +94 (11) 771 9838, 471 9838, F: +94 (11) 230 3197, www.pwc.com/lk*

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

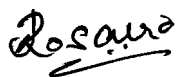
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# STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Group		Company	
		2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
<b>ASSETS</b>					
Intangible assets	6	957,855	478,497	957,855	478,497
Property, plant and equipment	7	229,169	300,079	229,169	300,079
Investment in subsidiary	8	-	-	1,000	1,000
Financial assets	9	40,087,642	40,140,021	40,087,642	40,140,021
Policyholder and other loans	10	1,058,444	1,242,423	1,058,444	1,242,423
Reinsurance receivables	11	86,771	94,017	86,771	94,017
Trade receivables	12	389,103	340,507	388,759	340,160
Other assets	13	2,787,786	2,535,435	2,787,744	2,535,406
Other fund assets	14	195,713	164,488	195,713	164,488
Deferred expenses	15	238,410	144,147	238,410	144,147
Cash and cash equivalents	16	295,624	522,344	289,344	517,055
<b>Total assets</b>		<b>46,326,517</b>	<b>45,961,958</b>	<b>46,320,851</b>	<b>45,957,293</b>
<b>LIABILITIES</b>					
Insurance liabilities	17	38,430,651	37,027,602	38,430,651	37,027,602
Retirement benefit obligations	18	188,425	193,691	188,425	193,691
Deferred income tax liabilities	19	-	325,163	-	325,163
Other fund liabilities	20	195,713	164,488	195,713	164,488
Reinsurance payables		36,866	61,640	36,866	61,640
Accruals and other payables	21	2,072,950	1,803,376	2,072,259	1,802,877
Current income tax liabilities	22	2,410	2,976	2,305	2,855
Deferred revenue	23	14,246	16,105	14,246	16,105
Bank overdraft	16	19,402	-	19,402	-
<b>Total liabilities</b>		<b>40,960,663</b>	<b>39,595,041</b>	<b>40,959,867</b>	<b>39,594,421</b>
<b>EQUITY</b>					
Stated capital	24	511,922	511,922	511,922	511,922
Capital reserves	25	72,096	72,096	72,096	72,096
Revenue reserves	26	4,781,836	5,782,899	4,776,966	5,778,854
<b>Total equity</b>		<b>5,365,854</b>	<b>6,366,917</b>	<b>5,360,984</b>	<b>6,362,872</b>
<b>Total equity and liabilities</b>		<b>46,326,517</b>	<b>45,961,958</b>	<b>46,320,851</b>	<b>45,957,293</b>

The notes on the pages 87 to 132 are an integral part of these financial statements.

I certify that the financial statements have been prepared in compliance with the requirements of the Companies Act No 7 of 2007.



**Gavin D' Rosairo**  
Chief Financial Officer

The financial statements on page 80 to 132 were authorised for issue by the Board of Directors on 22 February 2017 and were signed on its behalf.



**William Lisle**  
Chairman/Director



**Robert Alexander Hartnett**  
Director

## INCOME STATEMENT

For the financial year ended 31 December	Note	Group		Company	
		2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
<b>CONTINUING OPERATIONS</b>					
Gross written premium	27 (a)	10,103,915	8,433,333	10,103,915	8,433,333
Gross reinsurance premium	27 (b)	(260,065)	(232,041)	(260,065)	(232,041)
Net change in reserve for unearned premium	27 (c)	(445,931)	(393,681)	(445,931)	(393,681)
<b>Net earned premium</b>	<b>27</b>	<b>9,397,919</b>	<b>7,807,611</b>	<b>9,397,919</b>	<b>7,807,611</b>
<b>OTHER REVENUE</b>					
Investment income	28	4,759,573	3,880,564	4,759,573	3,880,564
Fee income	29	409,431	339,614	408,086	338,238
Realised gains	30	49,111	238,907	49,111	238,905
Fair value losses	31	(201,557)	(358,112)	(201,557)	(339,882)
Other operating revenue	32	218,994	312,440	218,572	312,147
		<b>5,235,552</b>	<b>4,413,413</b>	<b>5,233,785</b>	<b>4,429,972</b>
<b>Total revenue</b>		<b>14,633,471</b>	<b>12,221,024</b>	<b>14,631,704</b>	<b>12,237,583</b>
Net claims and benefits	33	(4,759,614)	(4,870,695)	(4,759,614)	(4,870,695)
Change in contractual liability		(3,136,816)	(2,092,600)	(3,136,816)	(2,092,600)
Net acquisition expenses	34	(1,270,379)	(1,245,925)	(1,270,379)	(1,245,925)
Operating and administrative expenses	35	(4,672,396)	(3,493,276)	(4,671,646)	(3,492,674)
<b>Profit before tax</b>	<b>36</b>	<b>794,266</b>	<b>518,528</b>	<b>793,249</b>	<b>535,689</b>
Income tax expense	37	(283,590)	(215,365)	(283,398)	(215,156)
<b>Profit for the period from continuing operations</b>		<b>510,676</b>	<b>303,163</b>	<b>509,851</b>	<b>320,533</b>
<b>DISCONTINUED OPERATIONS</b>					
Profit for the period from discontinued operations (net of tax)	38.1	-	1,187,450	-	1,224,811
<b>Profit for the period</b>		<b>510,676</b>	<b>1,490,613</b>	<b>509,851</b>	<b>1,545,344</b>
<b>PROFIT FROM CONTINUING OPERATIONS ATTRIBUTABLE TO;</b>					
Owners of the parent		510,676	303,163	509,851	320,533
Non-controlling interest		-	-	-	-
		<b>510,676</b>	<b>303,163</b>	<b>509,851</b>	<b>320,533</b>
<b>PROFIT FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO;</b>					
Owners of the parent		-	1,187,450	-	1,224,811
Non-controlling interest		-	-	-	-
		-	<b>1,187,450</b>	-	<b>1,224,811</b>
<b>Basic / diluted earnings per share (in LKR)</b>					
Continuing operations	39	16.61	9.86	16.58	10.42
Discontinued operations	39	-	38.62	-	39.83
<b>Dividend per share (in LKR)</b>	<b>40</b>	<b>49.50</b>	<b>7.07</b>	<b>49.50</b>	<b>7.07</b>

The notes on the pages 87 to 132 are an integral part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Profit for the period	510,676	1,490,613	509,851	1,545,344
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Items that are / may be subsequently reclassified to profit or loss</b>				
Changes in fair value of available for sale financial assets	(1,800,256)	(1,386,055)	(1,800,256)	(1,386,055)
Changes in fair value of available for sale financial assets transferred to the long term fund	1,784,636	1,379,922	1,784,636	1,379,922
<b>Items that will not be reclassified to profit or loss</b>				
Remeasurement of retirement benefit obligations	25,975	13,684	25,975	13,684
<b>Total other comprehensive income for the year</b>	<b>10,355</b>	<b>7,551</b>	<b>10,355</b>	<b>7,551</b>
Other comprehensive income from discontinued operations	-	(5,052)	-	-
<b>Total comprehensive income for the year</b>	<b>521,031</b>	<b>1,493,112</b>	<b>520,206</b>	<b>1,552,895</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO;</b>				
- Owners of the parent	521,031	1,493,112	520,206	1,552,895
- Non-controlling interest	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>521,031</b>	<b>1,493,112</b>	<b>520,206</b>	<b>1,552,895</b>

Items disclosed in the statement above are net of tax.

The notes on pages 87 to 132 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY - GROUP

	Note	Capital reserve		Revenue reserves			Total equity LKR'000
		Stated capital LKR'000	Revaluation reserve LKR'000	Resilience reserve LKR'000	Available for sale reserve LKR'000	Retained earnings LKR'000	
<b>Balance as at 1 January 2015</b>		<b>300,000</b>	<b>72,096</b>	<b>289,000</b>	<b>18,567</b>	<b>4,207,006</b>	<b>4,886,669</b>
Profit for the period *		-	-	-	-	1,490,613	1,490,613
<b>OTHER COMPREHENSIVE INCOME</b>							
Changes in fair value of available for sale financial assets *		-	-	-	(1,391,290)	-	(1,391,290)
Changes in fair value of available for sale financial assets transferred to the long term fund		-	-	-	1,379,922	-	1,379,922
Impact of discontinued operations		-	-	-	(7,182)	7,182	-
Remeasurement of retirement benefit obligations *		-	-	-	-	13,867	13,867
<b>TRANSACTIONS WITH OWNERS:</b>							
Final dividend paid for 2014 (scrip component)	40	211,922	-	-	-	(211,922)	-
Final dividend paid for 2014 (cash component)	40	-	-	-	-	(178)	(178)
Withholding tax on scrip dividend for 2014		-	-	-	-	(12,686)	(12,686)
<b>Balance as at 31 December 2015</b>		<b>511,922</b>	<b>72,096</b>	<b>289,000</b>	<b>17</b>	<b>5,493,882</b>	<b>6,366,917</b>
Profit for the period		-	-	-	-	510,676	510,676
<b>OTHER COMPREHENSIVE INCOME</b>							
Changes in fair value of available for sale financial assets		-	-	-	(1,800,256)	-	(1,800,256)
Changes in fair value of available for sale financial assets transferred to the long term fund		-	-	-	1,784,636	-	1,784,636
Remeasurement of retirement benefit obligations		-	-	-	-	25,975	25,975
<b>TRANSACTIONS WITH OWNERS:</b>							
Final dividend paid for 2015	40	-	-	-	-	(1,522,094)	(1,522,094)
<b>Balance as at 31 December 2016</b>		<b>511,922</b>	<b>72,096</b>	<b>289,000</b>	<b>(15,603)</b>	<b>4,508,439</b>	<b>5,365,854</b>

\* The amounts stated above are inclusive of results of discontinued operations.

The Group equity is fully attributable to the owners of the parent and hence non-controlling interest is not applicable in the Consolidated Statement of Changes in Equity.

The notes on pages 87 to 132 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY- COMPANY

	Note	Capital reserve		Revenue reserves			Total equity LKR'000
		Stated capital LKR'000	Revaluation reserve LKR'000	Resilience reserve LKR'000	Available for sale reserve LKR'000	Retained earnings LKR'000	
<b>Balance as at 1 January 2015</b>		<b>300,000</b>	<b>72,096</b>	<b>289,000</b>	<b>18,567</b>	<b>4,155,595</b>	<b>4,835,258</b>
Segregation adjustment		-	-	-	(12,417)	-	(12,417)
Profit for the period		-	-	-	-	1,545,344	1,545,344
<b>OTHER COMPREHENSIVE INCOME</b>							
Changes in fair value of available for sale financial assets		-	-	-	(1,386,055)	-	(1,386,055)
Changes in fair value of available for sale financial assets transferred to the long term fund		-	-	-	1,379,922	-	1,379,922
Remeasurement of retirement benefit obligations		-	-	-	-	13,684	13,684
<b>TRANSACTIONS WITH OWNERS:</b>							
Final dividend paid for 2014 (scrip component)	40	211,922	-	-	-	(211,922)	-
Final dividend paid for 2014 (cash component)	40	-	-	-	-	(178)	(178)
Withholding tax on scrip dividend for 2014		-	-	-	-	(12,686)	(12,686)
<b>Balance as at 31 December 2015</b>		<b>511,922</b>	<b>72,096</b>	<b>289,000</b>	<b>17</b>	<b>5,489,837</b>	<b>6,362,872</b>
Profit for the period		-	-	-	-	509,851	509,851
<b>OTHER COMPREHENSIVE INCOME</b>							
Changes in fair value of available for sale financial assets		-	-	-	(1,800,256)	-	(1,800,256)
Changes in fair value of available for sale financial assets transferred to the long term fund		-	-	-	1,784,636	-	1,784,636
Remeasurement of retirement benefit obligations		-	-	-	-	25,975	25,975
<b>TRANSACTIONS WITH OWNERS:</b>							
Final dividend paid for 2015	40	-	-	-	-	(1,522,094)	(1,522,094)
<b>Balance as at 31 December 2016</b>		<b>511,922</b>	<b>72,096</b>	<b>289,000</b>	<b>(15,603)</b>	<b>4,503,569</b>	<b>5,360,984</b>

The notes on pages 87 to 132 are an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

For the financial year ended 31 December	Note	Group		Company	
		2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Premiums / fees received from customers		10,137,944	8,554,853	10,136,597	8,553,497
Reinsurance receipts / premium (net of commission and claims) paid		11,877	(223,221)	11,877	(223,221)
Claims and benefits paid		(4,811,149)	(4,902,395)	(4,811,149)	(4,902,395)
Cash paid to and on behalf of employees		(1,503,806)	(1,139,751)	(1,503,806)	(1,139,751)
Interest received		347,351	316,746	346,970	316,482
Payments to agents and intermediaries		(1,630,795)	(1,167,149)	(1,630,795)	(1,167,149)
Other operating cash payments		(2,783,476)	(1,875,799)	(2,782,917)	(1,875,314)
<b>Cash flow from operating activities</b>		<b>(232,054)</b>	<b>(436,716)</b>	<b>(233,223)</b>	<b>(437,851)</b>
Taxes paid	22	(178)	(130)	-	-
Policy loans granted		(510,871)	(496,000)	(510,871)	(496,000)
Policy loan repayments		699,079	716,263	699,079	716,263
<b>Net cash used in operating activities</b>		<b>(44,024)</b>	<b>(216,583)</b>	<b>(45,015)</b>	<b>(217,588)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of liquid investments		(1,939,399)	(750,280)	(1,939,399)	(750,280)
Purchase of other investments		(29,211,520)	(21,240,676)	(29,211,520)	(21,240,676)
Proceeds from sale of liquid investments		1,481,831	2,013,177	1,481,831	2,013,177
Proceeds from sale of other investments		27,636,245	13,826,199	27,636,245	13,826,199
Proceeds from disposal of subsidiary		-	3,200,000	-	3,200,000
Investment expenses		(109,126)	(111,612)	(109,126)	(111,612)
Interest received		4,001,364	3,208,446	4,001,364	3,208,446
Dividend received		74,841	97,922	74,841	97,922
Purchase of intangible assets		(543,994)	(11,099)	(543,994)	(11,099)
Purchase of property, plant and equipment		(78,631)	(75,003)	(78,631)	(75,003)
Proceeds from sale of property, plant and equipment		8,385	19,353	8,385	19,351
<b>Net cash flow from investing activities</b>		<b>1,319,996</b>	<b>176,427</b>	<b>1,319,996</b>	<b>176,425</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Final dividend paid for the previous year	40	(1,522,094)	(12,864)	(1,522,094)	(12,864)
<b>Net cash used in financing activities</b>		<b>(1,522,094)</b>	<b>(12,864)</b>	<b>(1,522,094)</b>	<b>(12,864)</b>
Increase / (decrease) in cash and cash equivalents from continuing operations		(246,122)	(53,020)	(247,113)	(54,027)
Cash and cash equivalents and bank overdraft at beginning of the year	16	522,344	982,654	517,055	975,443
Segregation adjustment	38.3	-	(407,290)	-	(404,361)
<b>Cash and cash equivalents and bank overdraft at the end of the year</b>	<b>16</b>	<b>276,222</b>	<b>522,344</b>	<b>269,942</b>	<b>517,055</b>

The notes on pages 87 to 132 are an integral part of these financial statements.

# LONG TERM INSURANCE

## STATEMENT OF FINANCIAL POSITION - SUPPLEMENTAL

As at 31 December	2016 LKR '000	2015 LKR '000
<b>ASSETS</b>		
Financial assets	36,269,197	34,550,379
Policyholder and other loans	901,728	1,089,936
Reinsurance receivables	86,771	94,017
Premium receivables	388,759	340,160
Deferred income tax assets	24,159	-
Other assets	2,322,319	2,327,944
Deferred expenses	238,410	144,147
Cash and cash equivalents	246,571	494,424
<b>Total assets</b>	<b>40,477,914</b>	<b>39,041,007</b>
<b>LIABILITIES</b>		
Insurance liabilities	38,430,651	37,027,602
Deferred income tax liabilities	-	331,017
Reinsurance payables	36,866	61,640
Accruals and other payables	1,976,749	1,604,643
Deferred revenue	14,246	16,105
Bank overdraft	19,402	-
<b>Total liabilities</b>	<b>40,477,914</b>	<b>39,041,007</b>

## INSURANCE REVENUE ACCOUNT

For the financial year ended 31 December	2016 LKR '000	2015 LKR '000
Gross written premium	10,103,915	8,433,333
Net earned premium (net of premium ceded to reinsurers)	9,397,919	7,807,611
Investment income and other income	4,758,596	4,168,984
Net claims and benefits	(4,759,614)	(4,870,695)
Change in contractual liability	(3,136,816)	(2,092,600)
Net acquisition expenses	(1,270,379)	(1,245,925)
Operating and administrative expenses	(4,433,646)	(3,463,967)
Income tax expense	(241,300)	(203,408)
<b>Surplus transfer to shareholders' fund</b>	<b>314,760</b>	<b>100,000</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

## 1. GENERAL INFORMATION

AIA Insurance Lanka PLC ('the Company') was incorporated as a company with limited liability in Sri Lanka on 12 December 1986 under the Companies Act No. 17 of 1982 and re-registered on 24 August 2009 under the Companies Act No. 7 of 2007 which came to effect on 3 May 2007. The address of its registered office is No.75, Kumaran Rathnam Road, Colombo 2, Sri Lanka.

The Company is listed on the Main Board of the Colombo Stock Exchange under the stock code "CTCE N000".

The Company's parent entity is AIA Holdings Lanka (Private) Limited and the ultimate parent entity is AIA Group Limited, incorporated in Hong Kong, pursuant to the acquisition effective from 5 December 2012.

AIA Insurance Lanka PLC Group (the Company and its subsidiary - together forming 'the Group') underwrite life insurance risks, such as those associated with death and disability. The Group also provides services in the capacity of a trustee for various funds.

Group consolidated financial statements for the year ending 31 December 2016 have been authorised for issue by the Board of Directors on 22 February 2017.

## 2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKAS) effective after 1 January 2012 as issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available for sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

The consolidated financial statements are presented in Sri Lanka Rupees (LKR) and all values are rounded to the nearest thousand (LKR'000), except when otherwise indicated.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in preparing its consolidated financial statements are depicted in the notes 3.2 to 4.3. These policies have been consistently applied to all periods presented.

### 3.1 Changes in accounting policies and disclosures

#### a) New and amended standards adopted by the Group

(i) LKAS 16, 'Property, Plant and Equipment' and LKAS 38, 'Intangible Assets', clarify that a revenue-based method of depreciation is generally not appropriate.

LKAS 38, 'Intangible Assets', now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either,

- The intangible asset is expressed as a measure of revenue (i.e. where a measure of revenue is the limiting factor on the value that can be derived from the asset), or
- It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

(ii) SLFRS 10, 'Consolidated Financial Statements' and LKAS 28, 'Investments in Associates and Joint Ventures', clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitutes a 'business'. Full gain or loss shall be recognised by the investor where the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interest in the associate or joint venture. SLFRS 10 further clarifies that it does not intend to address accounting for the sale or contribution of assets by an investor in a joint operation. This amendments apply prospectively.

(iii) SLFRS 7, 'Financial Instruments: Disclosures', provide specific guidance for transferred financial assets to help management to determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition. It further clarifies that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by LKAS 34, 'Interim Financial Reporting'.

(iv) LKAS 19, 'Employee Benefits', clarify that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.

(v) LKAS 34, 'Interim Financial Reporting', clarify what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report' and adds a requirement to cross-reference from the interim financial statements to the location of that information.

(vi) LKAS 1, 'Presentation of Financial Statements', amendments is made in the context of the International Accounting Standards Board's (IASB) Disclosure Initiative, which explores how financial statement disclosures can

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

be improved. LKAS 1 provide clarifications on a number of issues, including: materiality, disaggregation and subtotals, notes to the financial statements and Other Comprehensive Income (OCI) arising from investments accounted for under the Equity method. According to the transitional provisions, the disclosures in LKAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

### b) New standards and interpretations issued but not yet effective and not early adopted

- (i) Amendments to LKAS 7, 'Statement of Cash Flows – Disclosure Initiative', introduce an additional disclosure on changes in liabilities arising from financing activities. The amendments to the standard are effective for accounting periods beginning on or after 1 January 2017.
- (ii) Amendments to LKAS 12, 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses', (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value. In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences. The amendments to the standard are effective for accounting periods beginning on or after 1 January 2017.
- (iii) SLFRS 9, 'Financial Instruments', retains but simplifies the mixed measurement model in LKAS 39, 'Financial Instruments: Recognition and Measurement' and establishes a single model that has only three primary classification categories for financial assets: amortised cost, fair value through profit or loss and fair value through OCI for certain financial assets that are debt instruments.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value. All fair value movements on financial assets are taken through the profit or loss, except for equity investments that are not held for trading, which may be recorded in the profit or loss or in reserves without subsequent recycling to the profit or loss.

For financial liabilities, the standard retains most of the LKAS 39 requirements. These include amortised cost

accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in OCI rather than the profit or loss, unless this creates an accounting mismatch.

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. Further, SLFRS 9 introduces a new expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in LKAS 39. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

SLFRS 9 also introduces expanded disclosure requirements and a change in presentation. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

- (iv) SLFRS 15, 'Revenue from Contracts with Customers', replaces LKAS 18, 'Revenue' and LKAS 11, 'Construction Contracts' and related interpretations. The core principle in SLFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services. A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers.
- Identify the separate performance obligations.
- Determine the transaction price of the contract.
- Allocate the transaction price to each of the separate performance obligations and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an

outcome etc.), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.

- The point at which revenue is able to be recognised may shift some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

The standard is effective for accounting periods beginning on or after 1 January 2018. Entities will have a choice of full retrospective application, or prospective application with additional disclosures and earlier application is permitted.

- (v) SLFRS 16, 'Leases' supersedes LKAS 17, 'Leases' and the related interpretations. Under SLFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

SLFRS 16 eliminates the classification of leases by the lessee as either finance leases (on Balance Sheet) or operating leases (off Balance Sheet). SLFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases. The right-of-use asset is depreciated in accordance with the principle in LKAS 16, 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the Income Statement.

For lessors, SLFRS 16 retains most of the requirements in LKAS 17. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted if SLFRS 15, 'Revenue from Contracts with Customers' has also been applied.

The impact of SLFRS 9, 'Financial Instruments', SLFRS 15, 'Revenue from Contracts with Customers' and SLFRS 16, 'Leases' are still being assessed. Apart from SLFRS 9, SLFRS 15 and SLFRS 16, the adoptions of amendments to published standards are not expected to have a material impact to the financial statements of the Company and the Group.

There are no other standards or International Financial Reporting Interpretations Committee (IFRIC) interpretations that are not yet effective that would be expected to have a material impact to the Group.

## 3.2 Consolidation

### 3.2.1 Subsidiaries

Subsidiaries are those entities (including structured entities) over which the Group has control. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which the control is transferred to the Group, and continued to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company.

The Group applies the Acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognised in accordance with LKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Inter-company transactions, balances, unrealised gains and unrealised losses on transactions between group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. i.e. as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the

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relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to profit or loss.

### 3.2.2 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for using the Equity method of accounting. Under the Equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and recognises the amount adjacent to share of profit / (loss) of an associate in the Income Statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the event of loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value and it is reported at its fair value on initial recognition as a financial asset in accordance with LKAS 39, 'Financial Instruments: Recognition and Measurement'. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of retained investment together with the proceeds from disposal is recognised in profit or loss.

### 3.3 Foreign currency translation

The Group's consolidated financial statements are presented in Sri Lanka Rupees (LKR) which is also the Company's functional currency. That is the currency of the primary economic environment in which the Group operates.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Balance Sheet date. All differences are taken to the Income Statement.

### 3.4 Financial instruments

#### 3.4.1 Financial assets

##### 3.4.1.1 Initial recognition and measurement

The Group classifies its financial assets into the following categories;

- a) Financial assets at fair value through profit or loss (FVTPL),
- b) Loans and receivables (LR),
- c) Held to maturity (HTM) and
- d) Available for sale (AFS).

The classification is determined by the Management at initial recognition on the trade-date; the date on which the Group commits to purchase or sell the asset, and recognise initially at fair value plus transaction cost except in the case of financial assets at fair value through profit or loss which is recognised at fair value.

##### 3.4.1.2 Subsequent measurement

###### Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss include financial assets held for trading and those designated at fair value through profit or loss at inception.

Investments typically bought with the intention to sell in the near future are classified as held for trading. When the Group is unable to trade these financial assets due to inactive markets and Management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

For investments designated as at fair value through profit or loss at the inception, the following criteria must be met:

- a) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- b) The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

The Group classified investments in equity instruments and unit trusts in the Life Shareholders Fund and unit-linked funds as financial assets at fair value through profit or loss hence those financial assets are managed and performance is evaluated on the fair value basis.

#### Loans and receivables (LR)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell in the short-term or that it has designated as at fair value through profit or loss or available for sale. Receivables arising from insurance and reinsurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in investment income in the Income Statement.

#### Held to maturity investments (HTM)

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The losses arising from impairment are recognised in the Income Statement. The Group did not have any held to maturity investments during the years ended 31 December 2015 and 2016.

#### Available for sale financial assets (AFS)

Available for sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

After initial measurement, available for sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as OCI in the available for sale reserve until the investment is derecognised except in the case of AFS assets of the Life Policyholders' Fund which is transferred to the long term insurance liability through Statement of Other Comprehensive Income.

#### 3.4.1.3 Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

#### 3.4.1.4 Impairment of financial assets

The Group assesses at each Balance Sheet date whether a financial asset or group of financial assets is impaired.

The Group 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, recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each Balance Sheet date.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following events:

- a) Significant financial difficulty of the issuer or debtor;
- b) A breach of contract, such as a default or delinquency in payments;
- c) It is becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- d) The disappearance of an active market for that financial asset because of financial difficulties; or
- e) Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

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### Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the 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 EIR. The carrying amount of the asset is reduced and the loss is recorded in the Income Statement.

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 recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the Income Statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

### Available for sale financial assets

The Group assesses at each date of the Statement of Financial Position whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment resulting in the recognition of an impairment loss. In this respect, a decline of 20 per cent or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged. If any such quantitative evidence exists for available for sale financial assets, the asset is considered for impairment, taking qualitative evidence into account.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the Income Statement. Impairment losses recognised in the Income Statement on equity instruments are not reversed through the Income Statement. If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the Income Statement.

### 3.4.2 Financial liabilities

#### 3.4.2.1 Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and includes directly attributable transaction costs.

#### 3.4.2.2 Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

#### Financial liabilities at fair value through profit or loss

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

Gains or losses on liabilities held for trading are recognised in the Income Statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

#### Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the Income Statement when the liabilities are derecognised as well as through the EIR method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

#### 3.4.2.3 Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Income Statement.

#### 3.4.3 Offsetting of financial assets

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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 3.5 Property, plant and equipment

Property, plant and equipment is stated at cost or revalued amount less accumulated depreciation and any accumulated impairment in value. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other expenses on repairs and maintenance are charged to the Income Statement during the financial period in which they are incurred.

The Group has adopted a policy of revaluing the assets held at valuation every five years. Revaluation is performed on freehold land by a professionally qualified valuer. Increases in the carrying amount arising on revaluation of land are credited to OCI and shown as revaluation reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in OCI and debited against revaluation reserves directly in equity. All other decreases are charged to the Income Statement.

Items of property, plant and equipment are derecognised upon replacement, disposal or when no future economic benefits are expected from its use. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the Income Statement under realised gains. When revalued assets are derecognised, the amounts included in the revaluation surplus are transferred to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the Straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

	No of years
Plant and machinery	5
Computer equipment	3-5
Furniture and fittings	5
Motor vehicles	4

The assets' residual values and useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

### 3.6 Intangible assets

Intangible assets consist primarily of acquired computer software and contractual relationships, such as access to distribution networks.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life on Straight-line method and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method as appropriate and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the intangible asset.

Estimated useful lives of the finite intangible assets are as follows:

	No of years
Contractual relationships	5 - 20
Computer software	2 - 15

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the changes in useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

### 3.7 Cash and cash equivalents

In the Statement of Cash Flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid financial instruments and bank overdrafts.

In the Statement of Financial Position, bank overdrafts are shown as a separate liability.

### 3.8 Stated capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

### 3.9 Insurance contracts

#### 3.9.1 Life insurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the Net Premium Valuation method. The

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

liability is determined as the sum of the discounted value of the expected future benefits, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is based on current regulatory assumptions.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, net of related Present Value of In-Force (PVIF) by using an existing liability adequacy test as laid out under a Gross Premium Valuation method. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the liability 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 discounted cash flow valuation method is applied. The interest rate applied is based on current market interest rates. Any inadequacy is recorded in the Income Statement, initially by impairing PVIF, subsequently, by establishing a technical reserve for the remaining loss. The assumptions do not include a margin for adverse deviation. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists, as allowed under Gross Premium Valuation method.

### 3.9.2 Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the EIR method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Income Statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets are met.

### 3.9.3 Deferred Acquisition Costs (DAC)

Those direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. DAC are also considered in the liability adequacy test for each reporting period.

DAC are derecognised when the related contracts are derecognised.

### 3.10 Reinsurance contracts

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision 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 Group 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 Group will receive from the reinsurer. The impairment loss is recorded in the Income Statement.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented in the financial statements on gross basis for ceded reinsurance contracts.

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

### 3.11 Current and deferred income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Balance Sheet date.

Deferred income tax is recognised, using the Liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.



Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The tax effects of carried forward unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax related to fair value remeasurement of available for sale investments and cash flow hedges, which are charged or credited directly in OCI, is also credited or charged directly to OCI and subsequently recognised in the Income Statement together with respective gains or losses.

### 3.12 Employee benefits

The Group has both defined benefit and defined contribution plans.

A defined benefit plan is a post employment benefit plan that defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A defined contribution plan is a post employment benefit plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the financial reporting period, together with adjustments for actuarial gains or losses from experience adjustments and changes in actuarial assumptions and past service costs. The defined benefit obligation is calculated annually by a qualified actuary using the Projected Unit Credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the equity in the Statement of Other Comprehensive Income in the period in which they arise.

Past service costs are recognised immediately in the Income Statement.

The Company and employees contribute to the Employees' Provident Fund (EPF) in terms of the Employees' Provident Fund Act, No. 15 of 1958 as amended. Contributions in respect of permanent and contractual employees are remitted to the Central Bank of Sri Lanka. The Company also contributes to the Employees Trust Fund (ETF) in terms of the Employees Trust Fund Act, No. 46 of 1980 as amended. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments are available.

### 3.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

### 3.14 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance leases which transfer all risks and benefits incidental to ownership of the leased item substantially to the Group are capitalised at the commencement of the lease at the fair value of the leased property or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as interest expenses in the Income Statement. As at the Balance Sheet date, the Group does not have any finance lease contracts.

Operating lease payments are recognised as an operating expense in the Income Statement on a Straight-line basis over the lease term.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

### 3.15 Revenue recognition

#### 3.15.1 Insurance-related revenue

The premium income is recognised on accrual basis and net of reinsurance premium. The gross written premiums are recognised either where the policy is issued or the instalment falls due.

#### 3.15.2 Fee income

Policy administration charges, other contract fees and trust management fees are recognised on an accrual basis. If the fees are for services provided in future periods then they are deferred and recognised over those future periods.

#### 3.15.3 Investment income

##### Interest income

Interest income is recognised on the time proportionate basis using EIR irrespective of the classification under LKAS 39. The amortisation of discount / premium is also treated as an interest income.

##### Dividend income

Dividend income is recognised when the right to receive payment is established irrespective of its classification of FVTPL or AFS which is the ex-dividend date for equity instruments.

#### 3.15.4 Fair value gains and losses

Fair value gains and losses on AFS securities are recognised in the Statement of Other Comprehensive Income until such instrument is derecognised or impaired.

Fair value gains and losses on financial assets at FVTPL, are recognised in the Income Statement.

#### 3.15.5 Realised gains and losses

Realised gains and losses recorded in the Income Statement include gains and losses on financial assets, property plant and equipment, divestment of related entities.

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original cost, amortised cost or carrying amount, depending on the classification of the assets and are recorded on occurrence of the sale transaction.

### 3.16 Claims, benefits and expenses recognition

#### 3.16.1 Gross claims and benefits

Gross claims and benefits for 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 and policyholder bonuses declared on contracts with Discretionary Participation Features (DPF), as well as changes in the gross valuation of insurance and liabilities with DPF. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

#### 3.16.2 Reinsurance claims

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

### 3.17 Taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in OCI or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate.

### 3.18 Share-based compensation plans

AIA Group Limited (AIAGL) operates a number of share-based compensation plans, under which the Company receives services from the employees, directors and officers as consideration for the shares and/or options of AIAGL. These share-based compensation plans comprise the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP).

The share compensation plans of AIA Group (consisting of AIAGL and its subsidiaries) offered to the Group's employees are equity-settled plans. Under an equity-settled share-based compensation plan, the fair value of the employee services received in exchange for the grant of AIAGL's shares is recognised as an expense in profit or loss over the vesting period with a corresponding amount recorded in equity in AIA Group financial statements. Any amounts recharged from AIAGL to the Company related to share-based payment arrangements are recognised as an expense in the Income Statement.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the share and/or options granted. Non-market vesting conditions are included in assumptions about the number of shares that are expected to be vested. At each period end, the Group revises its estimates of the number of shares that are expected to be vested. Any impact of the revision to original estimates is recognised in profit or loss with a corresponding adjustment to related party payables. Where awards of share-based payment arrangements have graded vesting terms, each tranche is recognised as a separate award, and therefore the fair value of each tranche is recognised over the applicable vesting period.

Where modification or cancellation of an equity-settled share-based compensation plan of the AIA Group occurs, the grant date fair value continues to be recognised, together with any incremental value arising on the date of modification if non-market conditions are met.

#### Valuation methodology

The Group utilises a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU and ESPP awards, taking into account the terms and conditions upon which the awards were granted. The price volatility is estimated on the basis of implied volatility of the AIA's shares which is based on an analysis of historical data since they are traded in the Stock Exchange of Hong Kong and takes into consideration the historical volatility of peer companies. The estimate of market condition for performance based RSUs is based on one-year historical data preceding the grant date.

### 4. CRITICAL ACCOUNTING ESTIMATES AND THE USE OF JUDGMENT

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 4.1 Insurance contracts

##### 4.1.1 Product classification

SLFRS 4, 'Insurance Contracts', requires contracts written by insurers to be classified either as insurance contracts or investment contracts, depending on the level of insurance risk. Insurance contracts are those contracts that transfer significant insurance risk, while investment contracts are those contracts without significant insurance risk.

Accordingly, the Company performs a product classification exercise covering its portfolio of contracts to determine the classification of contracts to these categories. Product classification requires the exercise of significant judgment to determine whether there is a scenario (other than those lacking commercial substance) in which an insured event would require the Company to pay significant additional benefits to its customers. In the event the Company has to pay significant additional benefits to its customers, the contract is accounted for as an insurance contract.

The judgments exercised in determining the level of insurance risk deemed to be significant in product classification affect the amounts recognised in the financial statements as insurance and investment contract liabilities and deferred acquisition and origination costs.

##### 4.1.2 Life insurance liabilities

SLFRS 4 permits a wide range of accounting treatments to be adopted for the recognition and measurement of insurance contract liabilities, including liabilities in respect of insurance contracts. The Company calculates insurance contract liabilities for traditional life insurance contracts using a Net Level Premium Valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses conservative assumptions for mortality, morbidity and investment yields. Interest rate assumptions can vary by product and are prescribed by regulation. Mortality and morbidity assumptions are based on actual experience, modified to allow for variations in policy form and for mortality, are subject to a regulatory minimum level. Expenses are implicit with this implicit allowance being tested against the best-estimate expense assumptions for prudence. The Company exercises significant judgment in making appropriate assumptions.

For unit-linked contracts, insurance contract liabilities represent the fund value, plus a non-unit reserve to ensure the contracts are self-financing. Significant judgment is exercised in making appropriate estimates of gross profits, which are also regularly reviewed by the Company.

For contracts with an explicit account balance, such as universal life contracts, insurance contract liabilities represent the investment account value, which represents premiums received and dividends credited to the policy less deductions for mortality and morbidity costs, fund management and expense charges, plus the expected claims strain. Significant judgment is exercised in making appropriate estimates of gross profits, which are also regularly reviewed by the Company.

The judgments exercised in the valuation of insurance contract liabilities affect the amounts recognised in the financial statements as insurance contract benefits and insurance contract liabilities.

##### 4.1.3 Acquisition expenses

The Company defers its direct acquisition expenses over the period of cover or the period of underlying instalments of the respective policies on a consistent basis in line with the basis used to defer the premium income until the policy is being in force. DAC are assessed for recoverability in the year of policy issue to ensure that these costs are recoverable out of the estimated future margins to be earned on the policy.

##### 4.1.4 Liability adequacy testing

The Group evaluates the adequacy of its insurance contract liabilities at least annually. Liability adequacy is assessed by portfolio of contracts in accordance with the Group's manner of acquiring, servicing and measuring the profitability of its insurance contracts.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

For traditional life insurance contracts, insurance contract liabilities, reduced by DAC and value of business acquired on acquired insurance contracts, are compared with the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of value of business acquired on acquired insurance contracts are written down to the extent of the deficiency. If, after writing down DAC for the specific portfolio of contracts to nil, a deficiency still exists, the net liability is increased by the amount of the remaining deficiency.

Significant judgment is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. The judgments exercised in liability adequacy testing affect amounts recognised in the consolidated financial statements as commission and other acquisition expenses, DAC and insurance contract benefits and insurance and investment contract liabilities.

### 4.2 Fair value estimation

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has following levels,

Level I - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level II - Inputs other than quoted prices included within level I that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level III - Inputs for the asset or liability that are not based on observable market data

The information regarding fair value hierarchy is given in the note 9.5 to the financial statements.

#### a) Financial instruments in level I

The fair value of financial instruments traded in active markets is based on quoted market prices at the Balance Sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the last traded price in an active market. These instruments are included in level I. Instruments included in level I comprise primarily investments in equity instruments traded in Colombo Stock Exchange.

#### b) Financial instruments in level II

The fair value of financial instruments that are not traded in an active market is determined by using valuation

techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level II.

Instruments included in level II comprise primarily investments in treasury bills and treasury bonds issued by the Government of Sri Lanka.

Specific valuation techniques used to value financial instruments include:

- Present value of the estimated future cash flows based on observable yield curves;
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

### 4.3 Valuation of retirement benefit obligations

The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases and staff turnover. Due to the long-term nature of these obligations, such estimates are subject to significant uncertainty. Details of the key assumptions used in the estimates are contained in note 18 to the financial statements.

## 5. RISK MANAGEMENT

### 5.1 Financial risk management

The primary source of financial risk to an insurer arises from its investment exposures and investment activities. Thus, the investment portfolios maintain a prudent approach in its investment strategy and investment exposures to ensure that investment returns are optimised on a risk adjusted basis and to ensure the Company operates within its defined risk appetite.

Risk appetite statements communicate the parameters and boundaries within which the business unit has opted to operate in relation to the identified financial risks. In the Company, the risk appetite framework has expressed the business unit's appetite as regards capital risk, liquidity risk, credit risk and market risk. The exposures and management information pertaining to these four risk aspects are within the scope of identified governance committees of the business based on the required technical expertise to provide effective oversight. Management information is submitted periodically to review and monitor these risks at these governance committees that convene as per their defined frequency of review.

Management of financial risks falls under the purview of the Financial Risk Committee, which monitors the overall exposure of the Company to financial risks.

Total investments of the Company are managed separately through segregated funds with due consideration to their respective risk profiles, stakeholders and objectives.

The following table contains a high level summary of the investment exposures by the Company's investment portfolios. The Company keeps investment exposures within the pre-determined strategic asset allocation limits, which are defined in order to generate superior investment returns without excessive exposure to high risk assets.

As at 31 December	2016		2015	
	LKR'000	%	LKR'000	%
Government securities	15,534,702	37.21	16,750,259	40.18
Reverse repurchase agreements	3,553,521	8.51	2,728,520	6.55
Corporate debt	14,093,663	33.76	12,327,559	29.57
Fixed deposits	6,917,238	16.57	7,449,902	17.87
Equity	1,649,654	3.95	2,431,871	5.83
<b>Total</b>	<b>41,748,778</b>	<b>100.00</b>	<b>41,688,111</b>	<b>100.00</b>

NB: The amounts stated above are inclusive of accrued interest where applicable.

In the case of unit-linked funds, the policyholder is the decision maker on asset allocation due to the investment choice provided to the policyholder to choose the preferred unit-linked fund/s to direct policy premium according to their risk appetite. As such the unit-linked business' investment portfolios will maintain an exposure to equity investments even during periods of volatile equity markets as long as policyholders opt to remain invested in the unit-linked Growth Fund and unit-linked Balanced Fund. Policyholders opt to invest in these two funds to primarily benefit from "Rupee Cost Averaging" over the long-term investment horizon.

Equity risk of the unit-linked business is managed by close monitoring of the asset class parameters in each unit-linked fund and by investing in equity in line with the equity investment philosophy of the Company. The Management believes that superior investment returns in equity investments can be secured over the long-term investment horizon by investing in fundamentally sound liquid blue-chip counterparties.

### 5.1.1 Liquidity risk

Liquidity risk is the uncertainty, emanating from business operations, investments or financing activities, whether a company will have the ability to meet payment obligations in a full and timely manner in current or stressed environments. Liquidity adequacy is a measure or assessment of the ability

of a company to meet payment obligations in a full and timely manner within a defined time horizon. It is a function of its sources of liquidity relative to its liquidity needs. Liquidity sources can be internal and external, available immediately or within the defined time horizon, and includes all funds, assets and arrangements that allow an insurer to meet its liquidity needs. Liquidity needs include all current and expected payment obligations within the defined time horizon.

The Company has determined that an appropriate time horizon within which it must be able to meet its liquidity needs is twelve months, twelve months being generally acknowledged as the critical period for companies to weather a stressed liquidity environment if they are to survive. It is expected that the Company will be able to meet its obligations in both current and stressed environments for at least this time frame.

### Controls in place to mitigate liquidity risk

- Management of liquidity risk is governed by the Liquidity Risk Management Policy which is a component of the Company's risk management framework and are incorporated in the Investment Mandates of the business. The Company defines liquidity risk appetite in terms of Liquidity Coverage Ratio which is defined for each core portfolio of the business.
- The liquidity adequacy is reviewed quarterly by the Financial Risk Committee to ensure that the Company will be able to meet its obligations in both current and stressed environments for the next twelve months.
- The Company maintains a cash flow maturity profile within the investment portfolios of the Company in tandem with the risk appetite of each portfolio and cash flow needs.
- Minimum liquidity levels are defined for each investment portfolio based on past experience with stresses for scenarios and based on business plan projections. The Management performs a bi-annual review of the minimum liquidity levels for each investment portfolio.
- Minimum liquidity levels are incorporated into the Investment Mandate of each portfolio and are monitored on a daily basis.

The following table depicts the maturity profile of the investment portfolio on a discounted cash flow basis which is designed and managed to meet the required level of liquidity as and when liquidity outgo arises taking into consideration the time horizon of the financial liabilities of the business.

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As at 31 December 2016	< 1 Yr	1 Yr - 5 Yrs	5 Yrs - 10 Yrs	> 10 Yrs	No stated maturity	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>FINANCIAL ASSETS</b>						
<b>Available for sale</b>						
Government securities	592,500	1,249,610	1,971,116	11,194,336	-	15,007,562
Equity instruments	-	-	-	-	42,716	42,716
<b>Loans and receivables</b>						
Reverse repurchase agreements	3,553,521	-	-	-	-	3,553,521
Corporate debt	361,256	6,227,692	6,508,367	-	-	13,097,315
Fixed deposits	6,779,590	-	-	-	-	6,779,590
<b>Equity instruments</b>						
At fair value through profit or loss	-	-	-	-	1,606,938	1,606,938
<b>Other loans and receivables</b>						
Premium receivables	388,759	-	-	-	-	388,759
Reinsurance assets	-	-	-	-	86,771	86,771
Policy loans	-	-	-	-	901,728	901,728
Other receivables	101,772	51,904	3,040	-	-	156,716
Cash and cash equivalents	269,942	-	-	-	-	269,942
	<b>12,047,340</b>	<b>7,529,206</b>	<b>8,482,523</b>	<b>11,194,336</b>	<b>2,638,153</b>	<b>41,891,558</b>
<b>FINANCIAL LIABILITIES</b>						
Agency commission payable	309,533	-	-	-	-	309,533
Franchise fee payable	77,689	-	-	-	-	77,689
	<b>387,222</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>387,222</b>

As at 31 December 2015	< 1 Yr	1 Yr - 5 Yrs	5 Yrs - 10 Yrs	> 10 Yrs	No stated maturity	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>FINANCIAL ASSETS</b>						
<b>Available for sale</b>						
Government securities	601,950	3,065,847	2,061,566	10,557,119	-	16,286,482
Equity instruments	-	-	-	-	54,483	54,483
<b>Loans and receivables</b>						
Reverse repurchase agreements	2,728,520	-	-	-	-	2,728,520
Corporate debt	380,000	5,992,996	4,986,042	-	-	11,359,038
Fixed deposits	7,334,110	-	-	-	-	7,334,110
<b>Equity instruments</b>						
At fair value through profit or loss	-	-	-	-	2,377,388	2,377,388
<b>Other loans and receivables</b>						
Premium receivables	340,160	-	-	-	-	340,160
Reinsurance assets	-	-	-	-	94,017	94,017
Policy loans	-	-	-	-	1,089,936	1,089,936
Other receivables	96,942	49,579	5,966	-	-	152,487
Cash and cash equivalents	517,055	-	-	-	-	517,055
	<b>11,998,737</b>	<b>9,108,422</b>	<b>7,053,574</b>	<b>10,557,119</b>	<b>3,615,824</b>	<b>42,333,676</b>
<b>FINANCIAL LIABILITIES</b>						
Agency commission payable	304,722	-	-	-	-	304,722
Franchise fee payable	72,153	-	-	-	-	72,153
	<b>376,875</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>376,875</b>

### 5.1.2 Credit risk

Credit risk is the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. Credit risk categories include default risk, spread risk and rating migration risk, each of which is defined below.

#### - Spread risk

The risk of an adverse financial outcome arising from changes in the level or volatility of third party credit spreads. Credit spread moves can be caused by credit concerns (improving or worsening) on the issuer or from market factors (such as risk appetite and liquidity within the market).

#### - Default risk

The risk of an adverse financial outcome arising from one or more third party default events. A default event includes a delay in repayments or interest payments, restructuring of borrower repayments / interest schedule, bankruptcy and repudiation / moratorium (for example, for sovereign counterparties).

#### - Rating migration risk

The risk of an adverse financial outcome arising from a change in third party credit standing. As well as having a potential knock-on effect on spreads, rating movements can trigger solvency and accounting impacts (for example, where rules are based on counterparty ratings) and can drive management actions and the realisation of losses (for example, where Investment Mandates set counterparty and portfolio limits based on ratings).

#### Controls in place to mitigate credit risk

- The management of credit risk is governed by the Credit Risk Management Policy which is embedded within the Investment Policy and incorporated in the Investment Mandates of the business.

- Single counterparty exposures are monitored based on the counterparty exposure in comparison to the net assets of the counterparty.
- All investments are denominated in LKR and the Company does not maintain any investment exposures to assets held overseas.
- Minimum investment grade rating criteria been implemented for determining investment decisions.
- The Company maintains a predominant exposure to Government securities and high grade corporate debt thus prudently managing credit default risk from these investments.
- The Company places corporate debt investment exposures with counterparties with "A" (lka) and above as assigned by Fitch Ratings Lanka.
- Rating movements on the Company's corporate debt investments are monitored on a monthly basis by the Investment Oversight Committee.
- All Company investments are maintained with the custodian bank, Deutsche Bank.
- Government securities, including collateral from reverse repurchase agreements are held at Lanka Secure, which is maintained by the Central Bank of Sri Lanka.
- All reverse repurchase agreements maintain its exposure to Government securities.
- The Company has a Collateral Management Policy and maintains a haircut of at least 10 per cent on investments in reverse repurchase agreements. (Refer the table; collateral adequacy on page 102 of the Annual Report).
- The Company carries out investment transactions through / with Investment Committee approved intermediaries.

The following table reflects the credit ratings of the financial assets of the business.

As at 31 December 2016	Risk-free	AAA	AA	A	BBB	BB	Non-rated	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Available for sale</b>								
Government securities	15,007,562	-	-	-	-	-	-	15,007,562
<b>Loans and receivables</b>								
Reverse repurchase agreements	3,553,521	-	-	-	-	-	-	3,553,521
Corporate debt	-	-	3,511,526	9,585,789	-	-	-	13,097,315
Fixed deposits	-	277,000	2,559,552	3,943,038	-	-	-	6,779,590
Premium receivables	-	-	-	-	-	-	388,759	388,759
Reinsurance assets	-	-	-	-	-	-	86,771	86,771
Policy loans	-	-	-	-	-	-	901,728	901,728
Other receivables	-	-	-	-	-	-	156,716	156,716
Cash and cash equivalents	-	5,473	115,763	143,381	1,080	644	3,601	269,942
	<b>18,561,083</b>	<b>282,473</b>	<b>6,186,841</b>	<b>13,672,208</b>	<b>1,080</b>	<b>644</b>	<b>1,537,575</b>	<b>40,241,904</b>

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As at 31 December 2015	Risk-free	AAA	AA	A	BBB	BB	Non-rated	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
<b>Available for sale</b>								
Government securities	16,286,482	-	-	-	-	-	-	16,286,482
<b>Loans and receivables</b>								
Reverse repurchase agreements	2,728,520	-	-	-	-	-	-	2,728,520
Corporate debt	-	-	2,991,595	8,367,443	-	-	-	11,359,038
Fixed deposits	-	-	6,675,942	658,168	-	-	-	7,334,110
Premium receivables	-	-	-	-	-	-	340,160	340,160
Reinsurance assets	-	-	-	-	-	-	94,017	94,017
Policy loans	-	-	-	-	-	-	1,089,936	1,089,936
Other receivables	-	-	-	-	-	-	152,487	152,487
Cash and cash equivalents	-	80,015	375,794	50,522	971	4,132	5,621	517,055
	<b>19,015,002</b>	<b>80,015</b>	<b>10,043,331</b>	<b>9,076,133</b>	<b>971</b>	<b>4,132</b>	<b>1,682,221</b>	<b>39,901,805</b>

As at 31 December	2016	2015
	LKR '000	LKR '000
Carrying value of investments in reverse repurchase agreements	3,553,521	2,728,520
Fair value of collateral *	4,044,765	3,060,546
Excess value of collateral	491,244	332,026
Margin	14%	12%

\* The amounts stated above are inclusive of accrued interest.

**5.1.3 Market risk**

Market risk is the risk of adverse financial impact resulting from fluctuations in the level or volatility of prices of financial instruments and other market factors including interest rates, inflation and foreign-exchange rates. Market risk categories include interest rate risk, equity risk, foreign exchange risk, inflation risk, property risk, commodity risk and other risks arising from alternative investments (for example hedge funds and private equity). The Company's primary source of market risks are interest rate risk and equity risk.

Although credit and liquidity risks are defined and managed as separate risks, the assessment of market risk does consider the interdependence between market risk and credit and liquidity risks (for example market losses caused by illiquidity issues, sovereign default or a default of a systemically important counterparty) and also the capital risk arising from market risk.

**5.1.3.1 Interest rate risk**

The risk of an adverse financial impact due to changes in the absolute level of interest rates, in the shape or curvature of the yield curve or in any other interest rate relationship including volatility and spread between different yield curves.

The following table summarises the nature of the interest rate risk associated with financial assets.

As at 31 December 2016	Fixed interest	Non-interest bearing	Total
	LKR '000	LKR '000	LKR '000
Loans and deposits	65,842	992,602	1,058,444
Debt securities	38,437,988	-	38,437,988
Premium receivable	-	388,759	388,759
Reinsurance assets	-	86,771	86,771
Cash and cash equivalents	198,701	71,241	269,942
	<b>38,702,531</b>	<b>1,539,373</b>	<b>40,241,904</b>

**5.1.3.2 Equity risk**

Equity risk is the risk of adverse financial impact due to equity market dynamics (for example, individual spot or derivative price moves, index moves, volatility and correlation changes etc.). This risk applies to direct equity (the holding of equities, embedded equity options in liabilities) and to indirect equity (management fees on equity funds) positions.

**5.1.3.3 Foreign exchange risk**

Foreign exchange risk is the potential for the Company to experience volatility in the value of its assets, liabilities and solvency and to suffer actual financial losses as a result of changes in value between the currencies of its assets and liabilities and its reporting currency.

The Company does not maintain foreign currency denominated assets in its investment portfolios and as such is not exposed to foreign exchange risk related to investments.

The foreign currency exposures arising from operations are managed through a natural hedging mechanism by maintaining dollar denominated bank account which is used to fund foreign currency payments.



#### 5.1.3.4 Risk oversight

Evaluating the impact of market risk, credit risk and liquidity risk are inbuilt into the investment decision making process. The market risk, credit risk and liquidity risk of the investment portfolios are monitored every month by the Investment Oversight Committee, a management level governance oversight committee responsible to oversee investments. The Board of Directors level governance oversight committee responsible to oversee investments is the Investment Committee which is a sub-committee of the Board of Directors. The Investment Committee monitors the market risk, credit risk and liquidity risk of the investment portfolios every quarter.

The capital risk of the Company is monitored by the Financial Risk Committee that convenes on a quarterly basis. The Financial Risk Committee also reviews the liquidity risk, credit risk and market risk of the investment portfolios.

#### 5.1.3.5 Sensitivity analysis on market, equity and interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument at the reporting date will fluctuate in response to assumed movements in market interest rate. The Management monitors the sensitivity of reported fair value of financial instruments on a regular basis by assessing the projected changes in the fair value of financial instruments held by the portfolios in response to assumed parallel shift in the yield curve by +/- 100 basis points.

The sensitivity analysis given in the following tables reflect the impact on the Company's profit before tax and hence the net asset value, arising from 100 basis points parallel shift in the interest rates.

As at 31 December	2016		2015	
	Net asset value	Profit before tax	Net asset value	Profit before tax
Impact to;	LKR '000	LKR '000	LKR '000	LKR '000
Interest rate risk				
+ 100 basis points -				
Government securities	(16,606)	-	(17,387)	-
- 100 basis points -				
Government securities	17,045	-	17,844	-

Only Life Shareholders' Fund assets are considered in line with the accounting treatment as movement in asset values of Life Policyholders Fund and unit-linked funds are charged to their respective policy liability and does not impact the profit before tax and net asset value of the Company.

The sensitivity analysis for equity risk is not illustrated as equity is held mainly in the unit-linked portfolios and the movement in asset values is charged to the respective policy liabilities and therefore does not impact the profit before tax and the net asset value of the Company.

#### Controls in place to mitigate market risk

- The management of market risk is governed by the Market Risk Management Policy which is embedded within the Investment Policy and incorporated in the Investment Mandates of the business.
- The Company has defined the appetite for interest rate risk in terms of its impact on the Risk Based Capital solvency which is reviewed on a monthly basis and is rebased and approved at Financial Risk Committee every quarter.
- Also the Company sets itself a target asset duration based on the liability profile of the Company, in order to minimise the adverse impact from varying interest rates.
- Monitoring of the equity exposures against the risk limits and benchmarks that are defined and refreshed on a periodic basis, depending on the risk appetite and the market conditions. Review of interest rate risk exposure against the risk appetites is included in the investment approval process of the Company.
- All investments are denominated in LKR and the Company does not maintain any investment exposure to assets held overseas.

Fixed income investments are maintained mainly in Government securities which eliminate the credit risk premium volatility from the asset price and in high grade securities with relatively high credit ratings by Fitch Ratings Lanka.

The exposure to asset classes with high risk such as equity is maintained at a minimum level in portfolios with management discretion. There is no exposure to equity in Life Policyholders' Fund investment portfolio, except for an equity holding in Serendib Land which is held outside the investment portfolio as at the Balance Sheet date.

The Company does not maintain any investments in commodities and any investments in derivative instruments, structured investment instruments or alternative investments.

## **5.2 Insurance risk**

### **5.2.1 Life insurance**

#### **Frequency and severity of claims**

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics such as AIDS, SARS and a human form of avian flu or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Company. However, undue concentration of amounts could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted. The Company manages these risks through its underwriting strategy and reinsurance arrangements.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. Medical selection is also included in the Company's underwriting procedures, with premiums varied to reflect the health condition and family medical history of the applicants. The Company has a retention limit of LKR 1,000,000 on any single life insured. The Company reinsures the excess of the insured benefit over LKR 1,000,000 for standard risks (from a medical point of view). Medically impaired lives are charged higher insurance premiums.

#### **Sources of uncertainty in the estimation of future benefit payments and premium receipts**

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in contract holder behaviour.

The Company uses appropriate base tables of standard mortality according to the type of contract being written. An investigation into the actual experience of the Company over the last five years is carried out and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. Where data is sufficient to be credible, the statistics generated by the data are used without reference to a regulatory table. Where this is not the case, the best estimate of future mortality is based on standard regulatory tables adjusted for the Company's overall experience. For contracts that insure survival, an adjustment is made for future mortality improvements based on trends

identified in the continuous mortality investigations performed by international actuarial bodies. The Company maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates. An allowance is then made for any trends in the data to arrive at a best estimate of future termination rates.

#### **Process used to decide on assumptions**

##### **a) Mortality / morbidity**

Internal investigations covering a five year period are conducted by claim type, subdivided by age. From these investigations crude incidence rates are derived. Next, actual over expectation ratios are calculated and accordingly graded percentages of the standard mortality table are used for the final assumptions.

##### **b) Persistency**

An internal investigation is conducted by entry year and product type, subdivided by premium mode. From this investigation, crude persistency rates are derived, allowing for all of paid-up, lapse, surrender and revivals. Next, the weighted rates are assessed and smooth assumptions are set taking into account past trends and the future outlook.

##### **c) Investment returns**

Investment returns are set based on a long-term basis by considering the future outlook of Government securities and other asset classes in the local market.

##### **d) Renewal expense level and inflation**

Renewal expense levels are set by way of an expense investigation into the expenses of the Company over the last calendar year, with each expense being classified as acquisition/maintenance and then being assigned a driver based on how it may develop into the future. The expense assumptions are verified for reasonableness against the latest three year business plan.

Inflation margins are set based on international economic projections for Sri Lanka.

#### **Change in assumptions and sensitivity analysis**

The main insurance risks to the life business are lapses and expenses. A sensitivity analysis was conducted in 2016 with three stresses; 110 per cent expenses, 120 per cent lapses and 80 per cent lapses. For each case the impact to the policyholder liabilities of assuming such a change in all future years was considered.

Increasing expenses by 10 per cent would lead to an increase in policy liabilities of LKR 441,680,993; 3.5 per cent of the policy liability. Decreasing lapses by 20 per cent would lead to a

decrease in policy liabilities of LKR 1,010,773,667; 7.9 per cent of the policy liability. Increasing lapse rates by 20 per cent would lead to an increase in policy liabilities of LKR 878,689,842; 6.9 per cent of the policy liability.

### 5.3 Capital management

The focus of capital management is to maintain a strong capital base to support the business and business growth, and to satisfy regulatory capital requirements at all times. In view of this the Company has established the following objectives, policies and approach.

- a) To maintain the required solvency level and provide security to policyholders.
- b) To allocate capital efficiently and support the growth of the business by ensuring that returns on capital employed meets the requirements of shareholders and policyholders.
- c) To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.
- d) To maintain healthy capital ratios in order to support business objectives and optimise shareholder value.

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company's approach in managing capital includes managing assets, liabilities and risks in a coordinated manner, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to strengthen the capital position of the Company in view of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds. The capital requirements are routinely forecasted on a periodic basis by the Management and the Board. The solvency margins are calculated on a monthly basis and shared with the Board on a quarterly basis. The Company maintains its capital base well above the minimum regulatory requirements of IBSL (Company has a stated capital of LKR 511,921,836 where as the current minimum capital requirement is only LKR 500,000,000).

The responsibility for capital management is entrusted to Chief Financial Officer (CFO) and as such the CFO is a key participant in discussions and decisions that impact asset-liability management, strategic asset allocation and solvency management.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. INTANGIBLE ASSETS

	Contractual relationships LKR'000	Group / Company Computer software LKR'000	Total LKR'000
Cost	307,866	667,624	975,490
(Less) Accumulated amortisation	(57,526)	(439,467)	(496,993)
<b>Net book value as at 1 January 2016</b>	<b>250,340</b>	<b>228,157</b>	<b>478,497</b>
Additions	500,000	43,994	543,994
Amortisation charge	(24,285)	(40,351)	(64,636)
<b>Net book value as at 31 December 2016</b>	<b>726,055</b>	<b>231,800</b>	<b>957,855</b>
Cost	807,866	711,618	1,519,484
(Less) Accumulated amortisation	(81,811)	(479,818)	(561,629)
<b>Net book value as at 31 December 2016</b>	<b>726,055</b>	<b>231,800</b>	<b>957,855</b>

The useful life of assets relating to contractual relationships are determined by contract type and lie within individual contract terms.

Intangible assets include fully amortised assets still in use, the gross carrying value of which amounted to LKR 296,276,386 (2015 LKR 268,333,812) as at the date of Statement of Financial Position.

### 6.1 Disclosure on reporting of amortisation of intangible assets

The amortisation charge of the intangible items is shown under operating and administrative expenses in the Income Statement.

### 6.2 Capital commitments - intangible assets

Capital expenditure on intangible assets approved by the Board of Directors is as follows.

As at 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Approved and contracted for intangible assets	27,065	35,253

## 7. PROPERTY, PLANT AND EQUIPMENT

	Freehold land LKR'000	Plant and machinery LKR'000	Group Computer equipment LKR'000	Furniture and fittings LKR'000	Motor vehicles LKR'000	Total LKR'000
Cost / revaluation	89,180	26,748	498,718	312,184	76,479	1,003,309
(Less) Accumulated depreciation	-	(26,532)	(409,297)	(201,647)	(65,754)	(703,230)
<b>Net book value as at 1 January 2016</b>	<b>89,180</b>	<b>216</b>	<b>89,421</b>	<b>110,537</b>	<b>10,725</b>	<b>300,079</b>
Additions	-	1,500	15,863	13,620	-	30,983
Depreciation charge	-	(348)	(62,318)	(36,085)	(2,925)	(101,676)
Disposals	-	-	(5,589)	(2,735)	(13,527)	(21,851)
Accumulated depreciation on disposals	-	-	5,464	2,643	13,527	21,634
<b>Net book value as at 31 December 2016</b>	<b>89,180</b>	<b>1,368</b>	<b>42,841</b>	<b>87,980</b>	<b>7,800</b>	<b>229,169</b>
Cost / revaluation	89,180	28,248	508,992	323,069	62,952	1,012,441
(Less) Accumulated depreciation	-	(26,880)	(466,151)	(235,089)	(55,152)	(783,272)
<b>Net book value as at 31 December 2016</b>	<b>89,180</b>	<b>1,368</b>	<b>42,841</b>	<b>87,980</b>	<b>7,800</b>	<b>229,169</b>

	Freehold land LKR'000	Plant and machinery LKR'000	Company Computer equipment LKR'000	Furniture and fittings LKR'000	Motor vehicles LKR'000	Total LKR'000
Cost / revaluation	89,180	26,748	498,611	312,112	76,479	1,003,130
(Less) Accumulated depreciation	-	(26,532)	(409,190)	(201,575)	(65,754)	(703,051)
<b>Net book value as at 1 January 2016</b>	<b>89,180</b>	<b>216</b>	<b>89,421</b>	<b>110,537</b>	<b>10,725</b>	<b>300,079</b>
Additions	-	1,500	15,863	13,620	-	30,983
Depreciation charge	-	(348)	(62,318)	(36,085)	(2,925)	(101,676)
Disposals	-	-	(5,482)	(2,663)	(13,527)	(21,672)
Accumulated depreciation on disposals	-	-	5,357	2,571	13,527	21,455
<b>Net book value as at 31 December 2016</b>	<b>89,180</b>	<b>1,368</b>	<b>42,841</b>	<b>87,980</b>	<b>7,800</b>	<b>229,169</b>
Cost / revaluation	89,180	28,248	508,992	323,069	62,952	1,012,441
(Less) Accumulated depreciation	-	(26,880)	(466,151)	(235,089)	(55,152)	(783,272)
<b>Net book value as at 31 December 2016</b>	<b>89,180</b>	<b>1,368</b>	<b>42,841</b>	<b>87,980</b>	<b>7,800</b>	<b>229,169</b>

Property, plant and equipment include fully depreciated assets still in use, the gross carrying value of which amounted to LKR 608,443,953 (2015 - LKR 470,442,978) as at the date of Statement of Financial Position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

#### 7.1 FAIR VALUE OF LAND

An independent valuation of the Group's land was performed by valuers to determine the fair value of the land. The revaluation surplus net of applicable deferred income taxes was not credited to other comprehensive income as the Group policy is to recognise revaluation gain in every 5 years (note 3.5). The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

Recurring fair value measurements

Freehold land at No.76 and 80, Kew Road, Colombo 2

As at 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Fair value (Level II - Significant other observable inputs)	165,000	127,400

#### Valuation techniques used to derive level II fair values

Fair value of land has been derived using the sales comparison approach. Sales prices of comparable lands in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

#### Valuation processes of the Group

On an annual basis, the Group engages external, independent and qualified valuers to determine the fair value of the Group's land. As at 31 December 2016, the fair values of the land and buildings have been determined by independent valuer, Mr. B. L. Ariyatillake - Chartered Valuer approved by IBSL. Valuation was made on the basis of open market value.

If stated on historical cost basis, the value of the land would be LKR 17,084,105 (2015 - LKR 17,084,105)

#### 7.2 CAPITAL COMMITMENTS - PROPERTY, PLANT AND EQUIPMENT

Capital expenditure on property, plant and equipment approved by the Board of Directors is as follows.

As at 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Approved and contracted for property, plant and equipment	5,749	1,784

### 8. INVESTMENT IN SUBSIDIARY

As at 31 December	Country of incorporation and place of business	Nature of business	Number of Shares	% holding	Company	
					2016 LKR'000	2015 LKR'000
Rainbow Trust Management Limited	Sri Lanka	Provision of trust and ancillary services	100,000	100	1,000	1,000
			100,000		1,000	1,000

## 9. FINANCIAL ASSETS

Financial assets are summarised by measurement category along with the fair values in the table below.

As at 31 December	Note	Group / Company			
		2016 Carrying value LKR'000	2016 Fair value LKR'000	2015 Carrying value LKR'000	2015 Fair value LKR'000
Loans and receivables	9.1	23,430,426	23,067,265	21,421,668	22,671,694
Available for sale financial assets	9.2	15,050,278	15,050,278	16,340,965	16,340,965
Financial assets at fair value through profit or loss	9.3	1,606,938	1,606,938	2,377,388	2,377,388
<b>Total financial assets</b>		<b>40,087,642</b>	<b>39,724,481</b>	<b>40,140,021</b>	<b>41,390,047</b>

### 9.1 LOANS AND RECEIVABLES

As at 31 December	Group / Company			
	2016 Amortised cost LKR'000	2016 Fair value LKR'000	2015 Amortised cost LKR'000	2015 Fair value LKR'000
<b>Amortised cost</b>				
Corporate debt - listed	13,097,315	12,731,487	11,279,038	12,530,050
Corporate debt - unlisted	-	-	80,000	80,000
Reverse repurchase agreements	3,553,521	3,554,440	2,728,520	2,729,475
Bank deposits	6,779,590	6,781,338	7,334,110	7,332,169
	<b>23,430,426</b>	<b>23,067,265</b>	<b>21,421,668</b>	<b>22,671,694</b>

As at 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Loans and receivables at amortised cost		
Current	10,694,367	10,442,630
Non-current	12,736,059	10,979,038
	<b>23,430,426</b>	<b>21,421,668</b>

The fair values of the loans and receivables have been estimated by comparing current market interest rates for similar instruments with the rates offered when the loans were first recognised, together with appropriate market credit adjustments except for the loans and receivables considered to be current of which fair value approximates the carrying value.

The Group holds collateral for the reverse repurchase agreements. Generally the collateral is pledged with an excess of 10 per cent or more of the amortised value of the reverse repurchase agreement in terms of market value of the security pledged.

The fair value of those collateral held are as follows;

As at 31 December	Financial asset	Nature of the collateral	Group / Company	
			2016 LKR'000	2015 LKR'000
	Reverse repurchase agreements	- Government treasury bills	781,964	390,687
		- Government treasury bonds	3,262,801	2,669,859
			<b>4,044,765</b>	<b>3,060,546</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9. FINANCIAL ASSETS (CONTD.)

#### 9.2 AVAILABLE FOR SALE FINANCIAL ASSETS

As at 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Government securities	15,007,562	16,286,482
Equity instruments - listed	42,716	54,483
	<b>15,050,278</b>	<b>16,340,965</b>
Available for sale financial assets		
Current	635,216	656,432
Non-current	14,415,062	15,684,533
	<b>15,050,278</b>	<b>16,340,965</b>

The Group transferred gains of LKR 62,101,748 (2015- LKR 83,804,351) from Statement of Other Comprehensive Income to the Income Statement.

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as available for sale. As at the date of the Statement of Financial Position, none of these financial assets are either past due or impaired.

#### 9.3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Equity instruments - listed	1,606,938	2,377,388
	<b>1,606,938</b>	<b>2,377,388</b>
Financial assets at fair value through profit or loss		
Current	1,606,938	2,377,388
Non-current	-	-
	<b>1,606,938</b>	<b>2,377,388</b>

Equity instruments classified at fair value through profit or loss are designated in this category upon initial recognition. There are no non-derivative financial assets held for trading.

The fair value of equity instruments is based on their last traded prices at the Colombo Stock Exchange as at the date of Statement of Financial Position. Changes in fair values of financial assets at fair value through profit or loss are recorded in "fair value gains and losses" in the Income Statement.



#### 9.4 MOVEMENT IN THE GROUP'S FINANCIAL INSTRUMENTS ARE SUMMARISED IN THE TABLE BELOW BY MEASUREMENT CATEGORY

	Loans and receivables	Group / Company Available for sale	Fair value through profit or loss	Total
	LKR'000	LKR'000	LKR'000	LKR'000
Balance as at 1 January 2016	21,421,668	16,340,965	2,377,388	40,140,021
Purchases	27,424,545	3,224,232	506,087	31,154,864
(Sales) / (maturities)	(25,550,251)	(2,512,596)	(1,055,229)	(29,118,076)
Realised gains / (losses)	-	62,102	(19,751)	42,351
Amortisation of discount / (premiums)	134,464	97,082	-	231,546
Fair value losses recorded in Income Statement	-	-	(201,557)	(201,557)
Fair value losses recorded in the Statement of Other Comprehensive Income	-	(2,161,507)	-	(2,161,507)
<b>Balance as at 31 December 2016</b>	<b>23,430,426</b>	<b>15,050,278</b>	<b>1,606,938</b>	<b>40,087,642</b>

#### 9.5 DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

As at 31 December	Group / Company 2016 LKR'000	2015 LKR'000
<b>Level I</b>		
Financial assets at fair value through profit or loss		
Equity instruments - quoted	1,606,938	2,377,388
Available for sale financial assets		
Equity instruments - quoted	42,716	54,483
<b>Level II</b>		
Available for sale financial assets		
Government securities	15,007,562	16,286,482
	<b>16,657,216</b>	<b>18,718,353</b>

There were no transfers between levels I and II during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. POLICYHOLDER AND OTHER LOANS

As at 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Policy loans	901,728	1,089,936
Agent loans	131,088	120,792
Staff loans	37,011	42,162
	<b>1,069,827</b>	<b>1,252,890</b>
(Less) Provision for impairment		
Agent loans	(11,383)	(10,467)
	<b>1,058,444</b>	<b>1,242,423</b>
Policyholder and other loans		
Current	101,773	96,942
Non-current	956,671	1,145,481
	<b>1,058,444</b>	<b>1,242,423</b>

#### 10.1 MOVEMENT IN POLICYHOLDER AND OTHER LOANS

	Group / Company LKR'000
Balance as at 1 January 2016	1,252,890
Loans granted during the period	789,421
Loan repayments during the period	(974,532)
Loans written back during the period	47
Amortisation of discount	2,001
<b>Balance as at 31 December 2016</b>	<b>1,069,827</b>

#### 10.2 THE RECONCILIATION OF THE PROVISION FOR IMPAIRMENT LOSSES ON ASSETS CLASSIFIED AS POLICYHOLDER LOANS AND OTHER LOANS IS AS FOLLOWS

	Group / Company LKR'000
Balance as at 1 January 2016	10,467
Additional provision for impairment during the period	916
<b>Balance as at 31 December 2016</b>	<b>11,383</b>

A specific impairment provision has been made against each of the individually impaired financial assets for the full amount of impairment.

### 11. REINSURANCE RECEIVABLES

Reinsurance receivables are amounts due within a 12 month period from 31 December 2016 and 31 December 2015 respectively and are classified as current assets.

As per the contractual arrangements, the reinsurer is committed to reimburse the losses only upon payment of the claims to the clients and hence not hold any collateral as security against potential default by reinsurance counterparties.

The Group does not hold any collateral as security against potential default by reinsurance counterparties.

The fair value of the reinsurance receivables approximate to its carrying value largely due to the short-term maturities of these instruments.

## 12. TRADE RECEIVABLES

Trade receivable are amounts due within a 12 month period from 31 December 2016 and 31 December 2015 respectively and are classified as current assets.

The fair value of the trade receivables approximates to its carrying value largely due to the short-term maturities of these instruments.

### 12.1 MOVEMENT IN TRADE RECEIVABLES

	Group LKR'000	Company LKR'000
Balance as at 1 January 2016	340,507	340,160
Revenue receivable from customers	1,335,362	1,333,998
Collection of cash from customers	(1,286,766)	(1,285,399)
<b>Balance as at 31 December 2016</b>	<b>389,103</b>	<b>388,759</b>

## 13. OTHER ASSETS

As at 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Inventory	3,981	14,811	3,981	14,811
Interest and dividend receivable	1,938,811	1,968,533	1,938,811	1,968,533
Advance company tax recoverable	66,397	66,397	66,397	66,397
Withholding tax recoverable	391,462	311,052	391,420	311,023
Deposits	93,937	19,117	93,937	19,117
Prepayments and advances	243,771	153,747	243,771	153,747
Capital work in progress	49,427	1,778	49,427	1,778
	<b>2,787,786</b>	<b>2,535,435</b>	<b>2,787,744</b>	<b>2,535,406</b>

## 14. OTHER FUND ASSETS

As at 31 December	Group / Company			
	2016		2015	
	Carrying value LKR'000	Cost LKR'000	Carrying value LKR'000	Cost LKR'000
Government securities	114,467	112,542	71,158	70,233
Fixed deposits	79,544	76,819	93,218	90,500
Other assets	63	63	-	-
Cash at bank	1,639	1,639	112	112
	<b>195,713</b>	<b>191,063</b>	<b>164,488</b>	<b>160,845</b>

## 15. DEFERRED EXPENSES

	Group / Company LKR'000
As at 1 January 2016	144,147
Acquisition cost for the period	1,553,359
(Less) Amortisation charge	(1,459,096)
<b>As at 31 December 2016</b>	<b>238,410</b>

Deferred acquisition costs are amortised on the same basis of amortising the unearned premium.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16. CASH AND CASH EQUIVALENTS

As at 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Short term investments	182,266	326,518	176,064	323,790
Cash at bank and in hand	113,358	195,826	113,280	193,265
<b>Cash and cash equivalents (excluding bank overdraft)</b>	<b>295,624</b>	<b>522,344</b>	<b>289,344</b>	<b>517,055</b>

Cash and cash equivalents include the following for the purpose of the Statement of Cash Flows.

As at 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Cash and cash equivalents	295,624	522,344	289,344	517,055
Bank overdraft	(19,402)	-	(19,402)	-
	<b>276,222</b>	<b>522,344</b>	<b>269,942</b>	<b>517,055</b>

### 17. INSURANCE LIABILITIES AND RELATED REINSURANCE ASSETS

As at 31 December	Note	Group / Company					
		2016 Gross LKR'000	2016 Reinsurance LKR'000	2016 Net LKR'000	2015 Gross LKR'000	2015 Reinsurance LKR'000	2015 Net LKR'000
Long term policy liability	17.1	38,139,675	-	38,139,675	36,749,652	-	36,749,652
Life claims provision	17.2	290,976	86,771	204,205	277,950	94,017	183,933
<b>Total insurance contract liabilities</b>		<b>38,430,651</b>	<b>86,771</b>	<b>38,343,880</b>	<b>37,027,602</b>	<b>94,017</b>	<b>36,933,585</b>

#### 17.1 LONG TERM POLICY LIABILITY

	Group / Company		
	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Balance as at 1 January 2016	36,749,652	-	36,749,652
Expected increase in the policy liability during the year	1,849,375	-	1,849,375
Actual experience variance	1,169,512	-	1,169,512
Movement in inadmissible assets	(76,788)	-	(76,788)
Solvency margin and surplus with the market movements	(574,623)	-	(574,623)
Movement in AFS reserve transferred to long term insurance fund	(1,423,384)	-	(1,423,384)
Movement in unearned premium reserve	445,931	-	445,931
<b>Balance as at 31 December 2016</b>	<b>38,139,675</b>	<b>-</b>	<b>38,139,675</b>

#### 17.2 LIFE CLAIMS PROVISION

	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Balance as at 1 January 2016	277,950	94,017	183,933
Provisions for claims registered during the period	281,728	76,207	205,521
Provisions released for claims paid to clients	(268,702)	(83,453)	(185,249)
<b>Balance as at 31 December 2016</b>	<b>290,976</b>	<b>86,771</b>	<b>204,205</b>

### 17.3 IMPLEMENTATION OF SOLVENCY MARGIN (RISK BASED CAPITAL) RULES

The Insurance Board of Sri Lanka (IBSL) implemented the Risk Based Capital (RBC) framework for solvency purposes with effect from 1 January 2016, and as by the IBSL by their letter dated 30 December 2016, the surplus created due to change in valuation method from NPV to GPV is required to be maintained within the long term insurance fund / insurance contract liabilities.

The surplus created due to change in valuation method from NPV to GPV on 1 January 2016 is as follows:

	LKR'000
Long term policy liability as per accounting policy (NPV)	36,749,652
Long term policy liability for solvency margin under RBC rules (GPV)	27,981,497
<b>Surplus created due to change in valuation method from NPV to GPV</b>	<b>8,768,155</b>

### 18. RETIREMENT BENEFIT OBLIGATIONS

The Group has a retirement benefit scheme for the gratuity liability of its employees which is wholly unfunded. There is no change in the scheme for the retirement gratuity obligation during the financial year.

The retiring gratuity is a statutory requirement in Sri Lanka under the Payment of Gratuity Act No 12 of 1983.

As at 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Amount of liability recognised in the Statement of Financial Position	188,425	193,691
Amounts recognised in the Income Statement	37,476	35,452
Amounts recognised in the Statement of Other Comprehensive Income	(36,076)	(19,549)

The movement in the defined benefit obligation is as follows:

	Group / Company LKR'000
Balance as at 1 January 2016	193,691
Current service cost	18,494
Interest cost	18,982
	<b>37,476</b>
Remeasurements:	
Gains from change in financial assumptions	(30,191)
Experience gains	(5,885)
	<b>(36,076)</b>
Benefits paid	(6,666)
<b>Balance as at 31 December 2016</b>	<b>188,425</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. RETIREMENT BENEFIT OBLIGATIONS (CONTD.)

The principal actuarial assumptions used in determining the retirement benefit obligation are as follows:

	2016 % per annum	2015 % per annum
Future salary increase	11.00	11.00
Discount rate	12.56	9.80
Member withdrawal rate	8.00	8.00

Sensitivity analysis of key actuarial assumptions used

	Group / Company 2016					
	Future salary increase		Discount rate		Member withdrawal rate	
	1% increase LKR'000	1% decrease LKR'000	1% increase LKR'000	1% decrease LKR'000	1% increase LKR'000	1% decrease LKR'000
The effect on;						
- The current service cost	1,178	(1,062)	(1,090)	1,229	95	(105)
- Interest cost	-	-	-	-	-	-

	Group / Company 2015					
	Future salary increase		Discount rate		Member withdrawal rate	
	1% increase LKR'000	1% decrease LKR'000	1% increase LKR'000	1% decrease LKR'000	1% increase LKR'000	1% decrease LKR'000
The effect on;						
- The current service cost	1,672	(1,486)	(1,549)	1,778	(171)	195
- Interest cost	-	-	-	-	-	-

Amounts for the current and previous five periods are as follows:

	2016	2015	2014	2013	2012	2011
Defined benefit obligation (LKR'000)	188,425	193,691	248,986	214,627	249,732	152,358

The below table provides the expected maturity analysis of defined benefit obligation.

Defined benefit obligation (LKR'000)	Less than 1 year	1-5 years	Above 5 years	Total
As at 31 December 2016	24,857	46,882	116,686	188,425
As at 31 December 2015	4,503	58,075	131,113	193,691

## 19. DEFERRED INCOME TAX

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

As at 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
<b>Deferred income tax assets</b>		
On temporary difference from retirement benefit obligation	52,759	58,107
On temporary difference from fair value differences	30,227	-
Deferred tax assets offset against deferred tax liabilities	(82,986)	(58,107)
	-	-
<b>Deferred income tax liabilities</b>		
On temporary difference from property, plant and equipment and intangible assets	82,986	52,245
On temporary difference from fair value differences	-	331,025
Deferred tax liabilities offset against deferred tax assets	(82,986)	(58,107)
	-	325,163
<b>Net deferred income tax liabilities</b>	-	325,163

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of LKR 1,513,450,203 (2015 - LKR 829,588,602) in respect of tax losses amounting to LKR 5,405,179,296 (2015 - LKR 2,765,295,343) that can be carried forward against future taxable income.

Further, a deferred tax asset on the fair value losses in the assets categorised as available for sale has been recognised up to the extent of the deferred tax liabilities. Accordingly, The Group did not recognise a deferred tax asset of LKR 266,038,822 in respect of fair value losses of assets classified as AFS of LKR 950,138,650.

Deferred income tax liabilities of LKR 487,021 (2015 - LKR 404,535) have not been recognised for the withholding taxes and other taxes that would be payable on the unremitted earnings of the subsidiary as the Group intends to reinvest such earnings for the foreseeable future.

### 19.1 THE MOVEMENT IN NET DEFERRED INCOME TAX LIABILITY IS AS FOLLOWS

	Group / Company LKR'000
Balance as at 1 January 2016	325,163
Deferred tax charge / (income) recognised in Income Statement	
On retirement benefit obligations	(4,753)
On property plant and equipment and intangible assets	30,741
	25,988
Deferred tax charge / (income) recognised in the Statement of Other Comprehensive Income	
On retirement benefit obligations	10,101
On temporary difference from fair value differences	(361,252)
	(351,151)
<b>Balance as at 31 December 2016</b>	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. OTHER FUND LIABILITIES

Other fund liabilities consist of Agents Superannuation Fund liability. A brief description and the movement of the fund is given below.

This fund is created for the benefit of the agency force. The fund accumulates contributions from both the Company and agents, based on a qualifying performance criteria which is a fixed percentage linked to their commissions. The fund invests in Government securities and fixed deposits in licensed commercial banks.

	Group / Company LKR'000
Balance as at 1 January 2016	164,488
Capital deposits	57,107
Capital withdrawals	(42,421)
Income / gains and losses	16,539
<b>Balance as at 31 December 2016</b>	<b>195,713</b>

### 21. ACCRUALS AND OTHER PAYABLES

As at 31 December	Note	Group		Company	
		2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Policyholder advance payments		295,824	233,493	295,824	233,493
Agency commission payable		309,533	304,722	309,533	304,722
Franchise fee payable		77,689	72,153	77,689	72,153
Government taxes and levies		16,688	21,295	16,688	21,295
Accrued expenses	21.1	1,199,638	1,037,857	1,198,947	1,037,358
Other creditors		173,578	133,856	173,578	133,856
		<b>2,072,950</b>	<b>1,803,376</b>	<b>2,072,259</b>	<b>1,802,877</b>
Accruals and other payables					
Current		2,002,898	1,727,996	2,002,207	1,727,497
Non-current		70,052	75,380	70,052	75,380
		<b>2,072,950</b>	<b>1,803,376</b>	<b>2,072,259</b>	<b>1,802,877</b>

#### 21.1 ACCRUED EXPENSES

As at 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Provisions for accrued expenses	1,196,626	1,035,656	1,195,935	1,035,157
Operating lease payable	3,012	2,201	3,012	2,201
	<b>1,199,638</b>	<b>1,037,857</b>	<b>1,198,947</b>	<b>1,037,358</b>
Accrued expenses				
Current	1,129,586	984,542	1,128,895	984,043
Non-current	70,052	53,315	70,052	53,315
	<b>1,199,638</b>	<b>1,037,857</b>	<b>1,198,947</b>	<b>1,037,358</b>



**21.2 MOVEMENT IN ACCRUED EXPENSES**

	Group LKR'000	Company LKR'000
Balance as at 1 January 2016	1,037,857	1,037,358
Provisions during the year	1,147,765	1,147,073
Payments and reversals during the year	(985,984)	(985,484)
<b>Balance as at 31 December 2016</b>	<b>1,199,638</b>	<b>1,198,947</b>

**22. CURRENT INCOME TAX LIABILITIES**

	Group LKR'000	Company LKR'000
Balance as at 1 January 2016	2,976	2,855
Provision	2,490	2,305
Payments	(178)	-
Income tax payable set off against tax credits	(2,885)	(2,855)
Adjustments of prior periods recognised in the period	7	-
<b>Balance as at 31 December 2016</b>	<b>2,410</b>	<b>2,305</b>

**23. DEFERRED REVENUE**

The Group defers the commission income from reinsurance and coinsurance arrangements.

**Movement in deferred revenue**

	Group / Company LKR'000
Balance as at 1 January 2016	16,105
Reinsurance recovered in advance in waiver of premium (WOP) claims	269
Reinsurance recovered set off against reinsurance assets	(2,128)
<b>Balance as at 31 December 2016</b>	<b>14,246</b>
The expected realisation of the deferred revenue is as follows;	
Current	14,246
Non-current	-
	<b>14,246</b>

**24. STATED CAPITAL**

As at 31 December	2016		2015	
	No. of shares	LKR'000	No. of shares	LKR'000
Fully paid ordinary shares	30,749,370	511,922	30,749,370	511,922

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25. CAPITAL RESERVES

#### Revaluation reserve

Revaluation reserve consists of the net surplus on the revaluation of property, plant and equipment.

	Group / Company	
	2016 LKR'000	2015 LKR'000
Balance as at 1 January	72,096	72,096
Revaluation surplus arising during the year	-	-
<b>Balance as at 31 December</b>	<b>72,096</b>	<b>72,096</b>

### 26. REVENUE RESERVES

#### 26.1 RESILIENCE RESERVE

A resilience reserve of LKR 65,000,000 was established in 2004 with funds appropriated from profits in order to strengthen the capability of the Company to meet temporary variations in asset values of the business. This reserve has been further strengthened by appropriation from profits.

	Group / Company	
	2016 LKR'000	2015 LKR'000
Balance as at 1 January	289,000	289,000
Appropriation from profits	-	-
<b>Balance as at 31 December</b>	<b>289,000</b>	<b>289,000</b>

#### 26.2 AVAILABLE FOR SALE RESERVE

	Group / Company	
	2016 LKR'000	2015 LKR'000
Balance as at 1 January	17	18,567
Discontinued operations	-	(12,417)
Movement during the year	(15,620)	(6,133)
<b>Balance as at 31 December</b>	<b>(15,603)</b>	<b>17</b>

#### 26.3 RETAINED EARNINGS

As at 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
AIA Insurance Lanka PLC	4,503,569	5,489,837	4,503,569	5,489,837
Rainbow Trust Management Limited	4,870	4,045	-	-
<b>Balance as at 31 December</b>	<b>4,508,439</b>	<b>5,493,882</b>	<b>4,503,569</b>	<b>5,489,837</b>
<b>Total revenue reserves</b>	<b>4,781,836</b>	<b>5,782,899</b>	<b>4,776,966</b>	<b>5,778,854</b>

**27. NET EARNED PREMIUM**

## (a) Gross written premium

For the financial year ended 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Conventional	9,190,066	7,345,373
Unit-linked	913,849	1,087,960
<b>Total gross written premium</b>	<b>10,103,915</b>	<b>8,433,333</b>

## (b) Gross reinsurance premium

For the financial year ended 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Conventional	(241,111)	(212,836)
Unit-linked	(18,954)	(19,205)
<b>Total gross reinsurance premium</b>	<b>(260,065)</b>	<b>(232,041)</b>

## (c) Net change in reserve for unearned premium

For the financial year ended 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Change in reserve for unearned premium	(448,443)	(394,200)
Change in reserve for unearned reinsurance premium	2,512	519
<b>Net change in reserve for unearned premium</b>	<b>(445,931)</b>	<b>(393,681)</b>
<b>Net earned premium</b>	<b>9,397,919</b>	<b>7,807,611</b>

**28. INVESTMENT INCOME**

For the financial year ended 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Dividend income		
Financial assets at fair value through profit or loss	76,230	98,182
Available for sale financial assets	579	579
	<b>76,809</b>	<b>98,761</b>
Interest income		
Available for sale financial assets	2,574,105	2,159,650
Loans and receivables	2,108,659	1,622,153
	<b>4,682,764</b>	<b>3,781,803</b>
<b>Total investment income</b>	<b>4,759,573</b>	<b>3,880,564</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. FEE INCOME

For the financial year ended 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Policy administration charges	95,590	73,542	95,590	73,542
Other contract fees	312,496	264,695	312,496	264,696
Trust management fees	1,345	1,377	-	-
<b>Total fee income</b>	<b>409,431</b>	<b>339,614</b>	<b>408,086</b>	<b>338,238</b>

### 30. REALISED GAINS

For the financial year ended 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Property, plant and equipment Realised gains	6,760	19,926	6,760	19,924
Financial assets				
Available for sale financial assets				
Debt securities	62,102	83,804	62,102	83,804
Fair value through profit or loss				
Equity instruments	(19,751)	135,177	(19,751)	135,177
<b>Total realised gain from financial assets</b>	<b>42,351</b>	<b>218,981</b>	<b>42,351</b>	<b>218,981</b>
<b>Total realised gains</b>	<b>49,111</b>	<b>238,907</b>	<b>49,111</b>	<b>238,905</b>

### 31. FAIR VALUE GAINS AND LOSSES

For the financial year ended 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Fair value losses on financial assets at fair value through profit or loss	(201,557)	(379,996)	(201,557)	(379,996)
Reclassification of investment in associate as available for sale	-	21,884	-	40,114
<b>Total fair value gains and losses</b>	<b>(201,557)</b>	<b>(358,112)</b>	<b>(201,557)</b>	<b>(339,882)</b>

### 32. OTHER OPERATING REVENUE

For the financial year ended 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Interest income on policy loans	176,138	261,914	176,138	261,914
Interest income on other loans	12,586	16,526	12,586	16,526
Interest income on cash and cash equivalents	17,483	15,098	17,061	14,805
Other miscellaneous income	12,787	18,902	12,787	18,902
<b>Total other operating revenue</b>	<b>218,994</b>	<b>312,440</b>	<b>218,572</b>	<b>312,147</b>

**33. NET CLAIMS AND BENEFITS**

For the financial year ended 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Gross claims and benefits	(4,834,457)	(4,943,171)
Claims ceded to reinsurers	74,843	72,476
<b>Net claims and benefits</b>	<b>(4,759,614)</b>	<b>(4,870,695)</b>

**34. NET ACQUISITION EXPENSES**

For the financial year ended 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Gross acquisition expenses		
Commission	(1,412,423)	(1,188,633)
Franchise fees	(112,076)	(85,081)
<b>Total gross acquisition expenses</b>	<b>(1,524,499)</b>	<b>(1,273,714)</b>
Reinsurance commission	221,255	5,639
Change in deferred acquisition expenses		
Commission	19,950	10,096
Franchise fees	12,915	12,054
<b>Total change in deferred acquisition expenses</b>	<b>32,865</b>	<b>22,150</b>
<b>Net acquisition expenses</b>	<b>(1,270,379)</b>	<b>(1,245,925)</b>

**35. OPERATING AND ADMINISTRATIVE EXPENSES**

For the financial year ended 31 December	Note	Group		Company	
		2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Employee benefit expenses	35.1	(1,688,729)	(1,273,069)	(1,688,729)	(1,273,069)
Administrative and establishment expenses		(1,556,866)	(1,020,664)	(1,556,280)	(1,020,260)
Selling expenses		(1,074,357)	(830,129)	(1,074,193)	(829,967)
Amortisation of intangible assets		(64,636)	(102,428)	(64,636)	(102,428)
Depreciation		(101,676)	(119,894)	(101,676)	(119,894)
Other expenses	35.3	(186,132)	(147,092)	(186,132)	(147,056)
		<b>(4,672,396)</b>	<b>(3,493,276)</b>	<b>(4,671,646)</b>	<b>(3,492,674)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 35. OPERATING AND ADMINISTRATIVE EXPENSES (CONTD.)

#### 35.1 EMPLOYEE BENEFIT EXPENSES

For the financial year ended 31 December	Group / Company	
	2016 LKR'000	2015 LKR'000
Salaries and bonus	(798,006)	(648,931)
Contribution to defined contribution plans	(63,051)	(68,327)
Contribution to defined benefit plans	(37,476)	(35,452)
Staff welfare	(77,825)	(68,447)
Staff training	(48,956)	(40,651)
Others	(663,415)	(411,261)
	<b>(1,688,729)</b>	<b>(1,273,069)</b>

#### 35.2 SHARE BASED PAYMENTS

During the year, the AIA Group made grants of Restricted Share Units (RSUs) and restricted share purchase units to certain employees, directors and officers of the Group under the RSU scheme and the ESPP.

##### RSU scheme

Under the RSU scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the AIA Group during the respective vesting periods. RSU grants are vested either entirely after a specific period of time or in tranches over the vesting period. If the RSU grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the employees at the end of vesting period depending on the actual achievement of the performance conditions. During the vesting period, the eligible participants are not entitled to dividends of the underlying shares.

##### Employee Share Purchase Plan (ESPP)

Under the plan, eligible employees of the Group can purchase ordinary shares of AIAGL with qualified employee contributions and the AIA Group will award one matching restricted share purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the AIA Group. The level of qualified employee contribution is limited to not more than 5 per cent of the annual basic salary.

##### Recognised compensation cost

The total recognised compensation cost (net of expected forfeitures) related to various share-based compensation awards granted under the RSU scheme and ESPP for the year ended 31 December 2016 is LKR 54,386,240 (2015: LKR 50,583,649).

#### 35.3 OTHER EXPENSES

For the financial year ended 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Increase in provision for bad and doubtful debts	(1,084)	(1,333)	(1,084)	(1,333)
Other technical expenses	(66,734)	(26,442)	(66,734)	(26,406)
Investment expenses	(114,849)	(116,408)	(114,849)	(116,408)
Other non-technical expenses	(3,465)	(2,909)	(3,465)	(2,909)
	<b>(186,132)</b>	<b>(147,092)</b>	<b>(186,132)</b>	<b>(147,056)</b>

### 36. PROFIT BEFORE TAX

Profit before tax for the year is stated after charging all expenses including the following:

For the financial year ended 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Auditors' remuneration				
- Audit	4,136	4,176	3,996	3,996
- Non-audit	1,199	2,158	1,199	2,158
Directors'/ Chief Executive Officer's emoluments	168,479	108,913	168,479	108,913
Directors' fees	5,950	2,350	5,950	2,350
Legal fees	8,180	698	8,180	698
Donations	6,584	4,178	6,584	4,178
Provision for bad and doubtful debts	1,084	1,333	1,084	1,333

### 37. INCOME TAX EXPENSES

For the financial year ended 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
<b>Current income tax</b>				
Current income tax expense	(2,490)	(3,050)	(2,305)	(2,855)
Adjustments of prior periods recognised in the period	(7)	146	-	160
Notional tax unutilised during the year	(255,105)	(213,270)	(255,105)	(213,270)
	<b>(257,602)</b>	<b>(216,174)</b>	<b>(257,410)</b>	<b>(215,965)</b>
<b>Deferred income tax</b>				
Deferred tax (expense) / income	(25,988)	809	(25,988)	809
<b>Total income tax expense</b>	<b>(283,590)</b>	<b>(215,365)</b>	<b>(283,398)</b>	<b>(215,156)</b>

The applicable tax rate - 28% (2015 - 28%)

#### 37.1 RECONCILIATION OF TAX CHARGE

For the financial year ended 31 December	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Profit before tax	794,266	1,761,569	793,249	1,760,499
Applicable tax rate	28%	28%	28%	28%
<b>Tax at applicable rate</b>	<b>222,394</b>	<b>493,239</b>	<b>222,110</b>	<b>492,940</b>
Add / (less) tax effect of the following items:				
Insurance premium and income not subject to tax	(2,745,682)	(2,280,837)	(2,745,682)	(2,280,837)
Insurance claims not deductible for taxes	2,211,000	1,949,723	2,211,000	1,949,723
Tax free investment income	(334,697)	(671,113)	(334,697)	(671,113)
Other non-deductible expenses	24,974	11,915	24,963	11,900
Tax loss on which deferred tax asset is not recognised	650,496	499,168	650,599	499,273
Unutilised notional tax for the year	255,105	213,270	255,105	213,270
<b>Tax charge for the year</b>	<b>283,590</b>	<b>215,365</b>	<b>283,398</b>	<b>215,156</b>

#### Notional tax credit for withholding tax on Government securities

The Inland Revenue Act No.10 of 2006 as amended by subsequent legislation provides that a company which derives interest income from secondary market transactions in Government securities on or after 1 April 2002 would be entitled to a notional tax credit being one ninth of the net interest income provided such interest income forms part of the statutory income of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 37. INCOME TAX EXPENSES (CONTD.)

The notional tax credit available to set-off against future tax liability of the Company is as follows.

Financial year	Notional tax credit available LKR '000
2003	123,980
2004	68,027
2005	74,741
2006	100,114
2007	122,511
2008	171,156
2009	238,462
2010	269,058
2011	289,244
2012	350,201
2013	330,427
2014	232,243
2015	215,965
2016	257,411
	<b>2,843,540</b>
Set-off against tax liability up to Y/A 2015/2016	(1,070,908)
<b>Balance available to set-off against future tax liability</b>	<b>1,772,632</b>



### 38. DISCONTINUED OPERATIONS

The Company divested its fully owned subsidiary, AIA General Insurance Lanka Limited which carried out the business of general insurance, on the 23 October 2015. The divestment resulted in a disposal of a separate major line of business of the Group, hence identified as a discontinued operation as per SLFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations'.

#### 38.1 SUMMARISED STATEMENT OF COMPREHENSIVE INCOME OF THE DISCONTINUED OPERATIONS

For the period ended 31 December / 23 October	Note	Group		Company	
		2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Gross written premium		-	3,167,544	-	-
Net earned premium		-	2,023,688	-	-
Investment and other income		-	294,649	-	-
<b>Total revenue</b>		-	<b>2,318,337</b>	-	-
Net claims		-	(1,549,051)	-	-
Net acquisition expenses		-	(57,220)	-	-
Operating and administrative expenses		-	(813,177)	-	-
<b>Profit before tax</b>		-	<b>(101,111)</b>	-	-
Income tax expense		-	22,315	-	-
<b>Post tax profit / (loss) for the period</b>		-	<b>(78,796)</b>	-	-
Realised gain from disposal of subsidiary	38.2	-	1,266,246	-	1,224,811
<b>Profit for the period from discontinued operations (net of tax)</b>		-	<b>1,187,450</b>	-	<b>1,224,811</b>
<b>Other comprehensive income - net of tax</b>					
Changes in fair value of available for sale financial assets		-	(5,234)	-	-
Remeasurement of retirement benefit obligations		-	182	-	-
<b>Total other comprehensive income for the year</b>		-	<b>(5,052)</b>	-	-
<b>Total comprehensive income</b>		-	<b>1,182,398</b>	-	<b>1,224,811</b>

#### 38.2 REALISED GAIN FROM DISPOSAL OF SUBSIDIARY

For the period ended 31 December / 23 October	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Sales proceeds	-	3,200,000	-	3,200,000
Cost of investment in subsidiary	-	-	-	(1,878,017)
Net asset value of the subsidiary	-	(1,883,436)	-	-
Directly attributable expenses to the disposal	-	(97,172)	-	(97,172)
Gain on disposal of assets together as a group	-	46,854	-	-
	-	<b>1,266,246</b>	-	<b>1,224,811</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 38. DISCONTINUED OPERATIONS (CONTD.)

#### 38.3 SUMMARISED CASH FLOW STATEMENT OF THE DISCONTINUED OPERATIONS

For the period ended 31 December / 23 October	Group		Company	
	2016 LKR'000	2015 LKR'000	2016 LKR'000	2015 LKR'000
Cash used in operating activities	-	(253,885)	-	(253,885)
Taxes paid	-	(4,943)	-	(4,943)
Net cash used in operating activities	-	(258,828)	-	(258,828)
Net cash used in investing activities	-	(5,280)	-	(5,280)
Net cash used in financing activities	-	-	-	-
<b>Decrease in cash and cash equivalents</b>	<b>-</b>	<b>(264,108)</b>	<b>-</b>	<b>(264,108)</b>
Cash and cash equivalents and bank overdraft at beginning of the year	-	407,290	-	407,290
<b>Cash and cash equivalents and bank overdraft at the end of the year</b>	<b>-</b>	<b>143,182</b>	<b>-</b>	<b>143,182</b>

### 39. BASIC DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

For the financial year ended 31 December		Group		Company	
		2016	2015	2016	2015
<b>Continuing operations</b>					
Profit attributable to the Company's equity holders	(LKR'000)	510,676	303,163	509,851	320,533
Weighted average number of ordinary shares in issue	('000)	30,749	30,749	30,749	30,749
Basic earnings per share	(LKR)	16.61	9.86	16.58	10.42
<b>Discontinued operations</b>					
Profit attributable to the Company's equity holders	(LKR'000)	-	1,187,450	-	1,224,811
Weighted average number of ordinary shares in issue	('000)	30,749	30,749	30,749	30,749
Basic earnings per share	(LKR)	-	38.62	-	39.83

### 40. DIVIDEND PER SHARE

The dividends paid in 2016 and 2015 were LKR 1,522,093,815 (LKR 49.50 per share) and LKR 212,100,000 (LKR 7.07 per share) respectively.

#### 41. RELATED PARTY DISCLOSURES

##### 41.1 TRANSACTIONS WITH RELATED ENTITIES

Details of significant related party disclosures are as follows:

Nature of transaction	Name of the company and relationship													
	AIA Holdings Lanka (Private) Limited		AIA Company Limited		AIA Group Limited		AIA Shared Services (Hong Kong) Limited		AIA Shared Services Sdn. Bhd. Limited		AIAIT (Guangzhou) Company Limited		TATA AIA Life Insurance Company Limited	
	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000	2016 LKR '000	2015 LKR '000	2016 LKR '000	
For the financial year ended 31 December														
Group recharges	-	-	(140,000)	(105,690)	(79,933)	(65,474)	(101,290)	(69,568)	(791)	-	(828)	-	-	-
Expense reimbursements	-	-	-	-	-	-	-	-	-	-	-	-	-	136
Dividend (paid) / received	(1,215,586)	(185,108)	(137,618)	(20,956)	-	-	-	-	-	-	-	-	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 41. RELATED PARTY DISCLOSURES (CONTD.)

#### 41.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL OF THE COMPANY OR PARENT AND THEIR CLOSE FAMILY MEMBERS

The Key Management Personnel of the Company are the Chief Executive Officer (CEO), Board of Directors and those of its Parent and Ultimate Parent.

##### a) Key Management Personnel compensation

Directors' / CEO's compensation

<b>For the financial year ended 31 December</b>	<b>2016 LKR '000</b>	<b>2015 LKR '000</b>
Directors' / CEO's remuneration	56,635	49,786
Short-term employee benefits	105,228	51,659
Contribution to defined contribution plans	6,616	7,468
Directors' fees*	5,950	2,350
	<b>174,429</b>	<b>111,263</b>

\* Includes fees paid to Directors who ceased to be Directors during the year under review.

b) No loans have been granted to Directors during the year.

##### c) Other transactions

Business transactions of Key Management Personnel

<b>For the financial year ended 31 December</b>	<b>2016 LKR '000</b>	<b>2015 LKR '000</b>
Premium paid on insurance policies taken by Directors in their individual capacity	105	165
	<b>105</b>	<b>165</b>

There have been no transactions with close family members of Key Management Personnel and shareholders who have either control, significant influence or joint control over the Company.

### 41.3 TRANSACTIONS WITH OTHER RELATED PARTIES

Transactions by Key Management Personnel with other companies

(Directors of the Company who are / were also Directors of the following entities which have transactions with the Company).

Company	Name of the Director	Position	Relationship	Details of financial dealings
AIA Company Limited	William Lisle	Director	AIA Company Limited is the parent of AIA Insurance Lanka PLC	This company has Intra-Group master services agreement & SOW relating to Group Distribution organised events with AIA Insurance Lanka PLC
AIA Group Limited	William Lisle	Regional Chief Executive	AIA Group Limited is the parent of AIA Company Limited	This company has Intra-Group master services agreement & SOW relating to long term incentive awards of employees of AIA Insurance Lanka PLC
	Mitchell David New	Group General Counsel and Company Secretary		
Singer Sri Lanka PLC	Deepal Sooriyaarchchi	Director	No relationship with AIA Insurance Lanka PLC	AIA Insurance Lanka PLC has transactions in the ordinary course of business with Singer Sri Lanka PLC
Sampath Bank PLC	Deepal Sooriyaarchchi	Director	No relationship with AIA Insurance Lanka PLC	AIA Insurance Lanka PLC has transactions in the ordinary course of business with Sampath Bank PLC
Richard Peiris Distributors Ltd	Deepal Sooriyaarchchi	Director	No relationship with AIA Insurance Lanka PLC	AIA Insurance Lanka PLC has transactions in the ordinary course of business with Richard Peiris Distributors Ltd.
National Development Bank PLC	Sarath Wikramanayake	Director	No relationship with AIA Insurance Lanka PLC	AIA Insurance Lanka PLC has transactions in the ordinary course of business with National Development Bank PLC
NDB Wealth Management Ltd	Sarath Wikramanayake	Director	No relationship with AIA Insurance Lanka PLC	AIA Insurance Lanka PLC has transactions in the ordinary course of business with NDB Wealth Management Ltd.

## 42. CONTINGENT LIABILITIES

### 42.1 OUTSTANDING TAX ASSESSMENTS

The Department of Inland Revenue (DIR) has issued an assessment in relation to the year ending 31 December 2003, mainly imposing VAT on reinsurance commissions and claim recoveries. The Company has made an appeal against the assessment and the matter at present is before the Court of Appeal. As per the opinion of the legal / tax experts, the matter would be concluded in Company's favour on the merits of the facts of the case. Based on the grounds of appeals and the submissions made by the Company's tax consultants, neither the best estimate of future expense to settle this obligation nor the timing of such settlement can be reasonably measured as at the date of the Statement of Financial Position.

The Company has also received assessments relating to income taxes for the assessment periods from 2010/11 to 2013/14. DIR has disallowed management expenses relating to the life insurance business including capital allowance. Company disagreed with this assessment and an appeal has been filed following due process. Based on the information available and expert advice received, the Directors are confident that the ultimate resolution of the above contingency is unlikely to have a material adverse effect on the financial position of the Company. Hence no provision has been made in the financial statements.

Additionally the Company has received VAT assessments to the value of LKR 1.6 million from the DIR, in relation to which appeals have been filed.

### 42. CONTINGENT LIABILITIES (CONTD.)

#### 42.2 BANK GUARANTEES

The Company has provided bank guarantees to third parties amounting to LKR 84 million as at 31 December 2016. None of these guarantees were in relation to any facilities obtained by the Group. The expiration date of these guarantees are based on those legal and contractual requirements of each instance where Group was required to provide such guarantees. The Directors do not expect any claim on these guarantees. Accordingly, no provisions has been made in the financial statements as at 31 December 2016.

#### 42.3 PENDING LITIGATION

In the opinion of the Directors and the Company's lawyers, pending litigation against the Company will not have a material impact on the reported financial results or future operations of the Company.

### 43. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors approved the distribution of an Interim Dividend of LKR 48 per share on 19 January 2017 to be paid out of the retained profits of the Company, as authorised by the Articles of Association of the Company.

The Board of Directors have also recommended the declaration of a final dividend of LKR 2 per share for the financial year ended 31 December 2016, subject to approval by shareholders.

As required by the section 56 (2) of the Companies Act No 7 of 2007, the Board of Directors have confirmed that the Company satisfies the solvency test in accordance with section 57 of the Companies Act No. 7 of 2007, and has obtained a certificate from the auditors, prior to approving the interim dividend of LKR 48 per share and prior to declaring the final dividend of LKR 2 per share for the financial year 2016 to be paid in 2017.

In accordance with LKAS 10, 'Events After the Reporting Period', both interim and final dividends approved and declared have not been recognised as a liability in the financial statements as at 31 December 2016.

**OTHER  
INFORMATION**

# QUARTERLY ANALYSIS 2016

## INCOME STATEMENT - GROUP

	1st quarter Jan - Mar 16 LKR '000	2nd quarter Apr - Jun 16 LKR '000	3rd quarter Jul - Sep 16 LKR '000	4th quarter Oct - Dec 16 LKR '000	Total Jan - Dec 16 LKR '000
Gross written premium	2,372,194	2,485,684	2,567,033	2,679,004	10,103,915
Gross reinsurance premium	(59,247)	(68,869)	(68,375)	(63,574)	(260,065)
Net change in reserve for unearned premium	(56,169)	(150,470)	(110,497)	(128,795)	(445,931)
<b>Net earned premium</b>	<b>2,256,778</b>	<b>2,266,345</b>	<b>2,388,161</b>	<b>2,486,635</b>	<b>9,397,919</b>
<b>Other revenue</b>					
Investment income	1,107,082	1,189,869	1,215,615	1,247,007	4,759,573
Fee income	102,263	96,016	102,486	108,666	409,431
Realised gains / (losses)	26,418	(14,949)	40,111	(2,469)	49,111
Fair value gains / (losses)	(337,212)	41,850	151,652	(57,847)	(201,557)
Other operating revenue	68,746	50,753	45,234	54,261	218,994
	<b>967,297</b>	<b>1,363,539</b>	<b>1,555,098</b>	<b>1,349,618</b>	<b>5,235,552</b>
<b>Total revenue</b>	<b>3,224,075</b>	<b>3,629,884</b>	<b>3,943,259</b>	<b>3,836,253</b>	<b>14,633,471</b>
Net claims and benefits	(1,217,625)	(1,117,138)	(1,131,654)	(1,293,197)	(4,759,614)
Change in contractual liability	(550,052)	(973,341)	(1,169,565)	(443,858)	(3,136,816)
Net acquisition expenses	(228,474)	(294,917)	(355,274)	(391,714)	(1,270,379)
Operating and administrative expenses	(1,085,422)	(1,144,534)	(1,134,298)	(1,308,142)	(4,672,396)
<b>Profit before tax</b>	<b>142,502</b>	<b>99,954</b>	<b>152,468</b>	<b>399,342</b>	<b>794,266</b>
Income tax expense	(55,976)	(66,968)	(73,295)	(87,351)	(283,590)
<b>Profit for the period</b>	<b>86,526</b>	<b>32,986</b>	<b>79,173</b>	<b>311,991</b>	<b>510,676</b>

## INCOME STATEMENT - COMPANY

	1st quarter Jan - Mar 16 LKR '000	2nd quarter Apr - Jun 16 LKR '000	3rd quarter Jul - Sep 16 LKR '000	4th quarter Oct - Dec 16 LKR '000	Total Jan - Dec 16 LKR '000
Gross written premium	2,372,194	2,485,684	2,567,033	2,679,004	10,103,915
Gross reinsurance premium	(59,247)	(68,869)	(68,375)	(63,574)	(260,065)
Net change in reserve for unearned premium	(56,169)	(150,470)	(110,497)	(128,795)	(445,931)
<b>Net earned premium</b>	<b>2,256,778</b>	<b>2,266,345</b>	<b>2,388,161</b>	<b>2,486,635</b>	<b>9,397,919</b>
<b>Other revenue</b>					
Investment income	1,107,082	1,189,869	1,215,615	1,247,007	4,759,573
Fee income	101,933	95,699	102,141	108,313	408,086
Realised gains / (losses)	26,418	(14,949)	40,111	(2,469)	49,111
Fair value gains / (losses)	(337,212)	41,850	151,652	(57,847)	(201,557)
Other operating revenue	68,667	50,653	45,124	54,128	218,572
	<b>966,888</b>	<b>1,363,122</b>	<b>1,554,643</b>	<b>1,349,132</b>	<b>5,233,785</b>
<b>Total revenue</b>	<b>3,223,666</b>	<b>3,629,467</b>	<b>3,942,804</b>	<b>3,835,767</b>	<b>14,631,704</b>
Net claims and benefits	(1,217,625)	(1,117,138)	(1,131,654)	(1,293,197)	(4,759,614)
Change in contractual liability	(550,052)	(973,341)	(1,169,565)	(443,858)	(3,136,816)
Net acquisition expenses	(228,474)	(294,917)	(355,274)	(391,714)	(1,270,379)
Operating and administrative expenses	(1,085,299)	(1,144,346)	(1,134,197)	(1,307,804)	(4,671,646)
<b>Profit before tax</b>	<b>142,216</b>	<b>99,725</b>	<b>152,114</b>	<b>399,194</b>	<b>793,249</b>
Income tax expense	(55,920)	(66,924)	(73,237)	(87,317)	(283,398)
<b>Profit for the period</b>	<b>86,296</b>	<b>32,801</b>	<b>78,877</b>	<b>311,877</b>	<b>509,851</b>



## QUARTERLY ANALYSIS 2015

### INCOME STATEMENT - GROUP

	1st quarter Jan - Mar 15 LKR '000	2nd quarter Apr - Jun 15 LKR '000	3rd quarter Jul - Sep 15 LKR '000	4th quarter Oct - Dec 15 LKR '000	Total Jan - Dec 15 LKR '000
<b>Continuing Operations</b>					
Gross written premium	1,816,606	2,050,304	2,225,762	2,340,661	8,433,333
Gross reinsurance premium	(57,411)	(59,094)	(55,423)	(60,113)	(232,041)
Net change in reserve for unearned premium	(41,443)	(109,738)	(104,225)	(138,275)	(393,681)
<b>Net earned premium</b>	<b>1,717,752</b>	<b>1,881,472</b>	<b>2,066,114</b>	<b>2,142,273</b>	<b>7,807,611</b>
<b>Other revenue</b>					
Investment income	885,019	955,879	988,438	1,051,228	3,880,564
Fee income	83,594	84,112	86,901	85,007	339,614
Realised gains	11,311	95,659	79,342	52,595	238,907
Fair value gains / (losses)	(156,248)	44,437	(94,675)	(151,626)	(358,112)
Other operating revenue	75,824	74,592	75,116	86,908	312,440
	<b>899,500</b>	<b>1,254,679</b>	<b>1,135,122</b>	<b>1,124,112</b>	<b>4,413,413</b>
<b>Total revenue</b>	<b>2,617,252</b>	<b>3,136,151</b>	<b>3,201,236</b>	<b>3,266,385</b>	<b>12,221,024</b>
Net claims and benefits	(1,184,971)	(1,091,250)	(1,173,245)	(1,421,229)	(4,870,695)
Change in contractual liability	(243,089)	(745,002)	(766,903)	(337,606)	(2,092,600)
Net acquisition expenses	(281,924)	(300,315)	(318,899)	(344,787)	(1,245,925)
Operating and administrative expenses	(821,818)	(902,548)	(829,299)	(939,611)	(3,493,276)
<b>Profit before tax</b>	<b>85,450</b>	<b>97,036</b>	<b>112,890</b>	<b>223,152</b>	<b>518,528</b>
Income tax expense	(47,872)	(47,696)	(58,108)	(61,689)	(215,365)
<b>Profit for the period from continuing operations</b>	<b>37,578</b>	<b>49,340</b>	<b>54,782</b>	<b>161,463</b>	<b>303,163</b>
<b>Discontinued operations</b>					
Profit/(loss) for the period of discontinued operations (net of tax)	(39,469)	24,777	(31,993)	1,234,135	1,187,450
<b>Profit for the period</b>	<b>(1,891)</b>	<b>74,117</b>	<b>22,789</b>	<b>1,395,598</b>	<b>1,490,613</b>

### INCOME STATEMENT - COMPANY

	1st quarter Jan - Mar 15 LKR '000	2nd quarter Apr - Jun 15 LKR '000	3rd quarter Jul - Sep 15 LKR '000	4th quarter Oct - Dec 15 LKR '000	Total Jan - Dec 15 LKR '000
<b>Continuing Operations</b>					
Gross written premium	1,816,606	2,050,304	2,225,762	2,340,661	8,433,333
Gross reinsurance premium	(57,411)	(59,094)	(55,423)	(60,113)	(232,041)
Net change in reserve for unearned premium	(41,443)	(109,738)	(104,225)	(138,275)	(393,681)
<b>Net earned premium</b>	<b>1,717,752</b>	<b>1,881,472</b>	<b>2,066,114</b>	<b>2,142,273</b>	<b>7,807,611</b>
<b>Other revenue</b>					
Investment income	885,019	955,879	988,438	1,051,228	3,880,564
Fee income	83,256	83,776	86,551	84,655	338,238
Realised gains	11,309	95,659	79,342	52,595	238,905
Fair value gains / (losses)	(156,248)	44,437	(94,675)	(133,396)	(339,882)
Other operating revenue	75,762	74,521	75,040	86,824	312,147
	<b>899,098</b>	<b>1,254,272</b>	<b>1,134,696</b>	<b>1,141,906</b>	<b>4,429,972</b>
<b>Total revenue</b>	<b>2,616,850</b>	<b>3,135,744</b>	<b>3,200,810</b>	<b>3,284,179</b>	<b>12,237,583</b>
Net claims and benefits	(1,184,971)	(1,091,250)	(1,173,245)	(1,421,229)	(4,870,695)
Change in contractual liability	(243,089)	(745,002)	(766,903)	(337,606)	(2,092,600)
Net acquisition expenses	(281,924)	(300,315)	(318,900)	(344,786)	(1,245,925)
Operating and administrative expenses	(821,735)	(902,364)	(829,191)	(939,384)	(3,492,674)
<b>Profit before tax</b>	<b>85,131</b>	<b>96,813</b>	<b>112,571</b>	<b>241,174</b>	<b>535,689</b>
Income tax expense	(47,814)	(47,655)	(58,050)	(61,637)	(215,156)
<b>Profit for the period from continuing operations</b>	<b>37,317</b>	<b>49,158</b>	<b>54,521</b>	<b>179,537</b>	<b>320,533</b>
<b>Discontinued operations</b>					
Profit/(loss) for the period of discontinued operations (net of tax)	(747)	(6,044)	(5,915)	1,237,517	1,224,811
<b>Profit for the period</b>	<b>36,570</b>	<b>43,114</b>	<b>48,606</b>	<b>1,417,054</b>	<b>1,545,344</b>

## FIVE YEAR SUMMARY

As at 31 December	2016 LKR '000	2015 LKR '000	2014 LKR '000	2013 LKR '000	2012 LKR '000
<b>Statement of Financial Position</b>					
<b>Group</b>					
<b>Assets</b>					
Investments	35,730,927	35,664,879	33,943,900	30,398,645	26,222,740
Investments - unit-linked	5,258,443	5,565,077	6,499,893	7,476,508	8,090,885
Property, plant and equipment	229,169	300,079	358,634	303,473	203,439
Other assets	5,107,978	4,431,923	6,898,293	6,026,766	6,476,046
<b>Total assets</b>	<b>46,326,517</b>	<b>45,961,958</b>	<b>47,700,720</b>	<b>44,205,392</b>	<b>40,993,110</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
Stated capital	511,922	511,922	300,000	300,000	300,000
Revaluation reserve	72,096	72,096	72,096	72,096	72,096
Resilience reserve	289,000	289,000	289,000	289,000	289,000
Retained earnings	4,492,836	5,493,899	4,225,573	3,924,237	3,402,457
<b>Total equity</b>	<b>5,365,854</b>	<b>6,366,917</b>	<b>4,886,669</b>	<b>4,585,333</b>	<b>4,063,553</b>
<b>Liabilities</b>					
Insurance provision - conventional	33,087,439	31,372,229	29,668,160	26,174,239	23,892,127
Insurance provision - unit-linked	5,343,212	5,655,373	6,569,799	7,638,055	8,125,091
Insurance provision - General	-	-	2,956,174	2,755,899	2,325,611
Other liabilities	2,530,012	2,567,439	3,619,918	3,051,866	2,586,728
<b>Total liabilities</b>	<b>40,960,663</b>	<b>39,595,041</b>	<b>42,814,051</b>	<b>39,620,059</b>	<b>36,929,557</b>
<b>Total equity and liabilities</b>	<b>46,326,517</b>	<b>45,961,958</b>	<b>47,700,720</b>	<b>44,205,392</b>	<b>40,993,110</b>
<b>Long term - supplemental</b>					
<b>Assets</b>					
Investments	31,912,482	30,075,237	28,664,494	25,431,589	23,223,489
Investments - unit-linked	5,258,443	5,565,077	6,499,893	7,476,508	8,090,885
Other assets	3,306,989	3,400,693	3,264,965	2,534,334	1,936,635
<b>Total assets</b>	<b>40,477,914</b>	<b>39,041,007</b>	<b>38,429,352</b>	<b>35,442,431</b>	<b>33,251,009</b>
<b>Liabilities</b>					
Insurance provision - conventional	33,011,108	31,372,229	29,668,160	26,174,239	23,892,127
Insurance provision - unit-linked	5,419,543	5,655,373	6,569,799	7,638,055	8,125,091
Other liabilities	2,047,263	2,013,405	2,191,393	1,630,137	1,233,791
<b>Total liabilities</b>	<b>40,477,914</b>	<b>39,041,007</b>	<b>38,429,352</b>	<b>35,442,431</b>	<b>33,251,009</b>

<b>Five year summary</b>							
<b>For the financial year ended 31 December</b>			<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
			<b>LKR '000</b>	<b>LKR '000</b>	<b>LKR '000</b>	<b>LKR '000</b>	<b>LKR '000</b>
<b>Income Statement</b>							
<b>Total business (Group)</b>							
Annualised new premium			4,351,560	3,894,229	3,460,035	2,976,393	2,611,006
Gross written premium			10,103,915	8,433,333	7,266,573	6,863,047	6,495,863
Gross reinsurance premium			(260,065)	(232,041)	(204,627)	(253,493)	(219,497)
Net change in reserve for unearned premium			(445,931)	(393,681)	(287,113)	(296,445)	-
Net earned premium			9,397,919	7,807,611	6,774,833	6,313,109	6,276,366
Other revenue			5,235,552	4,413,413	5,028,429	4,382,419	3,970,127
Total revenue			14,633,471	12,221,024	11,803,262	10,695,528	10,246,493
Net claims and benefits			(4,759,614)	(4,870,695)	(6,747,851)	(5,652,349)	(3,163,294)
Change in contractual liability			(3,136,816)	(2,092,600)	(483,027)	(753,963)	(3,672,697)
Net acquisition expenses			(1,270,379)	(1,245,925)	(941,563)	(815,996)	(757,551)
Operating and administrative expenses			(4,672,396)	(3,493,276)	(3,157,737)	(2,996,996)	(1,873,048)
Profit before tax			794,266	518,528	473,084	476,224	779,903
Income tax expense			(283,590)	(215,365)	(210,218)	(293,067)	(314,011)
Surplus transfer to shareholders' fund			314,760	100,000	100,000	200,000	195,000
Profit for the period from continuing operations			510,676	303,163	262,866	183,157	465,892
Profit for the period of discontinued operations (net of tax)			-	1,187,450	89,573	316,136	382,015
Profit for the period			510,676	1,490,613	352,439	499,293	847,907
<b>Investor information</b>							
<b>Financial year</b>			<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Return on net assets	%		8.71	5.38	7.44	11.54	22.17
Net assets per share	LKR		174.50	207.06	158.92	149.12	132.15
Market price per share - 31 December	LKR		280.10	292.00	302.00	250.70	329.80
Basic earnings per share - continuing operations	LKR		16.61	9.86	8.55	5.96	15.14
Price earnings ratio	times		16.87	29.62	35.33*	42.09*	21.79*
Market capitalisation	LKR mn		8,613	8,979	9,060	7,521	9,894
Dividend per share	LKR		49.50	7.07	2.00*	2.50*	9.00*
Dividend payout ratio ***	%		298.05	71.71	23.40*	41.97*	59.46*
Earnings yield	%		5.93	3.38	2.83	2.38	4.59
Dividend yield	%		17.67	2.42	0.66*	1.00*	2.73*
<b>Employee information</b>							
Revenue per employee **	LKR mn		17.95	15.14	15.49	15.59	18.84
Net profit per employee **	LKR '000		627	376	345*	267*	856*
Number of permanent employees **	nos.		815	807	762	686	544

\* Adjusted to reflect the issue of 749,370 new ordinary shares as a scrip dividend on 6 February 2015.

\*\* Continuing operations only.

\*\*\* Calculated based on the results of the continuing operations.

# SHARE INFORMATION

## SHAREHOLDING

As at 31 December 2016 there were 1,849 registered shareholders.

## DISTRIBUTION OF ORDINARY SHARES

Shareholding	Resident			Non-resident			Total		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
1 - 1,000	1,670	332,861	1.07	8	950	0	1,678	333,811	1.07
1001 - 10,000	161	404,492	1.32	1	1,828	0.01	162	406,320	1.33
10,001 - 100,000	7	134,304	0.44	0	0	0	7	134,304	0.44
100,001 - 1,000,000	0	0	0	0	0	0	0	0	0
Over 1,000,000	1	26,836,716	87.28	1	3,038,219	9.88	2	29,874,935	97.16
Total	1,839	27,708,373	90.11	10	3,040,997	9.89	1,849	30,749,370	100.00

The percentage of shares held by the public 2.84 per cent.

## CATEGORIES OF SHAREHOLDERS

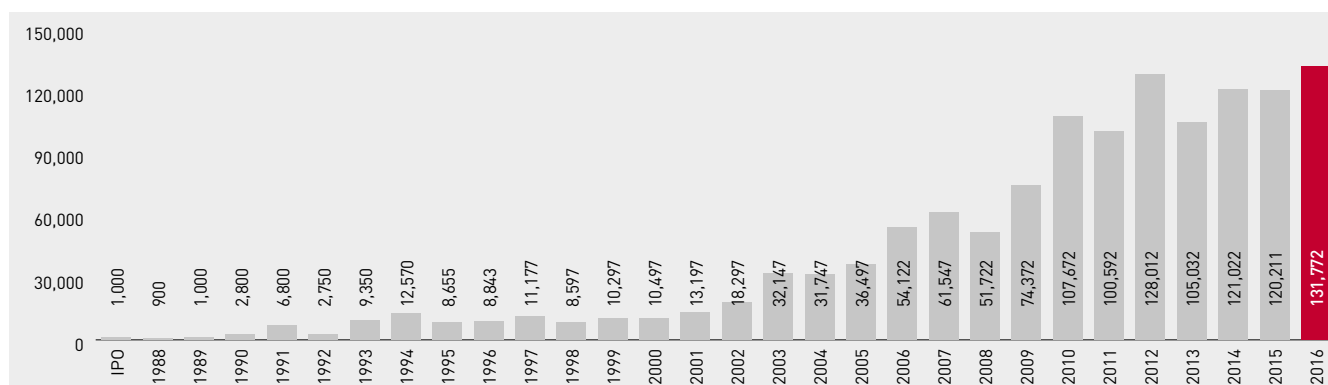
Categories	Resident			Non-resident			Total		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Individual	1,774	744,636	2.42	9	2,778	0.01	1,783	747,414	2.43
Institutional	65	26,963,737	87.69	1	3,038,219	9.88	66	30,001,956	97.57
Total	1,839	27,708,373	90.11	10	3,040,997	9.89	1,849	30,749,370	100.00

## SUBSTANTIAL SHAREHOLDING

Name of the shareholder	No. of shares	%
AIA Holdings Lanka (Private) Limited	26,836,716	87.28
AIA Company Limited	3,038,219	9.88

## Value of LKR. 1,000 invested at the IPO

LKR



**20 LARGEST SHAREHOLDERS**

The 20 largest shareholders as at 31 December 2016 are given below.

Name of the shareholder	31 December 2016	
	No. of shares	%
AIA Holdings Lanka (Private) Limited	26,836,716	87.28
AIA Company Limited	3,038,219	9.88
Mr. Srikantha Rasaratnam	38,435	0.12
People's Leasing and Finance PLC / Mr. C D Kohombanwickramage	24,787	0.08
Bansei Securities Capital (Pvt) LTD / Dawi Investment Trust (Pvt) LTD	15,463	0.05
Miss. A S Gunaratne	15,375	0.05
Mr. N W H D Gunaratne	15,375	0.05
Mr. Chandra Jayaratne	13,220	0.04
People's Leasing & Finance PLC / M V D Ranasinghe	11,649	0.04
Mr. Aravinthan Sivarajah	9,891	0.03
People's Leasing & Finance PLC / L P Hapangama	9,763	0.03
Waldock Mackenzie LTD / Dr. H S D Soysa	8,244	0.03
Mr. Varatharajah Selvaratnam	7,685	0.02
Mr. S K Kader / Mrs. N M Kader	7,685	0.02
People's Leasing & Finance PLC / L H L M P Haradasa	7,595	0.02
Mr. S P K Chamara Perera	7,436	0.02
Mr. H Janak Bhagwandas	7,224	0.02
Mrs. Thevarajah Sithamparam	7,184	0.02
Mr. Sivagnanam Sathasivam	6,387	0.02
Mr. R T Manatunga / Mrs. C N C Manatunga	6,150	0.02
	30,094,483	97.84
Others	654,887	2.16
Total	30,749,370	100.00

The 20 largest shareholders as at 31 December 2015 are given below.

Name of the shareholder	31 December 2015	
	No. of shares	%
AIA Holdings Lanka (Private) Limited	26,836,716	87.28
AIA Company Limited	3,038,219	9.88
Mr. Srikantha Rasaratnam	38,435	0.12
People's Leasing and Finance PLC / Mr. C D Kohombanwickramage	20,348	0.07
Dawi Investment Trust (Pvt) LTD	15,375	0.05
Miss. A S Gunaratne	15,375	0.05
Mr. N W H D Gunaratne	15,375	0.05
Deutsche Bank AG as trustee to Assetline Income Plus Growth Fund	15,202	0.05
Mr. Chandra Jayaratne	13,220	0.04
People's Leasing & Finance PLC / M V D Ranasinghe	11,649	0.04
Mr. Aravinthan Sivarajah	9,891	0.03
Waldock Mackenzie LTD / Dr. H S D Soysa	8,244	0.03
Mr. Varatharajah Selvaratnam	7,685	0.02
Mr. S K Kader / Mrs. N M Kader	7,685	0.02
Mr. S P K Chamara Perera	7,436	0.02
Mr. H Janak Bhagwandas	7,224	0.02
Mrs. Thevarajah Sithamparam	7,172	0.02
Mr. N S J Nawaratne	6,765	0.02
People's Leasing and Finance PLC / Mr. L P Hapangama	6,731	0.02
Mr. R T Manatunga / Mrs. C N C Manatunga	6,150	0.02
	30,094,897	97.85
Others	654,473	2.15
Total	30,749,370	100.00

## SHARE INFORMATION

### SHARE VALUATION

The market value of the Company's ordinary shares as at 31 December 2016 was LKR 280.10 (31 December 2015 - LKR 292.00).

### RECORD OF SCRIPT ISSUES

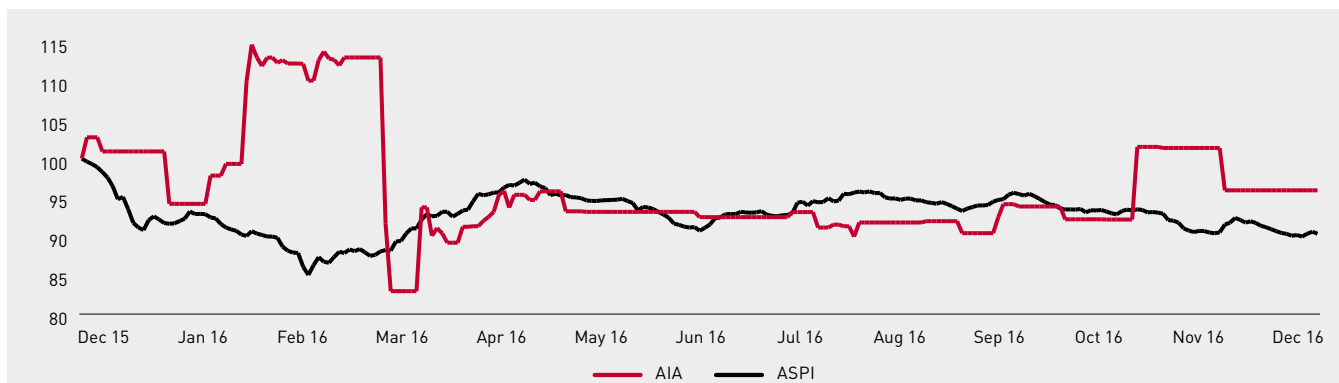
Year of Issue	Type of Issue	Ratio
1994	Bonus	1 : 5
1995	Bonus	1 : 4
1996	Bonus	1 : 4
1997	Bonus	1 : 15
2005	Bonus	1 : 2
2015	Bonus	1 : 40

### SHARE PERFORMANCE

	2016	2015
No. of transactions	817	517
No. of shares traded	47,455	57,285
Total value of shares traded (LKR)	14,057,905	16,971,336
CSE Turnover (LKR mn)	198,747	253,251
AIA market cap. (LKR mn)	8,613	8,979
CSE market cap. (LKR mn)	2,745,406	2,937,998
All Share Price Index - 31 December	6,228.26	6,894.50
AIA Share Price - 31 December (LKR)	280.10	292.00
AIA Share Price - High (LKR)	345.00	350.00
AIA Share Price - Low (LKR)	230.00	250.00
Earnings per share (LKR)	16.61	9.86
P/E Ratio (times)	16.87	29.62
Net assets per share (LKR)	174.50	207.06
Return on net assets (%)	8.71	5.38

### CSE ASPI Index Vs AIA Share Price

Indexed to 31 December 2015



# OUR LOCAL AND REGIONAL REACH

## AIA FOOTPRINT IN ASIA

**18** Markets

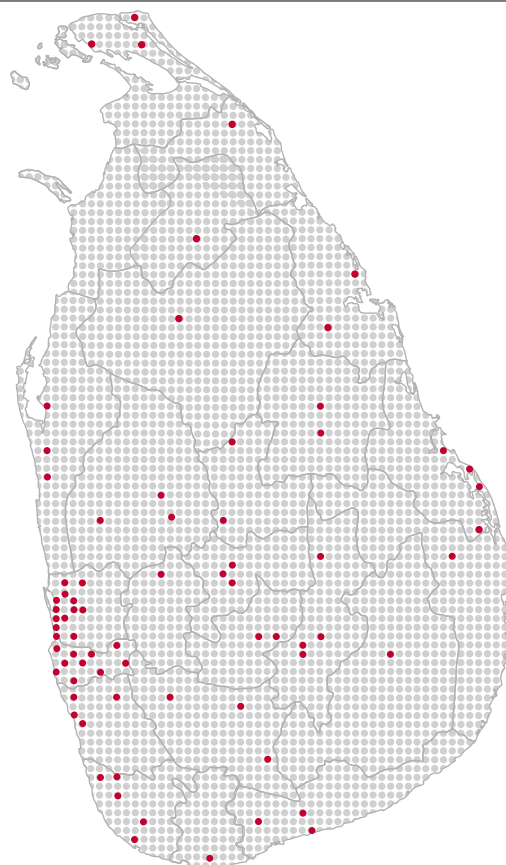
Australia	- 1972
Brunei	- 1957
China	- 1919
Cambodia	- 2015
Hong Kong	- 1931
India	- 2001
Indonesia	- 1984
Korea	- 1987
Macau	- 1982
Malaysia	- 1948
Myanmar	- 2013
New Zealand	- 1981
Philippines	- 1947
Singapore	- 1931
Sri Lanka	- 2012
Taiwan	- 1990
Thailand	- 1938
Vietnam	- 2000



## BRANCH OFFICE NETWORK IN SRI LANKA

**69** Locations

Ambalangoda	Jaffna	Mount Lavinia
Ambalantota	Kaduwela	Negombo
Ampara	Kalawanchikudi	Nelliady
Anuradhapura	Kalmunai	Nikaweratiya
Avissawella	Kalutara	Nittambuwa
Badulla	Kandana	Nugegoda
Balangoda	Kandy	Nuwara Eliya
Bandarawela	Kanthale	Peliyagoda
Battaramulla	Karapitiya	Pilimathalawa
Batticaloa	Kegalle	Polonnaruwa
Beliatta	Kilinochchi	Puttlam
Chilaw	Kiribathgoda	Ragama
Colombo	Kodikamam	Ratnapura
Dambulla	Kottawa	Trincomalee
Dankotuwa	Kuliyapitiya	Valaichchenai
Elpitiya	Kurunegala	Vavuniya
Embilipitiya	Maharagama	Wadduwa
Galle	Mahiyanganaya	Wariyapola
Gampaha	Matale	Wattala
Gampola	Matara	Welimada
Hingurakgoda	Mirigama	Wennappuwa
Homagama	Minuwangoda	
Horana	Moneragala	
Ja-ela	Moratuwa	



# DISTRIBUTION NETWORK

## HEAD OFFICE

AIA Insurance Lanka PLC  
75 Kumaran Ratnam Road, Colombo 2  
Tel : 011 231 0300 / 231 0000  
Fax : 011 244 7620  
E-mail : lk.info@aia.com  
Web : www.aialife.com.lk  
Hotline : 011 231 0310  
Fax : 011 471 5892

## UPTO BUILDING

95 Sir Chittampalam A Gardiner Mawatha,  
Colombo 2  
Tel : 011 231 0400  
Fax : 011 471 5892

## AIA LIFE LINK

1 Kumaran Ratnam Road, Colombo 2  
Tel : 011 231 0310  
Fax : 011 471 5892

## BRANCH OFFICE NETWORK

### Ambalangoda

118A/2/1 GMA Building, Galle Road  
Ambalangoda  
Tel : 091 225 8969  
Fax : 091 225 8994

### Ambalantota

143 Main Street, Ambalantota  
Tel : 047 222 3359 / 437 9672 / 2223165  
Fax : 047 222 5022

### Ambalantota Region 1

143 Main Street, Ambalantota  
Tel : 047 222 3359 / 437 9672  
Fax : 047 222 5022

### Ambalantota Region 2

143 Main Street, Ambalantota  
Tel : 047 222 3359 / 437 9672  
Fax : 047 222 5022

### Ambalantota City

143 Main Street, Ambalantota  
Tel : 047 222 3099 / 100/102  
Fax : 047-222 3099

### Ampara

149 Nidahas Mawatha, Ampara  
Tel : 063 222 3664 / 222 3663  
Fax : 063 222 2554

### Anuradhapura

523/7 Maithripala Senanayake Mawatha  
Anuradhapura  
Tel : 025 222 0858 / 223 4150  
Fax : 025 222 3102

### Anuradhapura City

523/7 Maithripala Senanayake Mawatha  
Anuradhapura  
Tel : 025 222 7300 / 222 7301  
Fax : 025 222 7301

### Anuradhapura Region 1

523/7 Maithripala Senanayake Mawatha  
Anuradhapura  
Tel : 025 205 4022  
Fax : 025 222 3102

### Avissawella

93/1/1 Rathnapura Road, Avissawella  
Tel : 036 223 2597  
Fax : 036 223 3550

### Avissawella Region 1

93/1/1 Rathnapura Road, Avissawella  
Tel : 036 223 2597 / 036 223 3550  
Fax : 036 223 3550

### Badulla

King City 18/1/2, Dharmadutha Road, Badulla  
Tel : 055 222 2848 / 223 0772  
Fax : 055 222 5780

### Badulla Region 1

King City 18/1/2, Dharmadutha Road, Badulla  
Tel : 055 222 2848 / 223 0772  
Fax : 055 222 5780

### Badulla Region 2

King City 18/1/2, Dharmadutha Road, Badulla  
Tel : 055 222 2848 / 223 0772  
Fax : 055 222 5780

### Balangoda

51-1/1 Kaltota Road, Balangoda  
Tel : 045 228 9516  
Fax : 045 228 9517

### Bandarawela

3/126 DFCC Building, Main Street  
Bandarawela  
Tel/ Fax : 057 222 4869 / 223 3288

### Battaramulla

1006/4/A Pannipitiya Road, Battaramulla  
Tel : 011 288 9809-11  
Fax : 011 552 5394

### Batticaloa

42/1 Trincomalee Road, Batticaloa  
Tel : 065 222 7975  
Fax : 065 222 7988

### Beliatta

14 First floor, Dickwella Road, Beliatta  
Tel : 047 225 1126 / 27  
Fax : 047 225 1127

### Chilaw

89 Kurunegala Road, Chilaw  
Tel : 032 222 1217  
Fax : 032 222 3027

### Colombo Main

95 Sir Chittampalam A Gardiner Mawatha  
Colombo 2  
Tel : 011 231 0262 / 231 0293  
Fax : 011 231 0259

### Colombo Region 1

95 Sir Chittampalam A Gardiner Mawatha  
Colombo 2  
Tel : 011 231 0254 / 011 231 0573  
Fax : 011 231 0259

### Colombo Region 2

95 Sir Chittampalam A Gardiner Mawatha  
Colombo 2  
Tel : 011 231 0289 / 231 0489  
Fax : 011 231 0259

### Colombo Region 3

95 Sir Chittampalam A Gardiner Mawatha  
Colombo 2  
Tel : 011 231 0264 / 231 0272  
Fax : 011 231 0259

### Colombo Region 4

100 Kumaran Ratnam Road, Colombo 2  
Tel : 011 231 0006 / 231 0350  
Fax : 011 231 0120

### Colombo Region 5

75 Kumaran Ratnam Road, Colombo 2  
Tel : 011 231 0010 / 231 0250  
Fax : 011 231 0259

### Colombo Region 6

95 Sir Chittampalam A Gardiner Mawatha  
Colombo 2  
Tel : 011 231 0249 / 231 0265  
Fax : 011 231 0259

### Dambulla

734/1 Anuradhapura Road, Dambulla  
Tel : 066 228 3335  
Fax : 066 228 3336

### Dambulla Region 1

734/1 Anuradhapura Road, Dambulla  
Tel : 066 228 3465  
Fax : 066 228 3336

### Dankotuwa

163/A Pannala Road, Dankotuwa  
Tel : 031 22 65210 / 031 226 5220  
Fax : 031 226 5220

### Elpitiya

301/1 Ambalangoda Road, Egala, Elpitiya  
Tel : 091 229 0634 / 091 229 0635  
Fax : 091 229 0634

### Embilipitiya

First Floor, Lakmini Supermarket Building  
51 Main Street, Embilipitiya  
Tel : 047 223 0417  
Fax : 047 226 1919

### Embilipitiya Region 1

First Floor, Lakmini Supermarket Building  
51 Main Street, Embilipitiya  
Tel : 047 223 0416  
Fax : 047 226 1919

### Galle

32 Old Matara Road, Pettigala Watta, Galle  
Tel : 091 224 6733 / 223 2261  
Fax : 091 223 2261

### Galle Region 1

32 Old Matara Road, Pettigala Watta, Galle  
Tel : 091 224 6733 / 223 2261  
Fax : 091 223 2261

### Galle City

30-1/1 Sri Dewamitta Road, China Garden  
Galle  
Tel : 091 2226 227  
Fax : 091 2226 228

### Gampaha

85 Baudhaloka Mawatha, Gampaha  
Tel : 033 222 1177 / 222 6840 / 222 7393  
Fax : 033 223 4700



**Gampaha Metro**

161/1/1, Ja-Ela Road, Gampaha  
Tel : 033 223 9246 / 033 223 9247  
Fax : 033 223 9247

**Gampaha Region 1**

85 Bauddhaloka Mawatha, Gampaha  
Tel : 033 222 7393 / 222 6840  
Fax : 033 223 4700

**Gampola**

8/38/b/1/1 Nawalapitiya Road, Gampola  
Tel : 081 235 3173 / 273  
Fax : 081 235 3173

**Higurakgoda**

6 Airport Road, Higurakgoda  
Tel : 027 224 5799 / 027 224 5798  
Fax : 027 224 5799 / 027 224 5798

**Homagama**

113/A/1 Avissawella Road, Homagama  
Tel : 011 285 7155 / 011 209 8188 /  
011 285 7160  
Fax : 011 285 7160

**Horana**

135 Panadura Road, Horana  
Tel/ Fax : 034 226 2359

**Ja-ela**

112/C Negombo Road, Ja-Ela  
Tel/ Fax : 011 224 8222 / 011 224 8223 /  
011 224 8224

**Jaffna**

62/6 Stanley Road, Jaffna  
Tel/Fax : 021 222 1215 / 021 222 1216

**Kaduwela**

296A/1 New Kandy Road, Kothalawala  
Kaduwela  
Tel : 011 253 8856  
Fax : 011 253 8859

**Kalawanchikudi**

Main Street, Kalawanchikudi, Batticaloa  
Tel : 065 225 1933 / 065 225 1934

**Kalmunai**

140/1/2, Main Street, Kalmunai  
Tel : 067 222 5262  
Fax : 067 222 5262

**Kalutara**

195/1 Main Street, Kalutara South  
Tel : 034 222 2820 / 222 9783  
Fax : 034 223 5150

**Kalutara Agency 2**

195/1 Main Street, Kalutara South  
Tel : 034 222 2820 / 222 9783  
Fax : 034 223 5150

**Kalutara Region 3**

195/1 Main Street, Kalutara South  
Tel : 034 222 2820 / 222 9783  
Fax : 034 223 5150

**Kandana**

48/4/1/1 Negombo Road, Kandana  
Tel/Fax : 011 222 6320 / 011 222 6146

**Kandy**

90-92, Sixth Floor, Commercial Bank  
Building, Kotugodella Veediya, Kandy  
Tel : 081 222 2321 / 220 0101 / 222 2322  
Fax : 081 223 2668

**Kandy Region 1**

90-92, Sixth Floor, Commercial Bank  
Building, Kotugodella Veediya, Kandy  
Tel : 081 220 0100 / 220 0101 / 222 2322  
Fax : 081 223 2668

**Kanthale**

72/2 Main Street, Kanthale  
Tel : 026 223 4903 / 026 223 4904 / 026 223  
4902

**Karapitiya**

461 Hirimbura Road, Karapitiya, Galle  
Tel : 091 222 6830  
Fax : 091 224 6627

**Karapitiya Region 1**

183/1 Hirimbura Cross Road, Karapitiya  
Galle  
Tel : 091 223 1614 / 613  
Fax : 091 223 1613

**Kegalle**

447/8 Main Street, Kegalle  
Tel : 035 222 3141 / 222 2835  
Fax : 035 223 1780

**Kegalle Region 1**

447/8 Main Street, Kegalle  
Tel : 035 222 3141 / 222 2835  
Fax : 035 223 1780

**Kegalle Region 2**

447/8 Main Street, Kegalle  
Tel : 035 222 3141 / 222 2835  
Fax : 035 223 1780

**Kilinochchi**

470/2 Kandy Road, Kilinochchi  
Tel : 021 228 5514  
Fax : 021 228 5513

**Kiribathgoda Region 1**

412/2 Gaala Junction, Kandy Road  
Kiribathgoda  
Tel : 011 290 1660  
Fax : 011 290 1666

**Kiribathgoda Region 2**

412/2 Gaala Junction, Kandy Road  
Kiribathgoda  
Tel : 011 290 1664  
Fax : 011 290 1666

**Kodikamam**

Kachchai Road, Kodikamam  
Tel : 021 205 0388  
Fax : 021 205 0389

**Kottawa**

Senadheera Alignment Centre  
456/2 Highlevel Road, Makumbura, Kottawa  
Tel : 011 217 2515 / 011 217 2523

**Kuliyapitiya**

149/7 Main Street, Kuliyapitiya  
Tel : 037 228 4222  
Tel/ Fax : 037 228 1867

**Kuliyapitiya city**

149/7 Main Street, Kuliyapitiya  
Tel : 037 228 2224  
Tel/ Fax : 037 228 2224 / 225

**Kuliyapitiya Region 1**

149/7 Main Street, Kuliyapitiya  
Tel : 037 228 4222/ 037 228 1830  
Tel/ Fax : 037 228 1867

**Kurunegala**

110/1 Noel Seneviratne Mawatha, Colombo  
Road, Kurunegala  
Tel/ Fax : 037 222 3540 / 222 7707 /  
222 9998

**Kurunegala City**

17 Rajapihilla Road, Kurunegala  
Tel : 037 222 2668  
Fax : 037 222 2828

**Kurunegala Region 1**

110/1 Noel Seneviratne Mawatha, Colombo  
Road, Kurunegala  
Tel/ : 037 222 1217 / 222 7707  
Fax : 037 222 7707 / 222 9998

**Kurunegala Region 2**

110/1 Noel Seneviratne Mawatha, Colombo  
Road, Kurunegala  
Tel/ Fax : 037 222 3990 / 222 7707  
Fax : 037 222 7707 / 222 9998

**Kurunegala Region 3**

17 Rajapihilla Road, Kurunegala  
Tel : 037 222 2668  
Fax : 037 222 2828

**Maharagama**

131/1/1, Awissawella Road, Maharagama  
Tel : 011 283 7611  
Fax : 011 283 7488

**Mahiyanganaya City**

20/1, 22/ 1 First Floor, Darashana Building  
Kandy Road (South), Mahiyanganaya  
Tel : 055 225 8475  
Fax : 055 225 8476

**Matale**

181 Nimali Building, Trincomalee Street  
Matale  
Tel/ Fax : 066 223 2401-2-3

**Matale Region 1**

181 Nimali Building, Trincomalee Street  
Matale  
Tel/ Fax : 066 222 6625  
Fax : 066 223 2401-2

**Matara**

24 E H Cooray Building, Third Floor  
Anagarika Dharmapala Mawatha, Matara  
Tel : 041 222 2844 / 222 0674 / 222 6344  
Fax : 041 222 7344

**Matara City**

129 / 2 Anagarika Dharmapala Mawatha  
Matara  
Tel : 041 223 7041 / 041 223 7042  
Fax : 041 223 7042

## DISTRIBUTION NETWORK

### Matara Region 1

24 E H Cooray Building, Third Floor  
Anagarika Dharmapala Mawatha, Matara  
Tel : 041 222 0674 / 222 6344 / 222 0674  
Fax : 041 222 7344

### Matara Region 2

24 E H Cooray Building, Third Floor  
Anagarika Dharmapala Mawatha, Matara  
Tel : 041 222 0674 / 222 6344 / 222 0674  
Fax : 041 222 7344

### Mirigama

19, Negombo Road, Mirigama  
Tel : 033 227 3328 / 73 329  
Fax : 033 227 3328

### Minuwangoda

Sanasa Super Complex, First Floor  
Veyangoda Road, Minuwangoda  
Tel : 011 229 9364 / 229 9374

### Moneragala

308A Kachcheri Junction, Wellawaya Road  
Moneragala  
Tel : 055 227 6496  
Fax : 055 227 6211

### Moratuwa Region 1

459/1/1 Galle Road, Rawathawatte, Moratuwa  
Tel/ Fax : 011 264 8021 / 265 5615

### Moratuwa Region 2

553 Galle Road, Rawathawatte, Moratuwa  
Tel/ Fax : 011 264 8020 / 264 9322

### Moratuwa Region 3

553 Galle Road, Rawathawatte, Moratuwa  
Tel/ Fax : 011 264 9009 / 011 264 8020

### Mount Lavinia

230, Galle Road, Mt. Lavinia  
Tel : 011 271 0267 / 271 0268  
Fax : 011 271 0268

### Negombo

349/17 Main Street, Negombo  
Tel/ Fax : 031 222 2266 / 223 5115

### Negombo Region 1

349/17 Main Street, Negombo  
Tel/ Fax : 031 223 8149 / 223 5115

### Negombo Region 2

349/17 Main Street, Negombo  
Tel/ Fax : 031 222 2266 / 223 5115

### Nelliady

109/1 Jaffna Road, Nelliady, Jaffna  
Tel/ Fax : 021 226 2806

### Nikaweratiya

78/2, Wanninayake Building, Nikaweratiya  
Tel : 037 226 0774 / 226 0776  
Fax : 037 226 0774

### Nittambuwa

195/2/3 Colombo Road, Nittambuwa  
Tel : 033 229 8279  
Fax : 033 229 8279

### Nugegoda

513/3/1 High Level Road, Delkanda, Nugegoda  
Tel : 011 2804 009  
Fax : 011 2804 009

### Nuwara Eliya

Fourth Floor, 86, Kandy Road, Nuwara Eliya  
Tel/ Fax : 052 222 3478

### Peliyagoda

293 Kandy Road, Peliyagoda  
Tel/ Fax : 011 298 7950 / 298 7951

### Pilimathalawa

169/B Colombo Road, Pilimathalawa  
Tel : 081 205 6352 / 54

### Polonnaruwa

13 C – Crown Building, Hospital Junction  
Polonnaruwa  
Tel/ Fax : 027 222 3107-8

### Polonnaruwa Region 1

13 C, Crown Building, Hospital Junction  
Polonnaruwa  
Tel/ Fax : 027 222 3107-8

### Puttalam

171/1 Kurunegala Road, Puttalam  
Tel : 032 226 6955 / 226 7112

### Ragama City

43/1/1 Kadawatha Road, Ragama  
Tel : 011 295 1078  
Fax : 011 295 1078

### Ratnapura

23A Bandaranayake Mawatha, Ratnapura  
Tel : 045 222 4417  
Fax : 045 222 2601

### Trincomalee

5A, Main Street, Trincomalee  
Tel/ Fax : 026 222 7949

### Trincomalee Region 1

5A Main Street Trincomalee  
Tel/ Fax : 026 222 7949

### Valaichchenai

Karuwakeni, Main Street, Valaichchenai  
Tel : 065 225 8494 / 495

### Vavuniya

66 Station Road, Vairavapuliyanakulam, Vavuniya  
Tel : 024 222 5672  
Tel/ Fax : 024 222 5673

### Wadduwa

557/1 Galle Road, Wadduwa  
Tel : 038 228 3063 / 228 3064

### Wariyapola

90 Putthalam Road, Wariyapola  
Tel : 037 226 8615  
Fax : 037 226 8616

### Wattala

329/1 Elmo Tower, Negombo Road  
Kerangapokuna Mabola, Wattala  
Tel : 011 294 5272  
Fax : 011 294 5271

### Welimada

232, First Floor, Nuwaraeliya Road, Welimada  
Tel : 057 224 6878 / 224 5177  
Fax : 057 224 5177

### Wennappuwa

"Chamrith" Tile Factory, Halmilla Kele  
Chilaw Road, Wennappuwa  
Tel/ Fax : 031 225 5510 / 225 5600

## AREA DEVELOPMENT OFFICE NETWORK

### Akuressa

95 1/1, First Floor, Matara Road, Akuressa  
Tel : 041 228 4544

### Ampara

149 Nidahas Mawatha, Ampara  
Tel : 063 222 2630  
Fax : 063 222 2554

### Angunakolapelessa

Near the Roundabout, Angunakolapelessa  
Tel : 047 222 9130

### Baddegama

Hikkaduwa Road, Baddegama  
Tel : 091 229 2150

### Bandaragama

45/1, First floor, Horana Road, Bandaragama  
Tel : 038 228 9277

### Dehiattakandiya

B4 New Town, Dehiattakandiya  
Tel / Fax : 027 225 0447

### Embilipitiya

70 New Town Road, Pallegama, Embilipitiya

### Hali Ela

65 Badulla Road, Hali Ela  
Tel : 055 229 5576 / 229 5575

### Kadawatha

468/03 Kandy Road, Kadawatha  
Tel : 011 292 0270

### Kamburupitiya

Pathirana Building, Second Floor, Kirinda  
Road, Kamburupitiya  
Tel : 041 229 4477 / 229 4818

### Mathugama

60 Neboda Road, Mathugama  
Tel : 034 224 9418 / 224 9955

### Mawanella

257, Second Floor, New Colombo Kandy  
Road, Mawanella.  
Tel : 035 322 0550

### Middeniya

First Floor, Liyanage building, Weeraketiya  
Road, Middeniya  
Tel : 047 224 8095

### Piliyanadala

130/5 Second floor, Horana Road, Kesbewa  
Tel : 011 270 3644

### Tangalle

8A Medaketiya Road, Tangalle  
Tel : 047 224 0166

### Thissamaharama

173/1 Iresha Building, Kachcheriyagama  
Thissamaharama  
Tel : 047 223 9096

### Weliweriya

342A New Kandy Road, Weliweriya  
Tel : 033 225 7747

## GLOSSARY

### Actuary

A person who provides solutions to insurance-related problems using applied mathematics (in particular, probability). Actuarial techniques are used to design new insurance products and to assess the profitability of a new and existing insurance business.

### Agent

An individual who is an independent contractor authorised to carry out transactions on behalf of another, such as the sale of insurance policies. Insurance agents usually earn commission or a fee on the sale of a policy. In Sri Lanka, they are tied to a particular insurance company.

### Amortisation - Intangible assets

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

### Annualised New Premium (ANP)

A method for calculating levels of life, pensions and investment new business, to smooth out the effect of large, one-off payments.

### Annuity

Another word for "pension". An annuity is a regular payment from an insurance company designed to give the policyholder an income for life after retirement. It is paid for by a lump sum saved during the policyholders' working lifetime. Annuity rates are based on yields on gilt-edged securities at the time of purchase. On death, any remaining investments usually become the property of the annuity provider.

### Asset

An asset is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

### Assurance

A term sometimes used instead of "insurance", generally in connection with life business, since assurance implies the certainty of an event (such as death) and insurance only the probability.

### Available for sale financial assets (AFS)

Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as being at fair value through profit or loss. Available for sale financial assets are measured at fair value, with movements in fair value being recorded in other comprehensive income.

### Bancassurance

An arrangement whereby banks allow selling of insurance and investment products to their customers by insurers.

### Benchmark

A market index or rate against which an investment fund compares its performance and the mix of assets.

### Blue chip

A description applied to the biggest and most highly regarded companies quoted on the stock market. Shares in such companies are usually considered a reliable and profitable investment.

### Board of Directors

Decision-making body legally responsible for overseeing the management of a company. In a listed company the Directors are elected by the shareholders. Executive Directors are usually employee directors responsible for managing the day-to-day business of the company.

### Bond

A bond is technically a certificate of debt issued by a government or company in return for a loan from an investor. Bonds are sometimes known as fixed interest securities, as they often have a fixed rate of interest and a predetermined repayment date. Examples include gilt-edged securities issued by the government of Sri Lanka, and corporate bonds issued by companies as investment products.

### Broker

An individual or firm that acts as an intermediary between a buyer and seller, usually charging commission or a fee. Insurance brokers arrange cover on behalf of their clients and represent the interests of the policyholder.

### Capital

Any form of wealth capable of being employed in the production of more wealth.

### Central bank

The major regulatory bank in a country, usually controlled by the government. Its role can include setting interest rates, issuing currency, supervisory commercial banks, manage exchange reserves and the national currency's value, as well as acting as the government's banker.

### CEO

Abbreviation for Chief Executive Officer. The CEO is the head of a company and oversees strategic planning and operational activities.

### Claim

Notification to an insurance company of a call by a policyholder to the benefits due under the terms of an insurance policy or scheme.

### Claims incurred

The total of all claims sustained during an accounting period, whether paid or not. Also known as losses incurred.

### Commission paid

Payment made to an agent or another intermediary, normally in return for selling an insurance or investment policy.

### Compliance

The requirement to operate in accordance with statutory or regulatory guidelines.

### Contract

A legally binding document between two parties. In the case of insurance, a common name for a scheme or policy.

## GLOSSARY

### Credit rating

A measure of the ability of an individual, organisation or country to repay debt. The highest rating is usually AAA, and the lowest is D. These are usually issued by a credit rating agency or credit bureau.

### Credit spread

The difference in yield between a corporate bond and a reference yield (e.g. a risk free interest rate such as a sovereign bond yield) of equal or comparable tenure.

### Debenture

A fixed interest security issued by a company or government agency, usually secured on its assets, with a long-term redemption (repayment) date typically between 5 and 10 years ahead. If a company files for bankruptcy, debenture stockholders are first in line to be repaid before the other stockholders and shareholders.

### Depreciation

Reduction in the worth of an asset in a company's accounts to reflect its loss of value through age and use.

### Discontinued operation

Discontinued operation is a segment of the Group that is a separate major line of business and has been disposed or wound up.

### Dividend

An amount based on a company's profits paid out to shareholders for each share they hold based on the profits of a company. Usually paid as cash, but they can also take the form of non-cash benefits.

### Earnings

Another word for profit. Broadly calculated as revenues minus costs, operating expenses and taxes, minority interests, extraordinary items and dividends on preference stock.

### Earnings Per Share (EPS)

Net profit attributable to shareholders holding ordinary shares divided by the number of shares issued, and is a guide to how well a company is performing. Companies often use a weighted average of shares outstanding over the reporting period as the denominator.

### Economic value

A financial performance measure used to evaluate a company's true profit and the creation of wealth to shareholders.

### Effective Interest Rate (EIR) method

A method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or expense over the relevant period.

### Equity

Another word for "share". Shareholders' equity is the book value of the shares they hold.

### Exchange rate

The rate at which one currency may be converted into another. Often quoted as an indicator of the relative strength of a currency or the attractiveness of the market in which it is used.

### Expense ratio

Expenses associated with running an insurance business, such as commission, professional fees and other administrative costs, expressed as a percentage of premiums. Also, the annual operating costs of an investment fund that is expressed as a percentage of the assets.

### Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Fair value through profit or loss (FVTPL)

A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.

### Final dividend

The dividend paid by a company to shareholders at the end of the financial year.

### Gross Domestic Product (GDP)

The total value of all goods and services produced domestically by a country each year. This can be calculated as gross national product minus income from abroad, and is a key measure of national economic health.

### Gross Premium Valuation (GPV)

An actuarial methodology used to value policyholder liabilities using the "gross" or "office" premium. The gross premium liability is the present value of future outflows (claims, commissions, expenses etc.) minus the present value of future gross premiums. A full set of assumptions (claim rates, lapse rates, interest rates, expense loadings etc.) are required under this methodology.

### Gross Written Premium (GWP)

The total revenue generated by sales of insurance products, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a future period.

### Health insurance

This provides cover against loss from illness or bodily injury. The policy can cover expenses for medicine, visits to the doctor, hospital stays, other medical expenses and loss of earnings, depending on the conditions covered and the benefits and choices of treatment available on the policy.

### In-force

An insurance policy is "in-force" from its start date until the date it is terminated provided that premiums due have been received by the insurer.

**Index**

An index is the weighted value of a group of securities used to measure the ups and downs of a market, market sector or asset class, and to provide a performance benchmark against which other investments in that category can be measured.

**Inflation**

An increase in the general level of prices of goods and services over a specified period.

**Insurance**

A contract which is taken out with an insurer to protect against loss from a perceived risk. The person taking out the insurance is called the insured. Payments for the policy are called premiums.

**Insurance contract**

A contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if specified uncertain future events adversely affect the policyholder.

**Insurance risk**

The potential loss resulting from inappropriate underwriting, mispricing, adverse expense, lapse, mortality and morbidity experiences. Under SLFRS / LKAS, insurance risk means risk, other than financial risk, transferred from the holder of a contract to the issuer.

**Intangible assets**

An intangible asset is an identifiable non-monetary asset without a physical substance.

**Interest**

The fee charged by a lender for the use of borrowed money, or the return earned on an investment, such as savings in a deposit account. It can also mean part or total ownership of an asset.

**Interest rate**

Percentage rate at which money is added to savings or borrowings. The cost of borrowing or lending money.

**Interim results**

Figures issued during the financial year to indicate business performance since the last full-year accounts were published. This is usually announced quarterly or half-yearly.

**Intermediary**

An individual or organisation who introduces business to an insurance company on behalf of a customer and represents them in dealings with the company. Types of intermediaries include financial advisers, agents, brokers, dealers and traders.

**Investment**

Buying and holding assets, such as shares, bonds, property and commodities, to earn income or to make capital gains.

**Investment contract**

An investment contract is an insurance policy that, whilst structured and regulated as a contract of insurance, does not meet the accounting definition of an insurance contract because it does not transfer significant insurance risk.

**Investment income**

Earnings or revenue (such as share dividends and interest payments) arising from the ownership of assets.

**Liabilities**

A company's debts and obligations, shown on the Balance Sheet as claims on its assets.

**Liability adequacy testing**

An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets needs to be decreased based on a review of future cash flows.

**Life insurance**

Promises the payment of an agreed sum of money upon the death of the insured within a specified period, also known as life assurance.

**Liquidity**

Ease with which an asset can be bought or sold without significantly affecting its price. A liquid asset is one easily convertible into cash.

**Liquidity risk**

The risk of having insufficient cash available to meet payment obligations to counterparties when they fall due.

**Listed**

A company whose shares are traded on a stock exchange is said to be listed. It means the same as quoted.

**Long-term savings**

Collective term for life insurance, pensions, savings, investments and related business.

**Market**

The place where transactions take place in a particular type of commodity, such as a stock exchange.

**Market capitalisation**

The value of a company calculated by multiplying the number of shares issued by the company and the market price of those shares.

**Maturity**

The date that an insurance policy or other financial contract finishes or "matures", and the proceeds, sometimes known as the maturity value, become payable.

**Million Dollar Round Table (MDRT)**

MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.

**Money supply**

The total amount of money in circulation in an economy. There are several ways this can be measured such as M0, M1, M2, M2b. Financial authorities use these measures to set targets for monetary growth.

## GLOSSARY

### Net Asset Value (NAV)

The value of a company calculated by subtracting its liabilities from its assets. The difference is the capital, that is, the funds that would be available to ordinary shareholders if the company were to be wound up.

### Net earned premium

The proportion of net written premiums recognised for accounting purposes as income in a given period.

### Net Premium Valuation (NPV)

An actuarial methodology used to value policyholder liabilities using the "net" premium; this is the portion of the office premium corresponding only to future claims. The net premium liability is the present value of future claims minus the present value of future net premiums. Assumptions for claim rates and interest rates are required under this methodology.

### Net Written Premium (NWP)

Total gross written premium for a given period, minus premiums paid or "ceded" to reinsurers.

### Net profit

The amount left over after deducting tax, interest, depreciation, fees, minority interests and extraordinary charges from sales revenue. This is also known as net earnings, or net income.

### New business

A term used to describe the value of long-term savings policies sold to new and existing customers, which includes premium increases on existing business.

### Ordinary share

The ownership of a company divided into a number of equal parts or "shares". Ordinary shareholders are entitled to a distribution of the profits (known as dividends) and have the right to vote at company meetings. If the company is wound up, ordinary shareholders are entitled to any assets left over after all other obligations have been met. These residual assets are known as the equity of the company, hence the term "equities" sometimes used to describe ordinary shares. Ordinary shares rank after debentures and preference shares.

### Portfolio

A collection of financial assets - investments in shares, fixed interest stocks, cash and property held by an investor.

### Premium

The monetary amount paid for an insurance policy. The payment a policyholder makes in return for insurance cover. Usually paid monthly, annually or as a single lump sum. Also, if the market price of a new share is higher than its issue price, it is said to be trading at a premium.

### Price to Earnings ratio (P / E ratio)

The share price divided by earnings per share of the latest twelve month period. The result offers investors a way of comparing companies' prospects. For example, a high P/E ratio might suggest a company has strong growth potential, and investors will pay more for a share if they think that the company's earnings will rise rapidly.

### Profit

Excess of income over expenses for a particular period. Figures may be given as gross profit, net profit before tax, net profit after tax, and earnings.

### Profit Before Tax (PBT)

All profits earned in a period, including investment gains.

### Proxy

A method by which a shareholder may vote without attending a meeting by appointing someone else to vote on their behalf.

### Quoted

If a company has a quote (or is "quoted"), its shares can be traded on the stock exchange. It means the same as listed.

### Rate of return

The change in value of an investment over a period, taking into account income from it and any change in its market value. Normally expressed as an equivalent annual percentage of the total amount invested. It is also the yield from a fixed income security.

### Recession

A period of general economic decline. Specifically, a decline in Gross Domestic Product (GDP) for two or more consecutive quarters.

### Regulatory body

An organisation with statutory powers to lay down a framework within which member companies must operate.

### Reinsurance

A form of insurance bought by insurance companies to protect themselves from the risk of large losses. One insurer pays to place part of an insured risk or an entire book of business with one or more other insurance companies, known as the reinsurers.

### Return

For savings, the difference between the original sum invested and the final value of income or capital growth, given as a percentage. For shares, the overall investment performance based on the movement in the price of the shares (gain or loss) and the dividend income from the shares.

### Return on Net Assets (RONA)

Usually calculated as post-tax profit divided by equity (total assets minus total liabilities), expressed as a percentage.

### Rights issue

An invitation from a company to their existing shareholders to buy new shares, usually for less than the prevailing share price, to raise additional capital.

### Risk

It is the measurable probability of loss or less-than-expected returns from an investment, asset or business activity.

### Risk-Based Capital (RBC)

RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments. Sri Lanka adopted the RBC framework for solvency effective 1 Jan 2016 in line with legislation.

**Sector**

Part of a market or industry whose components share similar characteristics. Stocks are often grouped into sectors.

**Securities**

General term for financial instruments traded on a stock exchange, such as stocks and shares, and the notes, certificates and bearer warrants that signify ownership of them.

**Securities and Exchange Commission of Sri Lanka (SEC)**

The official Sri Lankan regulatory body responsible for investor protection and regulation of the securities industry and companies quoted on the Colombo Stock Exchanges.

**Share**

Common term for equity. Specifically, a certificate conferring ownership rights in a company. Ordinary shares (or common stock) provide voting rights at company meetings and entitle the holder to a proportional share of the profits.

**Shareholder**

Someone who owns shares or stock in a company or mutual fund. Shareholders also have the right to declared dividends and the right to vote on company matters, including the appointment of the Board of Directors.

**Shareholders' Funds**

Shareholders' Funds represent the assets that remain once all of a company's liabilities have been accounted for. This also equates to the capital of the company, plus any profits that have been retained by the business.

**Stakeholder**

Any individual or organisation with an interest in a company.

**Statement of Financial Position / Balance Sheet**

A statement showing the financial position of a business on a specific date by listing its assets (what it owns) and its liabilities (the claims on its assets, or what it owes).

**Stock**

Often used as an alternative word for share, especially in the US. However, it can refer specifically to fixed-interest investments, such as bonds and gilt-edged stocks, which represent a loan to the issuer, rather than shares, which signify part ownership of a company.

**Stock exchange**

A marketplace where stocks and shares and other financial instruments can be traded.

**Surrender**

The act of cancelling or cashing in the proceeds of an insurance contract for a surrender value before it becomes payable or reaches its maturity date.

**Technical provisions**

Amounts set aside on the basis of actuarial calculations to meet obligations to policyholders.

**Treasury bill/Treasury bond**

Loan or debt securities issued by a government to help pay for its financial needs. Investors receive a guaranteed return over a fixed period. In Sri Lanka, treasury bills (also known as T-bills) are short-term securities issued for up to one year. They are sold at a discount, the difference between the purchase price and the face value representing the holder's profit at the end of the term. Treasury bonds (T-bonds) also pay a fixed rate of interest and are long-term securities issued with a term of more than one year. Treasury bills and Treasury bonds are usually known as gilt-edged securities.

**Trust**

A legal arrangement where one or more people are appointed to look after property or investments on behalf of someone else (the beneficiary). The Trustees are legally responsible for how the assets are managed.

**Trustee**

Someone appointed to hold or administer assets for the benefit of other people.

**Underwriting**

The process of selecting which risks an insurance company can cover, and deciding the premiums and terms of acceptance. On the stock exchange, an arrangement by which a company is guaranteed that an issue of shares will raise a given amount of money, because the underwriters promise to buy any part of the issue not taken up by the public.

**Unearned premiums**

Premiums received by an insurer relating to cover provided outside the current accounting period. Such premiums are not normally treated as income until they have been "earned" during the period to which they relate.

**Unearned Premium Reserve (UPR)**

The amount set aside from premiums written before the accounting date to cover risks that may be incurred after that date.

**Unit trust**

Fund comprising stocks and shares held by a manager for the benefit of investors. Individuals buy units in the fund, which then invests in a wide range of stocks and shares. This approach offers small investors the opportunity to pool their money with others and benefit from a greater spread of risk and investment opportunities. The British equivalent of an American mutual fund.

**Unitised**

Investment policy under which contributions are used to buy units in a chosen investment fund.

**Unit-linked**

A type of long-term savings plan where premiums are used to buy units in an investment fund, such as a unit trust. The assets in the fund can be a mix of stocks, shares, bonds, property or other securities. The value of the units and the return from them can fluctuate in line with the investment performance of the assets in the fund, and there is no guarantee on the amount of capital that will be returned.

## GLOSSARY

### **Unrealised**

A notional profit or loss that has not yet been achieved through a transaction. The profit or loss is “realised” when the investor sells the security or asset in question. Unrealised gains are usually not taxable.

### **Volatility**

The variable amount by which a share price or market value rises and falls during a period. If it moves up and down rapidly or unpredictably, it is said to have high volatility; if it is more stable or rarely changes, it is said to have low volatility.

### **Warrant**

A tradable security that gives the holder the right to buy a share or bond at a fixed price at a future date.

### **Withholding tax (WHT)**

Withholding tax is an amount withheld by the party making payment to another (payee) and paid to the taxation authorities.

### **Write off**

To cancel a debt, or to acknowledge the loss or worthlessness of an asset. Also to remove an asset or holding entirely from a Balance Sheet. The reduction in value, or loss, is said to be “written off”.

### **Yield**

The rate of return on an investment in percentage terms, taking into account annual income and any change in capital value. Also, the dividend payable on a share expressed as a percentage of the market price.



## NOTICE OF MEETING

**NOTICE IS HEREBY GIVEN THAT** the thirty first Annual General Meeting of AIA Insurance Lanka PLC will be held on Monday, 27 March 2017 at 10.00 a.m. at AIA Premier Academy, AIA Office, third floor of Union of Post and Telecommunication Officers' Building, No.95, Sir Chittampalam A Gardiner Mawatha, Colombo 2, for the following purposes:

### Ordinary Business:

1. To receive and consider the audited financial statements for the year ended 31 December 2016 together with the Annual Report of the Board of Directors and the Report of the Auditors thereon.
2. To declare a final dividend of LKR 2 per share as recommended by the Directors.
3. To ratify the total donations of LKR 6.6 million which had been made by the Company during the year ended 31 December 2016 which amount is within the aggregate thereof amounting to 1 per cent of the average profits after tax for the preceding three years.
4. To authorise the Directors, to make on behalf of the Company, in pursuance of the provisions of the Companies (Donations) Act No. 26 of 1951, donations during the year 2017 not exceeding 1 per cent of the average profits after tax of the Company for the preceding three years.
5. To re-elect Mr. Deepal Sooriyaarachchi as a Director who retires by rotation in terms of Article 30 of the Articles of Association of the Company.
6. To re-elect Mr. William Lisle as a Director who retires by rotation in terms of Article 30 of the Articles of Association of the Company.
7. To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants as Company's External Auditors and to authorise the Directors to determine their remuneration.

### Special Business:

To consider and if thought fit, to pass the following proposed amendments to the existing Article 29 (2) of the Articles of Association of the Company by way of a Special Resolution.

8. THAT the Article 29 (2) of the existing Articles of Association of the Company (titled 'Chief Executive Officer') be deleted and the following Article 29 (2) be substituted therefor:

### 29 (2). CHIEF EXECUTIVE OFFICER

- (i) The majority shareholder may if it so prefers, appoint a Chief Executive Officer instead of a Managing Director.  
Such Chief Executive Officer so appointed shall be an individual who may or may not be drawn from and out of the Directors of the Company.

The Chief Executive Officer so appointed may or may not be an employee of the Company.

In the event of the majority shareholder being a body corporate, a letter signed by the Chairman for the time being of such body corporate shall be sufficient for the purpose of this Article in relation to the appointment of the Chief Executive Officer.

The right of the majority shareholder under the preceding paragraph to appoint a Chief Executive Officer shall be deemed to include the right to the majority shareholder to remove the Chief Executive Officer so appointed and to appoint another in place of the Chief Executive Officer so removed.

- (ii) In the case of an appointment of a Chief Executive Officer drawn from and out of the Directors of the Company, such appointment shall automatically cease if the Chief Executive Officer so appointed ceases for any reason whatsoever to be a Director of the Company unless the majority shareholder determines otherwise.

The cessation from the position of Director shall not be considered as a disqualification to continue or be re-appointed as Chief Executive Officer where the majority shareholder determines such continuation or re-appointment as appropriate.

- (iii) The Chief Executive Officer appointed from and out of the Directors of the Company, shall not be subject to retirement by rotation or be taken into account in determining the number of the Directors retiring by rotation.
- (iv) Where the appointed Chief Executive Officer is an individual not holding the position of Director of the Company, the appointment of such Chief Executive Officer can cease, as per the terms of the contract of employment executed by and between the Chief Executive Officer so appointed and the Company, if and where such a contract is in existence.
- (v) The Chief Executive Officer may be vested with such powers, as set out in the contract of employment executed by and between the said Chief Executive Officer and the Company, if and where such a contract is in existence, and or as may be determined by the Board of Directors from time to time.

### BY ORDER OF THE BOARD



**Chathuri Munaweera**  
Company Secretary

Colombo  
22 February 2017

### NOTES

- 1) A member entitled to attend and to vote at the meeting is entitled to appoint a proxy to attend and to vote in his/her stead.
- 2) A proxy need not be a member of the Company.
- 3) A form of proxy accompanies this Notice.
- 4) The completed form of proxy should be deposited at the registered office of the Company not later than 48 hours before the time appointed for the holding of the meeting.
- 5) Shareholders are requested to bring with them their National Identity Cards or any other form of valid identification and present same at the time of registration.



## FORM OF PROXY

I / We ..... (Please indicate the full name)  
bearing NIC / Passport / Com. Reg. No. .... of ..... being  
a member / members of AIA Insurance Lanka PLC do hereby appoint Mr / Ms .....  
..... (Please indicate the full name of the proxy) bearing NIC No. / Passport No. ....  
of ..... whom failing:

Mr. William Lisle or failing him  
Mr. Manoj Ramachandran or failing him  
Mr. Robert Alexander Hartnett or failing him  
Mr. Deepal Sooriyaarachchi or failing him  
Mr. Sarath Wikramanayake

as my / our proxy to represent me / us and to vote on my / our behalf at the thirty first Annual General Meeting of the Company to be held on Monday, 27 March 2017 at 10.00 a.m. at AIA Premier Academy, AIA Office, third floor of Union of Post and Telecommunication Officers' Building, No.95, Sir Chittampalam A Gardiner Mawatha, Colombo 2, and at any adjournment thereof, and at every poll which may be taken in consequence of the aforesaid meeting.

I / We the undersigned, hereby direct my / our proxy to vote for me / us and on my / our behalf on the specified resolution as indicated by the letter "X" in the appropriate cage;

### ORDINARY BUSINESS

	For	Against
1. The ordinary resolution numbered (1) set out in the Notice convening the aforesaid meeting		
2. The ordinary resolution numbered (2) set out in the Notice convening the aforesaid meeting		
3. The ordinary resolution numbered (3) set out in the Notice convening the aforesaid meeting		
4. The ordinary resolution numbered (4) set out in the Notice convening the aforesaid meeting		
5. The ordinary resolution numbered (5) set out in the Notice convening the aforesaid meeting		
6. The ordinary resolution numbered (6) set out in the Notice convening the aforesaid meeting		
7. The ordinary resolution numbered (7) set out in the Notice convening the aforesaid meeting		

### SPECIAL BUSINESS

	For	Against
8. The special resolution numbered (8) set out in the Notice convening the aforesaid meeting		

\* please indicate your preference with "X" marked in the appropriate cage.

Signed on this ..... day of ..... two thousand and seventeen.

.....  
Signature(s) of shareholder(s)

Please provide the details:

Shareholder's NIC No. / Company Registration No.	
Folio No. / Number of shares held	
Proxy holder's NIC No. (if not a Director)	

### NOTES:

- 1) If no indications are given and / or there is in the view of the proxy holder doubt (by reason of the way in which the instructions contained in the proxy form have been completed) as to the way in which the proxy holder should vote, the proxy holder shall vote as he / she thinks fit.
- 2) A proxy holder need not be a member of the Company.
- 3) Instructions as to completion appear on reverse.
- 4) Proxy holders are requested to bring with them their National Identity Cards or any other form of valid identification and present same at the time of registration.

## FORM OF PROXY

### INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the form of proxy after filling in legibly your full name and address signing in the space provided and filling in the date of signature.
2. The persons mentioned on the reverse hereof, are Directors of the Company and they are willing to represent any shareholder(s) as proxy, and vote as directed by the shareholder. They will not, however be willing to speak or move or second any amendments to the resolutions or make any statement in regard thereto on behalf of any shareholder.
3. If another proxy is preferred, delete the names printed, add the name of the proxy preferred and initial the alteration.
4. Please indicate your preference with "X" in the appropriate cages provided in the form of proxy, as to how your proxy is to vote on the resolutions. If no indication is given the proxy in his/her discretion may vote as he / she thinks fit.
5. In the case of a corporate member the proxy form must be executed under its common seal or by a duly authorised officer of the entity in accordance with its Articles of Association or Constitution. If the form of proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed form of proxy, if it has not already been registered with the Company.
6. The completed form of proxy should be deposited at the registered office of the Company at No. 75, Kumaran Ratnam Road, Colombo 2 not less than 48 hours before the time appointed for the holding of the meeting.

# CORPORATE INFORMATION

## NAME OF THE COMPANY

AIA Insurance Lanka PLC  
Company Registration No – PQ 18

## LEGAL FORM

- Public Company with limited liability.
- Incorporated in Sri Lanka on 12 December 1986 under the Companies Act No. 17 of 1982.
- Re - registered under the Companies Act No. 7 of 2007.
- Insurance Company licensed by the Insurance Board of Sri Lanka.
- The shares of the Company are listed on the Colombo Stock Exchange.

## TAX PAYER IDENTIFICATION NUMBER (TIN)

134001356

## VAT REGISTRATION NUMBER

134001356 – 7000

## DIRECTORS

William Lisle – Chairman  
Mitchell David New  
Manoj Ramachandran  
Robert Alexander Hartnett  
Deepal Sooriyaarachchi  
Sarath Wikramanayake

## CHIEF EXECUTIVE OFFICER

Pankaj Banerjee

## DEPUTY CHIEF EXECUTIVE OFFICER

Upul Wijesinghe

## COMPANY SECRETARY

Chathuri Munaweera

## ASSISTANT COMPANY SECRETARY

Saraswathie Poulraj

## ACCOUNTING YEAR

31 December

## SUBSIDIARY

Name of the Company	Holding	Principal Activity
Rainbow Trust Management Limited	100%	Trust Management

## REGISTERED OFFICE/ HEAD OFFICE

No. 75, Kumaran Ratnam Road, Colombo 2, Sri Lanka  
Telephone : 0094-11-2310000  
Fax : 0094-11-2447620 / 2310076  
E-mail : lk.info@aia.com  
Web : www.aialife.com.lk

## COMPANY REGISTRARS

SSP Corporate Services (Private) Limited  
No. 101, Inner Flower Road, Colombo 3, Sri Lanka  
Telephone : 0094-11-2573894 / 2576871

## AUDITORS

PricewaterhouseCoopers  
Chartered Accountants  
No. 100, Braybrooke Place, Colombo 2, Sri Lanka

## APPOINTED ACTUARY – LIFE INSURANCE

Frank Munro  
AIA Insurance Lanka PLC  
No. 75, Kumaran Ratnam Road, Colombo 2, Sri Lanka

## LAWYERS

Julius & Creasy  
Attorneys-at-Law & Solicitors  
No. 41, Janadhipathi Mawatha, Colombo 1, Sri Lanka

## REINSURANCE PANEL - LIFE INSURANCE

Munich Re  
RGA International Reinsurance Company Limited

## BANKERS

- Standard Chartered Bank
- Bank of Ceylon
- Commercial Bank of Ceylon PLC
- Hatton National Bank PLC
- The Hongkong & Shanghai Banking Corporation Limited
- People's Bank
- Sampath Bank PLC
- National Development Bank PLC
- Nations Trust Bank PLC
- National Savings Bank
- Deutsche Bank
- Union Bank of Colombo PLC
- Pan Asia Banking Corporation PLC
- Seylan Bank PLC
- DFCC Bank PLC

## CUSTODIAN BANKS

Deutsche Bank

**AIA Insurance Lanka PLC**

75, Kumaran Ratnam Road

Colombo 2

Sri Lanka

[aialife.com.lk](http://aialife.com.lk)