



## 100 YEARS OF AIA

AIA INSURANCE LANKA PLC  
Annual Report 2018



HEALTHIER, LONGER,  
BETTER LIVES



## 100 YEARS OF AIA

In 2019, we celebrate 100 years of the AIA Group, growing from a Shanghai-based start-up to the world's largest life insurer (Bloomberg, 30 June 2018). The lead up to this is a journey of courageous pioneering spirit and of learning, growth and development.

In Sri Lanka, we celebrate our contribution to the country's economic and social development, as we continue to live our purpose with pride. Our Centennial is an opportunity to celebrate our achievements but it's also an opportunity to set and achieve some tangible objectives from our activities and investment.

At AIA, we believe in the power of insurance to make a positive difference in people's lives. We do this through our products and services as well as by actively promoting the health and well-being of our customers, employees and wealth planners and the communities in which they live and work. And as we move forward, we are committed to helping millions more people live **healthier, longer, better lives.**



**HEALTHIER, LONGER,  
BETTER LIVES**

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## OUR VISION

Being 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 (“AIA Group”), Hong Kong acquired the entirety of the shareholding in AIA Holdings Lanka (Private) Limited, the majority shareholder who in turn holds a direct holding of 87.28 per cent in AIA Insurance Lanka PLC. AIA Group also acquired a direct 5 per cent and subsequently through a voluntary offer a further 4.88 per cent direct holding in AIA Insurance Lanka PLC in May 2013.

AIA Group 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 2018.

# Live Healthier

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CELEBRATING  
**100**  
YEARS



HEALTHIER, LONGER,  
BETTER LIVES

# AIA GROUP AT A GLANCE

AIA Group is the largest independent publicly listed pan-Asian Life insurance group - with a presence in 18 markets across the Asia-Pacific region.

**Notes:**

1. AIA Group had a total of 10,196 agents and agency leaders registered as Million Dollar Round Table (MDRT) members on 1 July 2018
2. Source: Bloomberg, 30 June 2018
3. AIA Group has a representative office in Myanmar
4. As of 30 November 2017
5. All the figures are as of 30 June 2018, unless otherwise stated



## PRESENCE IN 18 MARKETS IN ASIA-PACIFIC

CHINA 1919	MACAU 1982
HONG KONG 1931	INDONESIA 1984
SINGAPORE 1931	KOREA 1987
THAILAND 1938	TAIWAN 1990
PHILIPPINES 1947	VIETNAM 2000
MALAYSIA 1948	INDIA 2001
BRUNEI 1957	SRI LANKA 2012
AUSTRALIA 1972	MYANMAR <sup>3</sup> 2013
NEW ZEALAND 1981	CAMBODIA 2015

**32**  
Million Individual Policies

**16**  
Million Group Scheme Members



A century of history in the region



Large geographic footprint with 100% ownership in 16 out of 18 markets



Ranked MDRT's #1 multinational worldwide<sup>1</sup>



Our Vision is to be the world's pre-eminent Life insurance provider



Our Purpose is to play a leadership role in driving economic and social development across the region



The world's largest<sup>2</sup> life insurer



US\$221 billion in assets



32 million individual policies



More than 16 million group scheme members



EV equity of US\$53.6 billion



Paid 13 million<sup>4</sup> benefits during 2017



Total sum assured of over US\$1 trillion<sup>4</sup>



# FINANCIAL HIGHLIGHTS

Financial Highlights - Group		2018	2017	%
Total income	(LKR mn)	18,232	17,221	6
Profit before tax	(LKR mn)	1,612	13,680	(88)
Gross written premium (GWP)	(LKR mn)	12,739	11,511	11
Net assets	(LKR mn)	18,700	17,365	8
Total assets	(LKR mn)	54,407	52,584	3
Insurance liabilities	(LKR mn)	31,925	32,116	(1)
Basic earnings per share	(LKR)	133.68	437.13	(69)
Dividend per share	(LKR)	91.00	50.00	82
Market capitalisation	(LKR mn)	52,508	10,070	421

## GWP

LKR billion

# 12.7

2017 : LKR 11.5 billion

## Total Income

LKR billion

# 18.2

2017 : LKR 17.2 billion

## Net Assets

LKR billion

# 18.7

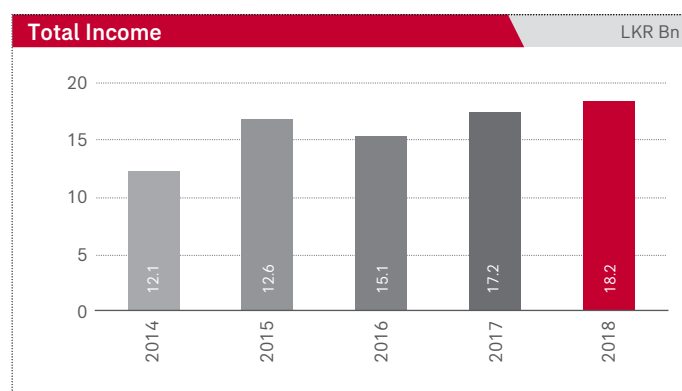
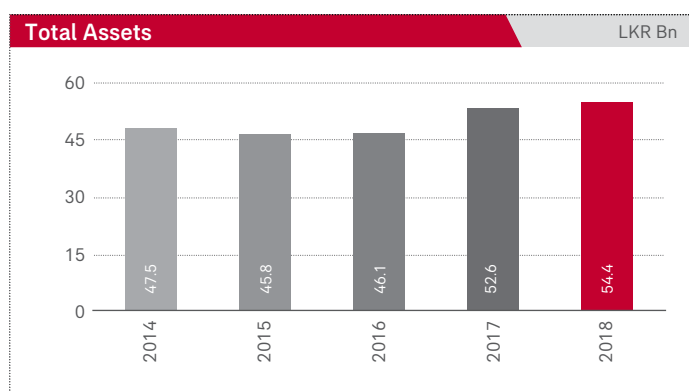
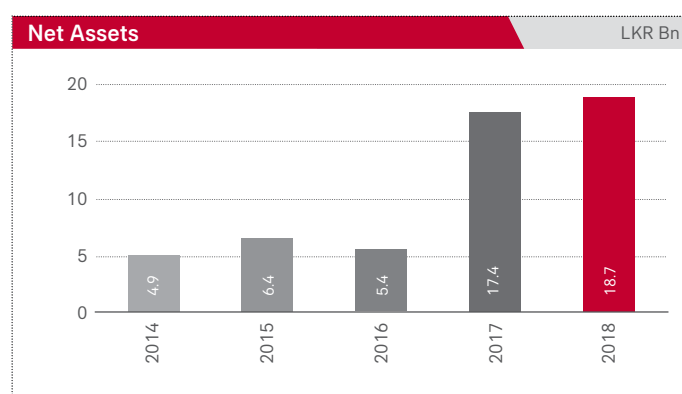
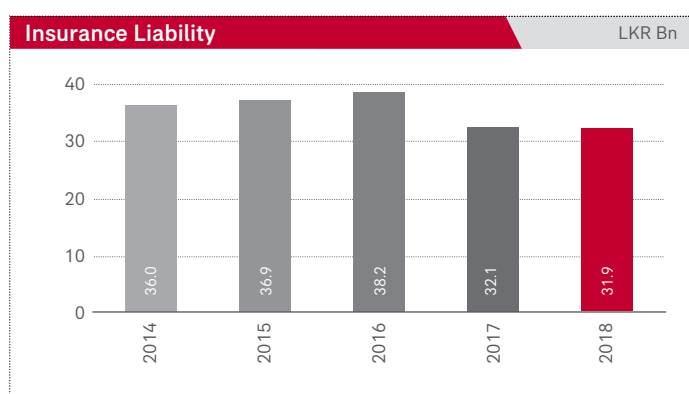
2017 : LKR 17.4 billion

## Total Assets

LKR billion

# 54.4

2017 : LKR 52.6 billion



# MILESTONES OF 2018

## JANUARY

### AIA Real Rewards - bigger and better!

AIA took customer rewards to a new level with the re-launch of Real Rewards. With over 7,000 winners for the year, the rewards programme saw an increase in the number of winners while offering more benefits to the customer.

## FEBRUARY

### Go Green - Go Paperless!

AIA launched the 'Think Green, Think Paperless' initiative, to reduce the Company's carbon footprint while encouraging customers to save paper. AIA's customers now receive an SMS with a summary of their payment receipts and other communications, eliminating the need to store piles of paper.



## MARCH

### Taking the Sri Lankan flag back to Everest!

AIA was proud to partner the Everest Expedition as Johann Peiris took on the world's tallest mountain. He successfully completed his climb and stood atop Mount Everest as the first Sri Lankan male to summit the mountain.

### AIA First Class takes flight

AIA's premier customer initiative, AIA First Class, was launched with an exclusive wine and cheese tasting event, followed by an evening of cocktails and music. This was the first of many events that were organised for AIA's most exclusive customers and their families in recognition of the trust they have placed in AIA as their Life Insurance Partner.

## APRIL

### Recognising top performers

Held under the theme 'Navigating the Future' the 2018 AIA Annual Sales Convention was held at the Hambantota International Convention Centre. 1,500 Wealth Planners and Wealth Planners' Managers from across the island convened to recognise and celebrate AIA's top performers, who were recognised for their commitment and dedication.



## MAY

### Declaring a strong 9.63 per cent dividend for customers

AIA declared another year of consistent policyholder dividend rate, with a declared dividend of 9.63 per cent. This was yet another year of AIA delivering impressive dividend figure to their customers, much higher than the minimum guaranteed dividend rate. This consistency was testament to the strength and outstanding investment strategy of AIA's Life Fund.

### Only insurer in Sri Lanka to win an IQA for 'Growth in the World'

AIA was recognised as one of LIMRA's 2018 'Top 5' Companies for the 'Advisor International Quality Award (IQA) - Growth in the world'. This award recognises companies who have experienced the highest year-on-year growth percentage of over 20.0 per cent of IQA qualifiers for the last two years. AIA was the first and only company in Sri Lanka to win this award which is testament to AIA's high calibre of financial advisors.

## JUNE

### Celebrating 25 years of saving lives during Poson

AIA's Poson Safety Programme was conducted for the 25th consecutive year in 2018, making it one of the longest standing CSR initiatives in the country. Held across three days during Poson, in Anuradhapura, Polonnaruwa, Dambulla and Mihintale, the programme facilitated 600 lifeguards across 28 reservoirs and lakes to ensure that pilgrims are safe when they bathe in the reservoirs, resulting in zero deaths.



## JULY

### Launch of the 'Healthiest Workplace Survey'

AIA launched Sri Lanka's Healthiest Workplace Survey (HWS), for the first time in Sri Lanka. HWS is a comprehensive survey of the health and well-being of employees around Asia-Pacific. This survey was conducted by RAND Europe, a leading researcher in the field of health and wellness. Companies that participated got a clear understanding of the health and well-being profiles of employees in terms of lifestyle, clinical indicators, mental health, stress and other areas of concern.

### GPW® recognises AIA as 'Best Workplace for Women'

AIA is proud to have been recognised as a Great Place to Work® in Sri Lanka for the sixth consecutive year. This achievement comes on the heels of being inducted into the GPW® Hall of Fame in 2017, having been recognised for five successive years.

The highlight for AIA was winning the title of 'Best Workplace for Women' in Sri Lanka, which came as a welcome re-affirmation that everything the Company does for gender parity has been recognised and appreciated.



## SEPTEMBER

### Promoting healthier workplaces at the SL's Most Admired Companies Awards

AIA was the Platinum sponsor for the coveted 'Sri Lanka's Most Admired Companies Awards 2018' jointly organised by the Chartered Institute of Management Accountants and the International Chamber of Commerce Sri Lanka. The awards, held for the first time recognised Sri Lanka's most respected companies, in the presence of esteemed guests, including Chief Guest, Prime Minister, Hon. Ranil Wickremesinghe.

## OCTOBER

### Inspiring academic excellence for 24 years

AIA's Higher Education Scholarships Programme, in its 24th consecutive year in 2018, rewarded the top performers from each district at the Grade 5 scholarship examination, by giving them a monthly bursary from Advanced Level (A/L) class right up to the completion of their University degree.

### Internationally acclaimed City and Guild certifications for AIA Insurance's trainers

AIA Insurance awarded certificates to its trainers who completed the 'Train the Trainer' programme, which leads to City & Guilds (UK), Diploma & Advanced Diploma levels on international delivery standards. City & Guilds is the global leader in skill development and the oldest vocational qualification provider across the globe.



## NOVEMBER

### Topping MDRT in Sri Lanka for the fourth consecutive year!

AIA was the first and only insurer in Sri Lanka to have the most number of MDRT (Million Dollar Round Table) qualifiers for four consecutive years. AIA totalled an impressive 130 MDRT qualifiers for 2017, comprising of 100 qualifiers from Agency Distribution and 30 from Bancassurance. This achievement is testament to the high calibre of advisors recruited, trained and employed by AIA.



## DECEMBER

### Sponsoring 'Run for Their Lives'

AIA's health and wellness app, AIA Vitality was the Gold Sponsor for charity event 'Run for Their Lives (RFTL)', for the second consecutive year. The run was organised by the Rotaract Club to create awareness on and raise funds for prevention of cancer. Creating awareness on Noncommunicable Disease is a priority for AIA and this sponsorship was therefore aptly aligned with AIA's brand promise of helping people live healthier, longer, better lives.

## PLEDGES

# Making a Difference Starts with us

*At AIA, we believe change begins from within. That's why we have fostered a culture of enabling healthier, longer, better living amongst our employees - as we bring to life our pledge of creating healthier lifestyles across the thousands of lives we impact.*

**NISHARA GUNAWARDENA**



I pledge to take the stairs instead of the elevator and to maintain a balanced diet.



**KESHYA LEITCH**



I pledge to achieve the 'right balance' in life.



**AMALA SAMANTHI**



I pledge to continue to eat right and exercise 3-4 days a week to maintain a healthy blood sugar level.



**ASATH AFHAM**



I pledge to drink 2 liters of water and workout for 20 minutes every day.



**CLIVE FERNANDO**



I pledge to control my diet and engage in fitness activities to lose weight.



**CHALINI GUNERATNE**



I pledge to increase my daily water intake.




**NIKHIL ADVANI**




I pledge to eat healthy and lose 2kg by December 2018.



**RAJITH ADIKARI**



I pledge to continue to play soccer with my AIA colleagues.



**SACHINI KULARATNE**



I pledge to drink at least 3 litres of water a day.



**YOHANI FELSINGER**



I pledge to devote 5 hours a week for physical exercise.



**NAZISHKA KULASENA**



I pledge to continue to run 5km every other day for the next two months.



**THUSHARI PERERA**



I pledge to lose 5kg by the end of 2018.



**INDEEVARI GUNASEKARA**



I pledge to lose 10kg by the end of 2018.



**ISHAKA LIYANARACHCHI**



I pledge to continue to attend aerobics classes and lose 5kg by January 2019.



**ASHEAN KARTHELIUS**



I pledge to lose 5kg by the end of January 2019.



**PANKAJ BANERJEE**



I pledge to become lighter than I was in college by December 2020



**GIHAN MALSHAN**



I pledge to exercise at least 30 minutes a day.



**HASAAN SAMSEER**



I pledge to continue to workout at the gym twice a week.



**SHEVANTHI DE ALWIS**



I pledge to continue to take part in marathons



**SHALINI RATNAYAKE**



I pledge to do 30 minutes of exercise daily.



**DANUSHI WIDANAGAMACHCHI**



I pledge to continue to go cycling with my son every weekend.



**GIHAN WIKRAMASINGHE**



I pledge to drink at least 3 litres of water per day and live healthier.



**CHATHURI MUNAWERA**



I pledge four days of exercise and five days of home cooked healthy meals with family, a week.



**UPUL WIJESINGHE**



I pledge to continue going to the gym at least 4 days a week.



**DAMIEAN DAVID**



I pledge to make an effort to eat healthy everyday.



**KELIM SENANAYAKE**



I pledge to drink more water to keep my energy levels high throughout the day.



# CHAIRMAN'S MESSAGE



**WILLIAM LISLE**  
Chairman

We remain focused and committed to playing a leadership role in driving economic and social development in Sri Lanka. We are here to serve our customers by meeting their ever-changing needs for financial security with our products and services and by focusing on helping people live healthier, longer, better lives.

I'm pleased to report as Chairman of the Board of Directors that the year 2018 has been a year of resilient performance for AIA Insurance Lanka PLC ('AIA Sri Lanka' or the 'Company'), amidst challenging local economic conditions and global headwinds.

The Asian region is home to some of the world's fastest growing economies and rapid technological advancements. As large numbers of households begin to cross higher-income thresholds, the needs and expectations of these consumers are evolving quickly. Heightened focus on personal health, wellness and financial stability are increasingly front-of-mind. This leads to a significant change in the need for our long-term protection and long-term savings products from these newly-affluent consumers. The synergy in AIA's core competencies in distribution and product innovation, supported by our enhanced technological platform, places AIA in a strong position in meeting these rapidly evolving needs. Our brand promise to help live healthier, longer, better lives provides a strong basis for developing deep, long-term relationships with our customers and clearly differentiates our customer value proposition.

Faced with unexpected challenges in Sri Lanka in 2018, both due to internal factors and the impact of global economic conditions, the Company remained focused in executing our strategy and demonstrated a resilient performance reporting 11 per cent growth in Life insurance Gross Written Premiums in 2018, amounting to LKR 12,739 million.

The Company recorded an after-tax profit of LKR 4,116 million during 2018 compared to the restated result of LKR 13,440 million in 2017.

The restated 2017 result includes a One-Off Surplus of LKR 6,081 million that arose from the adoption of the Risk Based Capital solvency regime introduced by the Insurance Regulatory Commission of Sri Lanka which came into effect from 1 January 2016. This amount is held as a Restricted Regulatory Reserve on the Consolidated Statement of Financial Position.

The operating performance of the business remained steady and major drivers of the 2018 results are the upward shift in market interest rates which reduced the after tax profit and the creation of a deferred tax asset. The 10 year bond yield rose 172 basis points in 2018 compared to a 230 basis point fall in 2017 which reduced net profit. The deferred tax asset of LKR 2,537 million was created as a result of the move to a surplus based taxation regime that came into effect from 1 April 2018 with the legislating of the Inland Revenue Act 2017. This recognises that carried forward tax losses can be used to off-set future tax payments.

The Board of Directors adopted the resolution to recommend the distribution of a first and final dividend of LKR 25.00 per share from the profits earned by the Company during 2018 for approval by the shareholders at the Annual General Meeting of the Company scheduled for 27 March 2019.

On behalf of the Board of Directors, I wish to thank the team at AIA Sri Lanka and commend the dedication, commitment and effort of the Wealth Planners, Bancassurance Executives, bank partners and employees for the resilience and courage demonstrated during these challenging times and for delivering another strong set of results.

We remain focused and committed to playing a leadership role in driving economic and social development in Sri Lanka. We are here to serve our customers by meeting their ever-changing needs for financial security with our products and services and by focusing on helping people live healthier, longer, better lives.



**William Lisle**  
Chairman

# CEO'S REVIEW



**PANKAJ BANERJEE**  
Chief Executive Officer

The year marked the launch of AIA's new brand promise of helping people live healthier, longer, better lives. This promise captures important aspects of the value that we offer to our customers by actively promoting lifestyle changes focused on health and well-being on the back of our unique wellness proposition of AIA Vitality.



2018 was characterised by continued transformation at AIA Insurance Lanka PLC ('AIA Sri Lanka' or the 'Company') aimed at laying a strong foundation for sustained growth driven by our brand promise of helping our customers live healthier, longer, better lives. In 2018, team AIA Sri Lanka demonstrated discipline to deliver a resilient performance amidst a challenging external environment marked by a slowdown in consumer demand, relatively low economic growth and continued uncertainty on the socio-economic policy front. Let me take this opportunity to take you through our journey of executing on our transformative initiatives and key accomplishments of the past 12 months.

The Sri Lankan economy experienced a marked slowdown in growth and momentum due to both internal and external challenges. While 2018 commenced with various agencies forecasting a stronger growth rate as compared to the 2017 GDP growth rate of 3.2 per cent, the actual economic output and the growth fell short of the forecasts, with the third quarter registering a record low GDP growth rate of 2.9 per cent. The slowdown in the economic growth was further compounded with the political developments and related uncertainty in the fourth quarter resulting in further depreciation in the currency affecting the balance of payments situation, downgrade of sovereign ratings for Sri Lanka and significantly reduced business confidence indices. Consumer sentiment and disposable income were adversely impacted during the year with increases in both direct and indirect tax rates, the increase in the exchange rate and higher fuel prices which lasted for most parts of the year. The performance and growth of the Company was impacted by these factors, and the financial results are contextual to this backdrop.

The year marked the launch of AIA's new brand promise of helping people live healthier, longer, better lives. This promise captures important aspects of the value that we offer to our customers by actively promoting lifestyle changes focused on health and well-being on the back of our unique wellness proposition of AIA Vitality. This encompasses our customers, partners, Wealth Planners, employees and the communities in which they live and work. We are committed to taking this message to the wider community across Sri Lanka.

In the first quarter of 2018, AIA Sri Lanka launched its new pensions and health propositions aimed at providing our customers enhanced value and flexible needs-based solutions. The new pensions proposition targeted a comprehensive packaged solution for customer retirement needs. The health proposition with cashless services offering, enhanced medical coverage, increased expense cover and expanded international hospital network provided a compelling protection proposition to our customers.

Our efforts to transform our agency through the 'Full-Time Premier Agency' strategy witnessed progress with the launch of 'Premier Agency Circle (PAC)' in Colombo. PAC is fundamental to AIA Sri Lanka's strategy of building full-time, professional, advice based and digitally enabled agency force. In 2018, our differentiated Premier Agency strategy gained international recognition and received the prestigious LIMRA Award as one of the 'Top 5' companies for the 'Advisor International Quality Award (IQA) - Growth in the World' - the first for an insurance company in Sri Lanka.

Our Bancassurance channel made considerable progress in strengthening our existing bank partnerships. NDB Bank and DFCC Bank partnerships contributed to the strong growth reported by the channel during the year. Our partnership with DFCC Bank grew rapidly in its second year of operation with broader coverage of the distribution franchise of DFCC Bank, resulting in a year-on-year growth of more than 100 per cent. During 2018, the Bancassurance channel launched initiatives to drive greater activity and productivity. I take this opportunity to commend our bank partners for their commitment and support for engaging with AIA Sri Lanka initiatives linked to driving broader participation by the banks.

Overall in the backdrop of the economic scenario, AIA Sri Lanka delivered a resilient set of financial results, including an increase of 11 per cent in Gross Written Premiums to LKR 12,739 million during 2018. The Company recorded after-tax profit of LKR 4,116 million in 2018 compared to LKR 13,440 million in 2017.

Details in relation to the consolidated after tax profit and the Risk Based Capital One-Off Surplus is provided in Note 38 and Note 17.3 respectively to the Consolidated Financial Statement 2018.

Keeping our customers in mind and offering them the best, we initiated several customer recognition programmes over the last 12 months which included the introduction of AIA First Class for our top end customers, to provide them with a differentiated service experience.

Our people are our most valuable asset. We are proud to be consecutively recognised as a Great Place to Work® in Sri Lanka, and also be inducted to the Great Place to Work® Hall of Fame. The highlight for AIA Sri Lanka at the awards ceremony in 2018 was winning the title of 'Best Workplace for Women' in Sri Lanka, recognising and reaffirming the Company's culture founded on merit and equality.

I would like to take this opportunity to recognise and thank our Wealth Planners, Wealth Planners' Managers, Bancassurance Executives for their relentless perseverance and commitment throughout 2018.

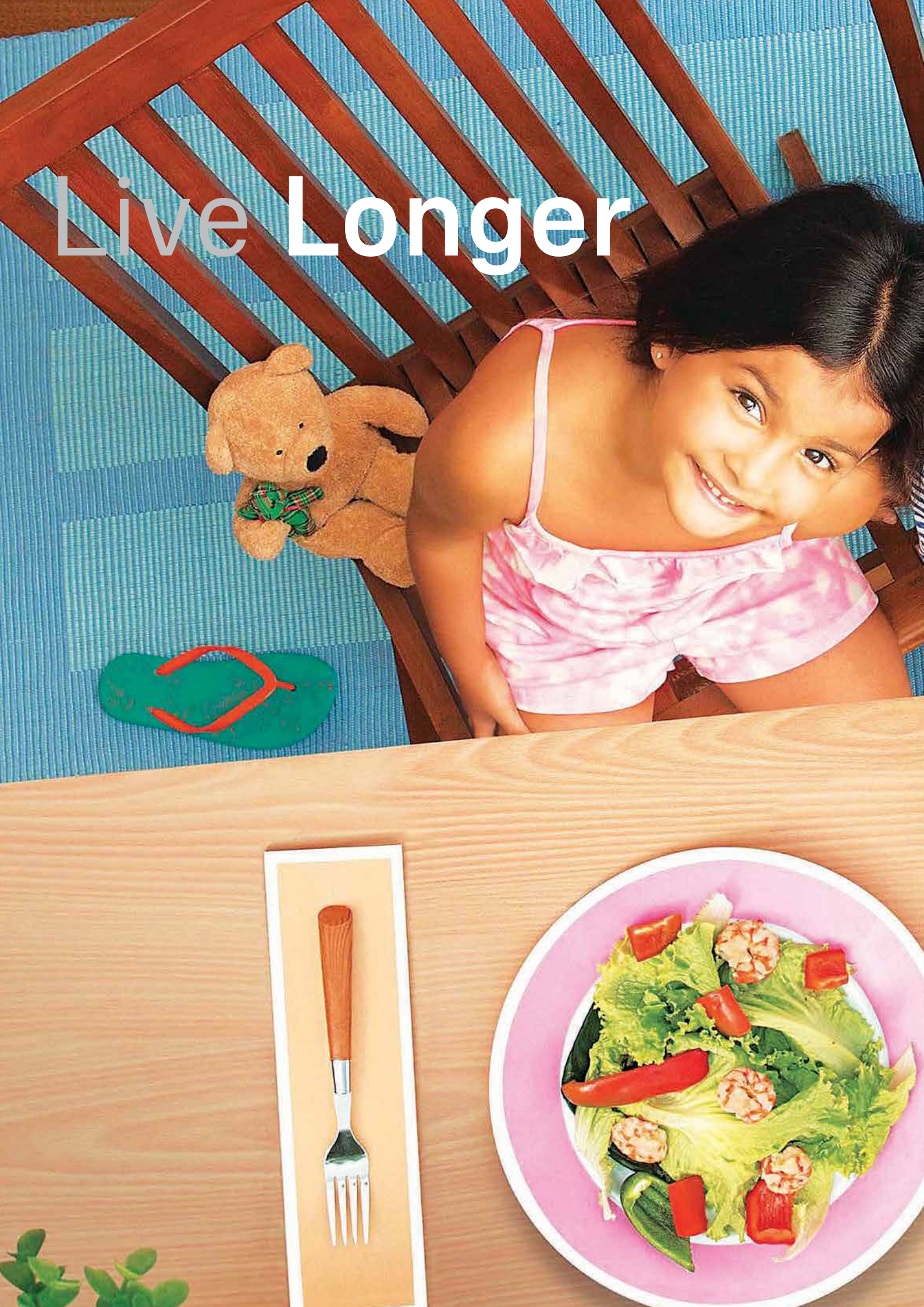
I extend my sincere appreciation and gratitude to the Board of Directors and all my AIA Sri Lanka colleagues for their tireless efforts, commitment and dedication during this challenging year. I thank our business partners for their support and contribution.

To our most important stakeholder, our customers, I extend my gratitude for their consistent confidence and faith in our capabilities, products and services to offer them protection and hope, as we remain committed in helping Sri Lankans live healthier, longer, better lives.



**Pankaj Banerjee**  
Chief Executive Officer

# Live Longer



# MANAGEMENT DISCUSSION & ANALYSIS

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# MANAGEMENT DISCUSSION & ANALYSIS



AIA Sri Lanka delivered robust results in 2018. The context of the external environment against which the results need to be reviewed, is provided in this Management Discussion & Analysis 2018.

2018 was marked with challenges from the external environment as reflected by the relatively low economic growth on the back of low economic growth in 2017, unprecedented depreciation in the local currency, steep rise in interest rates, and decline in disposable income and consumer spending with the increase in direct and indirect taxes. The following sections provide greater detail on the economic environment of 2018.



## ECONOMIC REVIEW

### Economic update

AIA Sri Lanka's business operations and financial performance is influenced by the economic environment of the country. Sales are impacted

and influenced by economic growth, operating costs and capital investments are impacted by inflation and investment income is impacted by interest rates and equity market performance.

### Economic growth

Sri Lanka's Gross Domestic Product (GDP) for 2018 is projected to be lower than the projections made at the start of the year with growth anticipated to be around the levels recorded in 2017, which in itself was low at 3.3 per cent. This is depicted by the annual GDP growth presented in Figure 1. The subdued economic performance in Sri Lanka is amidst weak consumer sentiments, and challenges posed by economic policies and the political environment.

The services sector which is the largest contributor to the economy reported modest growth, particularly in the financial and transport sectors. The industrial sector slowed down with lower public investments and lower demand in the construction segment. The agricultural sector revived in 2018 with favourable weather conditions when compared to previous years.

As regards the prospects for Life insurance growth in Sri Lanka, the demographic composition and low insurance penetration provides significant upside, when supported by the right socio-economic conditions.

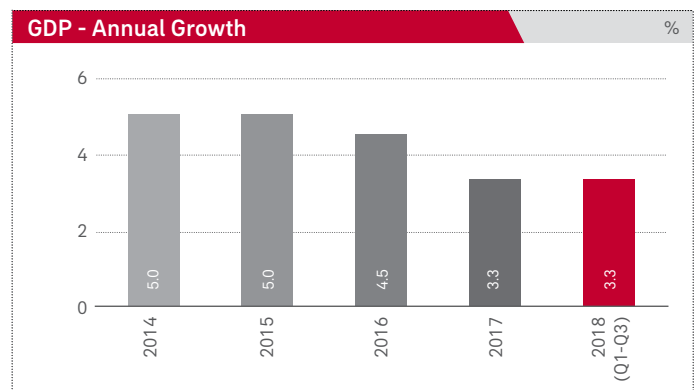


Figure 1

**Inflation**

Inflation continued to remain relatively low at mid-single digit levels in 2018. The rate of increase in the general price levels slowed down during the second half of the year due to stable food prices and higher base in the previous year. Inflation nevertheless remained a key concern and issue in the local economy due to the impacts from increase in indirect taxes and the depreciating currency. These had an adverse impact on disposable income. Furthermore, the movement in private sector credit growth and broad money growth (M2b), as reflected in Figures 2 to 4, indicate a possible pressure for inflation to rise in the forthcoming periods.

An increase in inflation above mid-single digit may have an impact on an individual's disposable income and capacity to save and may have a negative impact on sales and growth of the Life insurance industry.

An increase in inflation is also expected to lead to an increase in interest rates over time which could result in savers and investors earning comparatively higher returns on their savings and investments.

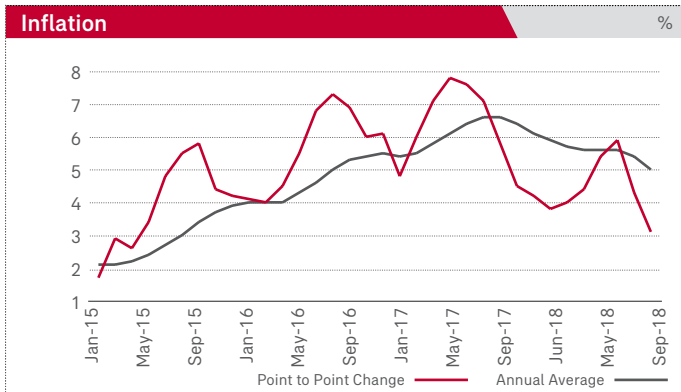


Figure 2

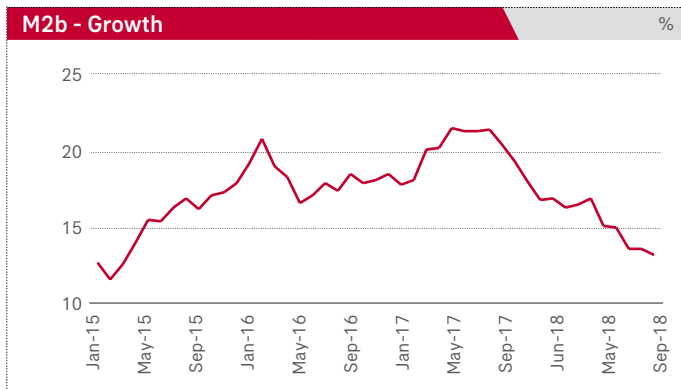


Figure 3

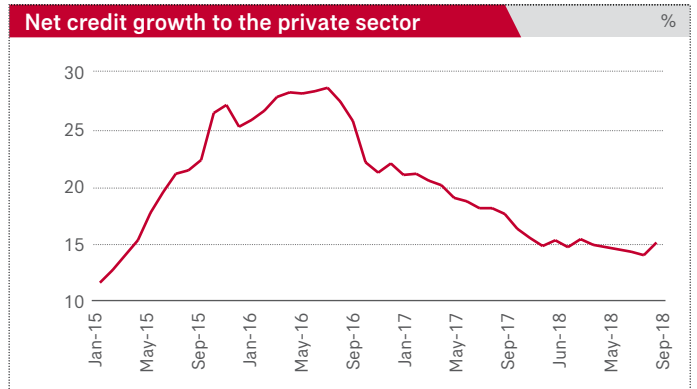


Figure 4

**Interest rates**

The benchmark 364-day T-bill rate increased markedly by 230 basis points to 11.20 per cent at the end of the year, as depicted in Figure 5. Comparatively, the five-year Treasury bond interest rate increased by 164 basis points with the longer tenure ten-year Treasury bond interest rate increasing by 172 basis points over 2018. The increase in interest rates is attributed to the higher sovereign loan repayments experienced during the second half of 2018 and fiscal slippage due to lower than targeted tax revenue collection.

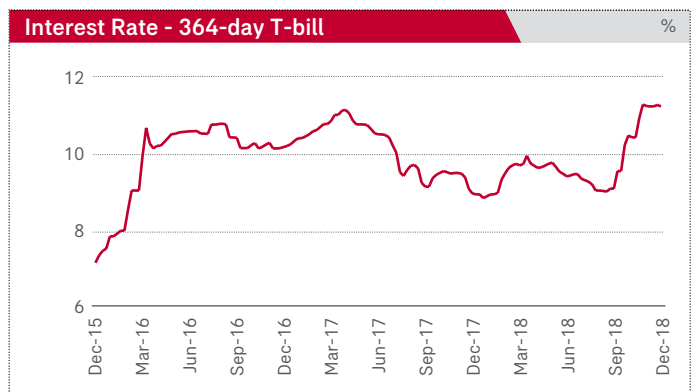


Figure 5

The higher interest rate environment would provide higher returns to investors in fixed income securities, and would also encourage further investments into fixed income securities such as Treasury securities and term deposits. However, this could discourage business investments and economic activity due to higher cost of capital. A high interest rate environment could cause a decrease in the market value of locked-in fixed income investments.

## MANAGEMENT DISCUSSION & ANALYSIS

### External reserves and exchange rates

Sri Lanka's gross official reserves are estimated to be USD 6.9 billion at December 2018. The depletion in reserves resulted from defending the external value of the Sri Lankan Rupee, especially during the latter half of the year. The US Dollar rally in the second half of the year impacted the currency which caused the Central Bank to deviate from the objective of building reserves to support repayment obligations. The Central Bank expects to mitigate the impact by approaching the international market for sovereign bond issuances in the forthcoming periods.

During 2018, foreign interest on local government securities receded and foreign holding in government securities halved by the end of the year. However, the government was successful in securing USD 2.5 billion from International sovereign bonds, USD 1 billion from syndicated loan and USD 1.1 billion from long-term loans by proactively accessing the international markets during the first half of 2018. The foreign reserves were further supported by tourism earnings with higher arrivals and sustained worker remittances.

Referring to statistics of the past three decades, the Sri Lankan Rupee recorded the highest depreciation in a single year for the past three decades as the currency slipped against the US Dollar in 2018 by 19.0 per cent (depicted in Figure 6).

The gradual increase in US Federal Reserve policy rates impacted global currencies, including the Sri Lankan Rupee. The Central Bank maintains a soft-peg approach with intermittent intervention when necessary.

A steady exchange rate and strengthening of external reserves may ease the pressure on inflation that arises from price escalations of imported items. Potential issuance of international sovereign debt may lend support to reduce pressure on domestic interest rates in 2019.

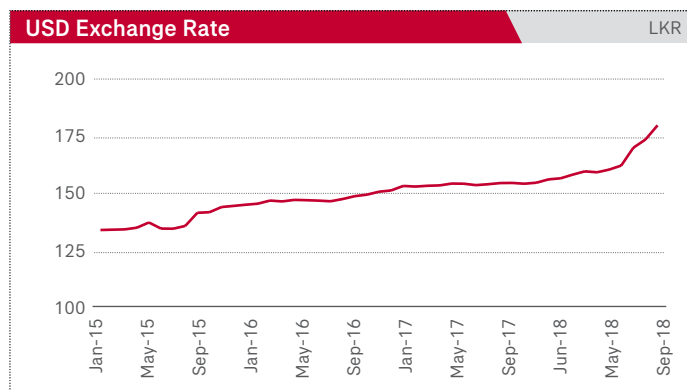


Figure 6

### Fiscal outturn

The delicate balance in the political landscape in Sri Lanka impacted the fiscal outturn and posed a challenge to the government in delivering on its revenue targets and its commitments to the IMF. During the first three quarters, government revenue increased by 6.7 per cent to reach LKR 1,416.8 billion supported by the changes in the new Inland Revenue Act which came into effect from April 2018.

Government expenditure offset the revenue growth with fiscal expenditure crossing LKR 2.0 trillion, and an increase in recurrent expenditure by 9.7 per cent.

The overall fiscal deficit is estimated at 5.4 per cent of GDP which is above the estimate envisaged by the authorities at the start of the year. Fiscal slippage is anticipated in 2019 with impending elections and the situation on the political front. Government borrowings would rise with the increase in the fiscal deficit and may lead to inflationary and interest rate pressure.

### Equity market performance

In 2018, the equity market performance was subdued with higher interest rates, weakening corporate earnings and weak investor sentiment. The All Share Price Index (ASPI) closed the year with a loss of 5.0 per cent against the 2.3 per cent increase recorded in 2017 (depicted in Figure 7). The ASPI decreased by 316.89 index points while the blue-chip constituent S&P SL20 index shed 536.54 index points.

Lower retail investor participation impacted the market performance where average turnover decreased to LKR 833.6 million (LKR 915.3 million in 2017). In the backdrop of continuous foreign outflows in the second half of 2018, net foreign outflows during the year was LKR 22.8 billion.

In 2018, the market PER declined to 9.7 times by December 2018 from 10.6 times reported as at December 2017 due to market downturn, and the market capitalisation stood at LKR 2,839.4 billion at end December 2018.

The equity market is expected to remain volatile over the coming year as challenges on the economic and political front are expected to weigh heavy on investor sentiment.

Any negative movement in domestic equity market may unfavorably affect the Company's equity investment portfolios which are maintained for the unit-linked business.



Figure 7



### REGULATORY UPDATE REVIEW

The Company is fully compliant with various regulations issued from time to time by the Insurance Regulatory Commission of Sri Lanka (IRCSL) in the year 2018.

The Regulation issued by the IRCSL in relation to Procedures on Management of Insurance Funds (IRCSL Direction #15);

The objective was to ensure the proper attribution of assets and returns on assets, liabilities and expenses to long-term insurance business of a licensed insurer through the appropriate segregation of insurance funds. The Company accordingly segregated the Long-Term Insurance Fund (AIA Insurance Life Policyholders' Fund) based on the methodology approved by the IRCSL.

The Regulation on the identification and treatment of One-Off Surplus (IRCSL Direction #16);

This is consequent to the adoption of the Risk Based Capital solvency regime (RBC) which came into effect from 1 January 2016. This regulation introduced a methodology for determining policy liabilities for Universal life business under the RBC rules and directions to the transfer of the RBC One-Off Surplus to the Shareholders' Fund and its maintenance post-transfer and the requirement for RBC One-Off Surplus to remain locked within the Shareholders' fund without being released or distributed to the shareholders unless certain conditions are met. The Company adopted the aforesaid methodology ensuring compliance with this Regulation.

The IRCSL issued Guidelines on Corporate Governance Framework for insurers setting out the requirements for the composition of the Board of Directors of insurers while recommending the insurers to adhere to the Code of Best practice on Corporate Governance 2017 issued by the Securities and Exchange Commission of Sri Lanka (the SEC).

The IRCSL also issued Guidelines to Insurers who obtain leads from licensed finance companies, finance leasing companies and banks under a referral model. The Guidelines made it mandatory for all promotional materials of the insurers to carry a clear statement which mandates for the customers have a right to choose an insurer or an insurance product of their choice. The Guidelines further required the insurers to incorporate the specified obligations in the written agreements between the insurers and licensed finance companies, finance leasing companies and banks. The company is fully compliant with the said Guidelines.

The Directives issued by the SEC, the Listing Rules of the Colombo Stock Exchange (the CSE) applicable to the Company mandate the need for a continuous listing requirement in relation to the maintenance of a minimum public float. Accordingly, it was mandatory that the Company being listed on the Main Board to maintain by 31 December 2016 a minimum public float of 20.0 per cent of its total listed ordinary shares in the hands of a stipulated number of minimum public shareholders (Directive dated 17 November 2016).

The Company sought and was granted an exemption by the CSE (with the concurrence of the SEC) from having to comply with the maintenance of a minimum public holding by listed companies as a continuous listing requirement in terms of the Listing Rules of the CSE. The said exemption was granted to the Company in terms of the CSE Listing Rule 7.13.3 (iii) for a period of one year up to 18 July 2019, subject to the Company making appropriate disclosures to the CSE in this regard.

The Company received under and in terms of the Regulation of Insurance Industry (Amendment) Act No. 23 of 2017, an exemption from being listed on a licensed Stock Exchange based on the listing of its ultimate parent company AIA Group Limited, Hong Kong on the Stock Exchange of Hong Kong Limited. Information in this regard is provided in page 65 of this report.

The Company accordingly initiated the process of delisting its shares from the official list of the CSE in compliance with applicable regulatory requirements and based on the offer received from AIA Company Limited of Hong Kong, to purchase the Company's fully paid ordinary shares from its minority shareholders at a purchase price of LKR 1,000/- per share, for purposes of the proposed delisting of shares.

However, the resolution to delist was not passed by the required majority of shareholders at the Extraordinary General Meeting (the EGM) held on 20 August 2018. All necessary disclosures in the above regard have been made by the Company to the CSE in compliance with applicable laws and regulations. The way forward is currently under review.

# MANAGEMENT DISCUSSION & ANALYSIS



## INDUSTRY REVIEW

The insurance industry in Sri Lanka is composed of 27 insurance companies, reflecting the outcome of regulation on segregation of composite insurance companies which was effective from 2015.

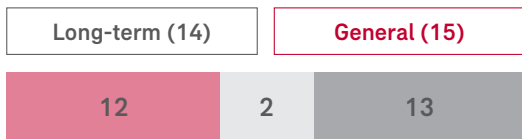


Figure 8

The industry review is based on the official figures published for 2017 by the IRCSL, the local insurance regulator.

### Life insurance industry performance

Despite the challenging environment, the Life insurance industry reported a growth of 12.6 per cent during 2017 on the industry measure of GWP. The growth is attributable to factors driven by the industry such as increased awareness on Life insurance, the introduction of new Life insurance products to cater to changing customer requirements such as retirement solutions and investment products, enhanced customer services, decrease in term assurance products and increased sale of investment products, albeit at a lower growth rate. AIA Sri Lanka accounted for 16.1 per cent of the GWP and maintained its rank as the third largest Life insurer in the country. AIA Sri Lanka accounted for 5.9 per cent of the total branches and 8.4 per cent of insurance agents of the Life insurance industry. Parallel to the increase in GWP, the industry sold 636,156 new long-term insurance policies during 2017, which is a decrease of 4.9 per cent compared to the number of policies issued in the preceding year.

Industry growth	2013	2014	2015	2016 (a)	2017 (b)
Long-term insurance GWP - Industry (LKR mn)	41,676	44,596	53,591	63,477	71,504
Growth rate in long term insurance premium (%)	11.2	7.0	20.4	18.2	12.7

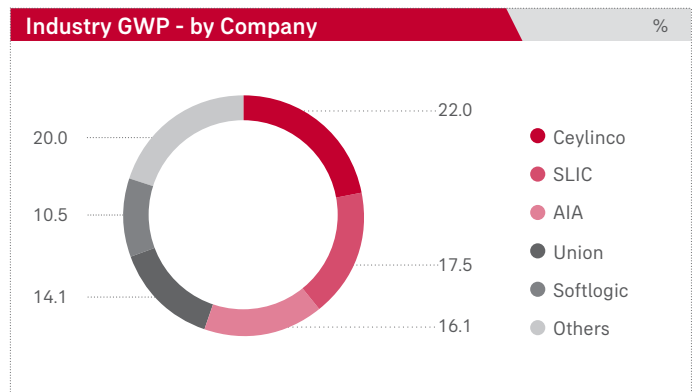
Source: IRCSL Statistical Review 2017

(a) Reinstated Audited figures

(b) Provisional figures

Figure 9

The industry remained concentrated among the key players. In 2017, the top five companies held a market share of 80.3 per cent, which is marginally higher than the 80.2 per cent of the market share in 2016.



Source: IRCSL Statistical Review 2017

Figure 10

Agency remained the key distribution channel for Life insurance business, contributing 87.9 per cent of overall GWP volumes. Similarly, the Bancassurance channel expanded during 2017, adding 6.0 per cent to GWP of Life insurance, which stood at 5.0 per cent in 2016. However, the Direct channel declined to 4.5 per cent of GWP in 2017 from 5.9 per cent of GWP in 2016.

Insurance penetration albeit being low compared to many other economies in the Asian region, increased marginally during 2017 compared to 2016.

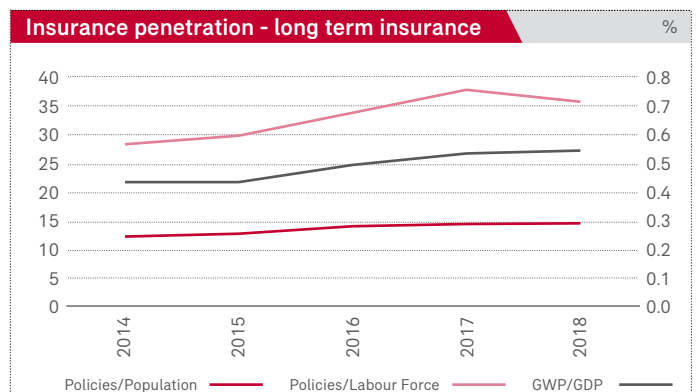


Figure 11



	2013	2014	2015	2016 (a)	2017 (b)
Policies/population	12%	13%	14%	14%	14%
Policies/labour force	28%	30%	34%	38%	35%
GWP/GDP	0.4%	0.4%	0.5%	0.5%	0.5%

Source: IRCSL Statistical Review 2017

(a) Reinstated Audited figures

(b) Provisional figures

Figure 12

### Claims and maturity benefits

The industry paid a total of LKR 26.0 billion in claims and maturity benefits during 2017. Maturity benefits recorded an increase during the year and represented 54.8 per cent of the total outgo. Surrenders paid during the period increased by 5.3 per cent, resulting in 20.8 per cent of total claims.

LKR '000	2013	2014	2015	2016 (a)	2017 (b)
Disability benefits	45,457	436,518	430,617	488,818	636,758
Death	1,358,337	1,889,289	1,640,801	1,616,565	2,088,118
Surrenders	5,677,638	7,184,611	5,267,864	5,121,636	5,391,723
Maturity benefits	9,839,833	9,754,751	11,687,811	12,370,659	14,239,953
Others	1,388,698	1,378,929	1,906,560	2,887,039	3,610,801
<b>Total</b>	<b>18,309,963</b>	<b>20,644,098</b>	<b>20,933,653</b>	<b>22,484,717</b>	<b>25,967,353</b>

Source: IRCSL Statistical Review 2017

(a) Reinstated Audited figures

(b) Provisional figures

Figure 13

### Lapses

During 2017, overall lapse rates reduced in terms of the proportion of new policies lapses as a percentage of new policies and as a percentage of total policies. Further, as per the IRCSL report the reasons for customer policy lapsation is also attributed to misappropriation by agents, product mismatch and inefficiencies in policy management.

	2013	2014	2015	2016 (a)	2017 (b)
New insurance policies lapsed	107,906	103,500	93,008	102,697	90,038
Total insurance policies lapsed	366,506	362,664	364,567	389,732	378,660
New insurance policies lapsed as a % of new policies issued	20%	19%	13%	15%	14%
Total insurance policies lapsed as a % of total policies in force	15%	14%	13%	13%	12%

Source: IRCSL Statistical Review 2017

(a) Reinstated Audited figures

(b) Provisional figures

Figure 14

### Assets of long-term insurance business

Total assets held by the Life insurance business increased by 13.5 per cent during the year, and the composition of investment assets remained relatively stable to the previous year. Due to regulatory requirements and risks associated with managing long-term investments, investments in government securities increased by 13.0 per cent compared to 2016. Similarly, investments in deposits increased significantly by 44.2 per cent compared to 2016, due to attractive interest rates being offered (IRCSL Statistical Review 2017).

	2016 (a)		2017 (b)	
	LKR '000	%	LKR '000	%
Government debt securities	162,296,721	47.0	183,353,483	46.7
Equities	44,311,123	12.8	44,382,861	11.3
Corporate debt	71,380,883	20.6	73,009,816	18.6
Deposits	28,285,552	8.2	40,794,927	10.4
Other	39,414,545	11.4	50,858,558	13.0
<b>Total</b>	<b>345,588,824</b>	<b>100.0</b>	<b>392,399,645</b>	<b>100.0</b>

(a) Reinstated Audited figures

(b) Provisional figures

Figure 15

# MANAGEMENT DISCUSSION & ANALYSIS



## CUSTOMER REVIEW

Consumer behaviour in Sri Lanka is rapidly changing along with the demographic and lifestyle shifts that are taking place. With a steadily ageing population, it is expected that one out of every four persons in Sri Lanka will be above the age of 60 by 2050. This means an increasing need for proper healthcare and health infrastructure as well as retirement planning and facilities for the elderly. Another prominent trend is the rise in Non-Communicable Diseases (NCDs). As per the World Health Organisation, 75.0 per cent of deaths are due to NCDs. Lifestyle choices such as unhealthy diet and lack of exercise are recognised as key reasons for the rise of NCDs.

AIA has made its priority to help people live healthier, longer, better lives. As part of this mission, the Company offers solutions for Sri Lankans to meet both long term savings needs such as retirement planning as well as health and protection needs. AIA Sri Lanka's product suite is designed and enriched by the understanding and experience acquired over 100 years of AIA Group's experience in Asia. AIA also has leading-edge, innovative offerings such as AIA Vitality which incentivises and motivates people towards healthier lifestyles.

Thus, keeping up with the changing customer needs and providing them with the security and motivation they need to live life to the fullest is at the core of what AIA does. As AIA continues to realign strategies and enhance the way it does business, the Company strives to keep pace with the growing needs of all its customers to provide a unique customer experience across all interactions. This includes efforts to enhance digitalisation and mobile connectivity as pertinent means of increasing ease-of-doing business for all customers.

### Expanding our service to customers

Our loyal policyholders are a testament to the trust Sri Lankans place in AIA and the Company's ability to provide the differentiated solutions that meet their needs, which is further complemented by our superior customer services and dedicated intermediary support.

### Simplifying customer interaction

For AIA Sri Lanka, customers are at the heart of our business and our team is committed to improving customer experience by achieving continuous process efficiencies through the use of state-of-the-art technology and innovation. In efforts to provide the highest level of service and in keeping with the Company's promise to customers, AIA's team handles customer requests such as claims, policy servicing and new business underwriting, usually within a day from receiving documentation. A dedicated contact centre answers 750 calls daily with 80.0 per cent of calls being

answered within the short span of 20 seconds, further reinforcing the commitment AIA has to each and every customer.

Enabling ease-of-doing business is of utmost importance to AIA, which is why the Company continuously reviews and expands its premium payment network bringing greater convenience to customers. The avenues open to customers include mobile and e-wallet services, banks, supermarket chains, white goods stores and mobile banking networks, thereby allowing customers to pay their premiums at any time from any location. Customers currently enjoy over 3,300 dedicated premium payment points for their convenience.

An Easy Payment Plan is our newest addition to premium payment options in 2018 for selected products. Through our partnership with leading banks for credit card instalment plans, customers can now enjoy annual policy benefits while settling their premiums monthly and free of interest, making it much easier to purchase and maintain their insurance protection.

We aspire to offer a better digital experience to our customers and investments are being made to augment current platforms.

### Engaging and rewarding our customers

Further enhancing and enriching the customer experience is 'AIA Real Rewards', the flagship customer rewards programme which offers exciting rewards every month for customers, who pay their premiums regularly and on time. Each month, 612 lucky customers win exciting rewards ranging from foreign holiday packages, tabs, mobile phones etc. This programme is popular with customers due to the multiple chances of winning and the attractiveness of the rewards offered by the programme. This is one of the key activities by AIA to reinforce engagement with customers and encourage them to remain committed to their policy and financial plans.

### AIA First Class

AIA First class is the newest addition to the AIA's customer experience framework. Reserved exclusively for AIA's high net worth customers, this experience has been carefully designed to suit the needs of AIA's high net worth customers and offers a host of exclusive benefits and privileges. AIA First Class customers enjoy such benefits as:

- Personalised attention and service at branches
- Prioritised contact centre assistance
- Priority medical treatment procedures for new policy requests
- Special discounts and benefits from partner organisations

In addition to these exclusive benefits, AIA First Class customers and their families enjoy access to unique experiences and customer engagement programmes which are conducted in various parts of the country.

**Listening to customers**

AIA is focused on gaining deeper insights into customers' needs and their experience with the Company. A centralised customer feedback and complaints management process empowers all employees to act on behalf of customers in resolving complaints. A Customer Feedback Review Forum comprising of all key customer unit heads and complaint resolution champions meet regularly to take corrective measures and implement initiatives to keep our customers satisfied. A streamlined process of resolving customer complaints helps the Company to identify and prioritise emerging issues, finding permanent solutions on a timely basis.

**AIA Vitality**

AIA Vitality, a science-backed wellness programme that helps all those who engage with the programme to make positive changes to their health by rewarding them for living a more active lifestyle, is available on the Apple App Store and the Google Play Store. Users enjoy various rewards weekly for reaching their fitness goals, such as supermarket vouchers, movie tickets and online shopping vouchers.



**PRODUCT REVIEW**

**Our portfolio of products in 2018**

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

Name of product	For Whom	Special Features
<b>AIA Smart Pensions</b>	Our flagship pensions product, offering an affordable and comprehensive solution for a happy and comfortable retirement	<ul style="list-style-type: none"> <li>● Regular premiums from 15 to 30 years</li> <li>● Option to decide between a lump sum and a drawdown at maturity</li> <li>● A monthly pension up to a period of 10-30 years upon reaching the retirement age</li> <li>● A monthly pension for the spouse or dependents should the unforeseen occur</li> <li>● Monthly pension enriched with Pensions Booster. This feature will boost the monthly pension by paying 30.0 per cent more of the Annual Dividend Rate during the pension receiving period</li> <li>● The retirement fund increases based on the annually declared dividend rates</li> <li>● A Loyalty Reward of up to 1,750 per cent of the initial annual basic premium</li> <li>● Funeral Expense Benefit, if the unforeseen occurs and the life assured is not there during the Pension Receiving Period</li> <li>● Ability to withdraw funds in an emergency</li> </ul>

## MANAGEMENT DISCUSSION & ANALYSIS

Name of product	For Whom	Special Features
<b>AIA Health Protector</b>	Our comprehensive health with life protection product is designed for individuals who value the best care and the freedom to choose where to get treated	<ul style="list-style-type: none"> <li>Worldwide hospitalisation expense coverage</li> <li>Critical illness coverage</li> <li>Worldwide adult surgery coverage</li> <li>Cashless hospital admittance at over 60 hospitals In Sri Lanka and in selected countries</li> <li>Daily hospital cash benefit</li> </ul>
<b>AIA Easy Pensions</b>	Our packaged pensions product allows customers to select the retirement solution they need in three easy steps	<ul style="list-style-type: none"> <li>Four premium amounts and Life Benefit options to choose from</li> <li>An option of a lump sum or a monthly pension at retirement</li> <li>Daily hospital cash benefit and Critical illness benefit as optional benefits to select from</li> </ul>
<b>AIA Education Plan</b>	For parents who have the need for a guaranteed education fund for their children, even if they are not around	<ul style="list-style-type: none"> <li>In-built Life Cover that can be customised to suit the individual's needs</li> <li>A Loyalty Reward of up to 400.0 per cent of the annual basic premium at the 10th policy anniversary</li> <li>The education fund increases based on the annually declared dividend rates</li> <li>A guaranteed education fund at maturity even if the life assured is not there</li> </ul>
<b>AIA Protected Savings</b>	For individuals who are married and have the need for a higher protection coverage to safeguard the future of their loved ones	<ul style="list-style-type: none"> <li>In-built Life Cover that can be customised to suit the individual's needs</li> <li>Range of additional protection benefits</li> <li>A Loyalty Reward of 400.0 per cent of the initial annual basic premium at the 10th policy anniversary</li> <li>The savings fund increases based on the annually declared dividend rates</li> <li>A guaranteed savings fund at maturity even if the life assured is not there</li> </ul>

Name of product	For Whom	Special Features
<b>AIA Savings Plan</b>	For individuals who seek both insurance and savings solutions under one package and desire greater investment choice to build their savings fund	<ul style="list-style-type: none"> <li>● An inbuilt Life Cover that's worth up to 15 times the annual basic premium</li> <li>● Ability to 'top-up' their existing savings fund</li> <li>● Ability to withdraw funds in an emergency</li> <li>● Opportunity for individuals to invest their Savings Fund in investment options ranging from Treasury bills to the stock market</li> </ul>
<b>AIA SmartBuilder Gold</b>	Designed for high net-worth individuals who seek a worthy savings investment with the convenience of shorter premium paying term options	<ul style="list-style-type: none"> <li>● Short premium paying terms of four or six years, and protection for up to 20 years</li> <li>● A Loyalty Reward of up to 250.0 per cent of the annual basic premium</li> <li>● Option to decide between a lump sum and a drawdown at maturity</li> <li>● Monthly income enriched with Dividend Booster. This feature will boost the monthly income by paying 30.0 per cent more of the Annual Dividend Rate during monthly income receiving period</li> <li>● Ability to withdraw funds in an emergency</li> </ul>
<b>AIA SmartBuilder</b>	For individuals who seek life protection and savings with the convenience of short term premium paying term options	<ul style="list-style-type: none"> <li>● Short premium paying terms of four or six years, and protection for up to 20 years</li> <li>● The fund increases based on the annually declared dividend rates</li> <li>● Option to decide between a lump sum and a drawdown at maturity</li> <li>● Ability to withdraw funds in an emergency</li> </ul>
<b>AIA Savings Plus Gold</b>	For individuals who seek both insurance and long-term savings solutions in one package	<ul style="list-style-type: none"> <li>● In-built Life Cover that could be customised to suit the individual's needs</li> <li>● A Loyalty Reward of up to 350.0 per cent of the initial annual basic premium at 10th policy anniversary</li> <li>● The fund increases based on the annually declared dividend rates</li> <li>● Ability to withdraw funds in an emergency</li> </ul>

## MANAGEMENT DISCUSSION & ANALYSIS

Additional Benefit	Description
<b>Accident Benefit</b>	Provides additional Life Cover in the event of accidental death. This benefit will also provide the policyholder with financial assistance in the event of a permanent disability due to accidents
<b>Adult Surgery Benefit</b>	Provides financial support for the life assured and spouse for over 250 surgeries performed anywhere in the world (For AIA Health Protector Only)
<b>Child Healthcare Benefit</b>	Financial support for 250 listed surgeries performed anywhere in the world (For AIA Health Protector Only). In addition, it also provides cash for hospitalisation and a special allowance if a parent stays over with a child under 12 years of age
<b>Critical Illness Cover</b>	Financial assistance for life assured and spouse for 37 listed critical illnesses. Ability to choose the cover up to a maximum of LKR 5.0 million
<b>Family Hospital Expense Cover</b>	Provides families with a single comprehensive cover for hospitalisation expenses and other benefits such as, coverage of pre and post hospitalisation expenses, coverage for 136 one day surgeries, etc
<b>Hospital Expense Cover</b>	Provides individuals with a comprehensive cover for hospitalisation expenses and other benefits such as, coverage of pre and post hospitalisation expenses, coverage for 136 one day surgeries, etc
<b>Hospitalisation Benefit</b>	Provides a daily cash payment of up to LKR 20,000 per day from the first day onwards if the life assured is hospitalised for over two days.
<b>Spouse Life Cover</b>	Provides a Life Cover for the spouse



### COMMUNITY REVIEW

#### Scholarship for outstanding insurance student at Wayamba University

AIA partners with the Wayamba University of Sri Lanka to offer a scholarship for Excellence in Insurance Studies to the most outstanding final year student in the Insurance & Valuation Department of the University. This endowment has been bestowed for eight consecutive years. This year's recipient was awarded a six month internship programme at the Company together with a monthly allowance and has now received the opportunity to join AIA as a permanent employee.

#### AIA 'Lend a Hand' School Project

As part of its commitment to giving back to the community, AIA is currently building brand new class rooms for the Watuliyadda Primary School Ududwela in Kandy. This is the fifth school building project under AIA's 'Lend a Hand' initiative, intended at uplifting the lives of children who are less privileged. The school's buildings were old, dilapidated and had insufficient space for separate classrooms. Thereby, all students were forced to study in one hall. The new separate class-rooms will enable a more favourable learning atmosphere and is set to be completed in 2019.

#### Poson Safety Programme

Every year, AIA joins hands with the Sri Lanka Police, Sri Lanka Lifesaving Association, the Civil Security Division and the Sri Lanka

Navy in deploying lifeguards in the sacred cities of Anuradhapura, Polonnaruwa and Dambulla during the Poson pilgrimage period to monitor activity in the reservoirs in the area, which are popular bathing and swimming spots.

One life was saved during the year 2018, thanks to AIA's Poson Safety Programme. Now in its 25th consecutive year, the programme has saved over 200 lives since its inception.

#### AIA Higher Education Scholarships

AIA's Higher Education Scholarships Programme, now in its 24th consecutive year, rewards the top performer from each district at the Grade 5 scholarship examination, by giving them a monthly bursary from Advanced Level (A/L) 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 our nation. AIA scholarships do not require the winners or their parents to be policyholders of AIA, and awards are purely based on academic merit. Since its inception, the programme has provided scholarships to 425 deserving students and has disbursed a total of LKR 34.5 million.



### DISTRIBUTION REVIEW

AIA Sri Lanka's primary distribution channels are Agency and Bancassurance. The contribution of the Agency channel to the total GWP was 88.6 per cent whilst the Bancassurance channel's contribution was 10.8 per cent during the year 2018.

The professionalism and high service quality enable our agents and bancassurance financial planning executives to form a lifelong partnership with our customers. Through these relationships, our agents and bancassurance financial planning executives guide and support our customers to make informed choices from our comprehensive range of products and services. Interaction on a regular and a personalised basis with the customers forms the fundamentals of our brand promise to support and help people all over Sri Lanka to live healthier, longer and better lives.

Building on the efforts to focus and expand premier agency proved to be successful in 2018 for the agency channel, with higher contributions from quality agents that led up to an overall improvement in customer engagement and sales quality. This is recognised in AIA Sri Lanka gaining international recognition for its quality agency and being the first company in the Sri Lankan Insurance industry to receive the prestigious LIMRA Award as one of the 'Top 5' companies for the 'Advisor International Quality Award (IQA) – growth in the World'. This award recognises companies who have experienced the highest year-on-year growth percentage of over 20.0 per cent of IQA qualifiers over the preceding two years. AIA Sri Lanka in its endeavour to build on the premier agency strategy that recognises the value of a high calibre digitally equipped, customer centric fulltime Agency sales force trained and equipped to cater to Sri Lanka's mass affluent clientele commenced operations of the Premier Agency Circle (PAC) in 2018. Pioneering this approach and strategy in Sri Lanka, the full time PAC Agents inculcate values of a quality agent under the premier agency strategy and operate on a fully digitalised and paperless modern technological platform and physical work environment. PAC office primarily focuses on generating and developing agents who aspire to achieve Million Dollar Round Table (MDRT) membership.

The 'Road to MDRT' programme was initiated in 2014 and since then has continued successfully. AIA Sri Lanka became the first local insurance company to produce more than 100 MDRT members in 2016. In 2017 AIA Sri Lanka produced 130 MDRT members to be the first and only insurer in Sri Lanka to have the most number of MDRT qualifiers for four consecutive years. The grooming of MDRT members continued with the same enthusiasm and the momentum in the year 2018. The Agency and Bancassurance Channels produced 139 MDRT qualifiers for the year of 2018, raising the bar to a new higher level.

Recognising the value of training and guidance in insurance, AIA Sri Lanka launched the AIA Sri Lanka Training Academy in 2017, an enhanced and comprehensive training infrastructure covering all channels. The Academy in 2018, enhanced the quality of its training architecture as it launched executive development programmes in collaboration with PIM and SLIM institutes for Premier Agency and channel sales management.

The continuing use of iPads in the sales process provided AIA Sri Lanka's distribution with a unique competitive advantage. The e-submission of insurance proposals has enabled the AIA distribution to provide an enhanced experience to customers whilst maintaining professionalism and efficiency. To ensure higher quality of service and technological versatility training on the e-platforms was conducted throughout 2018. Consequently, the number of e-submissions using the e-platforms has shown a notable increase in 2018.

The Bancassurance channel has been strengthened by the current partnerships with NDB Bank, DFCC Bank and Standard Chartered Bank. The channel made a contribution of 10.8 per cent of GWP in 2018 following valuable contributions by all AIA Sri Lanka's bank partners and Financial Planning Executives. Our latest partnership established at the end of 2016, with DFCC Bank has gathered significant momentum and contributed significantly to the Bancassurance channel performance for the year 2018. The Bancassurance channel Target Operating Model was revamped to motivate, upskill and reward financial planning executives for performance, quality, efficiency and service delivery.



### OPERATIONS REVIEW

The Company's performance in 2018 was supported by key initiatives executed by Operations, founded on the objective of driving quality via customer engagement, new business acquisition and enhanced customer experience.

Recognising the ever-evolving customer behaviour, the rapid transformation taking place in Sri Lanka in digitalisation and the country's appetite for quick adoption of the latest developments in applications based mobile friendly technology, AIA Sri Lanka executed a key phase of its Target Operating model by encouraging auto-pay modes via payment platforms and kiosks, and discontinued cash transactions across the Company during 2018. Standing orders, online payments and credit card payments continue to grow in popularity amongst customers and AIA Sri Lanka deployed initiatives to further facilitate the options and support customers to adopt to these trends and transact with the Company with ease.

Stemming from AIA Sri Lanka's drive for digitalisation, in early 2018 the Company launched its 'Think Green, Think Paperless'

# MANAGEMENT DISCUSSION & ANALYSIS

initiative, to reduce the Company's carbon footprint and engage with customers via digital mediums. The focus of the initiative was to reduce the usage of paper and enhance the effectiveness and efficiency of the communication with customers. As such, AIA Sri Lanka customers receive an SMS notification on premium reminders, premium received confirmations, premium receipts and messages from the Company, replacing the traditional paper based reminders, receipts and letters that were sent via the postal system. In order to ensure information security, the SMS on premium receipts provides a personalised link that grants access to the soft copy receipt which customers can view and download at their convenience.

Engaging and encouraging customers to continue their policies to ensure they remain protected, AIA Sri Lanka initiated customer engagement and retention programmes and accorded customers the ability to reinstate lapsed policies. The primary objective was to raise awareness of the protection that customers continue to receive by maintaining regular premium payments and continuing their policies with the Company, to ensure that their intentions at the outset of purchasing the Life insurance policy is not compromised and remains intact. Further, the AIA Sri Lanka contact centre was actively involved in engaging with customer on renewal premium communication.

These initiatives were instrumental in improving the overall customer engagement levels and resulted in contributing to growth in renewal premiums which recorded 14.1 per cent year-on-year growth during 2018.

To further AIA Sri Lanka's ambitions in the Life insurance health propositions space, during 2018 AIA Sri Lanka reviewed its operations in servicing health claims. The identified need of customers centred around fast and accurate claim service with ease. In this endeavour, AIA Sri Lanka facilitated the 'cashless' option to customers on the settlement of their hospitalisation benefits claims where customers have opted to obtain this specific protection cover as part of their Life insurance policy with the Company. This accords the customer the ability to simply leave the medical facility post treatment with AIA Sri Lanka undertaking the settlement of the hospital expenses in line with the benefits of the policyholder's Life insurance policy with the Company.



## INVESTMENTS REVIEW

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, whilst also ensuring that funds are available when needed. The fixed income investment strategy has a buy-

and-maintain orientation with an objective of capital preservation and stable income. It also focuses on asset liability matching i.e. matching the weighted average time to cashflows of the assets to support the cashflow profile of the liabilities of the business. The investment philosophy also ensures that investments are 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 Universal Life fund, in line with the portfolio's risk appetite, except for a strategic holding which amounts to 0.1 per cent of the total assets of the portfolio. 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 policyholders' expectations and requirements. The asset allocations of the Company's investments as at 31 December 2018 are given in Figure 16.

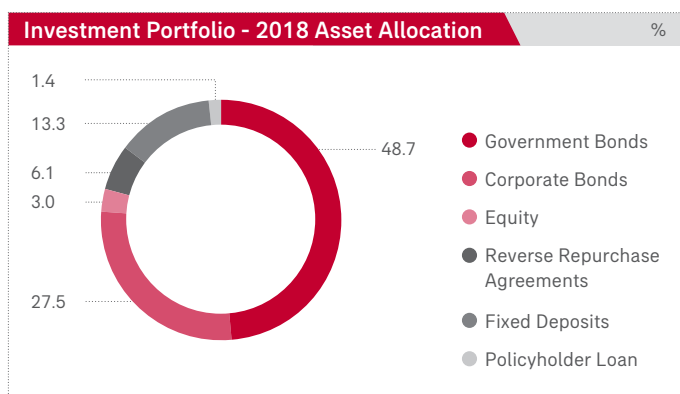


Figure 16

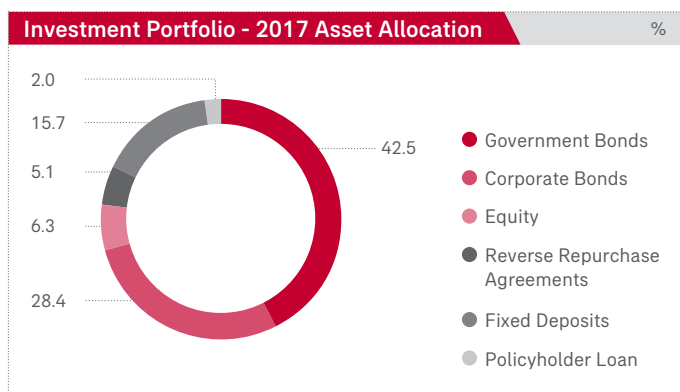


Figure 17





**PEOPLE REVIEW**

**Our people**

At AIA, our people are our greatest asset and they truly come first. In supporting the Group's vision to be the world's pre-eminent Life insurance provider in the Asia Pacific region, the quality and professionalism of our people is very important towards achieving this. 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 Wealth Planners and employees who together make 'Team AIA' as our brand ambassadors. We exemplify our Operating Principles in how we interact with our customers, other stakeholders and the community at large. Thus, it is important that our people feel proud to be a part of AIA.

As we have covered the development focus of the Wealth Planners and Bancassurance executives in the Distribution Review segment in this Management Discussion and Analysis, we here articulate the development focus placed on our employees.

**GPW® recognised AIA Sri Lanka as 'Best Workplace for Women', and 'Great Place to Work' for sixth consecutive year**

AIA Sri Lanka is proud to have been recognised as a Great Place to Work® in Sri Lanka for the sixth consecutive year. This achievement comes on the heels of being inducted into the GPW® Hall of Fame last year, having been bestowed this accolade for five successive years.

This year too AIA Sri Lanka was adjudged one of Sri Lanka's Best 25 Companies to work for, in addition to the Bronze Award in the Large Enterprise category.



Figure 17

The highlight for AIA Sri Lanka most definitely was winning the title of 'Best Workplace for Women' in Sri Lanka, which came as a welcome reaffirmation that everything the Company does for gender parity has been recognised and appreciated.

**Employee Engagement Survey**

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

**Talent attraction and retention**

The quality and professionalism of our people is very important in our journey towards being the 'pre-eminent' Life insurance provider.

Our dedication towards attracting the right talent is further enriched each year through Employer Branding initiatives, where we continue to participate in local and private university career fairs.

During the year 2018, the Company's workforce included 761 employees in the permanent cadre.

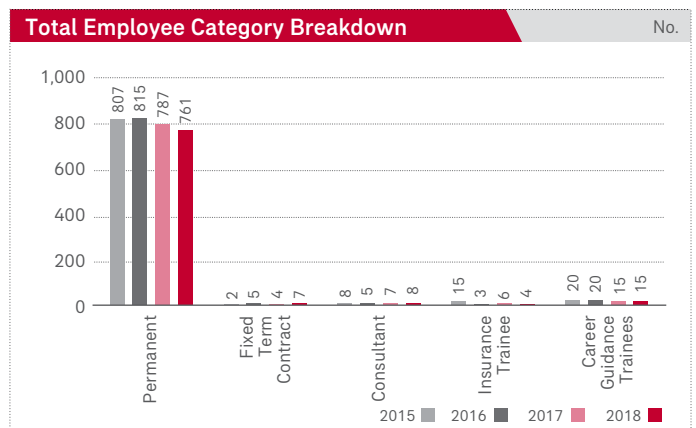


Figure 18

# MANAGEMENT DISCUSSION & ANALYSIS

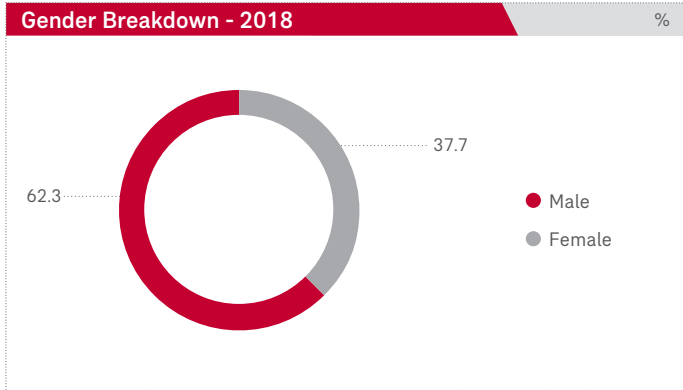


Figure 19

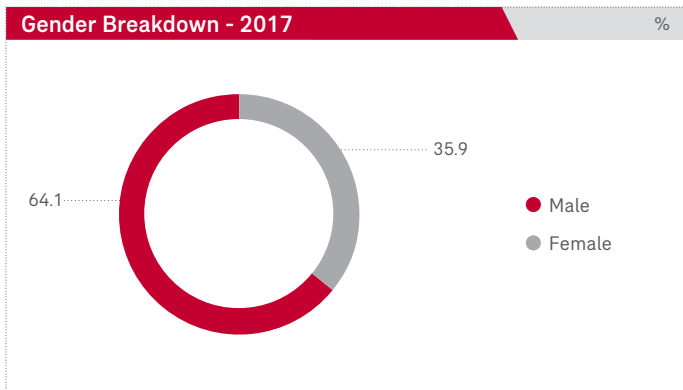


Figure 20

Our conscious efforts to maintain a healthy mix of female and male employee ratios saw the increase of the female employee population from 35.9 per cent in 2017 to 37.7 per cent by 2018. Our comprehensive '100 working day motherhood benefits' allows 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.

Another unique feature of our workforce demographics is the age and experience mix. 43.7 per cent of our employees are aged below 30 years whilst 23.1 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 with 'maturity and experience'.

### 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.

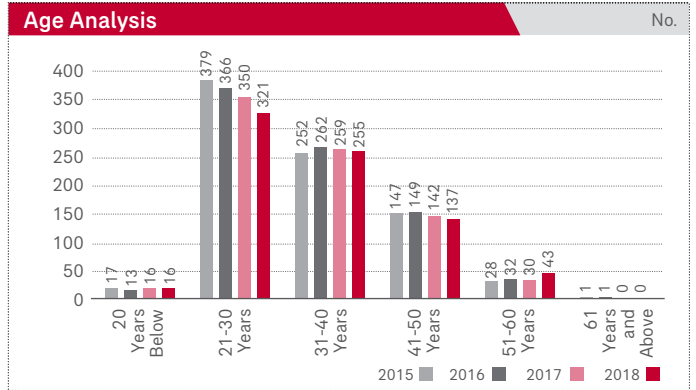


Figure 21

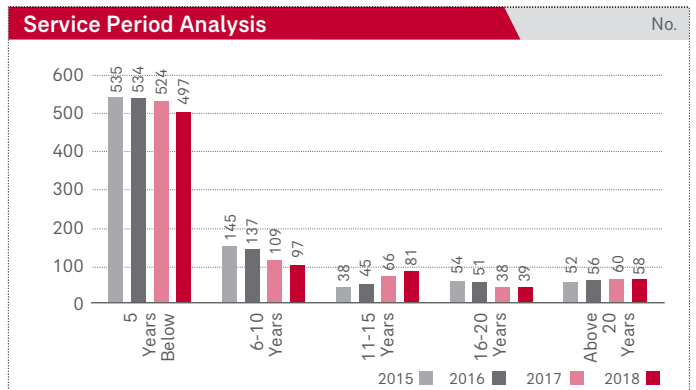


Figure 22

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 thing 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 that the 'Right Results will come'.

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

### 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 only but extends to career development opportunities 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 the long-term and sustained career development for our people.



### Developing our people

At AIA, we make it a top priority to develop our people and our leadership capabilities. People, capability and culture are in the heart of our strategic objectives and we continuously invest significantly to develop our own employees. In 2018, we continued our focus in developing leadership and technical competencies through internal, external and foreign training programs which has resulted in successful delivery of our strategic priorities and business goals.

Our customised executive leadership development programmes include on-the-job learning such as stretch assignments, project secondments and expanded job roles. Few of our key employees were provided secondment opportunities out of Sri Lanka whilst many other senior management members were assigned for cross functional projects. Our flagship leadership programme, the Enterprise Leadership Programme focuses on developing senior leaders with the enterprise-wide mindset needed to lead the organisation, as well as preparing them for more complex and challenging roles in the future.

One of the key programs carried out was the International City and Guild certification for the Internal Trainer faculty of AIA Sri Lanka Academy and HR.

A total of 202 Training programmes were conducted during 2018 with a total investment of over LKR 54.0 Million. Employees participated in over 13,600 hours of training (internally, externally and foreign training) during the year, whilst providing best of class foreign exposures to 160 individuals including many learning experiences within AIA Group.

Continuous development of our people is our forte. Hence development of people will continue to be a key focus of our future success.

Our journey continues...



### FINANCIAL REVIEW

The financial review presents the business performance of AIA Sri Lanka during 2018. The Company delivered another year of solid performance during 2018 across key financial parameters with continued focus on delivering profitable growth underpinned by disciplined financial management.

The financial review presents the financial results for the Group, i.e. for AIA Insurance Lanka PLC and its wholly owned subsidiary Rainbow Trust Management Limited.

#### Financial results

##### Gross Written Premium (GWP)

Sustaining its upward trajectory, total GWP of the Life business increased to LKR 12.7 billion in 2018 recording a growth rate of 10.7 per cent, compared to LKR 11.5 billion in 2017. The growth witnessed was supported in the main by initiatives implemented during the year to enhance customer engagement and improve collection of premiums.

# MANAGEMENT DISCUSSION & ANALYSIS

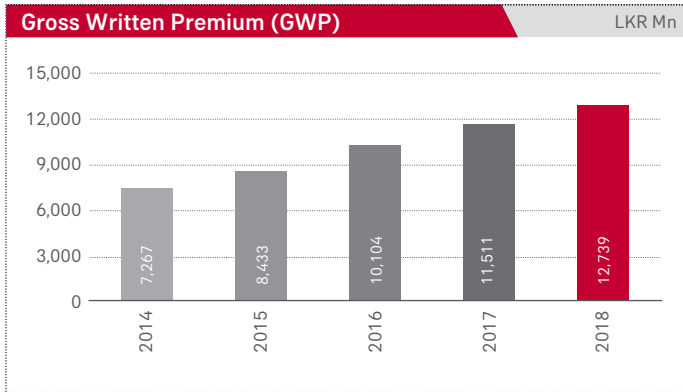


Figure 23

### Gross Written Premium - Product mix

Conventional product premium recorded an increase of LKR 1,207.1 million (11.6 per cent increase vs 2017) whilst unit-linked product premium increased by LKR 21.6 million (2.0 per cent increase vs 2017) in comparison with the amounts reported for 2017. Conventional products continued to dominate the portfolio.

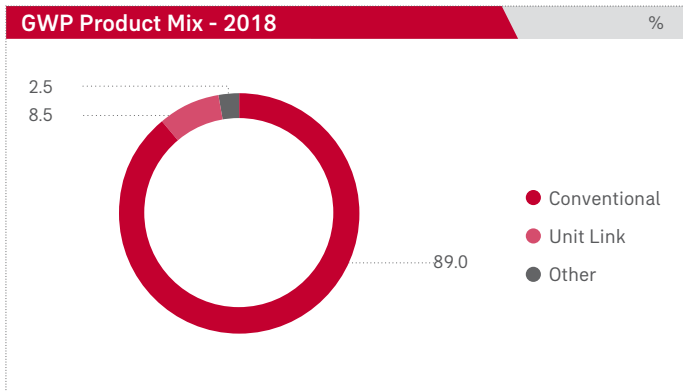


Figure 24

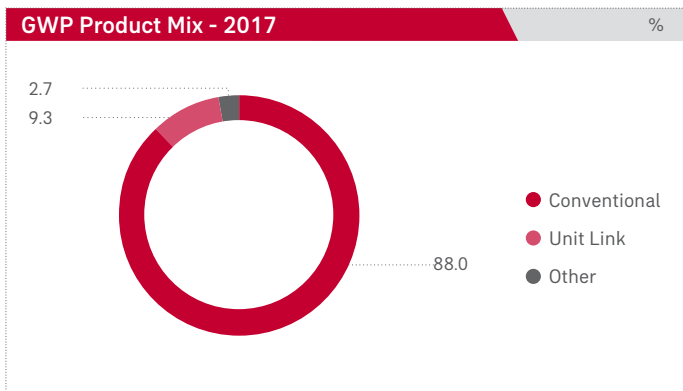


Figure 25

### Gross Written Premium - Channel mix

The channel mix remained similar to that reported in 2017. Agency continued to dominate the distribution channel mix in 2018 with an 88.6 per cent share of the total GWP achievement. The Agency Channel recorded a GWP of LKR 11.3 billion; an increase of 9.2 per cent from the performance recorded during 2017. The Bancassurance channel delivered a robust 23.3 per cent GWP growth to record a GWP of LKR 1.4 billion, helping it increase its share in the distribution channel mix.

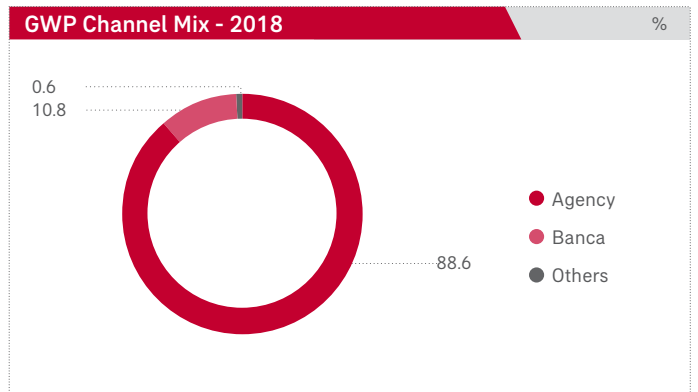


Figure 26

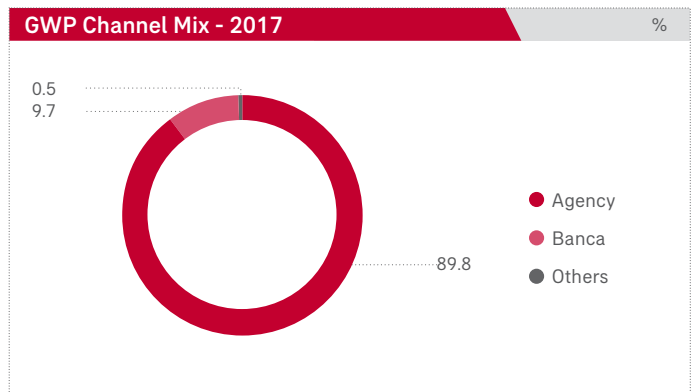


Figure 27

### Net Written Premium (NWP)

The NWP, which is GWP net of premiums ceded to reinsurers, amounted to LKR 12.4 billion in 2018. This depicts an increase in NWP of 10.2 per cent in comparison to 2017. The growth was fueled by the increase in GWP by LKR 1.2 billion.

### Investment income

Investment income in 2018 decreased by LKR 136.4 million compared to the prior year, recording a drop of 2.6 per cent. The decrease is mainly due to the removal of the notional tax credits effective 1 April 2018 as per the changes brought on by the Inland Revenue Act No. 24 of 2017. Another factor for the lower investment income recorded in 2018 was the distribution to shareholders of a significant dividend in February 2018. Investment income records a growth of 4.0 per cent when adjusted for these exceptional items.

The investment income recorded in 2018 reflects the timely execution of the prudent investment strategy, which ensured that the locked-in yield of the portfolio and the target duration were maintained at their target levels.

The prudent investment strategy over the past many years and once again in 2018 resulted in the Company being successful in declaring attractive dividends to Life policyholders for 2018.

### Total income

Total income increased by 5.9 per cent in 2018 to reach LKR 18.2 billion, and the growth is primarily attributed to the growth in GWP of 10.7 per cent in 2018. The contribution of NWP to total revenue increase from 65.1 per cent in 2017 to 67.8 per cent in 2018.

### Net claims benefits

Net Claims and Benefits increased to LKR 5.6 billion in 2018 from LKR 5.1 billion in 2017, recording a growth of 9.9 per cent compared to 2017. The primary driver of the increase in Net Claims and Benefits in 2018 vis-à-vis 2017 was the refund of significant Gratuity funds during the year. The Company experienced a lower experience of surrenders in 2018 vis-à-vis that recorded in 2017.

### Change in contractual liability

The change in contractual liability in 2018 records LKR 2.4 billion which was transferred to the Life Policyholders' liabilities. These transfers to or from the Life Policyholders' liabilities is carried out post a review of the policy liabilities and reserving for policy commitments by the Company's Appointed Actuary, which is also subject to review and audit by the Company's independent external auditors, PriceWaterhouseCoopers (PwC).

During 2017, the Company effected a transfer from Life Policyholders' liabilities of LKR 2.6 billion. In addition, the Company also reflected the transfer from Policyholders' liabilities of LKR 6,080.8 million being the transfer of the RBC One-Off Surplus in line with the stipulations of the IRC SL's Direction #16 pertaining to the recognition and transfer of the RBC

One-Off Surplus. These transfers too were carried out within the governance framework set out above.

### Operating and administrative expenses

During 2018, the Company continued its prudent approach in managing non-sales related expenses. The increase in operating and administrative expenses are mainly driven by growth in selling expenses which supported investments in initiatives to strengthen the Company's brand and sales related capabilities.

### Life surplus

The surplus from Life business decreased from LKR 7,080.8 million in 2017 (without the One-Off Surplus of LKR 6,080.8 million) to LKR 1,157 million in 2018. The Life business surplus of 2018 (LKR 1,157 million) includes LKR 1,422 million as detailed in Note 17.3 to the Consolidated Financial Statements.

The surplus in general is significantly affected by the changes in market interest rates within the RBC solvency regime and in 2018 is impacted also by the increase in investments made towards initiatives to drive sales and premium collections.

Long-term interest rates experienced a downward shift of 230 basis points in 2017 which resulted in the Life business surplus distribution of LKR 7,080.8 million (without One-Off Surplus of LKR 6,080.8 million) in 2017, and long-term interest rates experienced an upwards shift of 172 basis points in 2018 that led to the Life business reflecting a net deficit of LKR 265 million for 2018.

### Profit after tax

Consolidated after tax profit of LKR 4,110 million is recorded for 2018 compared to LKR 13,441.6 million recorded in 2017. The after-tax profits reported for 2017 includes the RBC One-Off Surplus of LKR 6,080.8 million.

The consolidated profit after tax includes the surplus or deficit from Life business during the year. As explained in the preceding section on Life business surplus, the surplus from Life business is impacted by the movement in the long-term interest rates which resulted in a favourable impact on the surplus distributed in 2017 and an adverse impact with a deficit being reflected for 2018.

The consolidated profit of 2018 includes the effect of the creation of a deferred tax asset during the year. Details pertaining to the creation of the deferred tax asset of LKR 2,537 million is provided in Note 11 to the Financial Statements. The deferred tax asset was created as a result of the move to a surplus based taxation regime that came into effect from 1 April 2018 with the legislating of the Inland Revenue Act No. 24 of 2017. This recognises that carried forward tax losses can be used to offset future tax payments.

## MANAGEMENT DISCUSSION & ANALYSIS

In terms of the profit after tax of the Company, the RBC One-Off Surplus recorded in 2017, resulting surplus recorded in 1Q 2018 and the deferred tax asset recorded in 2018 are exceptional items which are one-off in nature.

### Analysis of Consolidated Statement of Financial Position

#### Total assets

The total assets of the Company recorded a growth of LKR 1.8 billion during the financial year 2018. It is noteworthy that the increase in Total Assets was subsequent to the distribution of LKR 2.8 billion dividend to shareholders during 2018.

Financial investments of the company accounted for approximately 82.4 per cent of Total Assets for the year under review. The details of the investments including the movement during the year are presented in Note 9 of this to the Financial Statements on page 132.

#### Property Plant and Equipment (PP&E)

Company's Net Book Value of PP&E amounted to LKR 767.8 million as at 31 December 2018. Compared to the previous year of operations, the Company's net book value of PP&E has increased by LKR 21.3 million in the year 2018. The accounting policies and detailed notes to Property, Plant and Equipment are presented in Note 7 of to the Financial Statements on page 130.

#### Intangible assets

Intangible Assets balance of AIA Sri Lanka marginally dipped by LKR 24.6 million which is a decrease of 2.6 per cent compared to 2017. The amortisation of computer software primarily contributed to the decrease. Further details on Intangible Assets are provided in Note 6 to the Financial Statements on page 129.

#### Reinsurance receivables

Reinsurance Receivable balance increased to LKR 127.9 million in 2018 from LKR 81.3 million in 2017, an increase of 57.3 per cent compared to year 2017.

#### Life insurance fund

The Life insurance fund as at 31 December 2018 was LKR 31.9 billion. The fund remained stable in line with the previous year's fund balance which stood at LKR 32.1 billion. The Company's Appointed Actuary Frank Munro's report is provided on page 88 of this Annual Report 2018. 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 Company's Appointed Actuary.

#### Shareholders' equity

Total equity increased by 7.7 per cent to LKR 18.7 billion in 2018 from LKR 17.4 billion in 2017. The stated capital of the Company remained at LKR 511.9 million during the year. The Revenue Reserves increased by 12.3 per cent to LKR 11.9 billion as at end 2018. The total equity of the Company includes the RBC One-Off Surplus of LKR 6,080.8 million, which is retained as a restricted regulatory reserve in line with the stipulations of Direction #16 issued by the IRCSL.

#### Risk based capital ratio

A healthy solvency margin is an indicator of the financial stability of the Company. From January 2016, the insurance industry in Sri Lanka adopted the RBC solvency regime. Capital Adequacy Ratio is the measure of capital adequacy of a Life insurer under the RBC regulation, and the Company is required to maintain at least 120.0 per cent capital adequacy ratio.

Life business solvency as measured using capital adequacy ratio stands at 655.1 per cent as at 31 December 2018 reflecting the strong financial position of the Company. The RBC capital adequacy ratio of 655.1 per cent includes the RBC One-Off Surplus of LKR 6,080.8 million.

#### Investment in government securities as percentage of Life fund

The Company is required to invest at least 30.0 per cent of the long-term fund in government securities. As at 31 December 2018, the Company had invested over 56.0 per cent of the long-term fund in government securities, which is well above the minimum requirement demonstrating the Company's prudence and sound risk management.



#### OUTLOOK 2019

Looking ahead towards 2019, it is likely to be another year of challenges to overcome as Sri Lanka enters in to a year of crucial elections and the requirements to satisfy the maturity repayments on significant sovereign loan obligations. The depreciation of local currency witnessed in 2018 in the short term would provide a boost to exports but in the longer run is expected to impact debt settlement. The prevailing favourable weather is expected to provide a much-needed boost to the local agriculture sector and low oil prices is expected to support the boost in industrial output. Exogenous global factors such as oil prices, dollar appreciation and normalisation of interest

rates might pose a challenge due to the uncontrollable nature of these factors. Against the backdrop of the uncertain and challenging external factors, AIA Sri Lanka would continue to forge ahead in 2019 with buoyancy backed by AIA Group's strategy, working towards its vision of being the pre-eminent Life insurer in Sri Lanka.

During 2019, AIA Sri Lanka will progress with the focused initiatives in further expanding the premier agency and PAC, digitalisation and improving efficiencies both on customer experience and operations.

The successful launch of AIA Sri Lanka's Health and Pension propositions and the continuous expansion of the service experience and the eco system around these propositions, demonstrates AIA's commitment towards helping people to live healthier, longer, and better lives.

In the centennial year of AIA Group, we look ahead towards the future with resilience, courage and foresee the positive impacts 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 remain resolute that by 'Doing the Right Thing, In the Right Way, With the Right People, we are confident that the Right Results will come'.

Live Better





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# 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 the Group's businesses operating in Thailand, Korea, Australia and New Zealand, India and Sri Lanka as well as Group Partnership Distribution. 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 ING Malaysia after its acquisition by the Group in 2012. He is a director of various companies within the Group, including AIA Company Limited, AIA Australia and Sovereign Assurance Company.

He is also a director of Tata AIA Life Insurance Company Limited, a joint venture between AIA Group and Tata Sons Limited in India. Mr. Lisle joined the Group in January 2011 as Group Chief Distribution Officer.

Prior to joining the Group, Mr. Lisle was the Managing Director, South Asia for Aviva from May 2009 until 2010. Prior to joining Aviva, Mr. Lisle held a number of senior positions at Prudential Corporation Asia Limited, including Chief Executive Officer in Malaysia from 2008 to 2009, Chief Executive Officer in Korea from 2005 to 2008, Chief Agency Officer for ICICI Prudential from 2002 to 2004 and 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.



## **STUART ANTHONY SPENCER** Non-Executive Director

Appointed to the Board of Directors of the Company on 3 August 2017. Mr. Stuart Anthony Spencer serves as the Group Chief Marketing Officer of AIA, responsible for the Group's marketing initiatives, customer propositions and AIA Vitality.

Mr. Spencer re-joined AIA from Zurich Insurance Group, where he was most recently the interim CEO, Asia Pacific, leading a multi-billion dollar Life & Savings and Property & Casualty business covering nine countries with over 6,000 employees. From 2013 to 2016, he was the Chief Executive Officer, General Insurance, Asia Pacific. He was with AIG from 1996 to 2009, during which time he held a number of senior positions including leading AIG's Accident & Health General Insurance operations in Latin America and the Caribbean.

In 2004, Mr. Spencer moved to Hong Kong with AIG Life Companies Accident and Health Division, and from 2006 to 2009 he was the President – Accident and Health Worldwide. Following AIG, He was the Chubb Global Head and COO, Worldwide Life, Accident & Health, responsible for leading Chubb's Global Life and A&H division, across Europe, Asia, North America and Latin America.

He is an alumnus of the Harvard Business School, The Fletcher School of Law and Diplomacy, Tufts University and Brandeis University.



## **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 21 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.



**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 AIA Group's businesses in Korea, Australia and New Zealand, India, Sri Lanka and Thailand. 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 AXA 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.



**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. He continued as an executive director until April 2012 and was declared an independent Non-executive director in August 2012. 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, Executive Coach, Mentor and Speaker.

He is a fellow of the Chartered Institute of Marketing, UK, Chartered Marketer, fellow of the Sri Lanka Institute of Marketing, an Accredited Master Coach and a Master Mentor and has a Masters in Business Administration from the University of Sri Jayewardenepura.



**SARATH WIKRAMANAYAKE**  
Independent Non-Executive Director

Appointed to the Board of Directors of the Company on 1 August 2016, he has also held previous directorships with the Company from 2003 -2006 and then till 2012. 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 and IT industries. He is also a Director of several other companies including National Development Bank PLC, NDB Wealth Management Limited, NDB Investment Bank Limited, NDB Capital Holdings Limited and NDB Capital Limited (Bangladesh).

# SENIOR MANAGEMENT TEAM



**PANKAJ BANERJEE**  
Chief Executive Officer /  
Principal Officer



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



**CHATHURI MUNAWEERA**  
Director / Chief Officer Legal,  
Governance & External Relations



**NIKHIL ADVANI**  
Director Customer Strategy &  
Transformation / Chief Marketing  
Officer



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



**KELUM SENANAYAKE**  
Director Operations



**THUSHARI PERERA**  
Director Human Resources



**ASHEAN KARTHELIS**  
Director Partnership Distribution



**UMESHI DE FONSEKA**  
Director Information Technology

**PANKAJ BANERJEE****Chief Executive Officer / Principal 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. 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 16 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 postgraduate diploma in business administration, specialising in marketing and finance.

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

Upul heads the Agency Distribution function and is the Deputy Chief Executive Officer. His present forte also includes overseeing of AIA Sri Lanka Academy and Premier Agency Circle, dedicated for the development of sales and agency capability and maintaining high standards of professional Agents in the Company.

He has held the positions of Specified Officer and Principal Officer of the Company. Having joined in 1989, he counts over 29 years experience in the Insurance Industry.

Upul 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 Centre for Management Development, Switzerland. He was the President of Sri Lanka Insurance Institute in 2002 and 2003.

**CHATHURI MUNAWEERA****Director / Chief Officer Legal, Governance & External Relations**

Chathuri heads the Legal, Governance, Corporate and External Relations functions and is also the Company Secretary.

She is an Attorney-at-Law and holds a Bachelor and a Master of Laws from the University of Colombo. She is also a member of the Chartered Institute of Personnel Management, UK and holds an International diploma in compliance of the International Compliance Association, UK. Chathuri is a Board and Audit Committee member of International Chamber of Commerce in Sri Lanka and heads its Training & Development Committee.

She counts over 20 years of leadership experience in the fields of corporate law, compliance, company secretarial practice, customer service and business operations and was previously the Director Human Resources of the Company.

**NIKHIL ADVANI****Director Customer Strategy & Transformation / Chief Marketing Officer**

Nikhil leads the functions of Customer Strategy, Analytics, Transformation and Marketing of the Company. He also oversees Product Management, Brand and Communications, Channel and Digital Marketing, Customer Data Science and Corporate Solutions. He has been with AIA Group for 6 years. Prior to AIA, he has held senior level positions in insurance companies in Asia and the US. Nikhil is seconded to AIA Sri Lanka from AIA Group.

He has over 23 years of work experience in financial services and holds a master's degree in Business Administration from Columbia Business School, New York.

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

Gavin leads the Finance, Actuarial and Facilities functions of the Company with oversight responsibility for the areas of finance, actuarial, investments, strategy and facilities.

He counts over 9 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 holds a Bachelors of Commerce degree from the University of Sri Jayewardenepura with honours, specialising in international trade.

## SENIOR MANAGEMENT TEAM

### **KELUM SENANAYAKE**

#### **Director Operations**

Kelum is responsible for the overall Life Operations function of the company. He joined AIA Sri Lanka in 2009 and has over 36 years experience in both Life and General insurance. Prior to joining AIA, he worked in Union Assurance and was its Assistant General Manger Life Operations at the time of exit.

Kelum 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 has been trained both locally and internationally on various aspects of Life insurance strategy and management.

### **THUSHARI PERERA**

#### **Director Human Resources**

Thushari heads the Human Resources function of the Company, effective January 2018. She is a senior HR professional who counts over 10 years of experience in all areas of human resource management and leadership practice.

She is a Member of the Chartered Institute of Personnel Management, UK and holds a diploma in human resources from National Institute of Business Management. She also holds a graduateship in chemistry from the Institute of Chemistry Ceylon.

She is a certified Training and Development Specialist in many areas of people management and is a core member of the certified internal training faculty of the Company. She represents the Company in many HR forums including of the Insurance Association of Sri Lanka .

### **ASHEAN KARTHELIS**

#### **Director Partnership Distribution**

Ashean heads the Bancassurance and Partnership Distribution function of the Company and is responsible for Bancassurance Sales and Sales Operations.

Ashean joined AIA from Global Payments Asia Pacific Lanka (Pvt) Ltd where his most recent role was of Country Director Sri Lanka & Maldives, responsible for the management and growth of the organization, both in Sri Lanka and Maldives. Whilst being the Country Director, he was also a member of the Board of Directors of the Company. Ashean was previously a banker, with management positions held in Standard Chartered Bank and HSBC where his forte included diverse experiences in retail banking, direct sales, credit card products and merchant acquisitions.

Ashean holds a Master's Degree in Business Administration (Cardiff Metropolitan, UK) and Professional Certificate in Marketing – Chartered Institute of Marketing (UK). A talented ruggerite produced by S. Thomas' College Mount Lavinia, Ashean has captained Sri Lanka National Rugby Seven's team, CR & FC Rugby team, S. Thomas' Rugby team as well as being a part of Sri Lanka's National Rugby 15 a side team.

### **UMESHI DE FONSEKA**

#### **Director Information Technology**

Umeshi heads the IT function of the Company effective January 2019. He is responsible for the development and implementation of the IT strategy and the digitization roadmap. He counts over 15 years of experience in the IT & digital business space in diversified conglomerates with businesses in Sri Lanka, India & Maldives.

Prior to joining AIA, he was the Group Head of ICT & Digital business of a leading group of companies where he was a key stakeholder in pioneering the cloud journey of the company and improving the business IT alignment. He also oversaw the corporate communications and group sustainability functions.

He holds a Master's Degree from Cardiff Metropolitan University, UK and a Bachelor of Science in Business Information Technology from Staffordshire University, UK. He is also a member of the British Computer Society.

# 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 2018, together with the audited financial statements for the year ended 31 December 2018 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 95 to 160 of the Annual Report.

## VISION

A statement of the Corporate Vision is given on the page 3 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 or regulations.

## REVIEW OF PERFORMANCE AND FUTURE DEVELOPMENTS

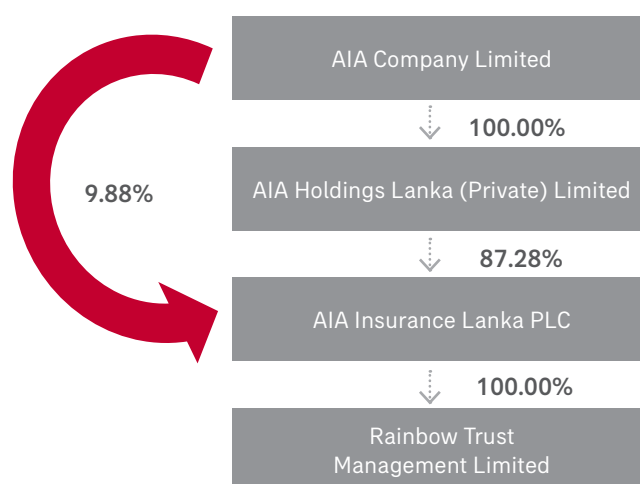
An overview of the Company's and of the Group's financial and operational performance for the year ended 31 December 2018 and of future developments is contained in the Chairman's Message and the Chief Executive Officer's Review with a detailed review including details of the Risk Management Framework being provided in the Management Discussion and Analysis and Risk Management Review segments on pages 12 to 37 and 77 to 82 respectively, 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 2018.

## SHAREHOLDING STRUCTURE

As at 1 January 2018, 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 2018.

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 2018 and remained unchanged during the year under review.

The Company's shareholding structure and that of its subsidiary as at 31 December 2018 is as follows:



## STATED CAPITAL & RESERVES

The Company's stated capital as at 31 December 2018, 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 18,700 million as at 31 December 2018 (LKR 17,365 million as at 31 December 2017), details of which are provided in Notes 23 to 26 of the Consolidated Financial Statements.

## SHAREHOLDING

The Company had 2003 registered shareholders, as at 31 December 2018. The distribution of shareholding, the number of the public holding and their percentage and the details of the 20 largest shareholders, are given on pages 166 to 167 of the Annual Report.

## SHARE INFORMATION

Information relating to share valuation and share performance is given on page 168 of the Annual Report.

# THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

## 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 Consolidated 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 Consolidated Financial Statements, duly signed by the Directors are published on pages 98 to 160 and the External Auditors Report thereon is provided on pages 95 to 97 of the Annual Report.

## FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2018 and the state of Group's affairs as at that date are set out in the Consolidated Financial Statements on pages 98 to 160 of the Annual Report.

## INCOME

Total income of LKR 18,232 million (LKR 17,221 million as at 31 December 2017) comprises income generated from the Life insurance business and trustee services.

## ACCOUNTING POLICIES

The significant accounting policies applied by the Group in preparing its Consolidated Financial Statements are disclosed in pages 105 to 128 of this Annual Report. These policies have been consistently applied. There were no material changes during the year under review in the accounting policies adopted.

## 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 Consolidated Income Statement. This is set out on page 88 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 768 million.

During the financial year the capital expenditure on property, plant and equipment for the Company and the Group amounted to LKR 128 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 Consolidated Financial Statements on pages 130 and 131 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 Consolidated Financial Statements on page 130 of the Annual Report.

The Company owns 13.40 perches of freehold land at No.76, Kew Road, Colombo 2 and 12.08 perches of freehold land at No. 80, Kew Road, Colombo 2. These properties were subject to annual revaluation as per the accounting policy and a revaluation surplus of LKR 27 million was recognised in 2018, totalling to a revaluation reserve of LKR 179 million as at the reporting date.

The details of the extents, locations, valuations of the Company's land holdings are given in note 7.1 of the Consolidated Financial Statements on page 130 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 Consolidated Financial Statements on pages 132 to 135.

## 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 7.9 million utilised as charitable donations for the year 2018. This amount is within 1.0 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 the Chief Actuary to review the Life fund valuations. (Please refer pages 113 and 117 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 Consolidated Financial Statements.



## RESERVES

The total reserves of the Group as at 31 December 2018, amounted LKR 18,188 million consisting of the Restricted Regulatory 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 page 101 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 21 and 37 of the consolidated financial statements and are set out on pages 146 and 154 of the Annual Report.

## OUTSTANDING LITIGATION

In the opinion of the Board of Directors and of 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

In 2018, the Company entered the Hall of Fame of Great Place to Work® for winning for five consecutive years since 2013, the accolade of being one of the best companies to work for in Sri Lanka and also received the coveted award of being a Great Place to Work® for Women. AIA employees were the proud recipients of Vitality initiatives rolled out by the Company focused on ensuring the wellness and well-being of our people.

The details of the unique people practices that enabled the success of the business performance is described in the Management Discussion and Analysis in pages 18 to 37 in the Annual Report.

## EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors recommended the distribution of a first and final dividend of LKR 25.00 per share for 2018 to be approved by the shareholders as authorised by the Articles of Association of the Company, to be paid out of the current year profits of the Company.

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 consolidated 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.

The status of compliance of the Company with the Corporate Governance Rules as set-out in the Listing Rules of the Colombo Stock Exchange (the CSE) are given in the Corporate Governance segment on pages 52 to 76. 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 94 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 41.2 in the related party disclosures to the consolidated financial statements, set out on pages 158 to 159 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 2018:  
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 the Directors nor the Chief Executive Officer of the Company have acquired shares of the Company during the year under review.

# THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

III. Disclosures in respect of shares of the Company which have been held, acquired or disposed during the year:  
Neither the Directors nor the Chief Executive Officer of the Company have held, acquired or disposed shares in the Company at the beginning or at the end of the financial 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 Directors / 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 independent Non-Executive 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 2018, which have been duly approved by the Board of Directors, are stated below.

	Consolidated Fees	
	2018 LKR'000	2017 LKR'000
Directors' emoluments*	145,320	162,232
Directors' fees	8,400	8,400

\* The term 'Director' referred under emoluments includes the Chief Executive Officer as well.

Details of the advance made on behalf of the Directors/Chief Executive Officer during the financial year 2018, as duly approved by the Board of Directors, are stated herein.

	2018 LKR'000	2017 LKR'000
Advance granted to the CEO*	13,790	10,850
Outstanding balance as at 31 December	13,790	10,850
Consideration recognised in the Consolidated Financial Statements **	1,029	1,116

\* forms part of the compensation and benefit structure awarded to the CEO.

\*\*Consideration is based on a rate which lies within the AWPR and AWLR as at the date of granting of such advance.

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 effect 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 of USD 300 million, and Sri Lanka is covered under the master policy with a locally admitted policy issued.

## Directorate during the year under consideration and changes thereto.

The Directors who hold office as at date are indicated in pages 40 to 41.

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	-
William Lisle*	22-Jun-2015	-
Robert Alexander Hartnett	29-Sep-2015	-
Drayton Sarath Palitha	1-Aug-2016	-
Wikramanayake		
Stuart Anthony Spencer	3-Aug-2017	-

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

A brief resume of each Director including information on the nature of his expertise is set out in pages 40 to 41 of this Annual Report.

Disclosures in relation to Non-Executive Directors and their status of independence is described in pages 60 to 61.

In accordance with Article 30 of the Articles of Association of the Company, Messrs. Sarath Wikramanayake and Deepal Sooriyaarachchi retire by rotation at the Annual General Meeting and being eligible, are recommended by the Board for re-election. Details of the said Directors are provided on page 41.

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.

## 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

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
Pankaj Banerjee*	-	-	-	-	4	4	-	-	-	-
Deepal Sooriyaarachchi	6	6	4	4	-	-	1	2	3	4
Manoj Ramachandran	6	6	-	-	-	-	-	-	-	-
William Lisle	6	6	-	-	-	-	2	2	-	-
Robert Alexander Hartnett	6	6	4	4	-	-	-	-	4	4
Drayton Sarath Palitha Wikramanayake	6	6	4	4	-	-	2	2	4	4
Stuart Anthony Spencer	4	6	-	-	-	-	-	-	-	-
Gavin D' Rosairo*	-	-	-	-	4	4	-	-	-	-
Benjamin Deng*	-	-	-	-	2	2	-	-	-	-
Frank Munro*	-	-	-	-	4	4	-	-	-	-
Hasitha Mapalagama*	-	-	-	-	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

There were no related party transactions which exceeded the 10 per cent of equity or 5 per cent of the total assets of the Company as at 31 December 2018 to be disclosed herein or to the CSE. Appropriate disclosures have been made in terms of the Sri Lanka Accounting Standards LKAS 24 - Related Party Disclosures, in Note 41 in the consolidated financial statements.

## COMPLIANCE WITH LISTING RULE 9 PERTAINING TO RELATED PARTY TRANSACTIONS

It is confirmed that the Company has complied with the Rules pertaining to the Related Party Transactions as specified in Listing Rule 9.

# THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

## **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 76 of the Inland Revenue Act, No. 24 of 2017. The Directors believe that the record of transactions entered into with associated enterprises during the period from 1 January 2018 to 31 December 2018 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 then until 31 December 2018 which was further extended until 18 July 2019, 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 was on the basis of a then proposed statutory exemption to the Regulation of the Insurance Industry Act No. 43 of 2000, as amended (the Insurance Act) which exemption was made law by the Parliament in October 2017. The Company has since secured an exemption as per the Insurance Act from being listed on a licensed Stock Exchange based on the listing of its ultimate parent Company AIA Group Limited Hong Kong, on the Stock Exchange of Hong Kong Limited.

The Company, as instructed by the CSE, continues to comply with the requirement of monthly disclosures of its status in relation to the maintenance of a minimum public holding by listed companies as a continuous listing requirement.

## **EXTRAORDINARY GENERAL MEETING**

The Company received under and in terms of the Regulation of Insurance Industry (Amendment) Act No. 23 of 2017, an exemption from being listed on a licensed Stock Exchange based on the listing of its ultimate parent company AIA Group Limited, Hong Kong on the Stock Exchange of Hong Kong Limited.

The Company accordingly initiated the process of delisting its shares from the official list of the CSE in compliance with applicable regulatory requirements and based on the Offer received from AIA Company Limited of Hong Kong, to purchase the Company's fully paid ordinary shares from its minority shareholders at a purchase price of LKR 1,000/- per share, for purposes of the proposed delisting of shares.

However, the resolution to delist was not passed by the required majority of shareholders at the EGM held on 20 August 2018. All necessary disclosure in the above regard have been made by the Company to the CSE in compliance with applicable laws and regulations. The way forward is currently under review.

## **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 Regulatory Commission 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 consolidated 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 were appointed at the last Annual General Meeting to hold office during the year under review, have communicated their willingness to continue in office.

Accordingly, a resolution for their re-appointment will be proposed at the Annual General Meeting together with a resolution authorising the Directors to determine 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	
	2018 LKR'000	2017 LKR'000
Audit and related services	4,990	4,157
Non-Audit services	8,932	1,413

Messrs. PricewaterhouseCoopers do not have any relationship with the Company or with its subsidiary, other than that of External Auditors of the Company and its subsidiary. The External Auditors also do not have any interests in the Company or in 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 CSE. 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 consolidated 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 21 February 2019. An appropriate number of copies of the Annual Report will be submitted to the CSE, the Insurance Regulatory Commission 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 CSE, the Board of Directors has duly resolved to issue the Annual Report of the Company in CD ROM format to all shareholders. Printed copies will only be dispatched to those shareholders who make a request for a printed copy.

### ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Wednesday, 27 March 2019 at 9:15 a.m. at AIA Insurance Lanka PLC, AIA Tower, 92, Dharmapala Mawatha, Colombo 7 (Sixth floor).

The Notice of the Annual General Meeting, setting out the business which will be transacted thereat appears on page 179 of the Annual Report.

By order of the Board



**William Lisle**  
Chairman/Director



**Robert Alexander Hartnett**  
Director



**Chathuri Munaweera**  
Company Secretary

Colombo  
21 February 2019

# CORPORATE GOVERNANCE

## STATEMENT OF COMPLIANCE

Transparency and accountability, two basic tenets of corporate governance, are integral parts of the Company's business. It endeavours to ensure fairness for every stakeholder of the Company. Furthermore the Company always seeks to ensure that its performance is driven by integrity, values and ethics and believes responsible corporate conduct is integral to the way the Company does its business. 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 CSE). The status of compliance together with relevant commentaries are provided in this report.

The Company received under and in terms of the Regulation of Insurance Industry (Amendment) Act No. 23 of 2017, an exemption from being listed on a licensed Stock Exchange based on the listing of its ultimate parent company AIA Group Limited, Hong Kong on the Stock Exchange of Hong Kong Limited. Information in this regard is provided in page 65 of this report.

The Company accordingly initiated the process of delisting its shares from the official list of the CSE in compliance with applicable regulatory requirements and based on the offer received from AIA Company Limited of Hong Kong, to purchase the Company's fully paid ordinary shares from its minority shareholders at a purchase price of LKR 1,000/- per share, for purposes of the proposed delisting of shares.

However, the resolution to delist was not passed by the required majority of shareholders at the Extraordinary General Meeting (the EGM) held on 20 August 2018. All necessary disclosures in the above regard have been made by the Company to the CSE in compliance with applicable laws and regulations. The way forward is currently under review.

The Company sought and was granted an exemption by the CSE [with the concurrence of the Securities and Exchange Commission of Sri Lanka (the SEC)], from having to comply with the maintenance of a minimum public holding by listed companies as a continuous listing requirement, in terms of the Listing Rules of the CSE. The said exemption was granted to the Company in terms of the CSE Listing Rule 7.13.3 (iii) for a period of one year up to 18 July 2019, subject to the Company making appropriate disclosures to the CSE in this regard.

The Company has established its Risk and Compliance functions based on AIA Group standards. It has contributed towards the improvement of corporate governance practices and added transparency in the Company's activities. Further information on such standards is provided in pages 77 to 82 of this report.

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

## AIA INSURANCE LANKA PLC

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. It involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. Corporate governance also provides the framework for attaining company's objectives and hence encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosures.

AIA Insurance Lanka PLC (the Company) recognises the importance of adopting high corporate governance standards to enhance shareholder value and safeguard stakeholder interest.

The Board of Directors of the Company is responsible for shaping the long-term vision and policy approach to steadily elevate the quality of governance in the Company. The Company firmly believes that an active, well-informed and independent Board is necessary to ensure the highest standards of corporate governance to bring objectivity and transparency in the management.

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

AIA Insurance Lanka PLC is a Life insurance company duly licensed by the Insurance Regulatory Commission of Sri Lanka (the IRCSL) and listed on the Colombo Stock Exchange (the CSE). The Company has a fully owned subsidiary, Rainbow Trust Management Limited, which engages in trust management business.

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

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)
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987
- Inland Revenue Act No. 24 of 2017

- 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 No. 6 of 2006
- Prevention of Money Laundering Act No. 5 of 2006 (as amended)
- Foreign Exchange Act No. 12 of 2017
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Trust Ordinance No. 9 of 1917 (as amended)
- 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, DIRECTIONS AND GUIDELINES.**

- Circulars issued by the IRCSL
- Directions issued by the IRCSL
- Guidelines issued by the IRCSL
- Listing Rules of the CSE, Rules, Regulations and Guidelines issued by the Securities and Exchange Commission of Sri Lanka (the SEC).

**STATUS OF COMPLIANCE WITH SECTIONS 7 AND 9 OF LISTING RULES OF THE CSE - AT A GLANCE**

The Company is compliant with the applicable requirements of Sections 7 and 9 of the Listing Rules (Continuous Listing requirements). 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	ai1	ai2	b	c																
7.5	a	b	c	d	e	e.f														
7.6	i	ii	iii	iv	v	vi	vii	viii	ix	x	xi	xii	xiii	xiv	xv					
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
7.11	1	2	3																	
7.12	a	b																		
7.13	7.13(iii)																			
9.2.1	9.2.1																			
9.2.2	9.2.2																			
9.3.2	a	b	c	d																

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A detailed commentary of the status of compliance with specific requirements under Sections 7 and 9 of the Listing Rules of the CSE during the year 2018, is given below.

Requirement	Status of Compliance	Comment	
<b>7.1 DIVIDEND PAYMENT ANNOUNCEMENT TO THE EXCHANGE</b>			
<b>7.1.a</b>	The Entity shall, immediately upon authorising a dividend distribution, make an announcement to the Exchange with specified information.	Complied	Following announcements (with stipulated information) were made in relation to the dividends paid during the year:  First and final dividend announcement for the year ended 31 December 2017 was made on 14 February 2018.
<b>7.1.b</b>	Unless the Entity's Articles of Association provides otherwise, upon the Board of Directors' authorising a dividend distribution, the shareholders must approve such distribution by an ordinary resolution.	Not Applicable	This requirement was not applicable as the dividend distribution was made out of the Company's profits without the need for the approval of the shareholders in accordance with the Articles of Association of the Company.
<b>7.1.c</b>	Date of dispatch of dividend payment when the approval of the shareholders is required; the date of dispatch of the dividend payment shall be within seven (7) market days from and excluding the date on which the related resolution is passed by the shareholders at a meeting. The Entity shall promptly notify the Exchange of the date of dispatch of the dividend payment.	Not Applicable	This requirement was not applicable as shareholders' approval was not sought for the dividend distribution as per Articles of Association of the Company.
<b>7.1.d</b>	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.	Complied	First and final dividend for the year ended 31 December 2017 was declared on 14 February 2018 with the approval of the Board as per the Articles of Association of the Company. The date of dispatch was 7 March 2018 which was scheduled within seven (7) market days from the 'XD' date.
<b>7.1.e</b>	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.
<b>7.1.f</b>	Solvency Certificate  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 Certificate of Solvency issued by the External Auditors of the Company on 6 March 2018 in relation to the first and final dividend payment for the year ended 31 December 2017.
<b>7.1.g</b>	Dividend distribution by way of a scrip dividend.	Not Applicable	This requirement was not applicable to the Company as there was no scrip dividend declared for the year 2018.



Requirement	Status of Compliance	Comment
<b>7.2 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 of the resolutions passed during the year under review as required.
<b>7.3 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.	Complied	The Company dispatched a circular to shareholders outlining important matters on the agenda at the Extraordinary General Meeting held on 20 August 2018. The Company submitted to the CSE the required number of copies of circulars to shareholders.
<b>7.4 INTERIM FINANCIAL STATEMENTS</b>		
<b>7.4.a i 1</b> 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 stipulated as regards the formats and the number of copies, within the specified time limits.
<b>7.4.a i 2</b> Where the Securities are listed on the Empower Board in the Alternate Market Segment, the Consolidated Financial Statements shall be prepared and submitted on a half yearly basis, as soon as the figures have been approved by the Board of Directors of the Entity and in any event not later than two (2) months from the end of the half year.	Not Applicable	This requirement is not applicable as the Company is listed on the Main Board.
<b>7.4.b</b> A listed entity shall ensure that the Consolidated 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 they carried signatures of two Directors.
<b>7.4.c</b> In the event the listed entity fails to submit the Interim Financial Statements within the time period set out in Rule 7.4 (a) the securities of the listed entity shall be transferred to the Watch List on or before the expiry of five (05) market days from the expiry of said time period the listed entity is required to comply with the specified requirements.	Not Applicable	This requirement is not applicable as the Company submitted the Consolidated Financial Statements to the CSE in line with the requirements stipulated as regards the formats and the number of copies within the time limits as set out in 7.4.a.

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Requirement	Status of Compliance	Comment
<b>7.5 CIRCULATION OF ANNUAL REPORT</b>		
<b>7.5.a</b> 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, audited in accordance with Sri Lanka Auditing Standards and shall comply with any other applicable regulatory requirements.	Complied	The financial year of the Company closes on 31 December and the Annual Report for the year 2017 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 and audited in accordance with the Sri Lanka Accounting Standards and in compliance with any other applicable regulatory requirements.
<b>7.5.b</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	<p>The Annual Report for the year 2017 was issued in a CD-ROM. The Company has complied with the specified requirements applicable for such issuance as follows.</p> <p>Provided printed copies to shareholders upon written requests.</p> <p>A designated person was made available to attend to requests for printed copies of the Annual Report.</p> <p>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.</p> <p>A note with required statements/information was sent to shareholders along with the CD-ROM.</p>
<b>7.5.c</b> In the event the Securities of the Entity are listed on the Empower Board in the Alternate Market Segment, such Entity shall issue the annual report of such Entity in soft copy form and host such document on the websites of the Entity and the Exchange.	Not Applicable	This requirement is not applicable as the Company is listed on the Main Board.
<b>7.5.d (I)</b> In the event the independent auditor's report in the Audited Financial Statements of a listed entity submitted to the Exchange contains a Modified Audit Opinion, it shall be the duty of such Entity to resolve the matters giving rise to the Modified Audit Opinion and have such matters independently verified by an auditor that such matters have been resolved within the time period provided for in the Rules and to comply with the specified requirements.	Not Applicable	This requirement is not applicable as the independent auditor's report in the Audited Financial Statements of the Company did not contain a Modified Audit Opinion.

Requirement	Status of Compliance	Comment
<b>7.5.d (II)</b> In the event the independent auditor's report in the Audited Financial Statements of a listed entity submitted to the Exchange contains an emphasis of matter on going concern, it shall be the duty of such Entity to resolve such matters within the time period provided for in the Rules and to comply with the specified requirements.	Not Applicable	This requirement is not applicable as the independent auditor's report in the Audited Financial Statements of the Company did not contain an emphasis of matter, on going concern.
<b>7.5.e</b> In the event the listed entity fails to submit the Annual Report within the time period set out in Rule 7.5 (a) the securities of the listed entity shall be transferred to the Watch List on or before the expiry of five (05) Market Days from the expiry of said time period and the listed entity is required to comply with the specified requirements.	Not Applicable	This requirement is not applicable as the Company submitted the Annual Report in line with the requirements stipulate as regards the formats and the number of copies, within the specified time limits set out in 7.5.a.
<b>7.5.e.f</b> If an entity prior to circulating the Annual Report, files copies of Consolidated 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 Consolidated Financial Statements to the Exchange. 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 2017 to the CSE in the stipulated formats.  The Company submitted its Consolidated Financial Statements to the Registrar General of Companies and the CSE, as stipulated.
<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 pages 40 and 41 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 has been to engage in Life insurance business as per the license issued by the IRCSL.  Further details of the activities of the Company are highlighted in the CEO's review and Management Discussion and Analysis on pages 18 to 37 of this report.
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 167 of this report.

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Requirement	Status of Compliance	Comment
iv The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement.	Complied	This information is provided on page 166 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 page 48 of this report.
vi Information pertaining to material foreseeable risk factors of the Entity.	Complied	This information is captured in the Risk Management Review on page 80 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. Information on HR practices of the Company is provided on pages 31 to 33 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 130 of this report.
ix Number of shares representing the Entity's stated capital.	Complied	This information is provided on page 147 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 166 of this report.
xi Specified ratios and market price information.	Complied	<p>Following information is provided on page 165 and 168 of this report.</p> <ol style="list-style-type: none"> <li>1. Dividend per share</li> <li>2. Dividend pay out</li> <li>3. Net asset value per share</li> <li>4. Market value per share <ul style="list-style-type: none"> <li>● highest and lowest values recorded during the financial year</li> <li>● value as at the end of financial year</li> </ul> </li> </ol>
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	<p>There were no significant changes in the Company's fixed assets as at 31 December 2018.</p> <p>Further information on this is provided on page 130 of this report.</p>
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 under review from any of the stipulated methods.

Requirement	Status of Compliance	Comment
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 61 to 64 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	Company actively complies with dematerialisation of shares in line with the Guidelines of the SEC.
<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 under review as none of the Directors disclosed any dealings of shares of the Company.
<b>7.9 LOSS OF CERTIFICATES</b>		
The entities shall inform the Central Depository System (CDS) as and when a report is lodged with the Entity on any loss of certificates or when the Entity discovers a forgery in a certificate of the Entity.	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> A listed entity shall publish in the Annual Report relating to the financial year commencing on or after 1 April 2007 a statement confirming that as at the date of the Annual Report they are in compliance with the Corporate Governance Rules and if they are unable to confirm compliance, set out the reasons for its inability to comply.	Complied	The Company is compliant with the Corporate Governance Rules of the Listing Rules, subject to necessary explanations provided on page 65 hereof. The Statement of Compliance is published on page 52 of this report.
<b>7.10.b</b> A listed entity shall comply with the Corporate Governance Rules with effect from the financial year commencing on or after 1 April 2008 and the Annual Report must contain the relevant affirmative statements.	Complied	The Company is compliant with the Corporate Governance Rules and respective affirmative statements and the Statement of Compliance is provided on page 52 of this report.

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Requirement	Status of Compliance	Comment
<p><b>7.10.c</b> Where a listed entity is required by any law applicable to such listed entity to comply with rules on Corporate Governance promulgated under such law, the Board of Directors of the Exchange may exempt such listed entity from the requirement to comply with these Corporate Governance Rules either in full or in part.</p> <p>Such listed entity shall make disclosures of compliance with Corporate Governance Rules applicable to that sector and the Annual Report must contain the relevant affirmative statements.</p>	Complied	<p>The Company sought and received an exemption from the Securities and Exchange Commission (the SEC) initially until 31 December 2016 and then until 31 December 2018 which was further extended until 18 July 2019, 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 was on the basis of a then proposed statutory exemption to the Regulation of the Insurance Industry Act No. 43 of 2000, as amended (the Insurance Act) which exemption was made law by the Parliament in October 2017. The Company has since secured an exemption as per the Insurance Act from being listed on a licensed Stock Exchange based on the listing of its ultimate parent Company AIA Group Limited Hong Kong, on the Stock Exchange of Hong Kong Limited.</p> <p>The Company, as instructed by the CSE, continues to comply with the requirement of disclosures on a monthly basis as to its status in relation to the maintenance of a minimum public holding by listed companies as a continuous listing requirement.</p>
<b>7.10.1 NON - EXECUTIVE DIRECTORS</b>		
<p><b>7.10.1.a</b> Two or such number equivalent to one third of the total number of Directors, whichever is higher should be Non-executive Directors.</p>	Complied	There are six members on the Board of Directors all of whom are Non-executive Directors.
<p><b>7.10.1.b</b> The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.</p>	Complied	As at the last Annual General Meeting held on 27 March 2018, there were six members on the Board of Directors. Therefore, the requirement under rule 7.10.1.a is fully complied with.
<p><b>7.10.1.c</b> Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.</p>	Complied	No change was reported to the ratio during the year under consideration.

Requirement	Status of Compliance	Comment
<b>7.10.2 INDEPENDENT DIRECTORS</b>		
<p><b>7.10.2.a</b> Two or one third of the Non-executive Directors appointed to the Board of Directors, whichever is higher shall be 'independent'.</p>	Complied	<p>There are six members on the Board of Directors and two are classified as independent Non-executive Directors.</p> <p>Details of independent Non-executive Directors are given on page 41 of this report.</p>
<p><b>7.10.2.b</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.</p>	Complied	<p>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.</p>
<b>7.10.3 DISCLOSURES RELATING TO DIRECTORS</b>		
<p><b>7.10.3.a</b> 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'.</p>	Complied	<p>Mr. Deepal Sooriyaarachchi joined the Board as a Director in May 2005. He resigned and was re-appointed to the Board in 2006 and was declared an independent Non-executive Director in 2012. 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 eleven years, notwithstanding that his directorship was subject to retirement by rotation and re-appointment by the shareholders of the Company at respective general meetings and that his tenure as an independent Non-executive Director is less than seven years.</p> <p>The Board taking this disclosure and his re-appointment at the Annual General Meeting 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 7.10.3.a. over leaf.</p>

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Requirement	Status of Compliance	Comment
<p><b>7.10.3.b</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.</p>	Complied	The Board has as permitted by Rule 7.10.3 b. of the CSE Listing Rules taken into account all the applicable circumstances including those herein below mentioned, and is of the opinion that Mr. Sooriyaarachchi as an independent Non-executive 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 eleven years. Mr. Sooriyaarachchi does not have any economic interests 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 acts and functions as an outside director and is remunerated for his function via the payment of Directors fees declared in this Annual Report.
<p><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.</p>	Complied	A brief resume of each Director is given on pages 40 to 41 of this report.
<p><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.</p>	Complied	The Company has a procedure to comply with this requirement. However, no Directors were appointed during the year under review.
<p><b>7.10.4 CRITERIA FOR DEFINING 'INDEPENDENCE'</b></p>	Complied	Please refer narrations in 7.10.3.a and b respectively.
<p><b>7.10.5 REMUNERATION COMMITTEE</b></p>		
<p><b>7.10.5.a 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.</p> <p>One Non-executive Director shall be appointed as Chairman of the Committee by the Board of Directors.</p>	Complied	<p>The Remuneration Committee consists of three Non-executive Directors two of whom are independent Non-executive Directors.</p> <p>The Company has a separate Remuneration Committee.</p> <p>Mr. William Lisle functions as the Chairman of the Committee and he is a Non-executive Director of the Company.</p>



Requirement	Status of Compliance	Comment
<p><b>7.10.5.b FUNCTIONS</b></p> <p>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.</p>	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 compensation market surveys (where available) and 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.
<p><b>7.10.5.c DISCLOSURE IN THE ANNUAL REPORT</b></p> <p>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.</p>	Complied	Names of the Directors who are members of the Remuneration Committee are given on page 85 of this report. A statement of the remuneration policy is given under the Remuneration Committee Report on page 85 of this report. Disclosure of remuneration paid to Directors is given on page 48 of this report.
<p><b>7.10.6 AUDIT COMMITTEE</b></p>		
<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>In a situation where both the parent company and the subsidiary are listed entities, the Audit Committee of the parent company may function as the audit committee of the subsidiary.</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, Deputy Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Actuary and Head of Internal Audit, External Auditors and Company Secretary are considered as permanent invitees for the meetings of the Committee.</p> <p>The Company has appointed its own Audit Committee as the immediate parent company is not a listed company.</p> <p>The Committee fulfils the required qualifications and the qualifications of respective members of the Committee are given on page 83 of the report.</p>

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Requirement	Status of Compliance	Comment
<p><b>7.10.6.b FUNCTIONS</b></p> <p>i. Overseeing of the preparation, presentation and adequacy of disclosures in the Consolidated 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 to it by the Board. Accordingly, the Committee,</p> <p>i. Oversees the preparation, presentation and adequacy of disclosures in the Consolidated 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 approve the remuneration and terms of engagement of the External Auditors.</p> <p>Further information about the Committee and its functions is given on pages 83 to 84 of this report.</p>
<p><b>7.10.6.c DISCLOSURE IN THE ANNUAL REPORT</b></p> <p>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 83 of this report.</p> <p>The Committee has determined the independence of the External Auditors and the basis of such determination is mentioned in the Audit and Compliance Committee Report on page 84 of this report.</p> <p>Audit and Compliance Committee Report is given on pages 83 to 84 of this report.</p>

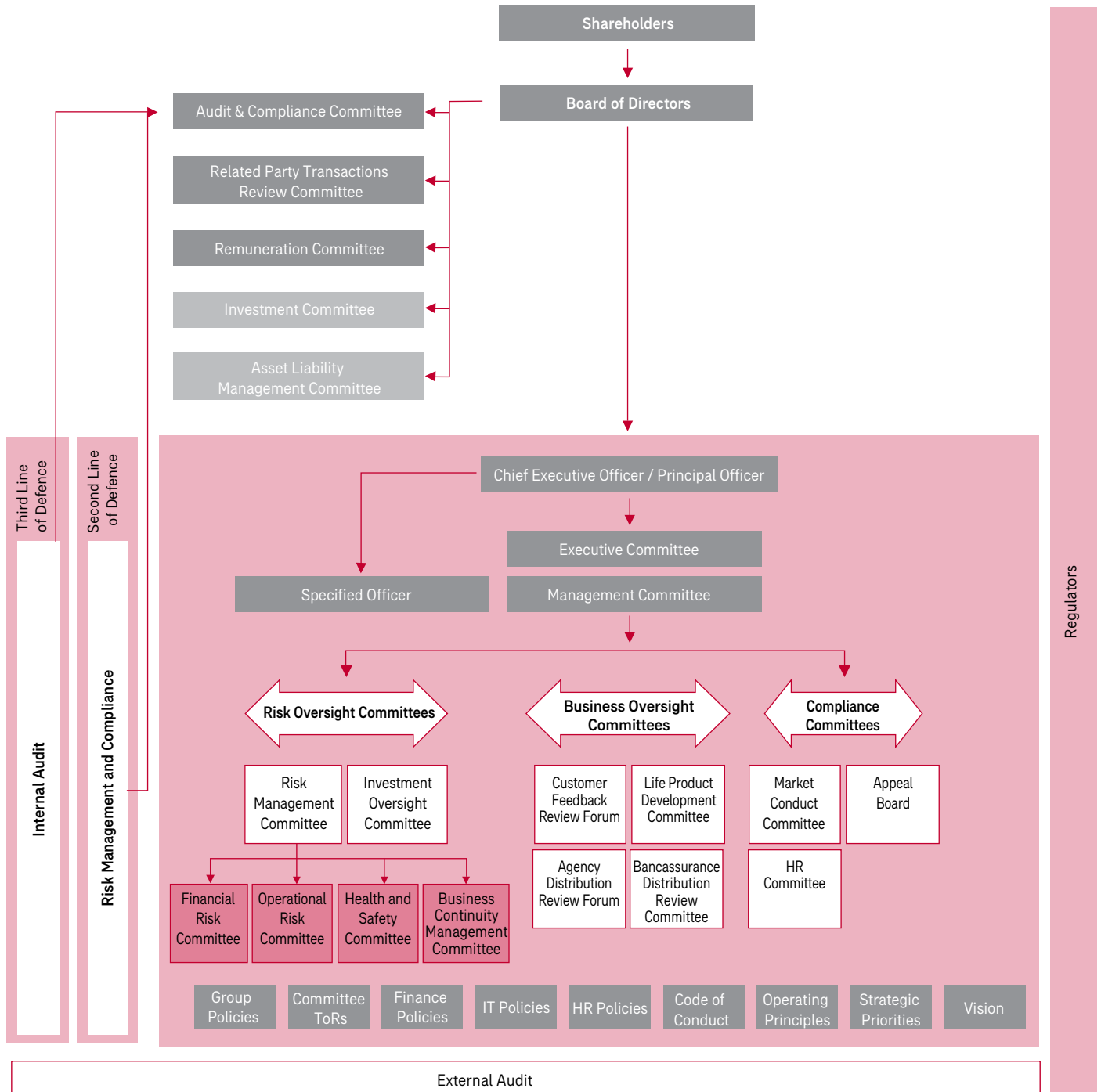
Requirement	Status of Compliance	Comment
<b>7.10.7</b> In the event the listed entity fails to comply with any of the requirements contained in Rule 7.10, the listed entity shall make an immediate announcement to the market via the Exchange on such non-compliance, not later than one (01) market day from the date of the non-compliance and comply with the specified requirements.	Not Applicable	This requirement is not applicable as the Company was fully compliant with Rule 7.10.
<b>7.11 RE-PURCHASE / REDEMPTIONS / MINORITY BUYOUTS</b> 7.11.1 7.11.2 7.11.3	Not Applicable	The Company did not take any actions relating to re-purchase 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.
<b>7.12 RATINGS / REVISIONS IN RATINGS ASSIGNED TO DEBT SECURITIES</b> 7.12.a 7.12.b	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.
<b>7.13 MINIMUM PUBLIC HOLDING AS A CONTINUOUS LISTING REQUIREMENT</b>	Exempted from compliance till 18 July 2019	<p>The Company sought and received an exemption from the SEC initially until 31 December 2016 and then until 31 December 2018 which was further extended until 18 July 2019, 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 was on the basis of a then proposed statutory exemption to the Regulation of the Insurance Industry Act No. 43 of 2000, as amended (the Insurance Act) which exemption was made law by the Parliament in October 2017. The Company has since secured an exemption as per the Insurance Act from being listed on a licensed Stock Exchange based on the listing of its ultimate parent Company AIA Group Limited Hong Kong, on the Stock Exchange of Hong Kong Limited.</p> <p>The Company, as instructed by the CSE, continues to comply with the requirement of disclosures on a monthly basis as to its status in relation to the maintenance of a minimum public holding by listed companies as a continuous listing requirement.</p>

# CORPORATE GOVERNANCE

Requirement	Status of Compliance	Comment
<b>9. RELATED PARTY TRANSACTIONS REVIEW COMMITTEE</b>		
<b>9.2.1 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	<p>The Terms of Reference of the Committee capture the required functions in addition to many other functions assigned by the Board.</p> <p>Accordingly, the Committee reviews in advance all proposed related party transactions of the Company and its subsidiary that are submitted to the Committee except those 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, as updated by the management, 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.</p>
<b>9.2.2 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	<p>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. He is an independent Non-Executive Director of the Company.</p> <p>The Chief Executive Officer, Chief Financial Officer, Company Secretary, Chief Risk Officer and the Head of Internal Audit are considered as permanent invitees for the meeting of the Committee.</p>
<b>9.3.2 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 86 of this report.
<p>d) A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these rules pertaining to related party transactions or a negative statement in the event the Entity has not entered into any related party transaction/s.</p>	Complied	A declaration by the Board of Directors as an affirmative statement of the compliance with these rules pertaining to related party transactions is provided on page 49 of this report.

# CORPORATE GOVERNANCE



## 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 Board sub committees to support the Board in the discharge of its governance and oversight responsibilities. The governance and oversight of audit and compliance, remuneration and related party transactions are thus supported via the Board's Audit and Compliance Committee, Remuneration Committee and Related Party Transactions Review Committee respectively. Information on the Board sub committees is provided on pages 72 to 74 of this report. The Investment Committee and Asset Liability Management Committee are committees appointed by the Board. Information on the Board appointed management committees is provided on page 75 to 76 of this report. The committees are required to report their activities to the Board on a quarterly / annual 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 is given on the pages 40 to 41 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. Changes in the composition of the Executive Committee during the year under review were, resignation of Mr. Amal Perera, Director Partnerships and the appointment of Mr. Ashean Karthelis as the Director Partnership Distribution and the appointment of Ms. Thushari Perera as the Director Human Resources.

Mr. Umeshi De Fonseka assumed the position of Director Information Technology in January 2019 in place of Mr. Alanzo Doll, who resigned from the said position.

## MEMBERS OF THE EXECUTIVE COMMITTEE ARE;

- Chief Executive Officer / Principal Officer
- Deputy Chief Executive Officer / Chief Agency Officer
- Director / Chief Officer Legal, Governance & External Relations / Company Secretary
- Director Human Resources
- Director Information Technology
- Chief Financial Officer / Director Finance
- Director Operations
- Director Partnership Distribution
- Director Customer Strategy & Transformation / Chief Marketing Officer

In addition to the above officials, the function of the Specified Officer reports to the Chief Executive Officer.

## THE MANAGEMENT COMMITTEE

Terms of Reference for the Executive Committee allows the Executive Committee to invite senior management members to attend its meetings. Some of those senior management members together form the Management Committee. Management Committee members who are regularly invited to attend Executive Committee meetings are the Chief Actuary and the Head of Risk and Compliance.

## 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 Audit & Compliance Committee, AIA Group Chief Risk Officer and administrative reporting to the CEO.

## CORPORATE GOVERNANCE

By establishing the Risk function and the rollout of the Risk Management Framework, the Company has ensured that a 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 pages 77 to 82 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.

### GOVERNANCE COMMITTEES





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

Committee	Responsibility	Membership	TOR/ Charter
1 <b>Risk Management Committee</b>	Financial Risk Committee and Operational Risk Committee function within the mandate of the Risk Management 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.  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 Executive Committee  Head of Risk and Compliance / Chief Risk Officer  Nominated members of management	
2 <b>Health &amp; Safety Committee</b>	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)  Members of the Executive Committee  Nominated members of management	



Committee	Responsibility	Membership	TOR/ Charter
3 <b>Business Continuity Management Committee</b>	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) Members of the Executive Committee Head of Risk and Compliance	
4 <b>Investment Oversight Committee</b>	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 the scope of the Committee  Invitees - representatives from NDB Wealth Management Ltd (External Fund Manager)	
5 <b>Customer Feedback Review Forum</b>	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.	Director Customer Strategy & Transformation / Chief Marketing Officer (Co-Chair)  Director Operations (Co-Chair) Deputy CEO  Nominated members of management and functional experts representing Distribution, Marketing, Customer Management and Operations.	
6 <b>Life Product Development Committee</b>	Responsible for identifying, developing / modifying, launching and withdrawing 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.	Director Customer Strategy & Transformation / Chief Marketing Officer (Chair)  Nominated members of management and functional experts representing Marketing and Customer Management, Actuarial, Operations, Distribution, Sales Training, Risk, Compliance, Legal, IT and Finance.	
7 <b>Agency Distribution Review Forum</b>	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.	

## CORPORATE GOVERNANCE

Committee	Responsibility	Membership	TOR/ Charter
8 <b>Bancassurance Distribution Review Committee</b>	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 Partnership Distribution (Chair)  Senior management of the Bancassurance channel and selected members of the sales team.	
9 <b>Market Conduct Committee</b>	Responsible for implementing the penalty table and actions to be effected in substantiated intermediary misconduct incidents.	DGM Legal  DGM IT  Director HR	
10 <b>Appeal Board</b>	Responsible for reviewing the decisions arrived at by the Market Conduct Committee upon the appeals made by the aggrieved agents. The Appeal Board is responsible for making the final decision.	CEO (Chair)  Director & Chief Officer – Legal, Governance & External Relations / Company Secretary  Chief Financial Officer	
11 <b>HR Committee</b>	Responsible for the proactive management and issue resolution of employee grievances and disciplinary matters.	Director HR  Director & Chief Officer – Legal, Governance & External Relations / Company Secretary  Or their representatives	

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

### BOARD SUB COMMITTEES

Audit and Compliance Committee	
Chairman	Robert Hartnett (Non-executive Director)
Members	Deepal Sooriyaarachchi (independent Non-executive Director)  Sarath Wikramanayake (independent Non-executive Director)
Secretary	Thusara Ranasinghe (Deputy General Manager Legal)
Agenda	Available

Invitees	<p>Chief Executive Officer</p> <p>Deputy Chief Executive Officer</p> <p>Chief Financial Officer</p> <p>Company Secretary</p> <p>Chief Risk Officer</p> <p>Chief Actuary</p> <p>Head of Internal Audit</p> <p>External Auditors</p> <p>Other officials as and when required</p>
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	<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, has an appropriate standing and to 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>

## CORPORATE GOVERNANCE

Remuneration Committee	
Chairman	William Lisle (Non-executive Director)
Members	Deepal Sooriyaarachchi (independent Non-executive Director) Sarath Wikramanayake (independent Non-executive Director)
Secretary	Thushari Perera (Director HR)
Agenda	Available
Invitees	Chief Executive Officer Other officials as and when required
Frequency of Meetings	As and when required
Professional Advice	Available
Terms of Reference	Available
Objectives	<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 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	
Chairman	Deepal Sooriyaarachchi (independent Non-executive Director)
Members	Robert Hartnett (Non-executive Director) Sarath Wikramanayake (independent Non-executive Director)
Secretary	Devika Weerakoon (Legal and Regulatory Manager)
Agenda	Available
Invitees	Chief Executive Officer Chief Financial Officer Company Secretary Chief Risk Officer Head of Internal Audit Other officials as and when required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	<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 COMMITTEES**

Investment Committee (Comprising non-Board members)	
Chairman	Pankaj Banerjee (Chief Executive Officer)
Members	Gavin D' Rosairo (Chief Financial Officer / Director Finance)  Frank Munro (Chief Actuary)  Hasitha Mapalagama (Head of Risk and Compliance / Chief Risk Officer)  Benjamin Deng (Head of Investment Solutions & Derivatives from AIA Group investment function, a member up to 10 May 2018)
Secretary	Zarah Juriansz (Investments Governance Manager)
Agenda	Available
Invitees	Officials representing the management of the Company as and when required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	<ul style="list-style-type: none"> <li>● To define framework and 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 the portfolios are managed to achieve their investment objectives whilst adhering to the regulatory requirements.</li> <li>● To design and review the Company's investment policy and place same before the Board of Directors for approval.</li> <li>● To implement the investment policy as approved by the Board of Directors.</li> <li>● To apprise the Board of Directors periodically on the Committee's activities.</li> <li>● To liaise with the IRCSL in connection with regulations pertaining to investments and provide information to help define the framework of investment management of insurance portfolios.</li> </ul>

## CORPORATE GOVERNANCE

Asset Liability Management Committee (Comprising non-Board members)	
Chairman	Gavin D' Rosairo (Chief Financial Officer / Director Finance)
Members	Frank Munro (Chief Actuary) Hasitha Mapalagama (Chief Risk Officer)
Secretary	Umedha Wanniarachchi (Manager - Actuarial Services)
Agenda	Available
Invitees	Officials representing the management of the Company as and when required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	<ul style="list-style-type: none"> <li>● To provide oversight of asset liability management policies, processes and controls and the implementation of asset liability management decisions and strategic asset allocation processes.</li> <li>● To monitor and review the Company's risk appetites for liquidity position, solvency position and liabilities profile.</li> <li>● To monitor and review the need to ensure that the Company holds sufficient assets of appropriate nature, term and liquidity to enable such entities to meet its liabilities as they become due.</li> </ul>

# 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 ensure 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.

Our Risk Management Framework (RMF) is built around developing an appropriate and mindful risk culture at every level of the organisation in supporting of strategic objectives. The RMF provides appropriate tools, processes and capabilities for the identification, assessment and, where required, upward referral of identified material risks for further evaluation.



AIA Insurance Lanka PLC's RMF consists of the following key components.

## RISK CULTURE

The RMF recognises the importance of risk culture in the effective management of risk. Risk culture defines the attitude to risk and ensures that the Company's remuneration structure promotes the right behaviour.

## ACCOUNTABILITY

Accountability is a key component of the risk culture. 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 with the support of the risk champions.

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 accountability to implement risk policies and guidelines, risk appetite statements and running of the governance committee structure in an effective manner.

The Chief Risk Officer (CRO) has overall accountability for the Risk and Compliance function. The CRO has a primary reporting line into the Group CRO and a secondary reporting line to the local Chief Executive Officer (CEO). This structure ensures independence of the Risk and Compliance Function i.e. the second line of defence, and allows the CRO full access to local business discussions to provide risk management perspectives and insights.

## REMUNERATION

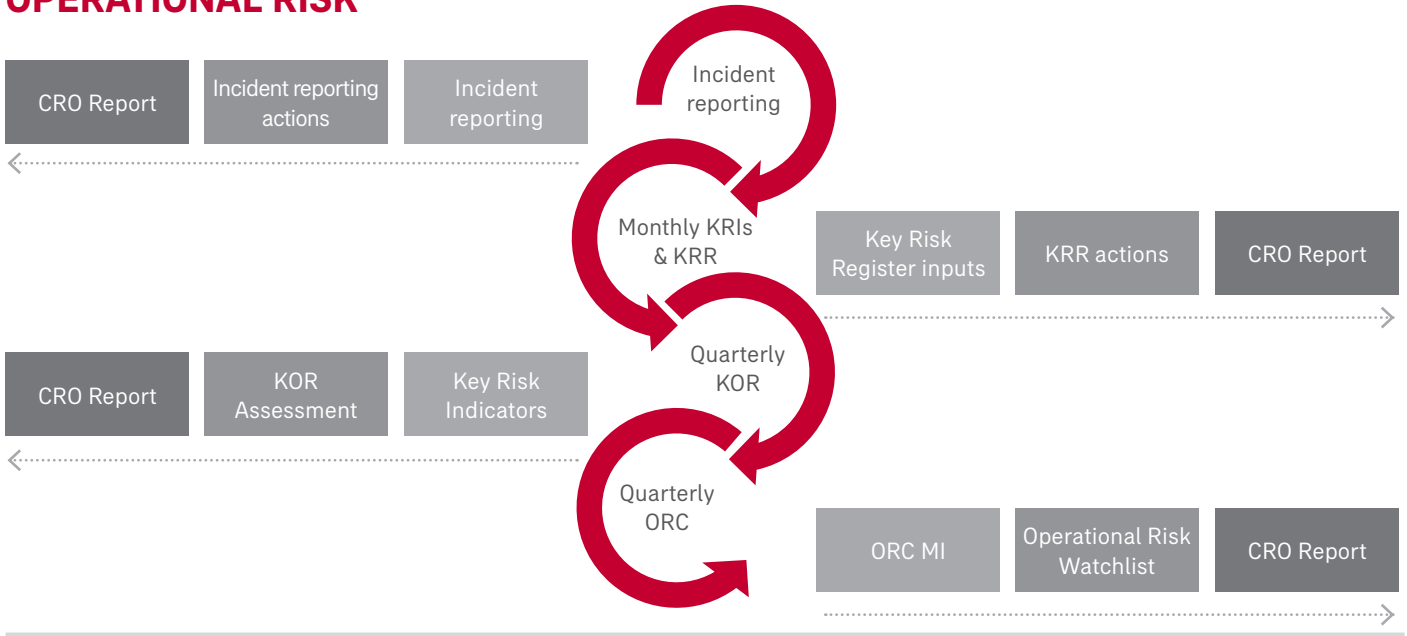
The Company's Executive remuneration structure ensures appropriate remuneration of the RMF within a strong performance-oriented culture. This is supported by a performance management system where all staff are measured on 'How' as well as 'What' they deliver. This structure places significant emphasis on conduct as well as achievement, and is consistent with the Company's fundamental Operating Philosophy of 'Doing the Right Thing, In the Right Way, with the Right People...and the results will come'.

## RISK MANAGEMENT PROCESS

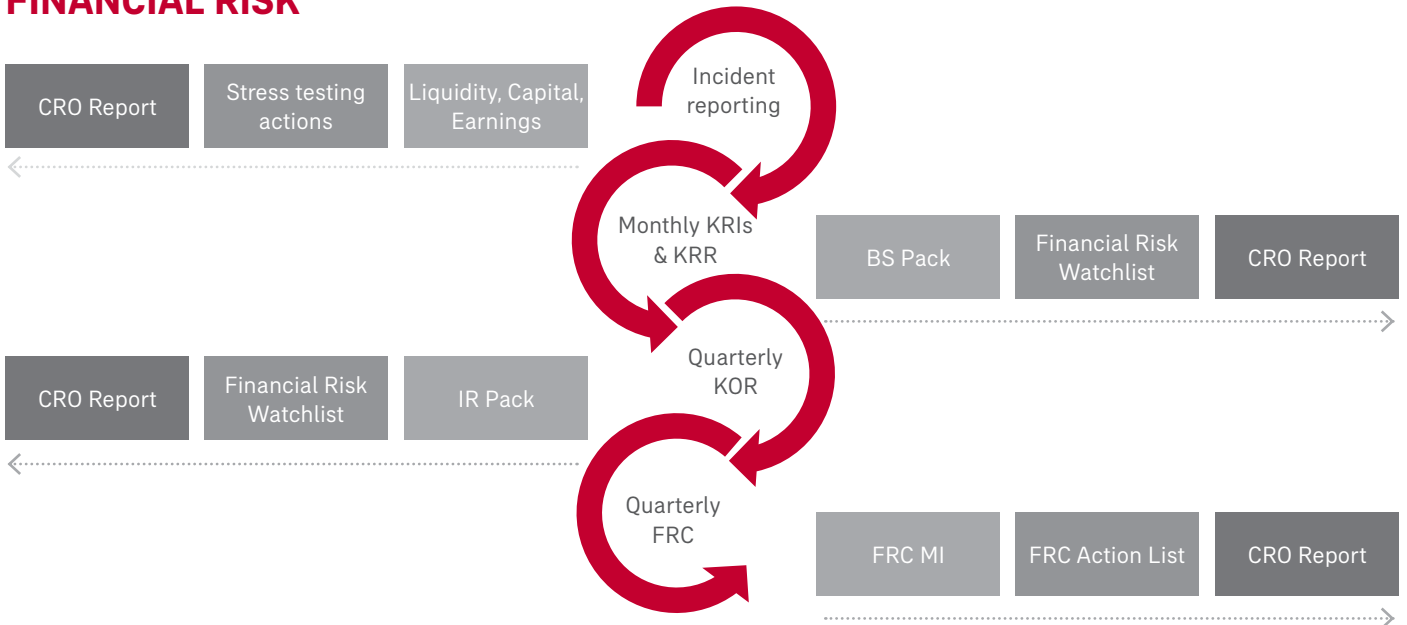
AIA Insurance Lanka PLC has a robust risk management process that provides sufficient information, capability and tools to manage its key risks. The Company has developed following key processes to identify, quantify, manage and monitor the risk exposures.

# RISK MANAGEMENT REVIEW

## OPERATIONAL RISK



## FINANCIAL RISK



### INCIDENT REPORTING

Incident reporting process feeds information pertaining to operational incidents into the business unit's decision making process and is the foundation for the business to identify the controls that prevent operational incidents and evidences their effectiveness. The robustness of the process lies in the simplicity of reporting where each employee can report operational incidents in a simplified way.

### MONTHLY DEPARTMENTAL RISK REGISTER

The Company assesses and updates the departmental risk registers monthly by reviewing risk areas, key risk Indicators and key controls around the processes pertaining to each risk with the departmental risk champions. AIA Sri Lanka's first line actively engages 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 engages with the Risk function in the KOR assessment process. Further, feedback is obtained from Legal and Internal Audit functions on each of the 13 KORs, ensuring the KOR assessment captures any open legal, regulatory and audit issues.

### 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 STATEMENT OF FINANCIAL POSITION PACK AND INVESTMENT RISK PACK

The Statement of Financial Position pack and the investment risk pack are key components of MI for managing financial risk. The Statement of Financial Position pack provides a comprehensive picture of Statement of Financial Position 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 structural risks associated with, credit, equity, property and other investments.

## RISK GOVERNANCE

### 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 and 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 and 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 and 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.

### RISK COMMITTEE STRUCTURE

Risk committee structure is designed to provide:

- Consistent application of the RMF across the business
- Streamline processes for the timely identification, assessment and escalation of risk issues
- Objective analysis of risk issues enabling informed decision making
- Discussion and challenge in relation to risk issues in suitable forums

### RISK COMMITTEE

The Risk Committee oversees risk management across the business. The Risk Committee consist of the Executive Committee members of the business.

### OPERATIONAL RISK COMMITTEE (ORC) AND FINANCIAL RISK COMMITTEE (FRC)

The Risk committee which is chaired by the CEO consists of two parts, namely ORC and FRC. The ORC oversees risk associated with failure in internal processes, personnel and systems or from external events. The FRC oversees risk associated with financial, insurance and investment risk. The FRC and ORC meet on a quarterly basis.

# RISK MANAGEMENT REVIEW

## RISK APPETITE



Risk Appetite Statement 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.

## RISK LANDSCAPE

AIA Sri Lanka maintains detailed risk taxonomy to ensure all risks are identified and systemically managed. Main categories and the definitions are summarised below.

Financial Risks			Operational Risks		
Investment	Insurance	ALM			
Credit	Lapse	Interest Rate	Distribution	Information Technology	Finance & Actuarial
Equity Price	Expense	Foreign Exchange Rate	Fraud & Financial Crime	Information Security	Product Management
Property Price	Morbidity	Financial Liquidity	Legal & Regulatory	Operations	Third Party
Credit Spread	Mortality		Investment Operations	Key Projects	
Investment Liquidity			People	Business Interruption	
Strategic Risks					

## INVESTMENT RISK

Investment risk is the risk arising from the AIA Insurance Lanka PLC’s investment portfolio due to counterparties defaulting on obligations (Credit Risk), market movements (Market Risk) or reduced liquidity in markets (Liquidity Risk). There are five broad areas under Investment Risk.

- **Credit**

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.

- **Equity Price**

Equity Price 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.

- **Property Price**

The risk arising from the volatility of real estate market value due to general or specific factors.

- **Credit Spread**

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).

- **Investment Liquidity**

The risk arising from the Company's ability to buy and sell investments subject to market availability and pricing.

### **INSURANCE RISK**

Insurance Risk is the risk arising from changes in claims experience as well as more general exposure relating to the acquisition and persistency of insurance business. This also includes changes to actuarial and investment assumptions regarding future experience of these risks.

- **Lapse**

The rate of policy terminations deviating from the Company's expectations.

- **Expense**

The risk of the cost of selling new business and of administering the in-force book exceeding the assumptions made in pricing.

- **Morbidity and Mortality**

The occurrence and/ or amounts of medical/death claims are higher than the assumptions made in pricing or reserving.

### **ASSET LIABILITY MISMATCH (ALM)**

ALM risk is the risk arising from the difference in duration between the AIA Insurance Lanka PLC's assets and liabilities. This mismatch is mainly caused by differences in timing and size of the respective asset and liability cash flows.

- **Interest Rate**

The risk arising from the impact from the interest rate movements on the value of future asset and liability cash flows.

- **Foreign Exchange Rate**

The risk arising from foreign exchange rate movement on the value of future assets and liability cash flows, and the translational Statement of Financial Position to the group reporting currency.

- **Financial Liquidity**

The risk arising from the availability of cash resources to meet payment obligations to counterparties as they fall due.

### **OPERATIONAL RISK**

Operational risk arises from business processes including inadequate procedures or policies, employee errors, system failures, fraud, criminal activity, or from other external events which may result in direct or indirect business impact. Operational risk is categorised into a common taxonomy. AIA Insurance Lanka PLC's operational risks arise in the following key areas;

- **Distributional Risk**

This involves intermediary misconduct such as churning, mis-selling/product suitability, fraud and other market conduct-related issues.

- **Regulatory Compliance Risk**

This concerns compliance with the relevant laws and regulations.

- **Financial and Operational Process Risk**

This involves the controls in key processes in business functions such as product management, investment, finance, actuarial, underwriting, claims and policy administration.

- **Systems and Information Security Risk**

This includes system performance, disaster recovery and cyber and information security standard.

### **STRATEGIC RISK**

Strategic risk is identified as part of the business plan process and is defined as potential impact of the business strategy on the company's earnings, capital and reputation. This also taken into consideration the wider social, economic, political, regulatory, competitive or technological trends that could impact the business strategy within a set period.

# RISK MANAGEMENT REVIEW

## LOOKING BACK AT 2018

In 2018, we made significant strides in creating and enriching the risk culture of the business by engaging staff at all levels to create an Integrated Risk Management Framework. Thus, AIA Insurance Lanka PLC ensured that the business is adequately aware of the risks that are undertaken and an appropriate level of escalation is established for risks which requires significant senior management attention and monitoring by increasing the first line risk ownership.

The Risk culture is uplifted by engaging staff to own and manage the risk of the business and thus providing assurance to the Board and regulators which enables a strong risk governance philosophy throughout the business.

Financial risk is monitored via FRC for capital, liquidity, credit and earnings against the defined risk tolerance and limits.

## OUTLOOK FOR 2019

Having established a strong risk management framework which has been operating effectively over the last few years, the focus of 2019 is to continue our risk management journey as a navigator whilst ensuring that the business is heading towards achieving its business plan objectives. Therefore, the motto of the Risk function for 2019 is that we 'Navigate the future' for sustainable, resilient and enhanced performance of the business. This will be achieved mainly by evolving the risk management strategy through value optimisation, enriching the risk and compliance community while increasing business engagement, providing better shareholder assurance and embrace digitalisation and innovation.

The above initiatives will be established in line with the new operational risk framework which will be implemented in 2019 and with a more strengthened financial risk management framework. Consequently, AIA Insurance Lanka PLC will execute transformation strategies in many aspects of its business and operations led by ambition, changes in environment and regulatory requirements, making the business better equipped to 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 as at 31 December 2018.

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)

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 consolidated 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 consolidated 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 2017 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.

## AUDIT & COMPLIANCE COMMITTEE REPORT

The Committee received updates from the management on the status of compliance with respect to the mandatory requirement of maintaining the specified minimum public shareholding.

### 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, Deputy CEO, CFO, Company Secretary, Chief Risk Officer, Chief Actuary, Head of Internal Audit and External Auditors attended these meetings as permanent invitees. The External Auditors attended all the scheduled meetings of the Committee 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.

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 2019, subject to approval by the shareholders at the forthcoming Annual General Meeting. The Committee will approve the terms of engagement of the auditors for 2019 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 2019.

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



**Robert Hartnett**  
Chairman, Audit and Compliance Committee

11 February 2019

# 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 2018, the Committee comprised of the following Directors.

1. William Lisle  
(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)

## 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.

## 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, Director Human Resources and the Company Secretary 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 2018, 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.



**William Lisle**  
Chairman, Remuneration Committee

6 February 2019

# 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 2018.

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)

## 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 enterprises, 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 encompasses 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. 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 2018 to be disclosed in the Annual Report 2018.
- 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.

### 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 76 of the Inland Revenue Act No. 24 of 2017 on Associated Enterprises. Required disclosures and submissions have been made to the relevant authorities during the year after having reviewed the records of transactions with the Associated Enterprises.

### MEETINGS

The Committee held four formal meetings during the year under review. The CEO, CFO, Company Secretary, Chief Risk Officer 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

11 February 2019



# INVESTMENT COMMITTEE REPORT

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

## SCOPE AND OBJECTIVES

The Investment Committee is delegated responsibility as regards investment management by the Board of Directors and designs the Investment Policy and investment governance framework of the Company.

The objectives of the Investment Committee include:

- Designing and reviewing the Company's investment policy and placing same before the Board of Directors for approval
- Implementing the investment policy as approved by the Board of Directors
- Apprising the Board of Directors periodically on the Committee's activities
- Ensuring adherence with the Strategic Asset Allocation and Investment Mandates approved by the Board of Directors by monitoring investment performance and recommending appropriate investment strategies
- Ensuring resources dedicated to investment activities and governance are sufficient to implement and manage the approved investment policy and any other activities requested by the Board
- Reviewing the adequacy of internal control systems to support investment activities
- Reviewing the adequacy of risk management systems to support prudent investment management
- Reporting to the Board of Directors on any breaches and concerns regarding the internal controls, investment operations and risk management procedures

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.

## MEMBERS

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

Member	Period	
	From	To
Pankaj Banerjee (Chairman from 15 November 2016)	15 November 2016	To date
Gavin D' Rosairo	14 August 2012	To date
Frank Munro	30 May 2017	To date
Hasitha Mapalagama	30 May 2017	To date
Benjamin Deng	5 December 2012	10 May 2018
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 Fund Manager attends the meeting on invitation by the Committee. The Investment Committee convened on four occasions during 2018 and given below is the members' attendance.

## ATTENDANCE

Member	Attendance			
	8-Feb 2018	8-May 2018	9-Aug 2018	12-Nov 2018
Pankaj Banerjee	✓	✓	✓	✓
Gavin D' Rosairo	✓	✓	✓	✓
Frank Munro	✓	✓	✓	✓
Hasitha Mapalagama	✓	✓	✓	✓
Benjamin Deng	✓	✓	N/A	N/A

## REPORTING

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



**Pankaj Banerjee**  
Chairman, Investment Committee

8 February 2019

# ACTUARY'S REPORT



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To the shareholder of AIA Insurance Lanka PLC

## **ACTUARIAL VALUATION AND SOLVENCY OF AIA INSURANCE LANKA PLC AS AT 31 DECEMBER 2018**

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, IRCSL circular #22 dated 14 February 2006, Extraordinary Gazette dated 15 December 2015 and Direction #16 dated 20 March 2018.

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 risk-based capital framework. For areas not covered by IRCSL 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 2018, taking into account the dividend declared up to and including the date of valuation.

The liability so provided and the fund transfer from 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 11.25 per cent / 10.00 per cent / 9.37 per cent for policies with dividend rates of 90 per cent / 80 per cent / 75 per cent respectively for the financial year ending 31 December 2018.

**Frank Munro**  
 Fellow, Institute and Faculty of Actuaries UK

9 February 2019

# STATEMENT OF SOLVENCY

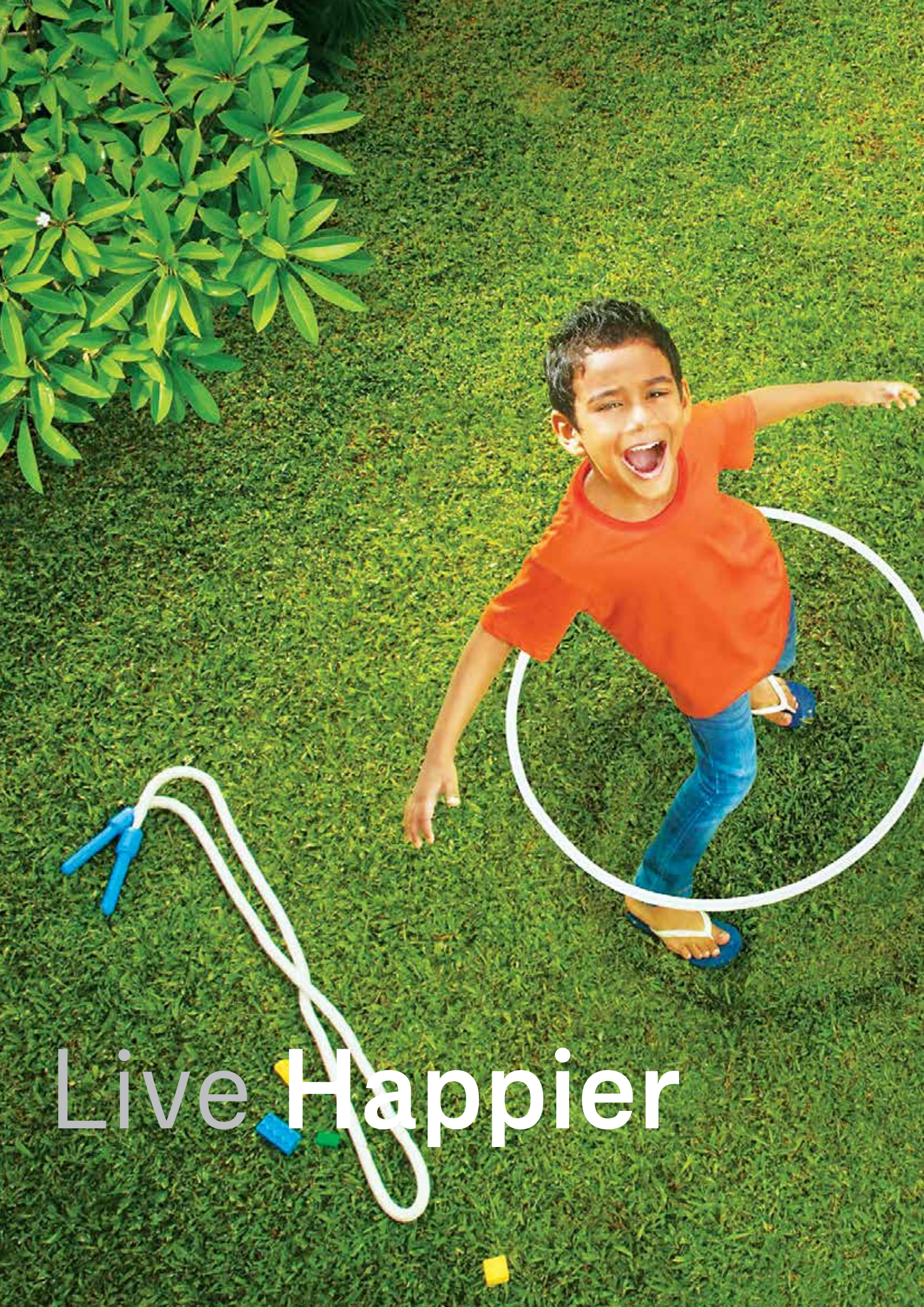
The statement of solvency for Life insurance has been prepared in accordance with the solvency margin (Risk-Based Capital) Rules 2015, with effect from 1 January 2016 and is in line with the formats stipulated by the Insurance Regulatory Commission of Sri Lanka.

	<b>2018</b>	<b>2017</b>
	<b>LKR mn</b>	<b>LKR mn</b>
1 Value of Admissible Assets	44,006	44,841
2 Value of liabilities		
2.1 Policy Liabilities	20,621	17,772
2.2 Other Liabilities	4,164	3,203
3 Total Available Capital (TAC)	19,222	23,867
4 Risk-Based Capital requirement (RCR)	2,934	4,011
5 Risk-Based Capital Adequacy Ratio (CAR) = (TAC/RCR)	655%	595%

# 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 Regulatory Commission of Sri Lanka in terms of the said Act as amended in March and October 2011 and April 2016.

	<b>2018</b>	<b>2017</b>
	<b>LKR mn</b>	<b>LKR mn</b>
1 Approved assets maintained in long term insurance business	29,165	34,750
2 Long term insurance fund	27,167	33,083
3 Excess in approved assets over long term insurance fund	1,998	1,667
4 Approved assets as a percentage of long term insurance fund	107.35%	105.00%
5 Ratio required	100%	100%



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# FINANCIAL CALENDAR

## DATE OF APPROVAL / PUBLICATION OF THE INFORMATION

### Interim Results for 2018

First Quarter	18 May 2018
Second Quarter	14 August 2018
Third Quarter	14 November 2018
Fourth Quarter	21 February 2019

### Audited Financial Statements

2017	14 February 2018
2018	21 February 2019

### Dividends

2017 : First and Final Dividend	14 February 2018
2018 : First and Final Dividend	21 February 2019

### Annual General Meetings

2017 : 32nd AGM	27 March 2018
2018 : 33rd AGM	27 March 2019

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

The Consolidated 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, 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 Consolidated 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 Consolidated 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 Consolidated 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 Financial 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 a 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 Consolidated Financial Statements were audited by Messrs PricewaterhouseCoopers Chartered Accountants, the External Auditors of the Company.

The audit opinion issued by the External Auditors is provided on pages 95 to 97 .

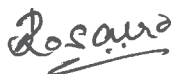
The Audit and Compliance Committee of the Company meets periodically with the Internal Auditors and External Auditors to review the manner in which the auditors carry out their responsibilities and perform their duties and to discuss audit findings, and any deficiencies in internal controls that may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

21 February 2019

# 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 pages 95 to 97 of this Annual Report.

In preparing these Consolidated 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 Consolidated Financial Statements have been prepared in accordance with applicable accounting standards; and
- prepare the Consolidated Financial Statements on a going concern basis.

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

- a Consolidated 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 (Consolidated 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 Consolidated 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 2019-2021, 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 safe guard 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 2018 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  
21 February 2019



# INDEPENDENT AUDITOR'S REPORT



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AIA INSURANCE LANKA PLC

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Our opinion

In our opinion, the financial statements of AIA Insurance Lanka PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group") give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### What we have audited

The financial statements of the Company and the consolidated financial statements of the Group, which comprise:

- the statement of financial position as at 31 December 2018;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

#### Basis for opinion

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

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

#### Independence

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### The Company and Group:

Key audit matter	How our audit addressed the Key audit matter
<p><b>Valuation of insurance contract liabilities</b></p> <p>As at 31 December 2018 the Group has insurance contract liabilities of LKR 31.9 billion (Note 17).</p> <p>The Director's valuation of these insurance contract liabilities involve significant judgment about uncertain future outcomes, including mortality/morbidity, persistency, interest/ investment rates, expense levels and inflation as well as complex valuation methodologies.</p>	<p>We performed the following audit procedures to address this matter:</p> <p>We assessed the valuation methodologies used, identified changes in methodologies from previous year's valuation and assessed the reasonableness and impact of material changes identified, by applying our industry knowledge and experience to compare whether the methodologies and changes in methodologies are in compliance with recognised actuarial practices and expectation derived from market experience.</p>

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

PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

## INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the Key audit matter
<p>The liabilities for non-participating life assurance policies, universal life policies, unit-linked policies, annuities and policies related to other protection products are determined by a gross level premium valuation method using best estimate assumptions adjusted for adverse deviations. These assumptions are reassessed at least annually. The valuation is subject to meeting a liability adequacy test which compares the liabilities with a valuation on current best estimate assumptions.</p>	<p>We assessed reasonableness of the key assumptions including those for mortality, morbidity, persistency, expense levels, interest rates and provision for adverse deviations. Our assessment of the assumptions included:</p> <ul style="list-style-type: none"> <li>● Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience;</li> <li>● Obtaining an understanding and testing the controls in place, in the process of determining the assumptions;</li> <li>● Assessing reasonableness of the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.</li> </ul> <p>We checked the calculation of the liability adequacy test and assessed the related results in order to ascertain whether the insurance contract liabilities used for the in-force business are adequate in the context of a valuation on current best estimate assumptions.</p> <p>Based upon the work performed, we found the methodologies and assumptions used by the management to be appropriate. We also found that the assumptions for the liability adequacy test were appropriately applied.</p>

### Other information

Management is responsible for the other information. The other information comprises the annual report (but does not include the financial statements and our auditor's report thereon).

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

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

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

### Responsibilities of management and those charged with governance for the financial statements

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

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

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

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high

level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's/ Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate/ consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company/ Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on other legal and regulatory requirements**

As required by section 163 (2) of the Companies Act, No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

The accounting records of AIA Insurance Lanka PLC have also been maintained by the management in the manner required by the rules made by the Insurance Regulatory Commission 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 Company.



**CHARTERED ACCOUNTANTS**

CA Sri Lanka membership number - 1795

COLOMBO  
21 February 2019

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Group		Company	
		2018 LKR '000	2017 LKR '000 Restated	2018 LKR '000	2017 LKR '000 Restated
<b>ASSETS</b>					
Intangible assets	6	923,869	948,440	923,869	948,440
Property, plant and equipment	7	767,873	746,542	767,873	746,542
Investments in subsidiary	8	-	-	1,000	1,000
Financial investments	9	44,836,419	45,735,748	44,836,419	45,735,748
Policyholder and other loans	10	836,700	922,382	836,700	922,382
Deferred income tax assets	11	2,552,492	-	2,552,492	-
Reinsurance receivables	12	127,908	81,308	127,908	81,308
Trade receivables	13	403,370	473,803	402,981	473,414
Other assets	14	2,920,816	3,166,061	2,920,795	3,165,994
Other fund assets	15	295,829	235,494	295,829	235,494
Cash and cash equivalents	16	741,974	274,217	739,620	266,626
<b>Total assets</b>		<b>54,407,250</b>	<b>52,583,995</b>	<b>54,405,486</b>	<b>52,576,948</b>
<b>LIABILITIES</b>					
Insurance liabilities	17	31,925,283	32,116,292	31,925,283	32,116,292
Retirement benefit obligations	18	217,293	222,085	217,293	222,085
Deferred income tax liabilities	11	-	6,498	-	6,498
Other fund liabilities	19	295,829	235,494	295,829	235,494
Reinsurance payables		189,525	91,288	189,525	91,288
Accruals and other payables	20	2,946,337	2,526,705	2,945,888	2,526,320
Current income tax liabilities	21	2,800	3,476	2,619	3,170
Deferred revenue	22	48,595	11,262	48,595	11,262
Bank overdraft	16	81,590	5,622	81,590	5,622
<b>Total liabilities</b>		<b>35,707,252</b>	<b>35,218,722</b>	<b>35,706,622</b>	<b>35,218,031</b>
<b>EQUITY</b>					
Stated capital	23	511,922	511,922	511,922	511,922
Capital reserve	24	178,916	152,176	178,916	152,176
Restricted regulatory reserve	17.4 & 25	6,080,848	6,080,848	6,080,848	6,080,848
Revenue reserves	26	11,928,312	10,620,327	11,927,178	10,613,971
<b>Total equity</b>		<b>18,699,998</b>	<b>17,365,273</b>	<b>18,698,864</b>	<b>17,358,917</b>
<b>Total equity and liabilities</b>		<b>54,407,250</b>	<b>52,583,995</b>	<b>54,405,486</b>	<b>52,576,948</b>

The notes on the pages 105 to 160 are an integral part of these Consolidated Financial Statements.

I certify that the Consolidated 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 Consolidated Financial Statements on pages 98 to 160 were authorised for issue by the Board of Directors on 21 February 2019 and were signed on its behalf.



William Lisle  
Chairman / Director



Robert Alexander Hartnett  
Director

# CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December	Note	Group		Company	
		2018 LKR '000	2017 LKR '000 Restated	2018 LKR '000	2017 LKR '000 Restated
Gross written premium	27.1	12,739,351	11,510,581	12,739,351	11,510,581
Gross reinsurance premium	27.2	(382,221)	(302,123)	(382,221)	(302,123)
<b>Net written premium</b>	<b>27</b>	<b>12,357,130</b>	<b>11,208,458</b>	<b>12,357,130</b>	<b>11,208,458</b>
<b>OTHER INCOME</b>					
Investment income	28	5,091,897	5,228,329	5,097,477	5,228,329
Fee income	29	777,280	494,929	775,726	493,418
Net realised gains	30	80,064	71,617	80,064	71,617
Net fair value losses	31	(194,158)	(30,147)	(194,158)	(30,147)
Other operating income	32	119,969	247,673	119,749	246,971
<b>Total other income</b>		<b>5,875,052</b>	<b>6,012,401</b>	<b>5,878,858</b>	<b>6,010,188</b>
<b>Total income</b>		<b>18,232,182</b>	<b>17,220,859</b>	<b>18,235,988</b>	<b>17,218,646</b>
Net claims and benefits	33	(5,643,996)	(5,137,265)	(5,643,996)	(5,137,265)
Change in contractual liability	17.1	(2,405,319)	2,598,054	(2,405,319)	2,598,054
Change in contractual liability due to transfer of One-Off Surplus	17.3	-	6,080,848	-	6,080,848
Net acquisition expenses	34	(1,979,881)	(1,785,510)	(1,979,881)	(1,785,510)
Operating and administrative expenses	35	(6,590,521)	(5,297,224)	(6,589,942)	(5,296,827)
<b>Profit before tax</b>	<b>36</b>	<b>1,612,465</b>	<b>13,679,762</b>	<b>1,616,850</b>	<b>13,677,946</b>
Income tax reversal/ (expense)	37	2,498,172	(238,198)	2,499,009	(237,868)
<b>Profit for the year</b>	<b>38</b>	<b>4,110,637</b>	<b>13,441,564</b>	<b>4,115,859</b>	<b>13,440,078</b>
Profit attributable to;					
Owners of the parent		4,110,637	13,441,564	4,115,859	13,440,078
Non-controlling interest		-	-	-	-
		<b>4,110,637</b>	<b>13,441,564</b>	<b>4,115,859</b>	<b>13,440,078</b>
Basic / diluted earnings per share (in LKR)	39	133.68	437.13	133.85	437.08
Dividend per share (in LKR)	40	91.00	50.00	91.00	50.00

The notes on the pages 105 to 160 are an integral part of these Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December	Note	Group		Company	
		2018 LKR '000	2017 LKR '000 Restated	2018 LKR '000	2017 LKR '000 Restated
Profit for the year		4,110,637	13,441,564	4,115,859	13,440,078
<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		(1,942,468)	3,069,771	(1,942,468)	3,069,771
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	17.1	1,916,912	(3,037,459)	1,916,912	(3,037,459)
<b>Items that will not be reclassified to profit or loss</b>					
Re-measurement of retirement benefit obligations	18	21,095	(17,068)	21,095	(17,068)
Revaluation of land	7	26,740	80,080	26,740	80,080
<b>Total other comprehensive income for the year</b>		<b>22,279</b>	<b>95,324</b>	<b>22,279</b>	<b>95,324</b>
<b>Total comprehensive income for the year</b>		<b>4,132,916</b>	<b>13,536,888</b>	<b>4,138,138</b>	<b>13,535,402</b>
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO;</b>					
Owners of the parent		4,132,916	13,536,888	4,138,138	13,535,402
Non-controlling interest		-	-	-	-
<b>Total comprehensive income for the year</b>		<b>4,132,916</b>	<b>13,536,888</b>	<b>4,138,138</b>	<b>13,535,402</b>

Items disclosed in the statement above are net of tax.

The notes on the pages 105 to 160 are an integral part of these Consolidated Financial Statements.

# STATEMENT OF CHANGES IN EQUITY - GROUP

	Note	Capital reserve			Revenue reserves		Retained earnings LKR '000	Total equity LKR '000
		Stated capital LKR '000	Revaluation reserve LKR '000	Restricted regulatory reserve LKR '000	Resilience reserve LKR '000	Available for sale reserve LKR '000		
<b>Balance as at 1 January 2017</b>		511,922	72,096	-	289,000	(15,603)	4,508,439	5,365,854
Profit for the year - Restated		-	-	-	-	-	13,441,564	13,441,564
One-Off Surplus transfer to Restricted regulatory reserve - Restated	25	-	-	6,080,848	-	-	(6,080,848)	-
<b>OTHER COMPREHENSIVE INCOME</b>								
Changes in fair value of available for sale financial assets		-	-	-	-	3,069,771	-	3,069,771
Changes in fair value of available for sale financial assets transferred to the long term insurance fund		-	-	-	-	(3,037,459)	-	(3,037,459)
<b>Items that will not be reclassified to profit or loss</b>								
Re-measurement of retirement benefit obligations	18	-	-	-	-	-	(17,068)	(17,068)
Revaluation of land	24	-	80,080	-	-	-	-	80,080
<b>TRANSACTIONS WITH OWNERS:</b>								
Interim dividend for 2016	40	-	-	-	-	-	(1,475,970)	(1,475,970)
Final dividend for 2016	40	-	-	-	-	-	(61,499)	(61,499)
<b>Balance as at 31 December 2017 - Restated</b>		<b>511,922</b>	<b>152,176</b>	<b>6,080,848</b>	<b>289,000</b>	<b>16,709</b>	<b>10,314,618</b>	<b>17,365,273</b>
Profit for the year		-	-	-	-	-	4,110,637	4,110,637
Resilience reserve transfer to Retained earnings	26.1	-	-	-	(289,000)	-	289,000	-
<b>OTHER COMPREHENSIVE INCOME</b>								
Changes in fair value of available for sale financial assets		-	-	-	-	(1,942,468)	-	(1,942,468)
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	17.1	-	-	-	-	1,916,912	-	1,916,912
<b>Items that will not be reclassified to profit or loss</b>								
Re-measurement of retirement benefit obligations	18	-	-	-	-	-	21,095	21,095
Revaluation of land	24	-	26,740	-	-	-	-	26,740
<b>TRANSACTIONS WITH OWNERS:</b>								
First and final dividend for 2017	40	-	-	-	-	-	(2,798,191)	(2,798,191)
<b>Balance as at 31 December 2018</b>		<b>511,922</b>	<b>178,916</b>	<b>6,080,848</b>	<b>-</b>	<b>(8,847)</b>	<b>11,937,159</b>	<b>18,699,998</b>

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 the pages 105 to 160 are an integral part of these Consolidated 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	Restricted regulatory reserve LKR '000	Resilience reserve LKR '000	Available for sale reserve LKR '000		Retained earnings LKR '000
Balance as at 1 January 2017		511,922	72,096	-	289,000	(15,603)	4,503,569	5,360,984
Profit for the year - Restated		-	-	-	-	-	13,440,078	13,440,078
One-Off Surplus transfer to Restricted regulatory reserve - Restated	25	-	-	6,080,848	-	-	(6,080,848)	-
<b>OTHER COMPREHENSIVE INCOME</b>								
Changes in fair value of available for sale financial assets		-	-	-	-	3,069,771	-	3,069,771
Changes in fair value of available for sale financial assets transferred to the long term insurance fund		-	-	-	-	(3,037,459)	-	(3,037,459)
<b>Items that will not be reclassified to profit or loss</b>								
Re-measurement of retirement benefit obligations	18	-	-	-	-	-	(17,068)	(17,068)
Revaluation of land	24	-	80,080	-	-	-	-	80,080
<b>TRANSACTIONS WITH OWNERS:</b>								
Interim dividend for 2016	40	-	-	-	-	-	(1,475,970)	(1,475,970)
Final dividend for 2016	40	-	-	-	-	-	(61,499)	(61,499)
Balance as at 31 December 2017 - Restated		511,922	152,176	6,080,848	289,000	16,709	10,308,262	17,358,917
Profit for the year		-	-	-	-	-	4,115,859	4,115,859
Resilience reserve transfer to Retained earnings	26.1	-	-	-	(289,000)	-	289,000	-
<b>OTHER COMPREHENSIVE INCOME</b>								
Changes in fair value of available for sale financial assets		-	-	-	-	(1,942,468)	-	(1,942,468)
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	17.1	-	-	-	-	1,916,912	-	1,916,912
<b>Items that will not be reclassified to profit or loss</b>								
Re-measurement of retirement benefit obligations	18	-	-	-	-	-	21,095	21,095
Revaluation of land	24	-	26,740	-	-	-	-	26,740
<b>TRANSACTIONS WITH OWNERS:</b>								
First and final dividend for 2017	40	-	-	-	-	-	(2,798,191)	(2,798,191)
Balance as at 31 December 2018		511,922	178,916	6,080,848	-	(8,847)	11,936,025	18,698,864

The notes on the pages 105 to 160 are an integral part of these Consolidated Financial Statements.



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December	Note	Group		Company	
		2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Premiums / fees received from customers		12,868,963	11,412,282	12,867,409	11,410,815
Reinsurance premium (net of commission) paid		(79,327)	(91,980)	(79,327)	(91,980)
Claims and benefits paid		(5,721,906)	(4,745,094)	(5,721,906)	(4,745,094)
Cash paid to and on behalf of employees		(2,014,902)	(2,004,238)	(2,014,902)	(2,004,238)
Interest received		217,275	247,672	217,055	247,003
Payments to agents and intermediaries		(1,901,578)	(2,376,053)	(1,901,578)	(2,376,053)
Other operating cash payments		(4,294,873)	(1,978,168)	(4,288,990)	(1,977,393)
<b>Cash flow from / (used in) operating activities</b>		<b>(926,348)</b>	<b>464,421</b>	<b>(922,239)</b>	<b>463,060</b>
Taxes paid	21	(275)	(50)	-	-
Policy loans granted		(319,883)	(462,730)	(319,883)	(462,730)
Policy loans repayment		431,327	588,476	431,327	588,476
<b>Net cash flow from / (used in) operating activities</b>		<b>(815,179)</b>	<b>590,117</b>	<b>(810,795)</b>	<b>588,806</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of liquid investments	9.4	(9,245,066)	(1,189,935)	(9,245,066)	(1,189,935)
Purchase of other investments	9.4	(10,230,031)	(38,092,570)	(10,230,031)	(38,092,570)
Proceeds from sale of liquid investments	9.4	9,902,538	711,048	9,902,538	711,048
Proceeds from sale of other investments	9.4	8,854,358	35,864,259	8,849,631	35,864,259
Investment expenses		(114,953)	(115,426)	(114,953)	(115,426)
Interest received		5,133,482	4,294,431	5,133,482	4,294,431
Dividend received		67,313	82,490	72,893	82,490
Purchase of intangible assets	6	(92,683)	(104,064)	(92,683)	(104,064)
Purchase of property, plant and equipment		(277,826)	(533,726)	(277,826)	(533,726)
Disposal of property, plant and equipment		8,027	23,218	8,027	23,218
<b>Net cash flow from investing activities</b>		<b>4,005,159</b>	<b>939,725</b>	<b>4,006,012</b>	<b>939,725</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Dividends paid	40	(2,798,191)	(1,537,469)	(2,798,191)	(1,537,469)
<b>Net cash used in financing activities</b>		<b>(2,798,191)</b>	<b>(1,537,469)</b>	<b>(2,798,191)</b>	<b>(1,537,469)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>		<b>391,789</b>	<b>(7,627)</b>	<b>397,026</b>	<b>(8,938)</b>
Cash and cash equivalents (net of bank overdraft) at the beginning of the year	16	268,595	276,222	261,004	269,942
<b>Cash and cash equivalents (net of bank overdraft) at the end of the year</b>	<b>16</b>	<b>660,384</b>	<b>268,595</b>	<b>658,030</b>	<b>261,004</b>

The notes on the pages 105 to 160 are an integral part of these Consolidated Financial Statements.

# LONG TERM INSURANCE

## STATEMENT OF FINANCIAL POSITION- SUPPLEMENTAL

As at 31 December	2018 LKR '000	2017 LKR '000 Restated
<b>ASSETS</b>		
Financial investments	31,073,171	30,545,324
Policyholder and other loans	670,198	784,788
Reinsurance receivables	127,908	81,308
Premium receivables	402,981	473,414
Other assets	2,026,846	2,453,965
Cash and cash equivalents	716,986	265,044
<b>Total assets</b>	<b>35,018,090</b>	<b>34,603,843</b>
<b>LIABILITIES</b>		
Insurance liabilities	31,925,283	32,116,292
Reinsurance payables	189,525	91,288
Accruals and other payables	2,773,097	2,379,379
Deferred revenue	48,595	11,262
Bank overdraft	81,590	5,622
<b>Total liabilities</b>	<b>35,018,090</b>	<b>34,603,843</b>

## INSURANCE REVENUE ACCOUNT

For the financial year ended 31 December	Note	2018 LKR '000	2017 LKR '000 Restated
<b>Gross written premium</b>		<b>12,739,351</b>	<b>11,510,581</b>
Net written premium (net of premium ceded to reinsurers)		12,357,130	11,208,458
Investment income and other income		4,564,573	5,231,054
Charges deducted from policy holders fund		760,227	481,260
Net claims and benefits		(5,643,996)	(5,137,265)
Net acquisition expenses		(1,979,881)	(1,785,510)
Operating and administrative expenses		(6,455,657)	(5,262,643)
Income tax expense		(39,793)	(252,639)
		<b>3,562,603</b>	<b>4,482,715</b>
Change in contractual liability due to transfer of One-Off Surplus		-	6,080,848
Change in contractual liability	17.1	(2,405,319)	2,598,054
<b>Surplus transfer to shareholders' fund</b>		<b>1,157,284</b>	<b>13,161,617</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 in to effect on 3 May 2007. The address of its registered office is AIA Tower, No.92, Dharmapala Mawatha, Colombo 7, Sri Lanka.

The Company is listed on the Main Board of the Colombo Stock Exchange under the stock code 'CTCE.N0000'.

The Company's parent entity is AIA Holdings Lanka (Private) Limited and the ultimate parent entity is AIA Group Limited which is 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.

Group Consolidated Financial Statements for the year ending 31 December 2018 have been authorised for issue by the Board of Directors on 21 February 2019.

## 2 BASIS OF PREPARATION

The Consolidated Financial Statements of the Group have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKAS) effective from 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, 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 4.5 and those 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

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2018;

#### (i) SLFRS 15, 'Revenue from Contracts with Customers and associated amendments to various other standards'

- SLFRS 15 replace LKAS 18 which covers contracts for goods and services and LKAS 11 which covers construction contracts. However SLFRS 15 does not apply to insurance contracts within the scope of SLFRS 4 Insurance Contracts; and financial instruments within the scope of SLFRS 9 Financial Instruments.
- The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers,
- identify the separate performance obligation,
- 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 changes to current practice are:
  - 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.
  - Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc) – minimum amounts 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.

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

- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- There are also increased disclosures.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications relating to Non-Insurance revenue.

Amendments to SLFRS 15, 'Revenue from Contracts with Customers'.

These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation permitted).

This standard and the amendment is effective for the annual periods beginning on or after 1 January 2018.

### (ii) Amendments to SLFRS 2, 'Classification and Measurement of Share-based Payment Transactions'

The amendments made to clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in SLFRS 2. Where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature.

Entities with the following arrangements are likely to be affected by these changes:

- equity-settled awards that include net settlement features relating to tax obligations,
- cash-settled share-based payments that include performance conditions, and
- cash-settled arrangements that are modified to equity-settled share-based payments.

This amendment is effective for the annual periods beginning on or after 1 January 2018.

### (iii) Amendments to SLFRS 4, 'Applying SLFRS 9 Financial Instruments with SLFRS 4 Insurance Contracts'

Amendment to SLFRS 4 which addresses the concerns of insurance companies about the different effective dates of SLFRS 9 Financial Instruments and the forthcoming new insurance contracts standard. The amendment provides two different solutions for insurance companies: a temporary exemption from SLFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the 'overlay approach'. Both approaches are optional.

SLFRS 4 (including the amendments) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standards becomes effective.

This amendment is effective for the annual periods beginning on or after 1 January 2018.

### (iv) IFRIC 22, 'Foreign Currency Transactions and Advance Consideration'

The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

This amendment is effective for the annual periods beginning on or after 1 January 2018.

The new standards and amendments listed above did not have any notable impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

**(i) SLFRS 9, 'Financial Instruments'**

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

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

- a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and
- b) the contractual cash flows under the instrument solely represent payments of principal and interest.

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

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

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

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

Further changes introduced to the classification and measurement rules and also introduced a new impairment model to SLFRS 9. The changes introduce:

- a third measurement category (FVOCI) for certain financial assets that are debt instruments.

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

Prepayments Features with Negative Compensation; this amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from LKAS 39.

The Group is yet to assess the impact of adopting this new standard and has opted for the deferral option given in the standard for Life insurance entities. Therefore adoption of the standard is expected to be for annual period beginning on or after 2022.

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

The fair value of financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, excluding any financial asset that meets the definition of held for trading in SLFRS 9, or that is managed and whose performance is evaluated on a fair value basis, are disclosed under notes 9.1, 10, 13 and 16 to the financial statements.

The fair value of financial assets other than those specified in the above paragraph are disclosed under notes 9.2 and 9.3 to the financial statements.

**(ii) SLFRS 16, 'Leases'**

SLFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on Consolidated Statement of Financial Position. The standard

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

removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

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

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

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under SLFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group and the Company are in the process of identifying the impact on its Consolidated Financial Statements resulting from the application of SLFRS 16.

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

### (iii) IFRIC 23, 'Uncertainty Over Income Tax Treatments'

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

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

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

### (iv) Annual improvements 2015 - 2017

These amendments includes minor changes to the following standards:

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

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

### (v) Amendments to LKAS 19, 'Employee Benefits' on plan amendment, curtailment or settlement

These amendments require an entity to:

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

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

### (vi) Amendments to SLFRS 3 – definition of a business

This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be complex, and it results in too many transactions qualifying as business combinations.

This amendment is effective for the annual periods beginning on or after 1 January 2020.

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

These amendments to LKAS 1, 'Presentation of Financial Statements', and LKAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', and consequential amendments to other SLFRSs:

- i) use a consistent definition of materiality throughout SLFRSs and the Conceptual Framework for Financial Reporting;
- ii) clarify the explanation of the definition of material; and
- iii) incorporate some of the guidance in LKAS 1 about immaterial information.

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

**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 continues to be consolidated until the date when such control ceases. The Consolidated 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 re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement 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 re-measured, 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 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 re-measured 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.

**3.3 Foreign currency translation**

The Group's Consolidated Financial Statements are presented in Sri Lanka Rupees (LKR) which is also the Group'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

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

currency rate of exchange ruling at the reporting date. All differences are taken to the Consolidated Income Statement.

- 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.

### 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

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 Consolidated 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 Consolidated Income Statement. The Group did not have any held to maturity investments during the years ended 31 December 2017 and 2018.

###### 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 Policyholder portfolio which is transferred to the long-term insurance liability through the Consolidated 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 reporting 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 reporting 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

#### 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated Income Statement.

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

Impairment losses recognised in the Consolidated Income Statement on equity instruments are not reversed through the Consolidated 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 Consolidated 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 Consolidated 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 Consolidated 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 Consolidated Income Statement.

#### 3.4.3 Off-setting of financial assets

Financial assets and liabilities are off-set and the net amount reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to off-set 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 Consolidated Income Statement during the financial period in which they are incurred.

The Group has adopted a policy of revaluing the assets held at valuation on an annual basis. Revaluation is performed on freehold land by a professionally qualified valuer. Increases in the carrying amount arising on revaluation of land are credited to the OCI and shown as revaluation reserves in shareholders' equity. Decreases that off-set previous increases of the same asset are charged in the OCI and debited against revaluation reserves directly in equity. All other decreases are charged to the Consolidated 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 Consolidated 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
Leasehold improvements	3-10
Plant and machinery	5
Computer equipment	3-5
Furniture and fittings	5
Motor vehicles	4-5

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 using the 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 Consolidated 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 Consolidated Income Statement when the asset is derecognised.

### 3.7 Cash and cash equivalents

In the Consolidated 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 Consolidated 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 Risk Based Capital (RBC) method plus any other mandatory reserves as required by the regulator. The 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.

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

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 (GPV). 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 Consolidated 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 the GPV.

### 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 Consolidated Income Statement.

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

### 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 Consolidated 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 Consolidated 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

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

#### 3.11.1 Current 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 reporting date.

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.

#### 3.11.2 Deferred income tax

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 Consolidated 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 off-set when there is a legally enforceable right to off-set 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 re-measurement of available for sale investments and cash flow hedges, which are charged or credited directly in the OCI, is also credited or charged directly to the OCI and subsequently recognised in the Consolidated Income Statement together with respective gains or losses.

### 3.12 Employee benefits

The Group has both defined benefit and defined contribution plans.

#### 3.12.1 Defined benefit plan

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.

The liability recognised in the Consolidated 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 OCI in the period in which they arise.

Past service costs are recognised immediately in the Consolidated Income Statement.

#### 3.12.2 Defined contribution plan

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 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 Consolidated 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.

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

### 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 Consolidated Income Statement. As at the reporting date, the Group does not have any finance lease contracts.

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

### 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 as each performance obligations is satisfied as per SLFRS 15.

#### 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 Consolidated Income Statement.

#### 3.15.5 Realised gains and losses

Realised gains and losses recorded in the Consolidated 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 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 Consolidated 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 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 AIAGL'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 Consolidated 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 and Universal Life insurance contracts using a RBC method plus any other mandatory reserves as required by the regulator, whereby the liability represents the present value of estimated future policy related outflows, less the present value of estimated future gross premiums to be collected from policyholders. This method uses best estimates assumptions for mortality, morbidity, lapse, expenses and investment yields. Interest rate assumptions can vary by product and are prescribed by regulation. Mortality, morbidity, lapse and expense assumptions are based on the experience studies, allowing for Risk Margin as prescribed by the Regulator. 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 cover the risk portion. Significant judgment is exercised in making appropriate estimates of gross profits, which are also regularly reviewed by the Company.

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

The judgments exercised in the valuation of insurance contract liabilities affect the amounts recognised in the Consolidated Financial Statements as insurance contract benefits and insurance contract liabilities.

### 4.1.3 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.

For Traditional Life insurance contracts, insurance contract liabilities, reduced by 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 a deficiency 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 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;

<b>Level I</b>	Quoted prices (unadjusted) in active markets for identical assets or liabilities
<b>Level II</b>	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)
<b>Level III</b>	Inputs for the asset or liability that are not based on observable market data

The information regarding fair value hierarchy is given in note 9.5 to the Consolidated Financial Statements.

### a) Financial instruments in level I

The fair value of financial instruments traded in active markets is based on quoted market prices as at the reporting 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 the 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 Consolidated Financial Statements.

### 4.4 Taxation

Estimates are required relating to the amount of tax that will ultimately be payable and the availability and utilisation of losses to be carried forward. Judgement is required in



determining the provision for taxes as tax treatment is often by its nature complex, and may not be finally determined until a formal resolution has been reached with the relevant tax authority. Judgement is also required in assessing the amount of deferred tax asset that can be recognised. Deferred tax assets relating to tax losses carried forward can only be recognised if it is probable that they can be used. A deferred tax asset can be used if there are future taxable profits to offset against the losses carried forward. This requires management to assess the likelihood, timing and expected amount of future taxable profits. Details of the estimates used in taxation are contained in notes 11 and 42 to the Consolidated Financial Statements.

#### 4.5 Segment information

As per SLFRS 8; 'Operating Segments', operating segments are required to be reported in a manner consistent with the internal reports provided to the chief operating decision maker. The Executive Committee is entrusted with the strategic decisions of the Company and is the chief operating decision maker and is responsible for the allocation of resources and assessing performance of the operating segments are required to be consistent with the perspective of the Executive Committee.

Life exclusive internal reports are provided to the Executive Committee at present and therefore, the Group has only one reportable segment as the trust management segment has less than 10 per cent of gross revenue and less than 10 per cent of consolidated profit.

## 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 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	2018		2017	
	LKR'000	%	LKR'000	%
Government securities	22,820,994	49.4	21,519,274	45.2
Reverse repurchase agreements	2,867,280	6.2	2,680,411	5.6
Corporate debt	12,875,450	27.9	13,845,724	29.1
Fixed deposits	6,224,475	13.5	8,019,148	16.7
Equity	1,382,813	3.0	1,596,020	3.4
<b>Total</b>	<b>46,171,012</b>	<b>100.0</b>	<b>47,660,577</b>	<b>100.0</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

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

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 counters.

### 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 under current or stressed conditions. 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, 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 conditions 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 is 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 conditions 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 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.

As at 31 December 2018	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	570,228	1,127,328	4,945,975	15,526,616	-	22,170,147
Equity instruments	-	-	-	-	38,100	38,100
<b>Loans and receivables</b>						
Reverse repurchase agreements	2,858,419	-	-	-	-	2,858,419
Corporate debt	181,208	9,465,088	2,825,000	-	-	12,471,296
Fixed deposits	5,953,745	-	-	-	-	5,953,745
<b>Fair value through profit or loss</b>						
Equity instruments	-	-	-	-	1,344,712	1,344,712
<b>Other loans and receivables</b>						
Premium receivables	402,981	-	-	-	-	402,981
Reinsurance assets	-	-	-	-	127,908	127,908
Policy loans	-	-	-	-	664,537	664,537
Other receivables	87,567	82,767	1,829	-	-	172,163
Cash and cash equivalents	739,620	-	-	-	-	739,620
	<b>10,793,768</b>	<b>10,675,183</b>	<b>7,772,804</b>	<b>15,526,616</b>	<b>2,175,257</b>	<b>46,943,628</b>
<b>FINANCIAL LIABILITIES</b>						
Agency commission payable	335,320	-	-	-	-	335,320
Franchise fee payable	21,056	-	-	-	-	21,056
Bank overdraft	81,590	-	-	-	-	81,590
	<b>437,966</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>437,966</b>

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

As at 31 December 2017	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	449,041	978,286	3,105,800	16,375,140	-	20,908,267
Equity instruments	-	-	-	-	38,100	38,100
<b>Loans and receivables</b>						
Reverse repurchase agreements	2,639,703	-	-	-	-	2,639,703
Corporate debt	3,066,632	4,964,621	4,834,351	-	-	12,865,604
Fixed deposits	7,726,155	-	-	-	-	7,726,155
<b>Fair value through profit or loss</b>						
Equity instruments	-	-	-	-	1,557,919	1,557,919
<b>Other loans and receivables</b>						
Premium receivables	473,414	-	-	-	-	473,414
Reinsurance assets	-	-	-	-	81,308	81,308
Policy loans	-	-	-	-	775,981	775,981
Other receivables	91,014	52,766	2,621	-	-	146,401
Cash and cash equivalents	261,004	-	-	-	-	261,004
	<b>14,706,963</b>	<b>5,995,673</b>	<b>7,942,772</b>	<b>16,375,140</b>	<b>2,453,308</b>	<b>47,473,856</b>
<b>FINANCIAL LIABILITIES</b>						
Agency commission payable	221,179	-	-	-	-	221,179
Franchise fee payable	7,785	-	-	-	-	7,785
Bank overdraft	5,622	-	-	-	-	5,622
	<b>234,586</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>234,586</b>

The financial assets/ liabilities of the subsidiary entity are not significant at the Group level. Therefore the financial risk of the Group primarily arise from the disclosed company balances.

### 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' (Ika) 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 on page 133 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 - debt instruments of the business

As at 31 December 2018	Risk-free LKR'000	AAA LKR'000	AA LKR'000	A LKR'000	BBB LKR'000	BB LKR'000	Non-rated LKR'000	Total LKR'000
<b>Available for sale</b>								
Government securities	22,170,147	-	-	-	-	-	-	22,170,147
<b>Loans and receivables</b>								
Reverse repurchase agreements	2,858,419	-	-	-	-	-	-	2,858,419
Corporate debt	-	1,625,000	6,361,480	4,484,816	-	-	-	12,471,296
Fixed deposits	-	53,000	1,132,337	4,768,407	-	-	-	5,953,744
Premium receivables	-	-	-	-	-	-	402,981	402,981
Reinsurance assets	-	-	-	-	-	-	127,908	127,908
Policy loans	-	-	-	-	-	-	664,537	664,537
Other receivables	-	-	-	-	-	-	172,163	172,163
Cash and cash equivalents	-	4,124	128,099	605,425	1,836	120	16	739,620
	<b>25,028,566</b>	<b>1,682,124</b>	<b>7,621,916</b>	<b>9,858,648</b>	<b>1,836</b>	<b>120</b>	<b>1,367,605</b>	<b>45,560,816</b>

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

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

As at 31 December 2017	Risk-free LKR'000	AAA LKR'000	AA LKR'000	A LKR'000	BBB LKR'000	BB LKR'000	Non-rated LKR'000	Total LKR'000
<b>Available for sale</b>								
Government securities	20,908,267	-	-	-	-	-	-	20,908,267
<b>Loans and receivables</b>								
Reverse repurchase agreements	2,639,703	-	-	-	-	-	-	2,639,703
Corporate debt	-	-	3,192,499	9,673,105	-	-	-	12,865,604
Fixed deposits	-	783,300	3,540,708	3,402,147	-	-	-	7,726,155
Premium receivables	-	-	-	-	-	-	473,414	473,414
Reinsurance assets	-	-	-	-	-	-	81,308	81,308
Policy loans	-	-	-	-	-	-	775,981	775,981
Other receivables	-	-	-	-	-	-	146,401	146,401
Cash and cash equivalents	-	285	137,539	122,680	306	178	16	261,004
	<b>23,547,970</b>	<b>783,585</b>	<b>6,870,746</b>	<b>13,197,932</b>	<b>306</b>	<b>178</b>	<b>1,477,120</b>	<b>45,877,837</b>

As at 31 December	2018 LKR'000	2017 LKR'000
Carrying value of investments in reverse repurchase agreements *	2,867,280	2,680,411
Fair value of collateral *	3,270,457	3,069,506
Excess value of collateral	403,177	389,095
Margin	14%	15%

\*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.

### 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 2018	Fixed interest LKR'000	Non-interest bearing LKR'000	Total LKR'000
Loans and deposits	773,099	63,601	836,700
Debt securities	43,453,606	-	43,453,606
Premium receivable	-	402,981	402,981
Reinsurance assets	-	127,908	127,908
Cash and cash equivalents	250,425	489,195	739,620
	<b>44,477,130</b>	<b>1,083,685</b>	<b>45,560,815</b>

As at 31 December 2017	Fixed interest LKR'000	Non-interest bearing LKR'000	Total LKR'000
Loans and deposits	862,234	60,148	922,382
Debt securities	44,139,729	-	44,139,729
Premium receivable	-	473,414	473,414
Reinsurance assets	-	81,308	81,308
Cash and cash equivalents	213,806	47,198	261,004
	<b>45,215,769</b>	<b>662,068</b>	<b>45,877,837</b>

#### 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.

#### 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.

#### 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.

#### 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, holding all other variables constant.

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

As at 31 December	2018		2017	
Impact to;	Net asset value	Profit before tax	Net asset value	Profit before tax
	LKR'000	LKR'000	LKR'000	LKR'000
Interest rate risk				
+ 100 basis points	(834,831)	(416,831)	(1,761,393)	(1,749,349)
- 100 basis points	939,551	486,051	538,433	526,063

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 RBC 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 the Policyholder investment portfolio, except for an equity holding in Serendib Land PLC which is held outside the investment portfolio as at the reporting 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. 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 4.0 million on any single life insured. The Company reinsures the excess of the insured benefit over LKR 4.0 million 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 standard table. Where this is not the case, the best estimate of future mortality is based on standard tables adjusted for the Company's overall experience. 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 expected ratios and accordingly credibility-weighted percentages of own experience and standard mortality tables 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 lapse and expense levels. A sensitivity analysis was conducted in 2018 with 3 stresses. 110.0 per cent expense levels and 120.0 per cent lapse level along with the 80.0 per cent lapse level for persistency. For all cases the impact to the policyholders' liabilities of assuming such a change was reflective of future conditions.

Increasing expense rates by 10.0 per cent would lead to an increase in policy liabilities of LKR 679 million; 4.0 per cent of the policy liability. Decreasing lapse rates by 20.0 per cent would lead to a decrease in policy liabilities of LKR 901 million; 5.0 per cent of the policy liability. Increasing lapse rates by 20.0 per cent would lead to an increase in policy liabilities of LKR 795 million; 4.0 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.

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

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 forecast on a periodic basis by the Management and the Board of Directors. The solvency margins are calculated on a monthly basis and shared with the Board of Directors on a quarterly basis. The Company maintains its capital base well above the minimum regulatory requirements of the IRCSL (Company has a stated capital of LKR 512 million whereas the current minimum capital requirement is LKR 500 million only).

The responsibility for capital management is entrusted to the 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

	Group / Company			2017 Total LKR'000
	Contractual relationships LKR'000	2018	Total	
		Computer software LKR'000	LKR'000	
Cost	807,866	815,682	1,623,548	1,519,484
(Less) Accumulated amortisation	(129,012)	(546,096)	(675,108)	(561,629)
<b>Net book value as at 1 January</b>	<b>678,854</b>	<b>269,586</b>	<b>948,440</b>	<b>957,855</b>
Additions	88,125	4,558	92,683	104,064
Amortisation charge	(53,076)	(64,178)	(117,254)	(113,479)
<b>Net book value as at 31 December</b>	<b>713,903</b>	<b>209,966</b>	<b>923,869</b>	<b>948,440</b>
Cost	895,991	820,240	1,716,231	1,623,548
(Less) Accumulated amortisation	(182,088)	(610,274)	(792,362)	(675,108)
<b>Net book value as at 31 December</b>	<b>713,903</b>	<b>209,966</b>	<b>923,869</b>	<b>948,440</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 (cost) of which amounted to LKR 347,166,249 (2017 - LKR 296,511,008) as at the reporting date.

The Board of Directors has assessed potential impairment indicators of intangible assets as at 31 December 2018. Based on such assessment, no impairment indicators were identified, that require adjustment.

### 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 Consolidated 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	
	2018 LKR'000	2017 LKR'000
Approved and contracted for intangible assets	903	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 7 PROPERTY, PLANT AND EQUIPMENT

	Group / Company						2017 Total LKR'000
	2018						
	Freehold land	Leasehold improvements	Computer & telecommunication equipment	Furniture, fittings, plant & machinery	Motor vehicles	Total	
LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	
Cost / revaluation	169,260	170,905	630,482	472,057	127,757	1,570,461	1,012,441
Accumulated depreciation	-	(11,394)	(524,876)	(230,222)	(57,427)	(823,919)	(783,272)
<b>Net book value as at 1 January</b>	<b>169,260</b>	<b>159,511</b>	<b>105,606</b>	<b>241,835</b>	<b>70,330</b>	<b>746,542</b>	<b>229,169</b>
Additions	-	-	35,170	14,947	77,782	127,899	575,369
Revaluation surplus	26,740	-	-	-	-	26,740	80,080
Depreciation charge	-	(8,268)	(41,173)	(51,781)	(30,701)	(131,923)	(128,111)
Disposals	-	-	(36,284)	(18,047)	-	(54,331)	(97,429)
Accumulated depreciation on disposals	-	-	36,284	16,662	-	52,946	87,464
<b>Net book value as at 31 December</b>	<b>196,000</b>	<b>151,243</b>	<b>99,603</b>	<b>203,616</b>	<b>117,411</b>	<b>767,873</b>	<b>746,542</b>
Cost / revaluation	196,000	170,905	629,368	468,957	205,539	1,670,769	1,570,461
Accumulated depreciation	-	(19,662)	(529,765)	(265,341)	(88,128)	(902,896)	(823,919)
<b>Net book value as at 31 December</b>	<b>196,000</b>	<b>151,243</b>	<b>99,603</b>	<b>203,616</b>	<b>117,411</b>	<b>767,873</b>	<b>746,542</b>

Property, plant and equipment includes fully depreciated assets still in use, the gross carrying value (cost) of which amounted to LKR 634,929,410 ( 2017- LKR 619,752,490 ) as at the reporting date.

## 7.1 Fair value of land and ownership

An independent valuation of the Group's land was performed by valuers to determine the fair value of the land. As per the Group's Accounting Policy, the revaluation surplus is annually recognised in the Statement of Other Comprehensive Income (note 3.5).

Company	Description of the Property	Location	Extent	Group / Company			
				2018		2017	
				Revalued Amount LKR'000	Carrying Value LKR'000	Revalued Amount LKR'000	Carrying Value LKR'000
AIA Insurance Lanka PLC	Freehold Land	No.76 and No.80, Kew Road, Colombo 2	25.48 (Perches)	196,000	196,000	169,260	169,260

**Valuation techniques used to derive level III fair values**

Fair value of land has been derived using the market comparable approach (Level III - Input for the asset that are not based on observable market data). 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 market value per perch.

Description of the Property	Effective date of valuation	Valuation technique	Significant unobservable input	Inter relationship between key unobservable inputs and fair value measurement
Freehold Land	30 November 2018	Market comparable approach	Market value per perch	Positive correlated sensitivity

**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 2018, the fair value of the land has been determined by independent valuer, Mr. T.M.H. Mutaliph, Chartered Valuer.

If stated on historical cost basis, the value of the land would be LKR 17,084,105 (2017 - 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	
	2018 LKR'000	2017 LKR'000
Approved and contracted for property, plant and equipment	51,433	8,665

**8 INVESTMENTS IN SUBSIDIARY**

As at 31 December	Country of incorporation and place of business	Nature of business	Number of Shares	% holding	Company	
					2018 LKR'000	2017 LKR'000
Rainbow Trust Management Limited	Sri Lanka	Provision of trust and ancillary services	100,000	100	1,000	1,000
			100,000	100	1,000	1,000

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9 FINANCIAL INVESTMENTS

Financial investments are summarised by measurement category along with the fair values in the table below.

As at 31 December	Note	Group / Company			
		2018		2017	
		Carrying value LKR'000	Fair value LKR'000	Carrying value LKR'000	Fair value LKR'000
Loans and receivables	9.1	21,283,460	21,591,670	23,231,462	24,084,362
Available for sale financial assets	9.2	22,208,247	22,208,247	20,946,367	20,946,367
Financial assets at fair value through profit or loss	9.3	1,344,712	1,344,712	1,557,919	1,557,919
<b>Total Financial investments</b>		<b>44,836,419</b>	<b>45,144,629</b>	<b>45,735,748</b>	<b>46,588,648</b>

#### 9.1 Loans and receivables

As at 31 December		Group / Company			
		2018		2017	
		Carrying value LKR'000	Fair value LKR'000	Carrying value LKR'000	Fair value LKR'000
<b>Amortised cost</b>					
Corporate debt - listed		12,471,296	12,500,521	12,865,604	13,474,280
Reverse repurchase agreements		2,858,419	2,867,906	2,639,703	2,679,547
Bank deposits		5,953,745	6,223,243	7,726,155	7,930,535
<b>Total loans and receivables</b>		<b>21,283,460</b>	<b>21,591,670</b>	<b>23,231,462</b>	<b>24,084,362</b>

As at 31 December		Group / Company	
		2018 LKR'000	2017 LKR'000
<b>Loans and receivables at amortised cost</b>			
Current		8,993,372	13,432,490
Non-current		12,290,088	9,798,972
<b>Total loans and receivables</b>		<b>21,283,460</b>	<b>23,231,462</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 collaterals are pledged with an excess of 10 per cent or more of the amortised value of the reverse repurchase agreement in terms of fair value of the security pledged.

The fair value of those collateral held is as follows;

As at 31 December		Group / Company	
		2018	2017
Financial Investment	Nature of the collateral	LKR'000	LKR'000
Reverse repurchase agreements	- Government treasury bills	93,853	222,470
	- Government treasury bonds	3,176,604	2,847,036
		<b>3,270,457</b>	<b>3,069,506</b>

## 9.2 Available for sale financial assets

As at 31 December		Group / Company	
		2018	2017
		LKR'000	LKR'000
Government securities		22,170,147	20,908,267
Equity instruments - listed		38,100	38,100
<b>Total available for sale financial assets</b>		<b>22,208,247</b>	<b>20,946,367</b>
Available for sale financial assets			
Current		570,228	449,041
Non-current		21,638,019	20,497,326
<b>Total available for sale financial assets</b>		<b>22,208,247</b>	<b>20,946,367</b>

The maximum exposure to credit risk as at the reporting date is the carrying value of the debt securities classified as available for sale. As at the date of the Consolidated Statement of Financial Position, none of these financial assets are either past due or impaired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**9 FINANCIAL INVESTMENTS CONTD.****9.3 Financial assets at fair value through profit or loss**

As at 31 December	Group / Company	
	2018	2017
	LKR'000	LKR'000
Equity instruments - listed	1,344,712	1,557,919
<b>Total financial assets at fair value through profit or loss</b>	<b>1,344,712</b>	<b>1,557,919</b>
Financial assets at fair value through profit or loss		
Current	1,344,712	1,557,919
Non-current	-	-
<b>Total financial assets at fair value through profit or loss</b>	<b>1,344,712</b>	<b>1,557,919</b>

Equity instruments classified at fair value through profit or loss are designated in this category upon initial recognition. There is 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 reporting date. Changes in fair value of financial assets classified at fair value through profit or loss is recorded in 'Net fair value losses' in the Consolidated Income Statement.

**9.4 Movement in the Group's financial instruments are summarised in the table below by measurement category**

	Group / Company				2017 Total LKR'000
	2018				
	Loans and receivables LKR'000	Available for sale LKR'000	Fair value through profit or loss LKR'000	Total LKR'000	
Balance as at 1 January	23,231,462	20,946,367	1,557,919	45,735,748	40,087,642
Purchases	13,187,943	6,136,377	150,777	19,475,097	39,282,505
(Sales) / (maturities)	(15,534,212)	(3,072,180)	(150,504)	(18,756,896)	(36,958,713)
Realised gains / (losses)	-	92,744	(19,322)	73,422	58,363
Amortisation of discount / (premiums)	398,267	57,346	-	455,613	189,602
Fair value gains / (losses) recorded in Consolidated Income Statement	-	-	(194,158)	(194,158)	(30,147)
Gross fair value gains / (losses) recorded in the Statement of Other Comprehensive Income	-	(1,952,407)	-	(1,952,407)	3,106,496
<b>Balance as at 31 December</b>	<b>21,283,460</b>	<b>22,208,247</b>	<b>1,344,712</b>	<b>44,836,419</b>	<b>45,735,748</b>



## 9.5 Determination of fair value and fair value hierarchy

As at 31 December	Group / Company	
	2018	2017
	LKR'000	LKR'000
<b>Level I</b>		
<b>Financial assets at fair value through profit or loss</b>		
Equity instruments - listed	1,344,712	1,557,919
<b>Available for sale financial assets</b>		
Equity instruments - listed	38,100	38,100
<b>Level II</b>		
<b>Available for sale financial assets</b>		
Government securities	22,170,147	20,908,267
<b>Total financial assets measured at fair value</b>	<b>23,552,959</b>	<b>22,504,286</b>

There were no transfers between level I and II during the year.

## 10 POLICYHOLDER AND OTHER LOANS

As at 31 December	Group / Company	
	2018	2017
	LKR'000	LKR'000
Policy loans	664,537	775,981
Agent loans	148,060	112,563
Staff loans	27,955	35,827
	<b>840,552</b>	<b>924,371</b>
(Less) Allowance for impairment losses		
Agent loans	(3,852)	(1,989)
<b>Total policyholder and other loans</b>	<b>836,700</b>	<b>922,382</b>
<b>Policyholder and other loans</b>		
Current	87,573	91,827
Non-current	749,127	830,555
<b>Total policyholder and other loans</b>	<b>836,700</b>	<b>922,382</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**10 POLICYHOLDER AND OTHER LOANS CONTD.****10.1 Movement in policyholder and other loans**

	Group / Company	
	2018	2017
	LKR'000	LKR'000
Balance as at 1 January	924,371	1,069,827
Loans granted during the period	705,895	623,403
Loan repayments during the period	(781,314)	(759,354)
Loans written off during the period	(281)	(10,580)
Amortisation of discount	(8,119)	1,075
<b>Balance as at 31 December</b>	<b>840,552</b>	<b>924,371</b>

**10.2 The reconciliation of the allowance for impairment losses on assets classified as policyholder and other loans is as follows;**

	Group / Company	
	2018	2017
	LKR'000	LKR'000
Balance as at 1 January	1,989	11,383
Written off during the period	-	(12,039)
Additional allowance for impairment losses during the period	1,863	2,645
<b>Balance as at 31 December</b>	<b>3,852</b>	<b>1,989</b>

A specific impairment allowance has been made against each of the individually impaired financial assets for the full amount of impairment.

## 11 DEFERRED INCOME TAX ASSETS/ LIABILITIES

Deferred income tax assets and liabilities are off-set when there is a legally enforceable right to off-set 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	
	2018 LKR'000	2017 LKR'000
<b>Deferred income tax assets</b>		
On tax losses prior to 31 March 2018	2,536,874	-
On tax losses for the 9 months period	12,177	-
On temporary difference from fair value losses	3,441	-
<b>Total deferred income tax assets</b>	<b>2,552,492</b>	<b>-</b>
<b>Deferred income tax liabilities</b>		
On temporary difference from fair value gains	-	(6,498)
<b>Total deferred income tax liabilities</b>	<b>-</b>	<b>(6,498)</b>
<b>Net deferred income tax assets / (liabilities)</b>	<b>2,552,492</b>	<b>(6,498)</b>

The Group / Company has recognised Deferred Tax Asset of LKR 2.6 billion by utilising the available tax losses of LKR 9.1 billion upto 31 December 2018 to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised in accordance with the provision of new Inland Revenue Act No. 24 of 2017 which has been effective from 1 April 2018.

Deferred income tax liabilities of LKR 158,677 (2017 - LKR 889,833) 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.

	Group / Company	
	2018 LKR'000	2017 LKR'000
Balance as at 1 January	(6,498)	-
<b>Deferred tax charge / (income) recognised in Consolidated Income Statement</b>		
On taxable loss	2,549,051	-
On retirement benefit obligations	-	(52,759)
On property, plant and equipment and intangible assets	-	82,986
	<b>2,549,051</b>	<b>30,227</b>
<b>Deferred tax charge / (income) recognised in the Statement of Other Comprehensive Income</b>		
On temporary difference from fair value differences	9,939	(36,725)
	<b>9,939</b>	<b>(36,725)</b>
<b>Balance as at 31 December</b>	<b>2,552,492</b>	<b>(6,498)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12 REINSURANCE RECEIVABLES

Reinsurance receivable balances as at 31 December 2018 and 2017 due within a period of 12 months, hence 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.

### 13 TRADE RECEIVABLES

Total trade receivable balances as at 31 December 2018 and 2017 due within a period of 12 months, hence classified as current assets.

The fair value of the trade receivables approximate to its carrying value largely due to the short-term maturities of these instruments.

#### 13.1 Movement in trade receivables

	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Balance as at 1 January	473,803	389,103	473,414	388,759
Revenue receivable from customers	1,705,265	1,771,713	1,703,710	1,770,201
Collection of cash from customers	(1,775,698)	(1,687,013)	(1,774,143)	(1,685,546)
<b>Balance as at 31 December</b>	<b>403,370</b>	<b>473,803</b>	<b>402,981</b>	<b>473,414</b>

### 14 OTHER ASSETS

As at 31 December	Note	Group		Company	
		2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Inventory		9,813	28,296	9,813	28,296
Interest and dividend receivable		1,567,096	2,214,641	1,567,096	2,214,641
Advance company tax recoverable		66,397	66,397	66,397	66,397
Withholding tax recoverable		596,127	472,251	596,106	472,184
Deposits		73,666	72,740	73,666	72,740
Prepayments and advances		450,006	303,952	450,006	303,952
Capital work-in-progress	14.1	157,711	7,784	157,711	7,784
<b>Total other assets</b>		<b>2,920,816</b>	<b>3,166,061</b>	<b>2,920,795</b>	<b>3,165,994</b>

**14.1 Capital work-in-progress**

	Group / Company	
	2018	2017
	LKR'000	LKR'000
Balance as at 1 January	7,784	49,427
Additions	156,840	480,448
Amount capitalised in property, plant and equipment	(6,049)	(466,058)
Amount capitalised in intangible assets	(864)	(56,033)
<b>Balance as at 31 December</b>	<b>157,711</b>	<b>7,784</b>

**15 OTHER FUND ASSETS**

As at 31 December	Group / Company			
	2018		2017	
	Carrying Value LKR '000	Cost LKR '000	Carrying Value LKR '000	Cost LKR '000
Government securities	120,222	117,647	84,783	82,691
Fixed deposits	173,631	167,057	133,860	127,697
Other assets	2,091	2,091	1,037	1,037
Cash and cash equivalents/ (Bank overdraft)	(115)	(115)	15,814	15,814
<b>Total other fund assets</b>	<b>295,829</b>	<b>286,680</b>	<b>235,494</b>	<b>227,239</b>

**16 CASH AND CASH EQUIVALENTS**

As at 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Short-term investments	252,758	207,763	250,424	207,763
Cash at bank and in hand	489,216	66,454	489,196	58,863
<b>Cash and cash equivalents (excluding bank overdraft)</b>	<b>741,974</b>	<b>274,217</b>	<b>739,620</b>	<b>266,626</b>

Cash and cash equivalents include the following for the purpose of the Consolidated Statement of Cash Flows.

As at 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Cash and cash equivalents	741,974	274,217	739,620	266,626
Bank overdraft	(81,590)	(5,622)	(81,590)	(5,622)
	<b>660,384</b>	<b>268,595</b>	<b>658,030</b>	<b>261,004</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17 INSURANCE LIABILITIES AND RELATED REINSURANCE ASSETS

As at 31 December		Group / Company					
		2018			2017		
		Gross LKR'000	Reinsurance LKR'000	Net LKR'000	Gross LKR'000 Restated	Reinsurance LKR'000	Net LKR'000 Restated
Long-term policy liability	17.1	31,502,851	-	31,502,851	31,774,671	-	31,774,671
Life claims provision	17.2	422,432	127,908	294,524	341,621	81,308	260,313
<b>Total insurance contract liabilities</b>		<b>31,925,283</b>	<b>127,908</b>	<b>31,797,375</b>	<b>32,116,292</b>	<b>81,308</b>	<b>32,034,984</b>

## 17.1 Long term policy liability

The movement in the Life insurance fund as follows;

	Note	Group / Company	
		2018 LKR'000	2017 LKR'000 Restated
Balance as at 1 January		31,774,671	37,897,374
<b>Balances that are transferred through Consolidated Income Statement</b>			
Net income from life fund before surplus and charges		2,802,376	4,001,455
Charges deducted from policyholders fund		760,227	481,260
Surplus distributed to shareholders		(1,157,284)	(7,080,769)
<b>Change in contractual liability</b>		<b>2,405,319</b>	<b>(2,598,054)</b>
Change in contractual liability due to transfer of One-Off Surplus	17.3	-	(6,080,848)
		<b>2,405,319</b>	<b>(8,678,902)</b>
<b>Balances that are transferred through Statement of Other Comprehensive Income</b>			
Changes in fair value of available for sale financial assets transferred to the long-term insurance fund		(1,916,912)	3,037,459
<b>Other movements in policyholder liability</b>			
Fees and charges deducted from the policyholders' fund		(760,227)	(481,260)
<b>Balance as at 31 December</b>		<b>31,502,851</b>	<b>31,774,671</b>

## 17.2 Life claims provision

	2018			2017		
	Gross LKR'000	Reinsurance LKR'000	Net LKR'000	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Balance as at 1 January	341,621	81,308	260,313	290,976	86,771	204,205
Provisions for claims registered during the period	(5,360,388)	272,958	(5,633,346)	5,055,834	180,096	4,875,738
Provisions released for claims paid to clients	5,441,199	(226,358)	5,667,557	(5,005,189)	(185,559)	(4,819,630)
<b>Balance as at 31 December</b>	<b>422,432</b>	<b>127,908</b>	<b>294,524</b>	<b>341,621</b>	<b>81,308</b>	<b>260,313</b>

## 17.3 Implementation of solvency margin (Risk Based Capital) rules

The Insurance Regulatory Commission of Sri Lanka (IRCSL) implemented the Risk-Based Capital (RBC) framework for solvency purposes with effect from 1 January 2016, and as by the IRCSL by their letter dated 30 December 2016 instructed that, the surplus created due to change in valuation method from Net Premium Valuation (NPV) to Gross Premium Valuation (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 01 January 2016 is as follows;

	Group / Company LKR'000
Long-term policy liability as per NPV	36,749,652
Long-term policy liability for solvency margin rules under GPV	(27,981,497)
<b>Surplus created due to change in valuation method from NPV to GPV</b>	<b>8,768,155</b>

On 20 March 2018 the IRCSL issued Direction #16: Identification and Treatment of One-Off Surplus, which defined a specific methodology for the computation of the One-Off Surplus to be uniformly adopted by the industry. This methodology defines the One-Off Surplus as being the difference between the policy liabilities computed using the minimum regulatory basis under the previous NPV based solvency regime and the 'distribution basis' adopted as at 31 December 2017 under the RBC solvency regime. The revised One-Off Surplus as determined under the revised computation basis is LKR 6,081 million as opposed to the previously reported LKR 8,768 million.

	Group / Company LKR'000
One-Off Surplus as determined and reported as at 01 January 2016	8,768,155
One-Off Surplus based on the guidelines of Direction #16 issued on 20 March 2018	(6,080,848)
Additional liability retained in order to enhance the solvency margins	(1,265,804)
<b>Amount included in the surplus for the financial year ending 31 December 2018</b>	<b>1,421,503</b>

Direction #16, also recommended the transfer of the One-Off Surplus to the Shareholders' fund with the approval of IRCSL and to be maintained unchanged until further notice from the IRCSL or until distributed to shareholders upon explicit approval of the IRCSL. IRCSL also required all Life insurers to include a new line item in the Consolidated Statement of Financial Position under equity called 'Restricted Regulatory Reserve' to maintain such One-Off Surplus. Accordingly, the Distribution of the One-Off Surplus to shareholders, held as part of the Restricted Regulatory Reserve, is subject to meeting governance requirements stipulated by the IRCSL and can only be released upon receiving approval from the IRCSL.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17 INSURANCE LIABILITIES AND RELATED REINSURANCE ASSETS CONTD.

As such LKR 6,081 million was transferred from retained earnings to the 'Restricted Regulatory Reserve' and presented on the face of the Consolidated Statement of Financial Position. The Group will maintain adequate amount of admissible assets to back the One-Off Surplus so transferred within Shareholders' funds until IRCSL grants approval for distribution to shareholders. The One-Off Surplus in the shareholders' fund remains invested in Government securities and deposits as per the directions of the IRCSL.

The One-Off Surplus of LKR 6,081 million is transferred through the Consolidated Income Statement for the financial year 2017. Hence, the following balances in the reported Consolidated Financial Statements as at 31 December 2017 are amended as follows:

Group	EPS	Profit after tax	Insurance liabilities	Retained earnings	Restricted Regulatory Reserve
	LKR	LKR'000	LKR'000	LKR'000	LKR'000
Balance as reported in the annual report for 2017	239.38	7,360,716	38,197,140	10,314,618	-
Change in contractual liability due to transfer of One-Off Surplus	197.75	6,080,848	(6,080,848)	6,080,848	-
Transfer of One-Off Surplus to the Restricted Regulatory Reserve	-	-	-	(6,080,848)	6,080,848
<b>Balance reported in these Consolidated Financial Statements</b>	<b>437.13</b>	<b>13,441,564</b>	<b>32,116,292</b>	<b>10,314,618</b>	<b>6,080,848</b>

Company	EPS	Profit after tax	Insurance liabilities	Retained earnings	Restricted Regulatory Reserve
	LKR	LKR'000	LKR'000	LKR'000	LKR'000
Balance as reported in the annual report for 2017	239.33	7,359,230	38,197,140	10,308,262	-
Change in contractual liability due to transfer of One-Off Surplus	197.75	6,080,848	(6,080,848)	6,080,848	-
Transfer of One-Off Surplus to the Restricted Regulatory Reserve	-	-	-	(6,080,848)	6,080,848
<b>Balance reported in these Consolidated Financial Statements</b>	<b>437.08</b>	<b>13,440,078</b>	<b>32,116,292</b>	<b>10,308,262</b>	<b>6,080,848</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 obligations 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	
	2018 LKR'000	2017 LKR'000
Amount of liability recognised in the Consolidated Statement of Financial Position	217,293	222,085
Amounts recognised in the Consolidated Income Statement	45,664	46,761
Amounts recognised in the Statement of Other Comprehensive Income	(21,095)	17,068

The movement in the defined benefit obligation is as follows;

	Group / Company	
	2018 LKR'000	2017 LKR'000
Balance as at 1 January	222,085	188,425
Current service cost	22,812	23,095
Interest cost	22,852	23,666
<b>Amounts recognised in the Consolidated Income Statement</b>	<b>45,664</b>	<b>46,761</b>
<b>Re-measurements;</b>		
Gains/ (losses) from change in financial assumptions	(18,067)	23,744
Actuarial loss due to changes in experience	(3,028)	(6,676)
<b>Amounts recognised in the Statement of Other Comprehensive Income</b>	<b>(21,095)</b>	<b>17,068</b>
Benefits paid	(29,361)	(30,169)
<b>Balance as at 31 December</b>	<b>217,293</b>	<b>222,085</b>

The principal actuarial assumptions used in determining the retirement benefit obligation are as follows;

As at 31 December	2018	2017
	% per annum	% per annum
Future salary increase	11.00	11.00
Discount rate	11.90	10.29
Member withdrawal rate	8.00	8.00
Retirement age	55 Years	55 Years

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**18 RETIREMENT BENEFIT OBLIGATIONS CONTD.**

Sensitivity analysis of key actuarial assumptions used

	Group / Company					
	Future salary increase		Discount rate		Member withdrawal rate	
	1% increase	1% decrease	1% increase	1% decrease	1% increase	1% decrease
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
The effect on;						
- Retirement benefit obligations 2018	1,510	(1,354)	(1,394)	1,582	57	(62)
- Retirement benefit obligations 2017	1,660	(1,479)	(1,538)	1,758	(117)	134

Amounts for the current and previous five periods are as follows;

	2018	2017	2016	2015	2014	2013
Defined benefit obligation (LKR'000)	217,293	222,085	188,425	193,691	248,986	214,627

The below table provides the expected maturity analysis of defined benefit obligations.

Defined benefit obligation (LKR'000)	Less than 1 year	1-5 years	Above 5 years	Total
As at 31 December 2018	39,332	56,090	121,871	217,293
As at 31 December 2017	35,165	49,657	137,263	222,085

**19 OTHER FUND LIABILITIES**

A brief description and the movement of the 'Agent Superannuation' 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	
	2018	2017
	LKR'000	LKR'000
Balance as at 1 January	235,494	195,713
Capital deposits	90,546	80,084
Capital withdrawals	(61,061)	(63,760)
Income/ gains and losses	30,850	23,457
<b>Balance as at 31 December</b>	<b>295,829</b>	<b>235,494</b>

## 20 ACCRUALS AND OTHER PAYABLES

As at 31 December	Note	Group		Company	
		2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Policyholder advance payments		377,718	325,809	377,718	325,809
Agency commission payable		335,320	221,179	335,320	221,179
Franchise fee payable		21,056	7,785	21,056	7,785
Government taxes and levies		38,681	18,204	38,681	18,204
Accrued expenses	20.1	1,960,336	1,783,063	1,959,887	1,782,678
Other creditors		213,226	170,665	213,226	170,665
<b>Total accruals and other payables</b>		<b>2,946,337</b>	<b>2,526,705</b>	<b>2,945,888</b>	<b>2,526,320</b>
Accruals and other payables					
Current		2,798,578	2,446,505	2,798,129	2,446,120
Non-current		147,759	80,200	147,759	80,200
<b>Total accruals and other payables</b>		<b>2,946,337</b>	<b>2,526,705</b>	<b>2,945,888</b>	<b>2,526,320</b>

### 20.1 Accrued expenses

As at 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Provisions for accrued expenses	1,952,218	1,766,965	1,951,769	1,766,580
Operating lease payable	8,118	16,098	8,118	16,098
<b>Total accrued expenses</b>	<b>1,960,336</b>	<b>1,783,063</b>	<b>1,959,887</b>	<b>1,782,678</b>
Accrued expenses				
Current	1,812,577	1,702,863	1,812,128	1,702,478
Non-current	147,759	80,200	147,759	80,200
<b>Total accrued expenses</b>	<b>1,960,336</b>	<b>1,783,063</b>	<b>1,959,887</b>	<b>1,782,678</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**20 ACCRUALS AND OTHER PAYABLES CONTD.****20.2 Movement in accrued expenses**

	Group		Company	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	1,783,063	1,199,638	1,782,678	1,198,947
Provisions during the year	841,622	1,090,154	841,051	1,089,313
Payments and reversals during the year	(664,349)	(506,729)	(663,842)	(505,582)
<b>Balance as at 31 December</b>	<b>1,960,336</b>	<b>1,783,063</b>	<b>1,959,887</b>	<b>1,782,678</b>

**21 CURRENT INCOME TAX LIABILITIES**

	Group		Company	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 1 January	3,476	2,410	3,170	2,305
Provision	3,456	3,501	2,619	3,170
Payments	(275)	(50)	-	-
Income tax payable set-off against tax credits	(3,857)	(2,385)	(3,170)	(2,305)
<b>Balance as at 31 December</b>	<b>2,800</b>	<b>3,476</b>	<b>2,619</b>	<b>3,170</b>

**22 DEFERRED REVENUE**

	Group / Company	
	2018	2017
	LKR '000	LKR '000
Balance as at 1 January	11,262	14,246
Reinsurance recovered in advance in WOP* claims	41,402	4
Reinsurance recovered set-off against Reinsurance assets	(4,069)	(2,988)
<b>Balance as at 31 December</b>	<b>48,595</b>	<b>11,262</b>

\*Waiver of Premium

**23 STATED CAPITAL**

As at 31 December	Group / Company			
	2018		2017	
	No. of shares	LKR'000	No. of shares	LKR'000
Fully paid ordinary shares	30,749,370	511,922	30,749,370	511,922

**24 CAPITAL RESERVES****Revaluation reserve**

Revaluation reserve consists of the net surplus on the revaluation of property, plant and equipment.

	Group / Company	
	2018	2017
	LKR '000	LKR '000
Balance as at 1 January	152,176	72,096
Revaluation surplus arising during the year	26,740	80,080
<b>Balance as at 31 December</b>	<b>178,916</b>	<b>152,176</b>

**25 RESTRICTED REGULATORY RESERVE**

One-Off Surplus as being the difference between the policy liabilities computed using the minimum regulatory basis under the previous NPV based solvency regime and the 'distribution basis' adopted as at 31 December 2017 was transferred to the 'Restricted Regulatory Reserve'.

Direction #16 recommended to be maintained unchanged until further notice from the IRC SL or until distributed to shareholders upon explicit approval of the IRC SL.

	Note	Group / Company	
		2018	2017
		LKR '000	LKR '000
			Restated
Balance as at 1 January		6,080,848	-
One-Off Surplus transferred to Restricted Regulatory Reserve during the year	17.3	-	6,080,848
<b>Balance as at 31 December</b>		<b>6,080,848</b>	<b>6,080,848</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**26 REVENUE RESERVES**

As at 31 December	Note	Group		Company	
		2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Resilience reserve	26.1	-	289,000	-	289,000
Available for sale reserve	26.2	(8,847)	16,709	(8,847)	16,709
Retained earnings	26.3	11,937,159	10,314,618	11,936,025	10,308,262
<b>Total revenue reserves</b>		<b>11,928,312</b>	<b>10,620,327</b>	<b>11,927,178</b>	<b>10,613,971</b>

**26.1 Resilience reserve**

A resilience reserve of LKR 65 million 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 and during the year 2018 the Company transferred the resilience reserve to retained earnings with the approval at the Board of Directors of the Company.

	Group / Company	
	2018 LKR '000	2017 LKR '000
Balance as at 1 January	289,000	289,000
Resilience reserve transfer to retained earnings	(289,000)	-
<b>Balance as at 31 December</b>	<b>-</b>	<b>289,000</b>

**26.2 Available for sale reserve**

	Group / Company	
	2018 LKR '000	2017 LKR '000
Balance as at 1 January	16,709	(15,603)
Changes in fair value of available for sale financial assets	(1,942,468)	3,069,771
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	1,916,912	(3,037,459)
<b>Balance as at 31 December</b>	<b>(8,847)</b>	<b>16,709</b>

**26.3 Retained Earnings**

As at 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
AIA Insurance Lanka PLC	11,936,025	10,308,262	11,936,025	10,308,262
Rainbow Trust Management Limited	1,134	6,356	-	-
<b>Total retained earnings</b>	<b>11,937,159</b>	<b>10,314,618</b>	<b>11,936,025</b>	<b>10,308,262</b>

**27 NET WRITTEN PREMIUM****27.1 Gross written premium**

For the financial year ended 31 December	Group / Company	
	2018	2017
	LKR '000	LKR '000
Conventional	11,651,728	10,444,606
Unit-linked	1,087,623	1,065,975
<b>Total gross written premium</b>	<b>12,739,351</b>	<b>11,510,581</b>

**27.2 Gross reinsurance premium**

For the financial year ended 31 December	Group / Company	
	2018	2017
	LKR '000	LKR '000
Conventional	(305,757)	(262,178)
Unit-linked	(76,464)	(39,945)
<b>Total gross reinsurance premium</b>	<b>(382,221)</b>	<b>(302,123)</b>
<b>Net written premium</b>	<b>12,357,130</b>	<b>11,208,458</b>

**28 INVESTMENT INCOME**

For the financial year ended 31 December	Group		Company	
	2018	2017	2018	2017
	LKR '000	LKR '000	LKR '000	LKR '000
<b>Dividend income</b>				
Financial assets at fair value through profit or loss	67,125	78,125	67,125	78,125
Investment in subsidiary	-	-	5,580	-
<b>Total dividend income</b>	<b>67,125</b>	<b>78,125</b>	<b>72,705</b>	<b>78,125</b>
<b>Interest income</b>				
Available for sale financial assets	2,096,645	2,355,120	2,096,645	2,355,120
Loans and receivables	2,928,127	2,795,084	2,928,127	2,795,084
<b>Total interest income</b>	<b>5,024,772</b>	<b>5,150,204</b>	<b>5,024,772</b>	<b>5,150,204</b>
<b>Total investment income</b>	<b>5,091,897</b>	<b>5,228,329</b>	<b>5,097,477</b>	<b>5,228,329</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**29 FEE INCOME**

For the financial year ended 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Policy administration charges	760,227	481,260	760,227	481,260
Other contract fees	15,499	12,158	15,499	12,158
Trust management fees	1,554	1,511	-	-
<b>Total fee income</b>	<b>777,280</b>	<b>494,929</b>	<b>775,726</b>	<b>493,418</b>

**30 NET REALISED GAINS**

For the financial year ended 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
<b>Property, plant and equipment</b>				
Net realised gains	6,642	13,254	6,642	13,254
<b>Financial assets</b>				
<b>Available for sale financial assets</b>				
Debt securities	92,744	-	92,744	-
<b>Fair value through profit or loss</b>				
Equity instruments	(19,322)	58,363	(19,322)	58,363
<b>Total net realised gain from financial assets</b>	<b>73,422</b>	<b>58,363</b>	<b>73,422</b>	<b>58,363</b>
<b>Total realised gains</b>	<b>80,064</b>	<b>71,617</b>	<b>80,064</b>	<b>71,617</b>

**31 NET FAIR VALUE LOSSES**

For the financial year ended 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Fair value losses on financial assets at fair value through profit or loss	(194,158)	(30,147)	(194,158)	(30,147)
<b>Total net fair value losses</b>	<b>(194,158)</b>	<b>(30,147)</b>	<b>(194,158)</b>	<b>(30,147)</b>



**32 OTHER OPERATING INCOME**

For the financial year ended 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Interest income on policy loans	154,913	220,426	154,913	220,425
Interest income on other loans	9,384	15,376	9,384	15,376
Interest income on cash and cash equivalents	11,260	13,705	11,040	13,037
Net foreign exchange loss	(64,051)	(9,166)	(64,051)	(9,166)
Other miscellaneous income	8,463	7,332	8,463	7,299
<b>Total other operating income</b>	<b>119,969</b>	<b>247,673</b>	<b>119,749</b>	<b>246,971</b>

**33 NET CLAIMS AND BENEFITS**

For the financial year ended 31 December	Group / Company	
	2018 LKR '000	2017 LKR '000
Gross claims and benefits	(5,808,813)	(5,225,181)
Claims ceded to reinsurers	164,817	87,916
<b>Net claims and benefits</b>	<b>(5,643,996)</b>	<b>(5,137,265)</b>

**34 NET ACQUISITION EXPENSES**

For the financial year ended 31 December	Group / Company	
	2018 LKR '000	2017 LKR '000
Commission and franchise fees	(2,028,990)	(1,850,835)
Reinsurance commission	49,109	65,325
<b>Net acquisition expenses</b>	<b>(1,979,881)</b>	<b>(1,785,510)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**35 OPERATING AND ADMINISTRATIVE EXPENSES**

For the financial year ended 31 December	Note	Group		Company	
		2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Employee benefit expenses	35.1	(1,812,156)	(1,924,005)	(1,812,156)	(1,924,005)
Administrative and establishment expenses		(2,201,931)	(1,871,694)	(2,201,532)	(1,871,303)
Selling expenses		(2,133,522)	(1,088,443)	(2,133,342)	(1,088,469)
Amortisation of intangible assets		(117,254)	(113,479)	(117,254)	(113,479)
Depreciation		(131,923)	(128,111)	(131,923)	(128,111)
Other expenses	35.3	(193,735)	(171,492)	(193,735)	(171,460)
<b>Total operating and administrative expenses</b>		<b>(6,590,521)</b>	<b>(5,297,224)</b>	<b>(6,589,942)</b>	<b>(5,296,827)</b>

**35.1 Employee benefit expenses**

For the financial year ended 31 December	Note	Group / Company	
		2018 LKR '000	2017 LKR '000
Salaries and bonus		(947,917)	(871,982)
Contribution to defined contribution plans		(98,473)	(89,728)
Contribution to defined benefit plans	18	(45,664)	(46,761)
Staff welfare		(106,861)	(87,690)
Staff training		(64,392)	(47,184)
Other staff costs		(548,849)	(780,660)
<b>Total employee benefit expenses</b>		<b>(1,812,156)</b>	<b>(1,924,005)</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 2018 is LKR 98,886,807 (2017 - LKR 107,949,080).

### 35.3 Other expenses

For the financial year ended 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Increase in provision for bad and doubtful debts	(1,713)	(2,629)	(1,713)	(2,629)
Other technical expenses	(76,151)	(52,722)	(76,151)	(52,722)
Investment expenses	(115,743)	(115,946)	(115,743)	(115,946)
Other non-technical expenses	(128)	(195)	(128)	(163)
<b>Total other expenses</b>	<b>(193,735)</b>	<b>(171,492)</b>	<b>(193,735)</b>	<b>(171,460)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**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	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
Auditors' remuneration				
-Audit	4,490	4,157	4,339	4,017
-Non-audit	8,932	1,413	8,908	1,413
Directors'/ Chief Executive Officer's emoluments	145,320	162,232	145,320	162,232
Directors' fees	8,400	8,400	8,400	8,400
Legal fees	7,484	4,838	7,484	4,838
Donations	7,948	5,472	7,948	5,472
Provision for bad and doubtful debts	1,713	2,629	1,713	2,629

**37 INCOME TAX REVERSAL/ (EXPENSES)**

For the financial year ended 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000	2018 LKR '000	2017 LKR '000
<b>Current income tax</b>				
Current income tax expense	(3,456)	(3,501)	(2,619)	(3,170)
Notional tax unutilised during the year	(47,423)	(264,924)	(47,423)	(264,925)
<b>Total current income tax</b>	<b>(50,879)</b>	<b>(268,425)</b>	<b>(50,042)</b>	<b>(268,095)</b>
<b>Deferred income tax</b>				
Deferred tax income	2,549,051	30,227	2,549,051	30,227
<b>Total income tax reversal/ (expense)</b>	<b>2,498,172</b>	<b>(238,198)</b>	<b>2,499,009</b>	<b>(237,868)</b>

### 37.1 Reconciliation of tax charge

For the financial year ended 31 December	Group		Company	
	2018 LKR '000	2017 LKR '000 Restated	2018 LKR '000	2017 LKR '000 Restated
Profit before tax	1,612,465	13,679,762	1,616,850	13,677,946
Applicable tax rate	28%	28%	28%	28%
Tax at applicable rate	451,490	3,830,333	452,718	3,829,825
Add / (less) tax effect of the following items:				
Insurance premiums and income not subject to tax	(873,014)	(3,675,012)	(873,014)	(3,675,012)
Insurance claims not deductible for taxes	196,501	(659,904)	196,501	(659,904)
Tax free investment income	(112,977)	(462,322)	(112,977)	(462,322)
Other non-deductible expenses	34,571	20,995	32,506	20,995
Tax loss on which deferred tax asset is not recognised	-	919,184	-	919,362
Unutilised notional tax for the year	47,423	264,924	47,423	264,924
Deferred tax impact on brought forward tax losses	(2,242,166)	-	(2,242,166)	-
<b>Tax charge for the year</b>	<b>(2,498,172)</b>	<b>238,198</b>	<b>(2,499,009)</b>	<b>237,868</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.

Subsequently the Inland Revenue Act No. 24 of 2017 abolished the aforesaid provision and provided that no notional tax credit should be identified for the interest income on Government securities after 1 April 2018.

As per the transitional provisions which is published on 1 April 2018, Notional Tax credit as per section 138 (2) of Inland Revenue Act No. 10 of 2006 may be carried forward to be set-off against the Income Tax liability within three consecutive years of assessment commencing from the year of assessment 2018/2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 37 INCOME TAX REVERSAL/ (EXPENSES) CONTD.

The notional tax credit available to set-off against future tax liability of the Company is as follows.

	Notional tax credits LKR '000
Cumulative notional tax credits up to Y/A 2018/2019	3,157,716
Set-off against tax liability up to Y/A 2017/2018	(1,074,486)
<b>Balance available to set-off against future tax liability</b>	<b>2,083,230</b>

### 38 PROFIT AFTER TAX

The consolidated profit after tax includes the surplus or deficit from Life insurance business during the year. The surplus from the policyholders' fund for the financial year 2018 stood at LKR 1,157 million (2017- LKR 13,162 million, including the RBC One-Off Surplus of LKR 6,081 million). Of the total surplus of LKR 1,157 million, a surplus of LKR 1,510 million was recognised in March 2018 and this includes LKR 1,422 million stemming from the originally reported RBC One-Off Surplus as detailed in note 17.3 to these Consolidated Financial Statements and a deficit of LKR 353 million for the nine-month period of 1 April 2018 to 31 December 2018. The consolidated after-tax profit reported in 2017 has been restated to include the RBC One-Off Surplus of LKR 6,081 million. The decrease in surplus from LKR 7,081 million in 2017 (excluding the RBC One-Off Surplus) to a net deficit of LKR 265 million in 2018 is caused by the downward shift in long-term interest rates by 230 basis points in 2017 as opposed to an upward shift in long-term interest rates by 172 basis points in 2018.

In addition to the changes in market interest rates, the changes in operating assumptions and focussed investments that are made in distribution channels also influenced, the reduction in surplus for the financial year 2018.

The consolidated profit for the financial year 2018 of LKR 4,110 million also include a deferred tax asset of LKR 2,537 million recognised on the tax losses under the 'I-E' based taxation regime up to 31 March 2018. This deferred tax asset was recognised as a result of the movement to a surplus based taxation regime that came in to effect from 1 April 2018 with the legislating of the Inland Revenue Act No. 24 of 2017.

In terms of the profit after tax of the Group, the RBC One-Off Surplus recorded in 2017, the portion of surplus (LKR 1,422 million) recognised in March 2018 and the deferred tax asset recorded in 2018 are exceptional items which are one-off in nature.

### 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	
		2018	2017 Restated	2018	2017 Restated
Profit attributable to the Company's equity holders	(LKR'000)	4,110,637	13,441,564	4,115,859	13,440,078
Weighted average number of ordinary shares in issue	('000)	30,749	30,749	30,749	30,749
Basic / diluted earnings per share	(LKR)	133.68	437.13	133.85	437.08

### 40 DIVIDEND PER SHARE

The dividends paid in 2018 and 2017 were LKR 2,798 million (LKR 91 per share) and LKR 1,537 million (LKR 50 per share) respectively.

## 41 RELATED PARTY DISCLOSURES

### 41.1 Transactions with related entities

Details of significant related party transactions are as follows:

Nature of transaction	AIA Holdings Lanka (Private) Limited	AIA Company Limited	AIA Group Limited	AIA Shared Services (Hong Kong) Limited	AIA Shared Services Sdn. Bhd.	AIAIT (Guangzhou) Company Limited	AIA Information Technology (Beijing) Company Limited
	2017	2018	2017	2017	2017	2017	2017
	2018	2018	2018	2018	2018	2018	2018
	2017	2017	2017	2017	2017	2017	2017
	2018	2018	2018	2018	2018	2018	2018
For the year ended 31 December	2017	2018	2017	2017	2017	2017	2017
	2018	2018	2018	2018	2018	2018	2018
Group recharges (LKR '000)	-	(346,214)	(112,938)	(138,176)	(38,641)	(11,251)	(2,981)
Dividend paid (LKR '000)	(2,204,744)	(248,300)	(151,911)	-	-	-	-
	(2,204,744)	(248,300)	(151,911)	-	-	-	-

## 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 considered to be 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

For the financial year ended 31 December	Group / Company	
	2018	2017
	LKR '000	LKR '000
Directors' / CEO's remuneration	71,112	55,630
Short-term employee benefits	74,208	106,602
Premiums paid for Directors and Officers Liability policy *	3,800	3,197
Directors' fees	8,400	8,400
	<b>157,520</b>	<b>173,829</b>

\* The insurance policy covers past and present Directors and Officers of the Company and its subsidiaries.

##### b) Advance made on behalf of the Directors/CEO

For the financial year ended 31 December	Group / Company	
	2018	2017
	LKR '000	LKR '000
Advance granted to Directors/ CEO	13,790	10,850
Outstanding balance as at 31 December	13,790	10,850
Consideration* recognised in the Consolidated Financial Statements	1,029	1,116

\*Consideration against the advance is recognised at a rate which lies within the AWPR and AWLR as at the date of granting of such advance.

##### c) Other transactions

Business transactions of Key Management Personnel

For the financial year ended 31 December	Group / Company	
	2018	2017
	LKR '000	LKR '000
Premium paid on insurance policies taken by Directors in their individual capacity	105	105
	<b>105</b>	<b>105</b>



### 41.3 Transactions with other related parties

Transactions by Key Management Personnel with other companies (Directors of the Company who were also Directors/Key Management Personnel of the following entities which have had 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 and 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 and SOW relating to long term incentive awards of employees of AIA Insurance Lanka PLC
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
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
NDB Investment Bank 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 Investment Bank Ltd

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 Consolidated Statement of Financial Position.

The Company has also received assessments relating to income taxes for the assessment periods from 2010/11 to 2015/16. DIR has disallowed management expenses relating to the Life insurance business. The 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 Consolidated 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.

#### 42.2 Bank guarantees

The company has provided bank guarantees to third parties amounting to LKR 731 million as at 31 December 2018. 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 the 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 Consolidated Financial Statements in 31 December 2018.

#### 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 recommended the distribution of a first and final dividend of LKR 25.00 per share on 21 February 2019, as authorised by the Articles of Association of the Company, to be paid out of the profits for the year.

As required by Section 56 (2) of the Companies Act No 07 of 2007, the Board of Directors 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 first and final dividend of LKR 25.00 per share.

In accordance with LKAS 10, 'Events After the Reporting Period', the first and final dividend that has been recommended by the Board of Directors has not been recognised as a liability in these Consolidated Financial Statements as at 31 December 2018.

No other events have occurred since the date of the Consolidated Statement of Financial Position that necessitates adjustments to/or disclosure in the Consolidated Financial Statements.

# OTHER INFORMATION

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# QUARTERLY ANALYSIS 2018

## INCOME STATEMENT - GROUP

	1st quarter Jan - Mar 18 LKR'000	2nd quarter Apr - Jun 18 LKR'000	3rd quarter Jul - Sep 18 LKR'000	4th quarter Oct - Dec 18 LKR'000	Total Jan - Dec 18 LKR'000
Gross written premium	3,032,861	3,198,233	3,098,282	3,409,975	12,739,351
Gross reinsurance premium	(89,032)	(88,690)	(88,959)	(115,540)	(382,221)
<b>Net written premium</b>	<b>2,943,829</b>	<b>3,109,543</b>	<b>3,009,323</b>	<b>3,294,435</b>	<b>12,357,130</b>
<b>Other income</b>					
Investment income	1,326,260	1,218,310	1,258,628	1,288,699	5,091,897
Fee income	164,438	185,187	202,926	224,729	777,280
Realised gains	62,498	59,221	(21,475)	(20,180)	80,064
Fair value gains / (losses)	(19,170)	(118,906)	(133,001)	76,919	(194,158)
Other operating income	42,431	35,621	29,113	12,804	119,969
<b>Total other income</b>	<b>1,576,457</b>	<b>1,379,433</b>	<b>1,336,191</b>	<b>1,582,971</b>	<b>5,875,052</b>
<b>Total income</b>	<b>4,520,286</b>	<b>4,488,976</b>	<b>4,345,514</b>	<b>4,877,406</b>	<b>18,232,182</b>
Net claims and benefits	(1,473,175)	(1,505,431)	(1,371,455)	(1,293,935)	(5,643,996)
Change in contractual liability	771,842	(638,564)	(449,085)	(2,089,512)	(2,405,319)
Change in contractual liability due to transfer of One-Off Surplus	-	-	-	-	-
Net acquisition expenses	(500,119)	(503,301)	(487,612)	(488,849)	(1,979,881)
Operating and administrative expenses	(1,657,444)	(1,533,782)	(1,673,542)	(1,725,753)	(6,590,521)
<b>Profit before tax</b>	<b>1,661,390</b>	<b>307,898</b>	<b>363,820</b>	<b>(720,643)</b>	<b>1,612,465</b>
Income tax reversal / (expense)	(49,274)	(80,199)	(105,470)	2,733,115	2,498,172
<b>Profit for the period</b>	<b>1,612,116</b>	<b>227,699</b>	<b>258,350</b>	<b>2,012,472</b>	<b>4,110,637</b>

## INCOME STATEMENT - COMPANY

	1st quarter Jan - Mar 18 LKR'000	2nd quarter Apr - Jun 18 LKR'000	3rd quarter Jul - Sep 18 LKR'000	4th quarter Oct - Dec 18 LKR'000	Total Jan - Dec 18 LKR'000
Gross written premium	3,032,861	3,198,233	3,098,282	3,409,975	12,739,351
Gross reinsurance premium	(89,032)	(88,690)	(88,959)	(115,540)	(382,221)
<b>Net written premium</b>	<b>2,943,829</b>	<b>3,109,543</b>	<b>3,009,323</b>	<b>3,294,435</b>	<b>12,357,130</b>
<b>Other income</b>					
Investment income	1,331,840	1,218,310	1,258,628	1,288,699	5,097,477
Fee income	164,042	184,814	202,534	224,336	775,726
Realised gains	62,498	59,221	(21,475)	(20,180)	80,064
Fair value gains / (losses)	(19,170)	(118,906)	(133,001)	76,919	(194,158)
Other operating income	42,337	35,586	29,071	12,755	119,749
<b>Total other income</b>	<b>1,581,547</b>	<b>1,379,025</b>	<b>1,335,757</b>	<b>1,582,529</b>	<b>5,878,858</b>
<b>Total income</b>	<b>4,525,376</b>	<b>4,488,568</b>	<b>4,345,080</b>	<b>4,876,964</b>	<b>18,235,988</b>
Net claims and benefits	(1,473,175)	(1,505,431)	(1,371,455)	(1,293,935)	(5,643,996)
Change in contractual liability	771,842	(638,564)	(449,085)	(2,089,512)	(2,405,319)
Change in contractual liability due to transfer of One-Off Surplus	-	-	-	-	-
Net acquisition expenses	(500,119)	(503,301)	(487,612)	(488,849)	(1,979,881)
Operating and administrative expenses	(1,657,273)	(1,533,749)	(1,673,411)	(1,725,509)	(6,589,942)
<b>Profit before tax</b>	<b>1,666,651</b>	<b>307,523</b>	<b>363,517</b>	<b>(720,841)</b>	<b>1,616,850</b>
Income tax reversal / (expense)	(48,596)	(80,143)	(105,402)	2,733,150	2,499,009
<b>Profit for the period</b>	<b>1,618,055</b>	<b>227,380</b>	<b>258,115</b>	<b>2,012,309</b>	<b>4,115,859</b>

# QUARTERLY ANALYSIS 2017

## INCOME STATEMENT - GROUP

	1st quarter Jan - Mar 17 LKR'000	2nd quarter Apr - Jun 17 LKR'000	3rd quarter Jul - Sep 17 LKR'000	4th quarter Oct - Dec 17 LKR'000	Total Jan - Dec 17 LKR'000
Gross written premium	2,631,257	2,900,745	2,882,511	3,096,068	11,510,581
Gross reinsurance premium	(66,687)	(68,665)	(80,656)	(86,115)	(302,123)
<b>Net written premium</b>	<b>2,564,570</b>	<b>2,832,080</b>	<b>2,801,855</b>	<b>3,009,953</b>	<b>11,208,458</b>
<b>Other income</b>					
Investment income	1,273,048	1,362,675	1,239,056	1,353,550	5,228,329
Fee income	119,446	116,558	118,513	140,412	494,929
Realised gains	4,856	24,844	7,179	34,738	71,617
Fair value gains / (losses)	(50,612)	133,124	(80,339)	(32,320)	(30,147)
Other operating income	50,373	94,419	52,713	50,168	247,673
<b>Total other income</b>	<b>1,397,111</b>	<b>1,731,620</b>	<b>1,337,122</b>	<b>1,546,548</b>	<b>6,012,401</b>
<b>Total income</b>	<b>3,961,681</b>	<b>4,563,700</b>	<b>4,138,977</b>	<b>4,556,501</b>	<b>17,220,859</b>
Net claims and benefits	(1,418,198)	(1,093,817)	(1,419,914)	(1,205,336)	(5,137,265)
Change in contractual liability	(828,744)	(1,583,626)	(805,294)	5,815,718	2,598,054
Change in contractual liability due to transfer of One-Off Surplus	-	-	-	6,080,848	6,080,848
Net acquisition expenses	(407,239)	(503,401)	(411,738)	(463,132)	(1,785,510)
Operating and administrative expenses	(1,171,301)	(1,279,953)	(1,352,661)	(1,493,309)	(5,297,224)
<b>Profit before tax</b>	<b>136,199</b>	<b>102,903</b>	<b>149,370</b>	<b>13,291,290</b>	<b>13,679,762</b>
Income tax expense	(64,998)	(39,115)	(95,594)	(38,491)	(238,198)
<b>Profit for the period</b>	<b>71,201</b>	<b>63,788</b>	<b>53,776</b>	<b>13,252,799</b>	<b>13,441,564</b>

## INCOME STATEMENT - COMPANY

	1st quarter Jan - Mar 17 LKR'000	2nd quarter Apr - Jun 17 LKR'000	3rd quarter Jul - Sep 17 LKR'000	4th quarter Oct - Dec 17 LKR'000	Total Jan - Dec 17 LKR'000
Gross written premium	2,631,257	2,900,745	2,882,511	3,096,068	11,510,581
Gross reinsurance premium	(66,687)	(68,665)	(80,656)	(86,115)	(302,123)
<b>Net written premium</b>	<b>2,564,570</b>	<b>2,832,080</b>	<b>2,801,855</b>	<b>3,009,953</b>	<b>11,208,458</b>
<b>Other income</b>					
Investment income	1,273,048	1,362,675	1,239,056	1,353,550	5,228,329
Fee income	119,096	116,421	117,886	140,015	493,418
Realised gains	4,856	24,844	7,179	34,738	71,617
Fair value gains / (losses)	(50,612)	133,124	(80,339)	(32,320)	(30,147)
Other operating income	50,219	94,203	52,544	50,005	246,971
<b>Total other income</b>	<b>1,396,607</b>	<b>1,731,267</b>	<b>1,336,326</b>	<b>1,545,988</b>	<b>6,010,188</b>
<b>Total income</b>	<b>3,961,177</b>	<b>4,563,347</b>	<b>4,138,181</b>	<b>4,555,941</b>	<b>17,218,646</b>
Net claims and benefits	(1,418,198)	(1,093,817)	(1,419,914)	(1,205,336)	(5,137,265)
Change in contractual liability	(828,744)	(1,583,626)	(805,294)	5,815,718	2,598,054
Change in contractual liability due to transfer of One-Off Surplus	-	-	-	6,080,848	6,080,848
Net acquisition expenses	(407,239)	(503,401)	(411,738)	(463,132)	(1,785,510)
Operating and administrative expenses	(1,170,979)	(1,280,056)	(1,352,362)	(1,493,430)	(5,296,827)
<b>Profit before tax</b>	<b>136,017</b>	<b>102,447</b>	<b>148,873</b>	<b>13,290,609</b>	<b>13,677,946</b>
Income tax expense	(64,970)	(38,987)	(95,544)	(38,367)	(237,868)
<b>Profit for the period</b>	<b>71,047</b>	<b>63,460</b>	<b>53,329</b>	<b>13,252,242</b>	<b>13,440,078</b>

# FIVE YEAR SUMMARY

As at 31 December	2018 LKR '000	2017 LKR '000 Restated	2016 LKR '000	2015 LKR '000	2014 LKR '000
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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Group					
<b>Assets</b>					
Investments	40,100,312	40,722,460	34,829,199	35,664,879	33,943,900
Investments - Unit-linked	4,736,107	5,013,288	5,258,443	5,565,077	6,499,893
Property, plant and equipment	767,873	746,542	229,169	300,079	358,634
Other assets	8,802,958	6,101,705	5,767,405	4,287,776	6,696,267
<b>Total assets</b>	<b>54,407,250</b>	<b>52,583,995</b>	<b>46,084,216</b>	<b>45,817,811</b>	<b>47,498,694</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
Stated capital	511,922	511,922	511,922	511,922	300,000
Capital reserves	178,916	152,176	72,096	72,096	72,096
Restricted regulatory reserve	6,080,848	6,080,848	-	-	-
Resilience reserve	-	289,000	289,000	289,000	289,000
Available for sale reserve	(8,847)	16,709	-	-	-
Retained earnings	11,937,159	10,314,618	4,492,836	5,493,899	4,225,573
<b>Total equity</b>	<b>18,699,998</b>	<b>17,365,273</b>	<b>5,365,854</b>	<b>6,366,917</b>	<b>4,886,669</b>
<b>Liabilities</b>					
Insurance provision - Conventional	27,066,333	26,887,302	32,929,907	31,228,082	29,466,134
Insurance provision - Unit-linked	4,858,950	5,228,990	5,258,443	5,565,077	6,499,893
Insurance provision - General	-	-	-	-	2,956,174
Other liabilities	3,781,969	3,102,430	2,530,012	2,657,735	3,689,824
<b>Total liabilities</b>	<b>35,707,252</b>	<b>35,218,722</b>	<b>40,718,362</b>	<b>39,450,894</b>	<b>42,612,025</b>
<b>Total equity and liabilities</b>	<b>54,407,250</b>	<b>52,583,995</b>	<b>46,084,216</b>	<b>45,817,811</b>	<b>47,498,694</b>

## LONG TERM - SUPPLEMENTAL

<b>Assets</b>					
Investments	26,337,064	25,532,036	31,010,754	30,075,237	28,664,494
Investments - Unit-linked	4,736,107	5,013,288	5,258,443	5,565,077	6,499,893
Other assets	3,944,919	4,058,519	3,976,927	3,256,546	3,062,939
<b>Total assets</b>	<b>35,018,090</b>	<b>34,603,843</b>	<b>40,246,124</b>	<b>38,896,860</b>	<b>38,227,326</b>
<b>Liabilities</b>					
Insurance provision - Long term	27,066,333	26,887,302	32,929,907	31,228,082	29,466,134
Insurance provision - Unit-linked	4,858,950	5,228,990	5,258,443	5,565,077	6,499,893
Other liabilities	3,092,807	2,487,551	2,057,774	2,103,701	2,261,299
<b>Total liabilities</b>	<b>35,018,090</b>	<b>34,603,843</b>	<b>40,246,124</b>	<b>38,896,860</b>	<b>38,227,326</b>

For the financial year ended 31 December	2018 LKR '000	2017 LKR '000 Restated	2016 LKR '000	2015 LKR '000	2014 LKR '000
<b>CONSOLIDATED INCOME STATEMENT</b>					
<b>Total business (Group)</b>					
Annualised new premium	4,878,257	4,488,403	4,351,560	3,894,229	3,460,035
Gross written premium	12,739,351	11,510,581	10,103,915	8,433,333	7,266,573
Gross reinsurance premium	(382,221)	(302,123)	(260,065)	(232,041)	(204,627)
<b>Net written premium</b>	<b>12,357,130</b>	<b>11,208,458</b>	<b>9,843,850</b>	<b>8,201,292</b>	<b>7,061,946</b>
Other income	5,875,052	6,012,401	5,235,552	4,413,413	5,028,429
<b>Total income</b>	<b>18,232,182</b>	<b>17,220,859</b>	<b>15,079,402</b>	<b>12,614,705</b>	<b>12,090,375</b>
Net claims and benefits	(5,643,996)	(5,137,265)	(4,759,614)	(4,870,695)	(6,747,851)
Change in contractual liability	(2,405,319)	2,598,054	(3,486,785)	(2,486,281)	(770,140)
Change in contractual liability due to transfer of One-Off Surplus	-	6,080,848	-	-	-
Net acquisition expenses	(1,979,881)	(1,785,510)	(1,303,244)	(1,245,925)	(941,563)
Operating and administrative expenses	(6,590,521)	(5,297,224)	(4,735,493)	(3,493,276)	(3,157,737)
<b>Profit before tax</b>	<b>1,612,465</b>	<b>13,679,762</b>	<b>794,266</b>	<b>518,528</b>	<b>473,084</b>
Income tax expense	2,498,172	(238,198)	(283,590)	(215,365)	(210,218)
Profit for the period from continuing operations	4,110,637	13,441,564	510,676	303,163	262,866
Profit for the period of discontinued operations (net of tax)	-	-	-	1,187,450	89,573
<b>Profit for the period</b>	<b>4,110,637</b>	<b>13,441,564</b>	<b>510,676</b>	<b>1,490,613</b>	<b>352,439</b>
Surplus transfer to shareholders' fund	1,157,284	13,161,617	314,760	100,000	100,000

**INVESTOR INFORMATION**

Financial year		2018	2017 Restated	2016	2015	2014
Return on net assets	%	22.80	118.27	8.71	5.38	7.44
Net assets per share	LKR	608.14	564.74	174.50	207.06	158.92
Market price per share - 31 December	LKR	1,707.60	327.50	280.10	292.00	302.00
Basic earnings per share	LKR	133.68	437.13	16.61	9.86	8.55
Price earnings ratio	times	12.77	0.75	16.87	29.62	35.33*
Market capitalisation	LKR mn	52,508	10,070	8,613	8,979	9,060
Dividend per share	LKR	91.00	50.00	49.50	7.07	2.00*
Dividend payout ratio ***	%	68.07	11.44	298.05	71.71	23.40*
Earnings yield	%	7.83	133.48	5.93	3.38	2.83
Dividend yield	%	5.33	15.27	17.67	2.42	0.66*

**EMPLOYEE INFORMATION**

Revenue per employee **	LKR mn	23.62	21.88	18.50	15.63	15.87
Net profit per employee **	LKR' 000	5.32	17.08	627	376	345
Number of permanent employees **	nos.	772	787	815	807	762

\* 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 2018 there were 2003 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	1,839	332,266	1.07	9	950	0.00	1,848	333,216	1.07
1001 - 10,000	144	371,597	1.21	1	1,828	0.01	145	373,425	1.22
10,001 - 100,000	8	167,794	0.55	-	-	-	8	167,794	0.55
100,001 - 1,000,000	-	-	-	-	-	-	-	-	-
Over 1,000,000	1	26,836,716	87.28	1	3,038,219	9.88	2	29,874,935	97.16
<b>Total</b>	<b>1,992</b>	<b>27,708,373</b>	<b>90.11</b>	<b>11</b>	<b>3,040,997</b>	<b>9.89</b>	<b>2,003</b>	<b>30,749,370</b>	<b>100.00</b>

The percentage of shares held by 2001 public shareholders is 2.84 per cent.

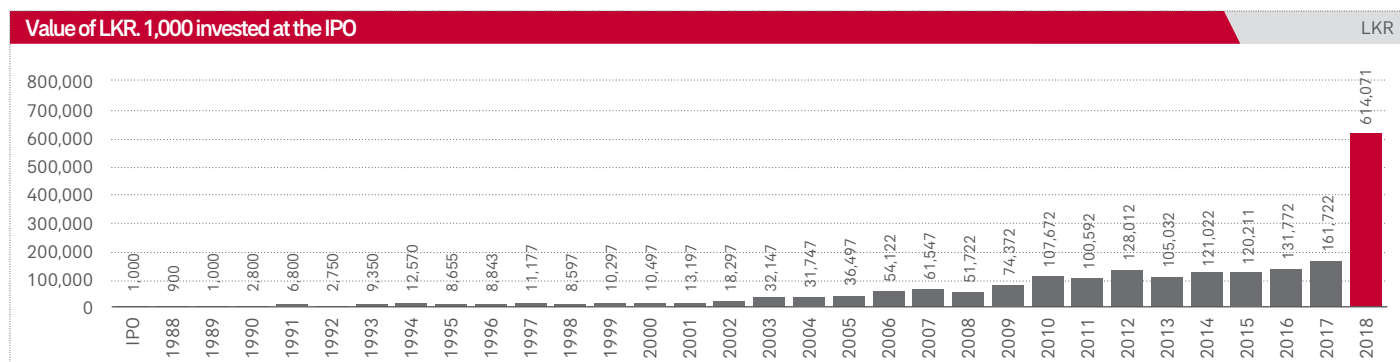
The Company's float adjusted market capitalisation as at 31 December 2018 is LKR 1,491 million. The Company sought and was granted an exemption by the CSE (with the concurrence of the SEC) from having to comply with the maintenance of a minimum public holding as a continuous listing requirement in terms of the Listing Rules of the CSE. The said exemption was granted to the Company in terms of the CSE Listing Rule 7.13.3 (iii) for a period of one year up to 18 July 2019, subject to the Company making appropriate disclosures to the CSE in this regard.

## 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	1,930	798,677	2.60	10	2,778	0.01	1,940	801,455	2.61
Institutional	62	26,909,696	87.51	1	3,038,219	9.88	63	29,947,915	97.39
<b>Total</b>	<b>1,992</b>	<b>27,708,373</b>	<b>90.11</b>	<b>11</b>	<b>3,040,997</b>	<b>9.89</b>	<b>2,003</b>	<b>30,749,370</b>	<b>100.00</b>

## 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





**20 LARGEST SHAREHOLDERS**

The 20 largest shareholders as at 31 December 2018 are given below.

Name of the shareholder	31 December 2018	
	No. of shares	%
1 AIA Holdings Lanka (Private) Limited	26,836,716	87.28
2 AIA Company Limited	3,038,219	9.88
3 Mr. P Subasinghe	42,000	0.14
4 Mr. Srikantha Rasaratnam	38,435	0.12
5 Peoples Merchant Finance PLC/ P.T.S De Silva	16,615	0.05
6 Miss. A S Gunaratne	15,375	0.05
7 Mr. N W H D Gunaratne	15,375	0.05
8 Dialog Finance PLC/ K.E.H De Alwis	15,192	0.05
9 Mr. Chandra Jayaratne	13,820	0.04
10 Mr. K.K. Shujeevan	10,982	0.04
11 Dr. A.B Abeyesundara	10,000	0.03
12 Mr.A.A.A Rifkee	10,000	0.03
13 Mr. M.N Aththas	10,000	0.03
14 Mr. Aravinthan Sivarajah	9,891	0.03
15 Tariqa Investments Private Limited	8,326	0.03
16 Mr. Varatharajah Selvaratnam	7,685	0.02
17 Mr. S K Kader / Mrs. N M Kader	7,685	0.02
18 Mrs. Thevarajah Sithamparam	7,684	0.02
19 Mr. H Janak Bhagwandas	7,224	0.02
20 Mr. R T Manatunga / Mrs. C N C Manatunga	6,150	0.02
20 Mr. A.P Perera	6,150	0.02
	30,133,524	97.97
Others	615,846	2.03
<b>Total</b>	<b>30,749,370</b>	<b>100.00</b>

The 20 largest shareholders as at 31 December 2017 are given below.

Name of the shareholder	31 December 2017	
	No. of shares	%
1 AIA Holdings Lanka (Private) Limited	26,836,716	87.28
2 AIA Company Limited	3,038,219	9.88
3 Mr. Srikantha Rasaratnam	38,435	0.12
4 Bansei Securities Capital (Pvt) LTD / Dawi Investment Trust (Pvt) LTD	15,463	0.05
5 Miss. A S Gunaratne	15,375	0.05
6 Mr. N W H D Gunaratne	15,375	0.05
7 Mr. Chandra Jayaratne	13,220	0.04
8 People's Leasing & Finance PLC / Dr. H S D Soysa & Mrs. G. Soysa	11,819	0.04
9 People's Leasing & Finance PLC / Mr. C D Kohombanwickramage	10,530	0.03
10 People's Leasing & Finance PLC / M V D Ranasinghe	10,149	0.03
11 Mr. Aravinthan Sivarajah	9,891	0.03
12 Mr. Varatharajah Selvaratnam	7,685	0.02
13 Mr. S K Kader / Mrs. N M Kader	7,685	0.02
14 Mrs. Thevarajah Sithamparam	7,684	0.02
15 People's Leasing & Finance PLC / L H L M P Haradasa	7,595	0.02
16 Mr. S P K Chamara Perera	7,436	0.02
17 Mr. H Janak Bhagwandas	7,224	0.02
18 Forbes & Walker Limited	7,000	0.02
19 Mr. Priyanka Manjula Pathiraja/ Mrs D A O Kandamudali	6,656	0.02
20 Mr. R T Manatunga / Mrs. C N C Manatunga	6,150	0.02
	30,080,307	97.78
Others	669,063	2.22
<b>Total</b>	<b>30,749,370</b>	<b>100.00</b>

## SHARE INFORMATION

### SHARE VALUATION

The market value of the Company's ordinary shares as at 31 December 2018 was LKR 1,707.60 (31 December 2017 - LKR 327.50).

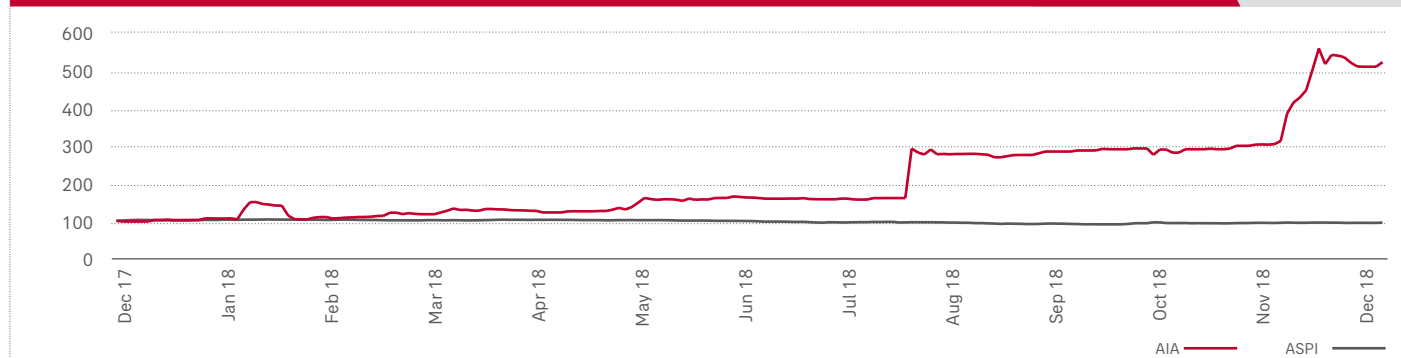
### RECORD OF SCRIPT ISSUES

Year of Issue	Type of Issue	Ratio
1994	Bonus	1:05
1995	Bonus	1:04
1996	Bonus	1:04
1997	Bonus	1:15
2005	Bonus	1:02
2015	Bonus	1:40

### SHARE PERFORMANCE

	2018	2017
No. of transactions	5,408	831
No. of shares traded	295,335	49,358
Total value of shares traded (LKR)	197,067,535	15,984,999
CSE Turnover (LKR mn)	420,660	220,591
CSE market cap. (LKR mn)	2,839,446	2,899,291
AIA market cap. (LKR mn)	52,508	10,070
Public Float (LKR mn)	1,491	286
All Share Price Index - 31 December	6,052.37	6,369.26
AIA Share Price - 31 December (LKR)	1,707.60	327.50
AIA Share Price - High (LKR)	1,990.00	358.00
AIA Share Price - Low (LKR)	320.00	270.00
Earnings per share (LKR)	133.68	437.13
P/E Ratio (times)	12.77	0.75
Net assets per share (LKR)	608.14	564.74
Return on net assets (%)	22.80	118.27

CSE ASPI Index Vs AIA Share Price - Indexed to 31 December 2018

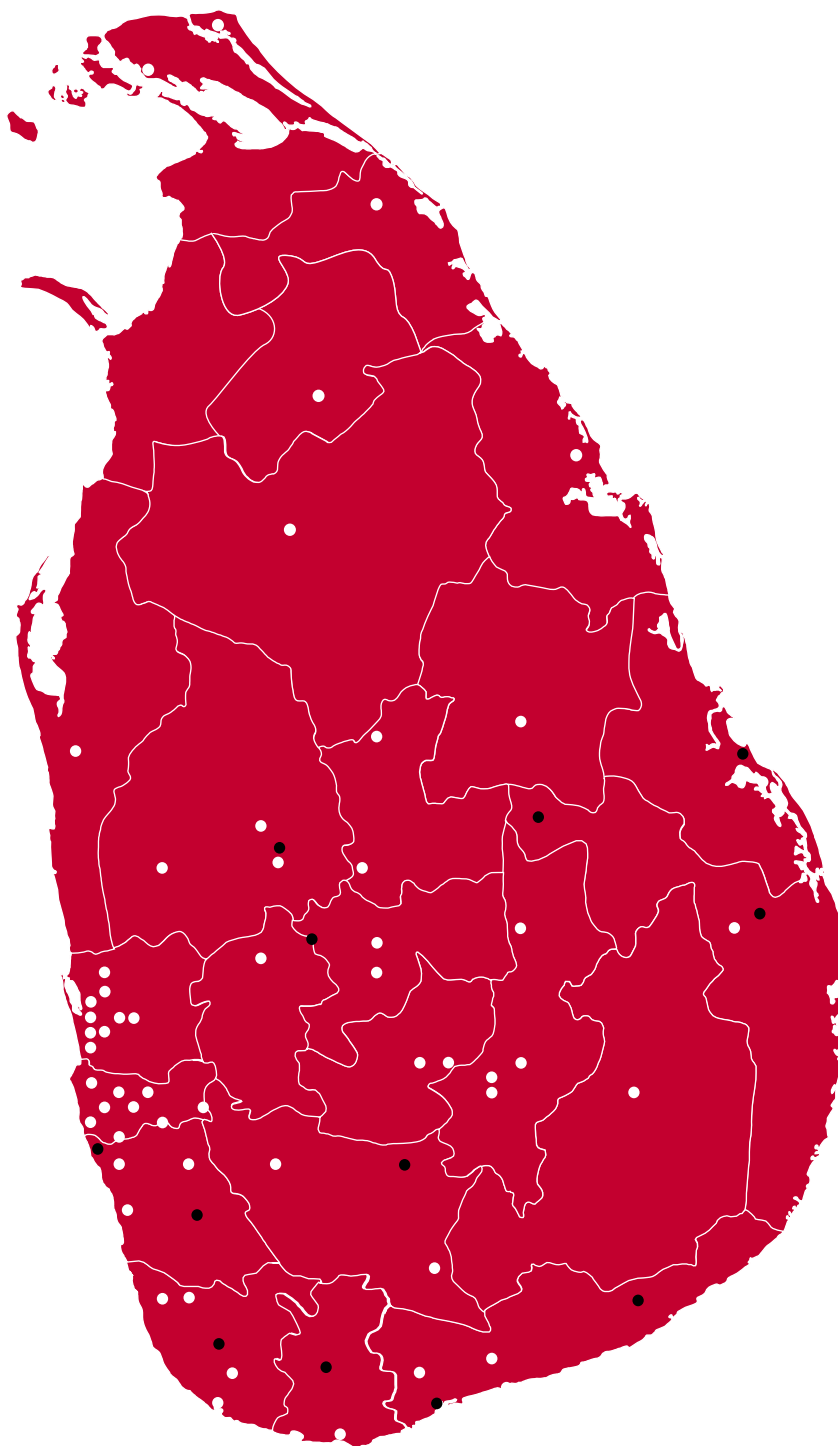


## OUR LOCAL REACH

Ambalantota	Kilinochchi
Ampara	Kiribathgoda
Anuradhapura	Kottawa
Avissawella	Kuliyapitiya
Badulla	Kurunegala
Bandarawela	Maharagama
Battaramulla	Mahiyanganaya
Batticaloa	Matale
Beliatta	Matara
Chilaw	Mirigama
Colombo	Moneragala
Dambulla	Moratuwa
Embilipitiya	Mount Lavinia
Galle	Negombo
Gampaha	Nelliady
Gampola	Nugegoda
Homagama	Nuwara Eliya
Horana	Polonnaruwa
Ja-Ela	Ragama
Jaffna	Ratnapura
Kalawanchikudi	Trincomalee
Kalutara	Vavuniya
Kandana	Wariyapola
Kandy	Welimada
Karapitiya	Wennappuwa
Kegalle	

### AREA DEVELOPMENT OFFICE NETWORK

Akuressa	Mawanella
Ampara	Moratuwa
Baddegama	Panadura
Balangoda	Piliyanadala
Dehiattakandiya	Tangalle
Kurunegala	Thissamaharama
Mathugama	



# DISTRIBUTION NETWORK

## HEAD OFFICE

AIA Insurance Lanka PLC  
AIA Tower  
92 Dharmapala Mawatha, Colombo 7  
Tel : 011 231 0000  
Fax : 011 244 7620  
E-mail : lk.info@aia.com  
Web : www.aialife.com.lk  
Hotline : 011 231 0310  
Fax : 011 471 5892

## BRANCH OFFICE NETWORK

### Ambalantota

143 Main Street, Ambalantota  
Tel : 047 222 3359 / 437 9672 / 2223165  
Fax : 047 222 5022

### 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

### 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 / 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

### Bandarawela

3/126 DFCC Building, Main Street, Bandarawela  
Tel/ Fax : 057 222 4869 / 223 3288

### Battaramulla

1006/4A Pannipitiya Road, Battaramulla  
Tel : 011 288 9810-11  
Fax : 011 552 5394

### Batticaloa

290/1, Trincomalee Road, Batticaloa  
Tel : 065 222 7975  
Fax : 065 222 7988

### Batticaloa Metro

290/1, 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, 1st Floor, Kurunegala Road, Chilaw  
Tel : 032 222 1217  
Fax : 032 222 3027

### Colombo Main

92, AIA Tower, Dharmapala Mawatha, Colombo 07  
Tel : 011 231 0262 / 231 0293  
Fax : 011 231 0259

### Colombo Region 1

92, AIA Tower, Dharmapala Mawatha, Colombo 07  
Tel : 011 231 0254 / 231 0573  
Fax : 011 231 0259

### Colombo Region 2

92, AIA Tower, Dharmapala Mawatha, Colombo 07  
Tel : 011 231 0289 / 231 0489  
Fax : 011 231 0259

### Colombo Region 3

92, AIA Tower, Dharmapala Mawatha, Colombo 07  
Tel : 011 231 0264 / 231 0272  
Fax : 011 231 0259

### Colombo Region 4

92, AIA Tower, Dharmapala Mawatha, Colombo 07  
Tel : 011 231 0006 / 231 0350  
Fax : 011 231 0120

### Colombo Region 5

92, AIA Tower, Dharmapala Mawatha, Colombo 07  
Tel : 011 231 0010 / 231 0250  
Fax : 011 231 0259

### Colombo Region 6

92, AIA Tower, Dharmapala Mawatha, Colombo 07  
Tel : 011 231 0249 / 231 0265  
Fax : 011 231 0259

### Dambulla

734/1 Anuradhapura Road, Dambulla  
Tel : 066 228 3335 / 334  
Fax : 066 228 3465

### Dambulla Region 1

734/1 Anuradhapura Road, Dambulla  
Tel : 066 228 3335 / 334  
Fax : 066 228 3465

### Dambulla Region 2

734/1 Anuradhapura Road, Dambulla  
Tel : 066 228 3335 / 334  
Fax : 066 228 3465

### Embilipitiya Region 1

First Floor, Lakmini Supermarket Building  
51 Main Street, Embilipitiya  
Tel : 047 223 0417

### Embilipitiya Main

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

**Gampaha**

85 Baudhaloka Mawatha,  
Gampaha  
Tel : 033 222 1177 / 222 6840  
Fax : 033 223 4700

**Gampaha Region 1**

85 Baudhaloka Mawatha,  
Gampaha  
Tel : 033 222 7393  
Fax : 033 223 4700

**Gampola**

8/38/b/1/1 Nawalapitiya Road,  
Gampola  
Tel : 081 235 3173 / 273  
Fax : 081 235 3173

**Homagama**

113/A/1 Avissawella Road,  
Homagama  
Tel : 011 285 7155 / 209 8188  
/ 285 7160  
Fax : 011 285 7160

**Homagama Region 1**

113/A/1 Avissawella Road,  
Homagama  
Tel : 011 285 7155 / 209 8188  
/ 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 /  
224 8223 / 224 8224

**Jaffna**

62/6 Stanley Road, Jaffna  
Tel/Fax : 021 222 1215 /  
222 1216

**Jaffna Metro**

62/6 Stanley Road, Jaffna  
Tel/Fax : 021 222 1215 /  
222 1216

**Kalawanchikudi**

1/1, Main Street,  
Kalawanchikudi, Batticaloa  
Tel : 065 225 1933 / 225 1934

**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 / 6146

**Kandy**

Commercial Bank Building,  
Sixth Floor, 90 - 92,  
Kotugodella Veediya, Kandy  
Tel : 081 220 0100/ 220 0101  
/ 222 2322 / 222 2321  
Fax : 081 223 2668

**Kandy Region 1**

Commercial Bank Building,  
Sixth Floor, 90 - 92,  
Kotugodella Veediya, Kandy  
Tel : 081 220 0100/ 220 0101  
/ 222 2322 / 222 2321  
Fax : 081 223 2668

**Kandy City**

Commercial Bank Building,  
Sixth Floor, 90 - 92,  
Kotugodella Veediya, Kandy  
Tel : 081 220 0100/ 220 0101  
/ 222 2322 / 222 2321

**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 2222171 / 2231780  
Fax : 035 223 1780

**Kegalle Region 1**

447/8 Main Street, Kegalle  
Tel : 035 2222 117 / 2231780  
Fax : 035 223 1780

**Kegalle Region 2**

447/8 Main Street, Kegalle  
Tel : 035 222 3141 / 2221780 /  
2231780 / 2222835  
Fax : 035 223 1780

**Kilinochchi**

470/2 Kandy Road, Kilinochchi  
Tel : 021 228 5514  
Fax : 021 228 5513

**Kiribathgoda Metro**

412/2 Gaala Junction, Kandy  
Road, Kiribathgoda  
Tel : 011 290 1664  
Fax : 011 290 1666

**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 1484  
Fax : 011 290 1666

**Kottawa**

Senadheera Alignment Centre  
456/2 Highlevel Road,  
Makumbura, Kottawa  
Tel : 011 217 2515 / 217 2523

**Kuliyapitiya**

149/7 Main Street, Kuliyapitiya  
Tel : 037 228 4222  
Fax : 037 228 1867

**Kuliyapitiya Region 1**

149/7 Main Street, Kuliyapitiya  
Tel : 037 228 1830  
Fax : 037 228 1867

**Kurunegala**

110/1 Noel Seneviratne  
Mawatha, Colombo Road,  
Kurunegala  
Tel/ Fax : 037 222 3540 /  
222 7707

**Kurunegala Region 1**

110/1 Noel Seneviratne  
Mawatha, Colombo Road,  
Kurunegala  
Tel : 037 222 1217  
Fax : 037 222 7707 / 037 222  
3540

**Kurunegala Region 2**

110/1 Noel Seneviratne  
Mawatha, Colombo Road,  
Kurunegala  
Tel 037 222 3990  
Fax : 037 222 7707 / 037 222  
3540

**Maharagama**

131/1/1, Awissawella Road,  
Maharagama  
Tel : 011 283 7611  
Fax : 011 283 7488

**Mahiyanganaya City**

13, Kandy Road, Mahiyanganaya  
Tel : 055 225 8475  
Fax : 055 225 8476

## DISTRIBUTION NETWORK

<p><b>Matale</b> 181 Nimali Building, Trincomalee Street, Matale Tel/ Fax : 066 223 2401-2-3</p>	<p><b>Mount Lavinia</b> 230, Galle Road, Mount Lavinia Tel : 011 271 0267 / 271 0268 Fax : 011 271 0268</p>	<p><b>Ratnapura</b> 23A Bandaranayake Mawatha, Ratnapura Tel : 045 222 4417 Fax : 045 222 2601</p>	<p><b>Balangoda</b> 51-1/1 Kaltota Road, Balangoda Tel : 045 228 9516 Fax : 045 228 9517</p>
<p><b>Matara</b> 24 E H Cooray Building, Third Floor, Anagarika Dharmapala Mawatha, Matara Tel : Tel : 041 222 7344 / 222 2844 / 222 0674 Fax : 041 222 7344</p>	<p><b>Negombo</b> 349/17 Main Street, Negombo Tel/ Fax : 031 222 2266 / 223 5115</p>	<p><b>Trincomalee</b> 5A, Main Street, Trincomalee Tel/ Fax : 026 222 7949/ 222 6095</p>	<p><b>Dehiattakandiya</b> B4 New Town, Dehiattakandiya Tel / Fax : 027 225 0447</p>
<p><b>Matara Region 1</b> 24 E H Cooray Building, Third Floor, Anagarika Dharmapala Mawatha, Matara Tel : Tel : 041 222 0674 / Fax : 041 222 7344</p>	<p><b>Negombo Region 1</b> 349/17 Main Street, Negombo Tel/ Fax : 031 223 8149 / 223 5115</p>	<p><b>Vavuniya</b> 66 Station Road, Vairavapuliyankulam, Vavuniya Tel : 024 222 5672 Tel/ Fax : 024 222 5673</p>	<p><b>Kurunegala</b> No 17 Rajapihilla Road, Colombo Road, Kurunegala Tel 037-2222668 / 2222868 Fax 037-2222668</p>
<p><b>Mirigama</b> 19, Negombo Road, Mirigama Tel : 033 227 3328 / 2273 329 Fax : 033 227 3329</p>	<p><b>Negombo Region 2</b> 349/17 Main Street, Negombo Tel/ Fax : 031 222 2266 / 223 5115</p>	<p><b>Wariyapola</b> 90 Putthalam Road, Wariyapola Tel : 037 226 8615 Fax : 037 226 8616</p>	<p><b>Mathugama</b> 60 Neboda Road, Mathugama Tel : 034 224 9418 / 224 9955</p>
<p><b>Moneragala</b> No 39, Wellawaya Road, Moneragala Tel : 055 227 6496 Fax : 055 227 6211</p>	<p><b>Nelliady</b> 56, 58 &amp; 60, Nelliyadi Central College Road, Nelliyadi. Tel/ Fax : 021 226 2806/ 226 5560</p>	<p><b>Welimada</b> 232, First Floor, Nuwaraeliya Road, Welimada Tel : 057 224 6878 / 224 5177 Fax : 057 224 5177</p>	<p><b>Mawanella</b> 257, Second Floor, New Colombo Kandy Road, Mawanella. Tel : 035 224 8760 / 224 7881</p>
<p><b>Moratuwa Metro</b> 553 Galle Road, Rawathawatte, Moratuwa Tel/ Fax : 011 264 8020 / 264 9322</p>	<p><b>Nugegoda</b> 513/3/1 High Level Road, Delkanda, Nugegoda Tel : 011 2804 009 Fax : 011 2804 009</p>	<p><b>Wennappuwa</b> 275/A/1, Airbuilding, Colombo Road, Wennappuwa Tel/ Fax : 031 225 5510 / 225 5600</p>	<p><b>Moratuwa</b> 529/1 Galle Road, Rawathawatte, Moratuwa Tel : 011 264 5805 / 264 5806</p>
<p><b>Moratuwa Region 1</b> 459/1/1 Galle Road, Rawathawatte, Moratuwa Tel/ Fax : 011 264 8021 / 265 5615</p>	<p><b>Nuwara Eliya</b> Fourth Floor, 86, Kandy Road, Nuwara Eliya Tel/ Fax : 052 222 3478</p>	<p><b>AREA DEVELOPMENT OFFICE NETWORK</b></p>	<p><b>Panadura</b> No,575/c, Galle Road, Panadura. T: 038 224 8120</p>
<p><b>Moratuwa Region 3</b> 553 Galle Road, Rawathawatte, Moratuwa Tel/ Fax : 011 264 9009 / 264 8020</p>	<p><b>Polonnaruwa</b> 13 C – Crown Building, Hospital Junction, Polonnaruwa Tel/ Fax : 027 222 3107-8</p>	<p><b>Akuressa</b> 95 1/1, First Floor, Matara Road, Akuressa Tel : 041 228 4544</p>	<p><b>Piliyanadala</b> 130/5 Second floor, Horana Road, Kesbewa Tel : 011 270 3644</p>
	<p><b>Polonnaruwa Region 1</b> 13 C, Crown Building, Hospital Junction, Polonnaruwa Tel/ Fax : 027 222 3107-8</p>	<p><b>Ampara</b> 149 Nidahas Mawatha, Ampara Tel : 063 222 2630 Fax : 063 222 2554</p>	<p><b>Tangalle</b> 8A Medaketiya Road, Tangalle Tel : 047 224 0166</p>
	<p><b>Ragama City</b> 61A/1/1, Mahabage Road, Ragama Tel : 011 295 1078</p>	<p><b>Baddegama</b> Hikkaduwa Road, Baddegama Tel : 091 229 2150</p>	<p><b>Thissamaharama</b> 173/1 Iresha Building, Kachcheriyagama, Thissamaharama Tel : 047 223 9096</p>

# 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.

## ACQUISITION EXPENSES

Expenses that are directly related to the acquisition of new insurance contracts and the renewal of existing insurance contracts. Acquisition expenses generally include commissions and franchise fees.

## 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.

## GLOSSARY

### 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.

### 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 Consolidated 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.

## GLOSSARY

### 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.

### 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 average 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.

**CONSOLIDATED 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.

## GLOSSARY

### 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.

### 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 third Annual General Meeting of AIA Insurance Lanka PLC will be held on Wednesday, 27 March 2019 at 9:15 a.m. at AIA Insurance Lanka PLC, AIA Tower, 92, Dharmapala Mawatha, Colombo 7 (Sixth floor), for the following purposes:

## ORDINARY BUSINESS:

1. To receive and consider the Audited Financial Statements for the year ended 31 December 2018 together with the Annual Report of the Board of Directors and the Report of the Auditors thereon.
2. To declare a first and final dividend of LKR 25.00 per share for the financial year ended 31 December 2018 as recommended by the Directors.
3. To ratify the total donations of LKR 7.9 million which had been made by the Company during the year ended 31 December 2018 and which sum is within the authorised amount of one per cent of the average profits after tax of the Company for the preceding three years.
4. To authorise the Directors, in pursuance of the provisions of the Companies (Donations) Act No. 26 of 1951, to make on behalf of the Company, donations during the year 2019 not exceeding one per cent of the average profits after tax of the Company for the preceding three years.
5. To re-elect Mr. Sarath Wikramanayake as a Director who retires by rotation in terms of Article 30 of the Articles of Association of the Company and whose re-election is recommended by the Board of Directors.
6. 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 and whose re-election is recommended by the Board of Directors.
7. To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants as the Company's External Auditors and to authorise the Directors to determine their remuneration.

BY ORDER OF THE BOARD



**Chathuri Munaweera**  
Company Secretary

Colombo  
21 February 2019

## Notes

- 1) A shareholder entitled to attend and to vote at the Meeting is entitled to appoint a proxy to attend and to vote in his / her stead. A proxy appointed by and representing many shareholders shall be entitled to exercise the vote of each shareholder he/she represents (including his/her own vote, if a shareholder) when voting on a show of hands.
- 2) A proxy need not be a shareholder 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, AIA Insurance Lanka PLC, AIA Tower, 92, Dharmapala Mawatha, Colombo 7, not later than 48 hours before the time appointed for the holding of the Meeting.
- 5) Shareholders must 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 name)  
 bearing NIC / Passport / Com. Reg. No. .... of ..... being a  
 shareholder / shareholders of AIA Insurance Lanka PLC do hereby appoint Mr / Ms .....  
 .....(Please indicate the 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. Sarath Wikramanayake	or failing him
Mr. Stuart Spencer	or failing him
Mr. Deepal Sooriyaarachchi	

as my / our proxy to represent me / us and to vote on my / our behalf at the thirty third Annual General Meeting of the Company to be held on Wednesday, 27 March 2019 at 9:15 a.m. at AIA Insurance Lanka PLC, AIA Tower, 92, Dharmapala Mawatha, Colombo 7 (Sixth floor), 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 on my / our behalf on the specified resolutions referred to below, as indicated by the letter "X" marked 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		

Signed on this ..... day of ..... two thousand and nineteen.

.....  
 Signature(s) of shareholder(s)

Please provide the following 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 instructions 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 shareholder of the Company.
- 3) Instructions as to completion appear on the reverse.
- 4) Proxy holders must 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 name and address and that of the proxy holder, by signing in the space provided and filling in the date of signature.
2. If you have not named another proxy or leave this section blank, you will be deemed to have appointed and authorized the Chairman of the Meeting to act as your proxy holder for the limited purpose of voting as directed by you in the form of proxy.
3. If no directions have been given or if in the view of the Chairman of the Meeting there is doubt (by reason of the way in which the instructions contained in the form of proxy have been completed) as to the way in which your vote is to be cast, you will be deemed to have authorized the Chairman of the Meeting to vote, as your proxy, as he thinks fit.
4. 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.
5. If another proxy is preferred, delete the names printed, add the name of the proxy preferred and initial the alteration.
6. 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 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, at his / her discretion, vote as he / she thinks fit.
7. If your proxy represents many other shareholders, he/she shall be entitled to exercise the vote of each shareholder he/she represents (including his/her own vote, if a shareholder) when voting on a show of hands.
8. In the case of a corporate shareholder the proxy form should 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 relevant power of Attorney or a notarially certified copy thereof should also accompany the completed form of proxy, if it has not already been registered with the Company.
9. If the shares are held jointly, the form of proxy must be signed by all the joint shareholders or alternatively only by the shareholder whose name appears first in respect of the joint holding in the share register (the first-named being the most senior). A proxy holder appointed by a form of proxy so executed is deemed to have been appointed on behalf of each joint holder.
10. To be valid, the completed form of proxy should be deposited at the registered office of the Company, AIA Insurance Lanka PLC, 92, Dharmapala Mawatha, Colombo 7 not less than 48 hours before the time appointed for the holding of the Meeting or adjourned Meeting and in the case of a Meeting adjourned for the purpose of taking a poll, not less than 24 hours before the holding of such adjourned Meeting. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
11. Deposit of the duly signed form of proxy may be effected by delivery by hand, by post, by facsimile to fax number +94 11 2447620 or by electronic lodgement of a scanned copy thereof emailed to [LKE\\_cosec@aia.com](mailto:LKE_cosec@aia.com) in pursuance of Article 20(7) of the Articles of Association.



# 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.
- Life Insurance Company licensed by the Insurance Regulatory Commission 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  
Manoj Ramachandran  
Robert Alexander Hartnett  
Stuart Anthony Spencer  
Deepal Sooriyaarachchi  
Sarath Wikramanayake

## CHIEF EXECUTIVE OFFICER/PRINCIPAL OFFICER

Pankaj Banerjee

## DEPUTY CHIEF EXECUTIVE OFFICER

Upul Wijesinghe

## COMPANY SECRETARY

Chathuri Munaweera

## SPECIFIED OFFICER

Suresh Edirisinghe

## ACCOUNTING YEAR

31 December

## SUBSIDIARY

Name of the Company	Holding	Principal Activity
Rainbow Trust Management Limited	100%	Trust Management

## REGISTERED OFFICE/ HEAD OFFICE

AIA Tower, 92, Dharmapala Mawatha,  
Colombo 7, Sri Lanka  
Telephone : 0094-11-2310000  
Fax : 0094-11-2447620  
E-mail : lk.info@aia.com  
Web : www.aialife.com.lk

## COMPANY REGISTRARS

SSP Corporate Services (Private) Limited  
101, Inner Flower Road, Colombo 3, Sri Lanka  
Telephone : 0094-11-2573894 / 2576871

## AUDITORS

PricewaterhouseCoopers  
Chartered Accountants  
100, Braybrooke Place, Colombo 2, Sri Lanka

## APPOINTED ACTUARY

Frank Munro  
AIA Insurance Lanka PLC  
AIA Tower, 92, Dharmapala Mawatha, Colombo 7, Sri Lanka

## LAWYERS

Julius & Creasy  
Attorneys-at-Law & Solicitors  
371, R. A. De Mel Mawatha, Colombo 3, Sri Lanka

## REINSURANCE PANEL - LIFE INSURANCE

Munich Re  
RGA International Reinsurance Company dac  
Zurich Insurance Company Ltd

## BANKERS

- Bank of Ceylon
- Commercial Bank of Ceylon PLC
- Deutsche Bank
- DFCC Bank PLC
- Hatton National Bank PLC
- National Development Bank PLC
- National Savings Bank
- Nations Trust Bank PLC
- Pan Asia Banking Corporation PLC
- People's Bank
- Sampath Bank PLC
- Seylan Bank PLC
- Standard Chartered Bank
- The Hongkong & Shanghai Banking Corporation Limited
- Union Bank of Colombo PLC

## CUSTODIAN BANKS

- Deutsche Bank

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**AIA Insurance Lanka PLC**

AIA Tower, 92, Dharmapala Mawatha  
Colombo 7  
Sri Lanka  
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