CELEBRATING THE SRI LANKAN SPIRIT

AIA INSURANCE LANKA LIMITED
ANNUAL REPORT 2020

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, while helping Sri Lankans live a healthier, longer, better life.

Our History

AIA Company Limited (“AIA CO”) Hong Kong acquired an indirect controlling equity stake of 87.28 per cent in AIA Insurance Lanka Limited (“AIA Insurance Lanka”) in December 2012 *via* AIA Group’s purchase of the entire shareholding of AIA Holdings Lanka (Private) Limited (“AIA Holdings Lanka”), the majority shareholder of AIA Insurance Lanka. It additionally also then acquired a direct 5 per cent equity holding in AIA Insurance Lanka.

The Company sought and received the permission of the IRCSL in 2018 to be exempted from the requirement of listing on a stock exchange, based on the listing of its ultimate parent Company AIA Group Limited on the Hong Kong Stock Exchange.

Pursuant to a series of corporate, legal and regulatory re-structures, AIA Holdings Lanka is, effective from 13 October 2020, the sole shareholder of AIA Insurance Lanka with a registered holding of 100 per cent of its issued and fully paid shares. AIA Group consequently has (*via* its fully owned subsidiary AIA Holdings Lanka), a consolidated indirect equity holding of 100 per cent in AIA Insurance Lanka.

This is consistent with the target operating model followed by AIA Group, where its insurance operating units are held as wholly owned subsidiaries wherever possible and permissible, with the ultimate parent company AIA Group Limited being the only publicly listed entity.

This report can be accessed online at
https://www.aialife.com.lk

Celebrating the Sri Lankan Spirit

As a nation, Sri Lanka has always demonstrated remarkable potential and an enduring spirit of strength and resilience - uniting all its people under one flag throughout the nation's history.

Inspired by our people, the AIA Sri Lanka team exemplified the values of collective strength in coming out stronger from any situation. This report details how we achieved a commendable performance; by laying the foundation for future growth, realigning our focus and executing strategies and organisational processes to drive holistic value creation across the nation.

Today as we overcome challenges through a shared positive mindset with our people - we are poised to celebrate the distinctive strength of the Sri Lankan spirit which remains at the core of all we do.

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Overview

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.

THE LARGEST LISTED COMPANY ON THE HONG KONG STOCK EXCHANGE which is incorporated and headquartered in Hong Kong

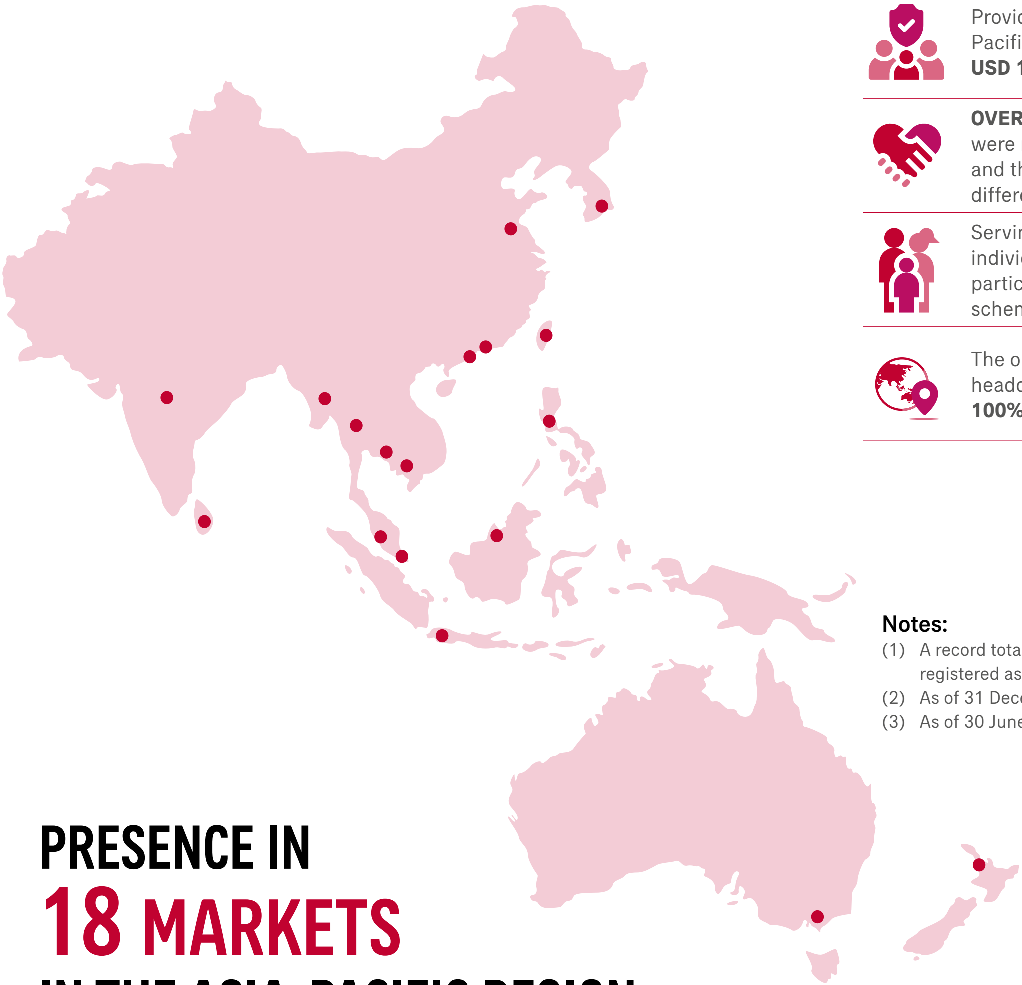
NO.1 WORLDWIDE FOR MDRT MEMBERS[1] The only multinational company to top the table for six consecutive years

Provides protection to people across the Asia-Pacific region with total sum assured of **USD 1.74 TRILLION**[2]

OVER 14 MILLION BENEFIT PAYMENTS were made during 2019, helping customers and their families to cope with challenges at different life stages

Serving the holders of more than **36 MILLION**[3] individual policies and over **16 MILLION**[3] participating members of group insurance schemes

The only international life insurer headquartered and listed in Hong Kong and **100% FOCUSED ON ASIA-PACIFIC**



Notes:

(1) A record total of 12,796 AIA agents and agency leaders were registered as MDRT members as of 01 July 2020.

(2) As of 31 December 2019.

(3) As of 30 June 2020.

PRESENCE IN 18 MARKETS IN THE ASIA-PACIFIC REGION

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 2013
New Zealand 1981	Cambodia 2015

36
Million Individual Policies

Over 16
Million Group Scheme Members

Financial Highlights

Financial Highlights - Group		2020	2019	%
Total income	(LKR mn)	20,049	19,732	1.6
Profit before tax	(LKR mn)	726	3,169	(77.1)
Gross written premium	(LKR mn)	14,050	13,848	1.5
Operating and administrative expenses	(LKR mn)	6,317	6,545	(3.5)
Total assets	(LKR mn)	72,393	61,976	16.8
Insurance liabilities	(LKR mn)	45,587	36,380	25.3
Basic earnings per share	(LKR)	14.62	64.43	(77.3)
Dividend per share	(LKR)	50.00	25.00	100.0

14.1
GWP
LKR billion

2019 : LKR 13.8 billion

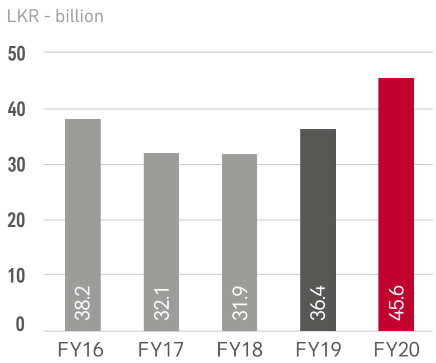
20.0
Total Income
LKR billion

2019 : LKR 19.7 billion

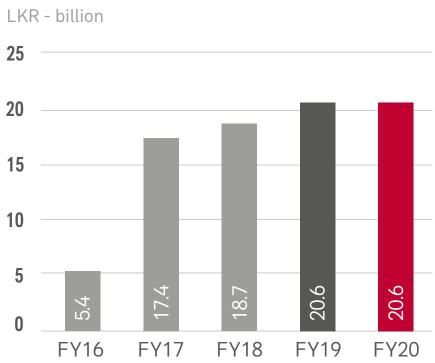
72.4
Total Assets
LKR billion

2019 : LKR 62.0 billion

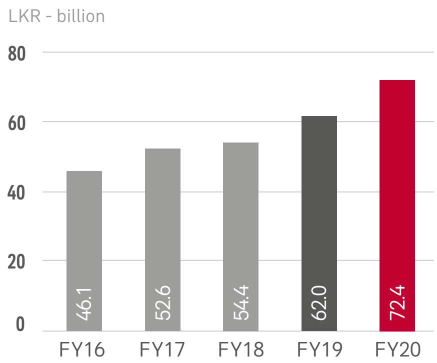
INSURANCE LIABILITIES



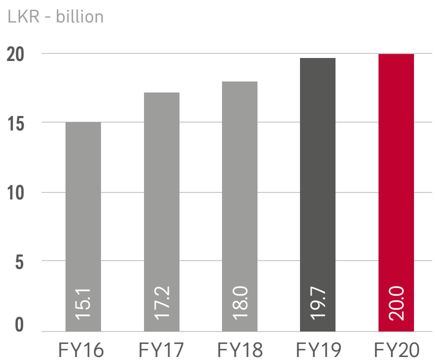
NET ASSETS



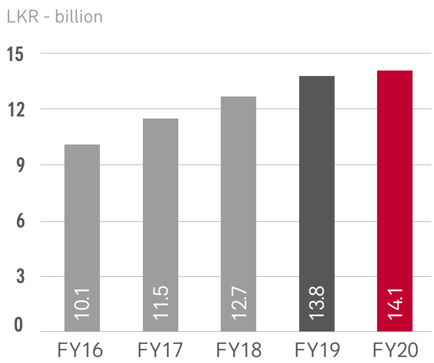
TOTAL ASSETS



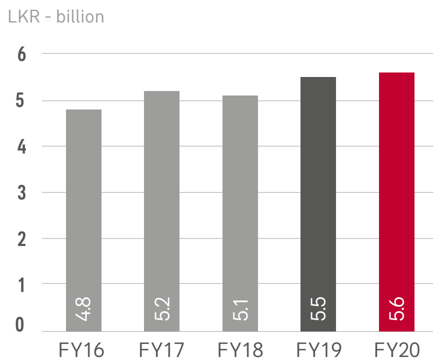
TOTAL INCOME



GROSS WRITTEN PREMIUM



INVESTMENT INCOME



Chairman’s Message

The Company remained focused on executing our strategy, supported by its transformation to a simpler, faster, connected organisation and demonstrated a resilient performance.

I am pleased to report a commendable performance by AIA Insurance Lanka Limited. The Company demonstrated great resilience in the face of challenges posed by the COVID-19 pandemic, and responded rapidly to adapt its operations and serve customers with the same high standards that they have come to expect. AIA Sri Lanka was first in market to offer its customers free telemedicine, an additional life insurance cover during the initial response to the pandemic and also extended free life insurance cover to frontline workers battling COVID-19. Our Agency and Bancassurance distribution channels were supported by measures to sustain their income throughout the year and we also provided market leading training programmes to help them solicit and sell in a completely digitalised environment.

Since the pandemic outbreak, we have witnessed a significant change in consumer behaviour with an accelerated pace of transformation. Insurers are increasing their emphasis on digital tools and platforms, and adopting agile operating models. These changes are evident in Sri Lanka as well. The way we work and operate has evolved significantly against the backdrop of the pandemic. Remote technology has enabled our distribution to remain engaged with customers notwithstanding social distancing and restrictions in face-to-face interactions. Online recruitment processes and events have supported the expansion of our distribution without compromising on quality, thus setting a strong platform for future growth.

2020 has been a year of significant challenges for Sri Lanka. The pandemic has impacted on the economy and society at large. Despite this, the Company remained focused on executing its strategy, supported by transformation to a simpler, faster and more connected organisation. This was demonstrated by a resilient performance reporting over LKR 14.0 billion in life insurance gross written premium in 2020 and the Group's total assets of LKR 72.4 billion, recording an increase of over LKR 10.4 billion during the year.

"2020 has been a year of significant challenges for Sri Lanka. The pandemic has impacted on the economy and society at large. Despite this, the Company remained focused on executing its strategy..."

The Group recorded an after-tax profit of LKR 449.6 million, which takes account of a transfer to the life policyholders' fund of LKR 660.1 million to support the reserves we maintain on behalf of policyholders. This transfer was required due to the steep decline in interest rates during the year where the longer tenure treasury bond yield declined by 242 basis points on top of 187 basis point decline in 2019. Our policyholders can rest assured that their funds are well protected with AIA Sri Lanka, and that the Company has maintained reserves well in excess of the regulatory requirements to fulfil our commitment to policyholders in their time of need. AIA Sri Lanka's long-standing financial strength is affirmed yet again through its capital adequacy ratio of 488 per cent, more than four times the stipulated regulatory minimum.

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

The achievements of 2020 would not have been possible without the resolute commitment of our employees who are devoted to bringing peace of mind and security to our customers and communities. On behalf of the Board of Directors, I would like to thank and express my appreciation to the team at AIA Sri Lanka for their resilience and dedication over the past many years and especially during 2020.

William Lisle
Chairman

11 February 2021

Overview

CEO's Review

The pandemic posed many impediments and challenges, and I am happy to say that we've come out of it stronger, better and well positioned for 2021 and beyond.

2020, was indeed, one of the most challenging years for the Company, industry and the Sri Lankan economy. The pandemic posed many challenges, and I am happy to say that we've come out of it stronger, better and well positioned for 2021 and beyond. With the arrival of the vaccine, hopefully the worst is behind us and work and life can return closer to normal.

Our holistic response to the pandemic situation, keeping all stakeholders in mind, was exemplary. We were able to transition to 100 per cent Work-From-Home within 24 hours, demonstrating the robustness and flexibility of our business continuity practices. We continued to serve customers with no compromise to our service. Understanding our customers' concerns, we were the first in market to enhance all policyholders' life insurance cover with a free life insurance cover of LKR 500,000 for a period of three months for loss of life due to COVID-19 and extended free tele-consultation access to all our customers during curfew so they could consult a doctor from their home. As part of our CSR, we extended free insurance benefits to the staff and frontline workers of the four COVID-19 hospitals that were set up by the government. We supported our Wealth Planners by extending loan recoveries, paying out incentives in advance and helping them with a rapid transition to adapt to digital tools. Our timely marketing campaign, designed to raise public awareness and honour the front-line workers, was well received and has positively impacted our brand.

The economy was impacted due to border closures affecting tourism, extended periods of curfew and lockdown, travel restrictions and a variety of measures the government implemented to protect the public. The government, in response to the pandemic and to spur demand and investment, has reduced interest rates to

"The Group continued to grow despite the challenging external environment with total assets reaching LKR 72.4 billion in 2020, compared to LKR 62.0 billion in 2019. The total assets primarily consist of financial assets, and these are invested with a long-term view in stable and secure investment instruments per the prudent investment strategy adopted by the Company..."

historic lows and the rates remained low throughout 2020. Department of Census and Statistics of Sri Lanka in its national accounts estimate reported that Sri Lanka's GDP contracted by 3.6 per cent in 2020 following the impact to economic and social activity.

The growth and performance of the Company is reflective of these external conditions and the historically low interest rate environment. Notably, despite the challenging external environment, the Company has maintained its accounting policies and the basis for its estimates in the financial statements unchanged. As such the financial results reflect a true and fair view of the financial performance and stability of the Company.

Gross written premium recorded LKR 14,049.6 million in 2020, vs. LKR 13,848.3 million recorded in 2019. The Group recorded a Profit After Tax (PAT) of LKR 449.6 million compared to LKR 1,981.2 million in 2019. The lower PAT is, to a great extent, the outcome of the low interest rate environment and the prudent and consistent accounting policies and reserving basis. The sharply lower interest rates resulted in an increased requirement to maintain reserves for policyholder liabilities, and the Company effected a transfer of LKR 660.1 million to the policyholders' funds to support this. This increase in the reserving for policyholders' liabilities ensures peace of mind to AIA Sri Lanka's policyholders as they can be assured that the Company maintains funds and capital well in excess of the required regulatory levels to meet with our commitments to policyholders.

The Group continued to grow despite the challenging external environment with total assets reaching LKR 72.4 billion in 2020, compared to LKR 62.0 billion in 2019. The total assets primarily consist of financial assets, and these are invested with a long-term view in stable and secure investment instruments as per the prudent investment strategy adopted by the Company.

Given the long-term nature of our business and to protect against any external shocks, we have continued to maintain a very high Capital Adequacy Ratio which was reported at 488 per cent on 31 December 2020. This is more than four times of the required capital stipulated by our regulator, the Insurance Regulatory Commission of Sri Lanka, and the highest in the industry.

The pandemic required us to adapt our strategy very quickly in 1Q 2020. The result of that has been positive for the Company on several fronts. In response to COVID-19, we enhanced our digital tools and online capabilities and achieved good adoption. Significantly, Wealth Planners and all our Bancassurance Executives were able to conduct sales meetings remotely using video technology and secure e-signatures. An increasing number of policies issued in the second half of the year were closed digitally. Online recruitment seminars and processes have enabled us to scale our recruitment activities and increase our number of inforce agents by approximately 40.0 per cent through the course of 2H 2020. We achieved this without lowering our quality standards, helping to position AIA Sri Lanka for

CEO's Review

future growth. Our strategy to accelerate our recruitment and expand distribution, while seemingly contradictory to the economic environment, resulted in a significant uplift in our sales volumes. The Company achieved historically high 3Q and 4Q performances in 2020. The quality of our strong distribution was a key driver of the strong growth as we led the market with the highest number MDRTs and IQA representatives in Sri Lanka.

As a leader in the pensions, health and life insurance business, we continued to deliver on our promise to help people lead healthier, longer, better lives. We enhanced our health proposition by offering our customers access to the new Premier Global Health Care rider - the upgraded proposition that provides greater flexibility allowing customisation of coverage and offers comprehensive, first to market features such as cover for Ayurvedic Medicine, Maternity, Dental, Wellness and an all new reinstatement benefit. We launched AIA Super Protector which offers pure life protection with innovative features that are unique to AIA including the Family Income, automatic protection increase, amongst others. The new propositions allow us to engage with new segments of customers and address an ever-widening protection gap in the country.

2020, was a year of transformation in our Operations and IT areas. We accelerated our plans to upgrade our technology platforms and enable increased adoption of digital tools with higher levels of user satisfaction. Taken together with our wider use of data, we were able to transform the experience of our customers, Wealth Planners, strategic distribution partners and employees, supporting superior growth and efficiency. Noteworthy developments include, the all new MyPOS, our new point of sale system, operations workflow, a new document management system, robotic process automation, MyPage our new customer portal, world class e-signature platform Adobe Sign, completion of our Microsoft Azure Data Lake and the start of our migration to cloud computing. We also started delivering policies electronically to customers. All these tools enhanced the buy, service and claim customer journeys, and supported a recovery in 2H 2020. This will make us more efficient so we can serve customers better and also empower customers with self-service.

"We accelerated our plans to upgrade our technology platforms and enable increased adoption of digital tools with higher levels of user satisfaction. Taken together with our wider use of data, we were able to transform the experience of our customers, Wealth Planners, strategic distribution partners and employees, supporting superior growth and efficiency..."

We completed the final stage of our transition to AIA Group's operating model for its businesses in 2020. This complex, multi-year journey which resulted in the delisting of the Company from the official list of the CSE in 2019, witnessed its culmination in 2020 with the completion of the purchase by AIA Group of the total issued shares of the Company. This is consistent with the target operating model followed by AIA Group, where its insurance operating units are held as wholly-owned subsidiaries wherever possible and permissible, with the ultimate parent company, AIA Group Limited, being the only publicly listed entity.

Amongst the many accolades we have received over the years, in 2020 we were recognised as Sri Lanka's 'Best Life Insurance Company' by Global Banking and Finance Review, as the first Runner-up in the Best Digital integrated Campaign Financial Sector award category at the SLT Zero One 2018/19 awards. Further notable achievements of our distribution included, an AIA Sri Lanka Wealth Planner being recognised to be the MDRT – Membership Communications Committee (MCC), Country Chair for Sri Lanka. For demonstrating the Company's great workplace culture which encompasses equality, inclusivity and opportunity to grow, AIA Sri Lanka was recognised as a Great Place to Work® for the eighth consecutive year.

The Company continued and even extended its commitment to the community. We continued to recognise the best and brightest students through AIA Higher Education Scholarships, now in its 26th consecutive year and one of Sri Lanka's oldest CSR initiatives inspiring academic excellence. Our Helping Hand initiative continued to support schools to improve their facilities with the participation of staff and Wealth Planners. We also made contributions of almost LKR 5.0 million to the Sri Lanka Cancer Society (SLCS) as part of our efforts to raise awareness on and to help fight non-communicable diseases in Sri Lanka and extended our partnership with the SLCS in 2020

We thank our Bancassurance partners NDB and DFCC for being a strength and showing characteristics of true partnerships during an especially challenging environment. Both partnerships continued to deliver on

"As a leader in the pensions, health and life insurance business, we continued to deliver on our promise to help people lead healthier, longer, better lives..."

our shared objective of providing long term protection products to the bank's customers as a complimentary sale to their banking products.

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 the year. I extend my sincere appreciation and gratitude to the Board of Directors and all my colleagues for their tireless efforts, commitment and dedication. 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.

Nikhil Advani
Chief Executive Officer

11 February 2021

CELEBRATING A SPIRIT OF COURAGE

Management Discussion & Analysis

In 2020, global economies experienced the worst downturn in decades and Sri Lanka was no exception. Nevertheless, during the second half of the year, the resilience of the Sri Lankan economy was once again on display.

We are optimistic on the growth prospects of the economy and the life insurance industry over the medium to long term and AIA Sri Lanka is well poised to take advantage of the growth prospects.

We continue to challenge the status-quo in the life insurance industry and are eager to embrace change and seamlessly pursue our goals in one journey towards being the pre-eminent life insurance provider in Sri Lanka and supporting Sri Lankans to live healthier, longer, better lives.

INTRODUCTION

2020 will be remembered for the COVID-19 pandemic which spread across the entire world. In March 2020, Sri Lanka was hit with the first wave and subsequently entered into an island-wide curfew which lasted 52 days. The life insurance industry in Sri Lanka which is mainly driven by the agency force was significantly impacted during this period due to the restrictions imposed by the curfew, and this hampered growth during the first half of the year. The industry bounced back during the second half of the year amidst the challenges of the second wave that was evident during 4Q 2020. AIA Sri Lanka rose up to the challenge by introducing several digital initiatives which enhanced the customer experience and somewhat mitigated the impacts of the pandemic. These timely actions together with the resilience of the sales force contributed to a satisfactory performance across key performance metrices.

ECONOMIC REVIEW

Global economies experienced the worst downturn after the Great Depression of the 1930s and Sri Lanka was no exception.

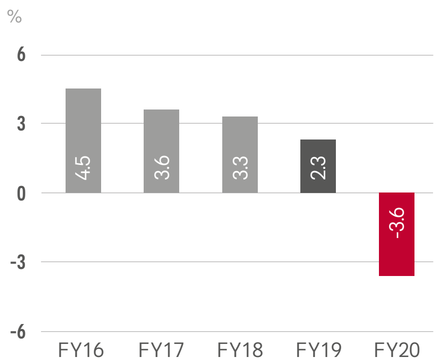
During the second half of the year, the resilience of the Sri Lankan economy was once again on display as green shoots of a recovery seemed evident. The second and subsequent waves seem to have caused a comparatively lower impact in the domestic context. The vaccine programme started in early 2021 together with the recovery of regional economies should pave way for a reasonable recovery for Sri Lanka over 2021.

GDP Growth

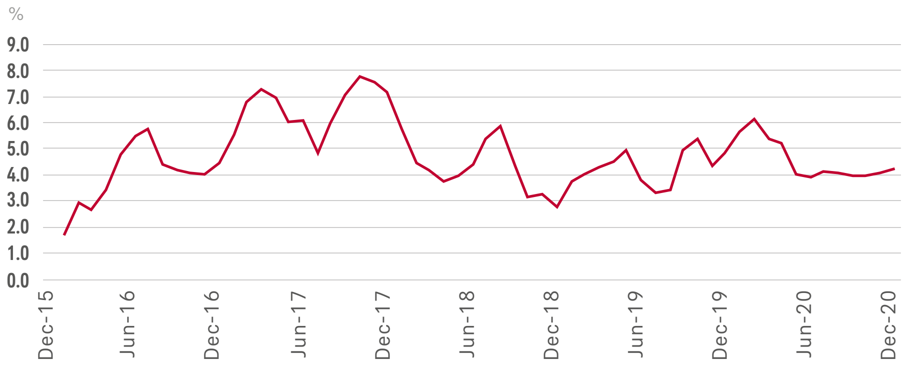
GDP contracted by 3.6 per cent in 2020 which is the steepest decline after independence. This was largely due to the GDP contraction of 16.3 per cent in the second quarter of 2020 where the 52-day curfew and dampened economic sentiments weighed in. However, the economy expanded by 1.3 per cent in the second half of 2020 compared to the corresponding period in the previous year, which absorbed the impact of the second quarter. The measures rolled out by monetary and fiscal authorities helped to cushion the impacts from the pandemic to some degree.

The slower growth in Gross Written Premium (GWP) of AIA Sri Lanka in 2020 is a reflection of the curfew and lockdowns that were prevalent during the year and the lower GDP of the economy.

GDP GROWTH



INFLATION (CCPI)



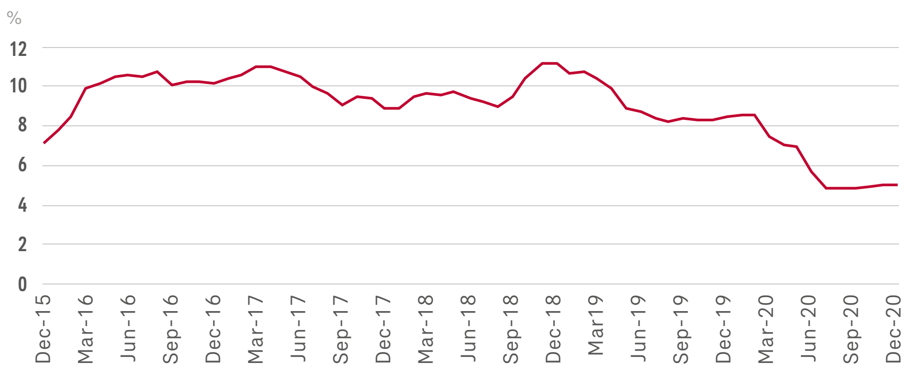
Inflation

Inflation continued to remain just below mid-single digit levels in 2020. Demand pressure eased during the pandemic as household spending was focused on essentials. In addition, prices of global commodities plummeted which also supported the general price levels to remain within the Flexible Inflationary Target (FIT) range of 4.0 per cent to 6.0 per cent during 2020.

Interest rates

The investment income and contractual liabilities of the Insurance industry are influenced by the interest rate movements during a year. In the backdrop of the weakening economic sentiments, the Central Bank of Sri Lanka (CBSL) reduced policy rates by 250 basis points and the statutory reserve ratio by 300 basis points adopting the policy stance advocated by modern monetary theory. The above actions together with CBSL purchases of gilt-edged securities caused market liquidity to increase to an unprecedented level. These led to a steep downward parallel shift in the yield curve during 2020, on the back of a steep decline that was witnessed in 2019. The benchmark 364-day treasury bill rate reduced by 342 basis points in 2020, in addition to the 275 basis points decline witnessed in 2019. As such, the benchmark interest rates have declined by a whopping 617 basis points over the past two years. Similarly, the longer tenure 5 year treasury bond yield declined by 320 basis points in 2020 and 174 basis points in 2019, to register a decline of 494 basis points during the past two years. As for the 10 year treasury bond yield, these declined by 242 basis points in 2020 and187 basis points in 2019, to register a decline of 429 basis points during the past two years. In general, lower interest rates would reduce interest earned by fixed income portfolios of insurance companies, and may also increase the contractual liabilities of insurance companies due to the increase in the present value of future obligations.

364 - DAY TBILL RATE



Foreign exchange

The LKR witnessed a moderate depreciation against the USD, which would have been more pronounced in the absence of regular CBSL interventions and the imposition of import and capital outflow restrictions. The balance of payment pressures loomed in the absence of tourism earnings due to the global restrictions on travel. In this context, the large external debt repayments have become the focal issue in the economy over the medium term.

Government fiscal position

Weak economic growth and further support to public spending in the face of the pandemic have caused the fiscal deficit to expand even further in 2020 and is expected to reach double digits for the full year and reach the highest level since 2001. The widening fiscal deficit increases the government debt which is likely to touch the debt to GDP level of 100 per cent. Since the deficit is mostly financed by money printing, inflationary pressure is inevitable over the medium term. This together with the relatively low national savings rate adds upward pressure on the interest rates in the forthcoming period.

Equity market

The equity market ends the year on an optimistic note with the market rally over the closing months of the year leading to the benchmark All Share Price Index to record an increase of 10.5 per cent for the year. The rallies during the latter part of the year helped to wipe out the 25.4 per cent year to date negative return that was recorded just prior to the market closures in March 2020 in the face of the pandemic. The positive sentiment was driven by domestic retail investors whilst foreign investors remained net sellers.

REGULATORY UPDATE

The Insurance Regulatory Commission of Sri Lanka (the IRCSL) issued certain rules granting relief to policyholders who were impacted from the COVID-19 pandemic. Providing an extension period of 90 days to policyholders to pay outstanding premiums falling due from 01 March to 30 June 2020. It required the insurers to refrain from lapsing the policies during the said extended grace period and to honour claims if the premium default falls within the said period. In addition, the said rules required the companies to submit information / certification on status of capital adequacy requirements and the breakup of investments confirming compliance with Determination #1 on a monthly basis commencing from the month ended 31 March 2020. The Company fully complied with the above mentioned rules. Further, the IRCSL imposed restriction on dividend declaration to shareholders and the Company complied with the relevant provisions.

The amendment to Direction #17 (as amended) which relates to Corporate Governance of Insurance Companies has dispensed with the rule that the 'total period of service of a director shall not exceed nine years' in respect of the directors of the major corporate shareholders holding more than 50.0 per cent shares. Further, the amendment requires the insurers to demonstrate the status of compliance with the requirements stipulated in Rule 7.10 of the Listing Rules in the Annual Report.

"The Insurance Regulatory Commission of Sri Lanka issued certain rules granting relief to policyholders who were impacted from the COVID-19 pandemic..."

The Company is in compliance with the said Direction.

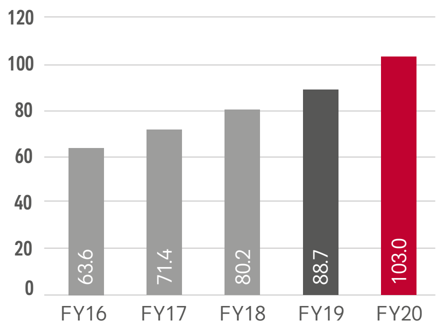
The IRCSL issued the Direction #22 on the procedure to be followed when conducting inquiries in relation to insurance agents. The guidelines stipulate the procedure on conducting inquiries for which complaints have been received against an insurance agent and the Procedure on Appeals. The Company is compliant with this Direction.

INDUSTRY REVIEW

The industry review is based on the provisional figures provided by the Insurance Association of Sri Lanka (IASL) for 2020 and the Statistical Review published by the Insurance Regulatory Commission of Sri Lanka (IRCSL) for 2019. The life insurance industry in Sri Lanka comprises of 15 players and accounted for 3.4 per cent of the financial sector assets in the economy in 2019.

In 2020, despite COVID-19 obstructing traditional distribution avenues, the industry showed great resilience especially in the second half of the year. GWP expanded at a rate of 16.1 per cent, up from 10.6 per cent in 2019. During the second half of 2020, industry GWP grew by 27.3 per cent compared to the corresponding period in the previous year. Single premium business and Group business surged notably during the year (by 51.2 per cent and 91.6 per cent respectively) and drove the growth in overall GWP of the industry. Single premium business and Group business collectively represented 21.8 per cent of the total GWP in 2020 compared to the 15.0 per cent in 2019, and explained 10.3 percentage points out of the 16.1 per cent growth in total GWP.

INDUSTRY GWP



103.0

INDUSTRY GWP
LKR billion

2019 : LKR 88.7 billion

It is evident that life insurers have explored alternative growth opportunities given the challenges faced by the agency distribution channel. Further, digitalisation has come to the forefront in terms of streamlining operations and sales.

New business sales as observed *via* the First Year Premium (FYP) experienced a growth of 4.4 per cent in 2020, down from 5.2 per cent in 2019. This is mainly attributable to the country-wide movement restrictions that prevailed during the period of March - June 2020. The Sri Lankan life insurance industry has a traditional outlook to insurance distribution with face to face insurance sales by the tied agency force, and this channel accounted for 85.7 per cent of the premiums written (2019). Renewal Year Premiums (RYP) increased by 7.7 per cent in 2020, down from 12.4 per cent in 2019. The industry continues to be concentrated among few players where the top five players accounted for

81.7 per cent of the GWP. FYP and RYP represented 21.1 per cent and 57.1 per cent of total GWP respectively.

The life insurance penetration in Sri Lanka continues to be very low when compared to regional peers, at 0.6 per cent of GDP (2019). Total life insurance policies as a percentage of total population and as a percentage of total labour force stood at 15.6 per cent and 41.6 per cent respectively by end 2019. There have not been significant improvements in these numbers over the years. These indicate the relatively low insurance coverage and the potential for future growth by the industry.

The social support structure from extended families has resulted in Sri Lankans giving less priority to life insurance and retirement savings, while lower disposable incomes have also contributed to the lower growth of life insurance products. This phenomenon however is rapidly changing with the change in demographics, rapid urbanisation and the demands of current lifestyles. The relatively large public sector results in less individuals for insurance retirement products as public sector employees are covered by government funded pensions. The future prospects for the industry look promising as Sri Lanka converges to an upper middle-income economy. Further, favourable demographics such as ageing population and changing lifestyle trends are expected to bode well for the industry growth story over the medium to long term.

CUSTOMER REVIEW

For AIA Sri Lanka, customers are at the heart of our business

Our team is committed to improving customer experience through digital transformation and continuous process enhancements, throughout the customer journey. We use technology, innovation and digitalisation to increase ease, speed, efficiency and convenience for our customers in all their interactions with us.

Signing of the partnership between AIA and the Sri Lanka Cancer Society for 2020

In 2020 we started efforts to simplify and enhance the experience of purchasing a policy, paying premiums, intimating claims and settling claims. We launched the first phase, which was the introduction of the all-new AIA Sri Lanka Customer Portal, enabling customers to manage and take control of their insurance policy from the comfort and safety of their homes.

Engaging and rewarding our customers

'AIA Real Rewards', the Company's flagship customer rewards programme offers exciting rewards every quarter for customers who pay their premiums regularly through standing orders and non-monthly modes. 150 lucky customers won exciting holiday packages for two at luxurious star-class hotels around the country in 2020. We also continue to strengthen the AIA Sri Lanka First Class proposition. Reserved exclusively for AIA Sri Lanka's high net worth customers, this experience has been carefully designed to suit the needs of this customer segment and offers a host of exclusive benefits and privileges.

Everything revolves around the voice of the customer

We continuously focus on gaining deeper insights into our customers' needs and their experiences with the Company. Net Promotor Scores (NPS) are collected from direct customer interaction points to ascertain the pulse of the customer and take necessary action to continuously improve the customer experience. The centralised customer feedback and complaints management process empowers all employees to act in the interest of customers and supports the process of offering an enhanced customer service.

Digital journey

In the digital sphere, the Company is the leader amongst the local insurance players by securing the number one position in terms of subscribers and followers on YouTube and Instagram within a very short time span.

Management Discussion & Analysis

AIA pledges support to help fight COVID-19 - provides free hospital cash and life insurance

The many accolades that we have received is testament to the effort we put into providing our customers with the best pensions, health and life insurance solutions. AIA Sri Lanka has been recognised at the SLT Zero One Awards and the SLIM Digis, two of the most acclaimed awards in Sri Lanka's digital space. Our efforts have also been recognised at the AIA Group Marketing Excellence Awards for our Digital Recruitment Campaign which supported the Company's efforts of securing the best professionals to serve the needs of our customers. AIA Sri Lanka was also recognized as The Best Life Insurance Company in Sri Lanka for the second consecutive year by the internationally acclaimed Global Banking and Finance Review.

We have been agile in our digital approach to the COVID-19 pandemic and moved quickly to launch the 'Together Sri Lanka Can' campaign which resonated with the Sri Lankan community during these trying times. We were quick to also introduce monthly webinars that drove thought leadership, hosted by subject experts and leading personalities in the country.

Health and Wellness

We continue to provide unique propositions that bring greater value to our customers through sustainable health and wellness initiatives that have been planned for the coming years. In 2020, we introduced the 'AIA Health and Wellness Solution' which gives our customers exclusive access to nutritionists, dieticians, mental health professionals, and physiotherapists *via* the oDoc telemedicine application. This service allows our customers to keep their health in-check and curate a wellness journey without ever having to leave the comfort and safety of their homes.

PRODUCT REVIEW

Our product portfolio offers world-class protection and long-term savings solutions to meet a wide range of customer needs. Two new products were introduced in 2020 to allow our customers and their loved ones to enjoy the peace of mind of having sufficient financial protection in the face of the potential risks and uncertainties in life. The newly introduced Super Protector and Super Protector Flexi products offer a range of optional benefits for our customers to personalise the protection they need based on their lifestyle and desires.

Our 'health with life insurance' product, Health Protector is designed for individuals seeking a comprehensive health cover with the freedom of being able to choose in which country they wish to receive medical treatment. A new Hospital Expense Benefit rider was introduced with this product in 2020. This new rider comes with market leading features and offers the customer the flexibility of choosing a benefit value that suits their requirement. Health Protector provides worldwide hospitalisation expense coverage up to LKR 50.0 million per year, coverage against 37 critical Illnesses, worldwide coverage against 250 listed surgeries, along with other market leading features.

Another product in the 'health with life insurance' space is Suwa Diriya, a first-of-its-kind life insurance plan which provides comprehensive protection against the four leading non-communicable diseases that affect Sri Lankans; heart disease, cancer, stroke and kidney failure.

Our flagship product, Smart Pension offers an affordable and comprehensive solution for a happy and comfortable retirement. It also keeps loved ones financially secure in the unfortunate event of the death of the life assured.

Smart Wealth, is designed to cater to the protection and savings needs of customers with the feature of a limited premium paying period. This product offers customers the best of both worlds, providing retirement savings and life protection.

These products are offered with a range of additional and optional covers such as the Accidental Death Benefit, Waiver of Premium Option, Critical Illness Benefit, Hospital Expense Benefit and Spouse and Child Life Covers so that our customers have the freedom to choose the right solution based on their individual protection needs.

CORPORATE SOCIAL RESPONSIBILITY (CSR) REVIEW

As a company in the business of providing protection and financial security, people are our key focus. That is why all our CSR projects are based on people and communities. Helping people, protecting people, empowering people. Backed by our promise to help Sri Lankans live healthier, longer, better lives, we are proud of the work we do to give back to our communities.

Our flagship project, the AIA Higher Education Scholarships, in its 26th consecutive year in 2020, makes it one of Sri Lanka's oldest CSR projects and is intended at inspiring academic excellence.

We also made significant contributions to the Sri Lanka Cancer Society (SLCS) as part of our efforts to raise awareness on and to help fight non-communicable diseases in Sri Lanka. In fact, we extended our partnership with the SLCS in 2020 making it the second consecutive year that we contributed towards caring for those affected by cancer.

AIA Sri Lanka also made a donation of laptops, smart tabs and a public announcement system to the deserving students of Chulabaya Secondary School in Kahataliyadda, Udadumbara, while also equipping the school with a 'Smart Learning Hub' to help the students in their education in this modern world. Through contributions made by employees, we were able to donate more than 300 books to the Chulabaya Secondary School students to encourage the habit of reading and also create a more vibrant atmosphere for the students by giving their library a fresh coat of paint. Our on-going Foster Parenting Scheme which is conducted in collaboration with the Department of Probation and Child Care services of Sri Lanka (DPCC) also allowed our employees to donate towards the education and daily expenses of 58 orphaned children between the ages of 14 and 16.

Donation to Homagama Base Hospital

With the COVID-19 pandemic taking its toll on the country, we stepped up to do our part and support the brave men and women on the frontlines by providing not just a life insurance cover, but also a hospital cash benefit to all Health Ministry registered permanent staff who are on government payroll, attached to the Infectious Diseases Hospital, the Mulleriyawa Hospital and the Welikanda Hospital. We also made a donation of personal protective equipment and infrared thermometers to the base hospital in Homagama which was appointed as a treatment centre for COVID-19 patients during the height of the pandemic.

BUSINESS REVIEW

Agency distribution channel

Agency distribution showcased strong resilience in 2020 amidst the pandemic restrictions that prevailed across the country for a considerable period. The channel recorded a notable Annualised New Premium (ANP) growth against previous year.

The resilience and strong performance was predominantly achieved through the strategic decisions taken to strengthen recruitment, agent activation and enabling AIA Wealth Planners (WPs) to continue to provide services to customers using digital platforms.

Agency recruitment saw a two fold increase over the previous year and the average agency force growth was in the high double digits with recruitments from non industry facilitating individuals who lost employment in other industries to join AIA Sri Lanka for an illustrious career and to generate income. Moreover, as a result of the strong WP activation drive during the post-lockdown period, Agency was successful in recording significant increase in both productivity and activity.

The continued digitalisation of the Agency channel included enabling WPs to conduct customer meetings *via* digital meeting platforms such as Microsoft Teams, Digital submissions *via* MyPOS (the new point of sale platform), continued premium payments through the mobile application 'Quick Pay' which facilitate standing instructions, the introduction of Adobe digital signature for new proposals, and Agency upskilling *via* digital training and inductions to bolster contactless sales by the Agency channel.

The premier agency unit of AIA Sri Lanka, 'PAC', outperformed expectations for 2020 with a substantial growth over the previous year, demonstrating an upward growth trajectory for the unit and high potential for 2021.

Partnership distribution channel

In 2020, the Partnership Distribution channel progressed its partnerships with NDB Bank and DFCC Bank to serve their customers' life insurance needs notwithstanding the limitations imposed by COVID-19. Despite the economic challenges in the country, the strong collaboration enabled the channel to conclude the year with a commendable performance. The channel implemented a new target operating model which focused on enhancements to the quality of the sales force and during the year the channel benefited from a significant improvement in productivity.

The channel added diversity to its portfolio of partnerships by adding Ninewells Hospital as its latest non-banking partnership.

During the latter part of the year, the channel launched its 2021-24 Partnership Distribution Strategy House, encompassing a unique vision and a mission to distinguish and position the Partnership Distribution channel as one of the best in the life insurance industry. The Partnership Distribution channel is well-geared to provide 'Healthier, Longer, Better Lives through Stronger, Superior, Swifter partnership' to its client base in 2021.

OPERATIONS REVIEW

The year 2020 has been one of the most successful years for business operations at AIA Sri Lanka despite the challenges from the external environment. The year commenced with the implementation of a new target operating model for life operations with the focus of digitisation and providing the best in class experience to our valuable customers. Optimised structures were put in place to enable the best customer experience as well as with the focus of developing and reinforcing the second line bench strength within the operations team.

AIA Sri Lanka's first ever Digital Company Conference

Enhancements to operations at the beginning of the year encompassed support for increased new business volumes, revisiting the reinsurance programme and focus on higher policy revivals. With the onset of the COVID-19 pandemic in the country, AIA Sri Lanka managed to completely transform the existing operating model to a 100.0 per cent paperless operation within a few days. Many of the processes were improved during this challenging period to provide greater convenience to customers as well as facilitate greater efficiency for the sales team. These included: remote customer service, extended contact centre working hours to serve customers in emergency situations, non face to face proposal submission mechanism using editable PDFs and Adobe e-signature, collection of health information of customers *via* digital platforms and video conferencing.

AIA Sri Lanka is committed to serve the nation in the pandemic situation and commenced several initiatives including providing free insurance covers for customers, honouring to the extent applicable, COVID-19 related claims for customers who were being self-quarantined, as well as the offer of free group insurance covers for health care workers in three main hospitals treating COVID-19 infected individuals.

Establishment of the Health Care Management (HCM) team within operations was a turning point for all health-related functions within the division. Revamping the onboarding medical process, health claim evaluation process, appointments of new hospitals and doctors and formulating guidelines for managing the health care segment were some of the initiatives implemented through this team.

One of the ground-breaking digitalisation initiatives during 2020 was the implementation of MyPOS along with the workflow system to automate the process from proposal submission to policy issuance, bringing end-to-end straight through processing for AIA Sri Lanka for the first time. This coupled with the digitalised policy documentation process ensures a seamless policy issuance and dispatching process for an enhanced customer experience. With the focus of providing useful information to customers at their fingertips, the customer portal was revamped in 2020. The call centre customer inquiry management system was improved to enable the Company to service customer queries with minimal lead time.

AIA Sri Lanka implemented many automation initiatives within the year which was crucial in successfully conducting operations amidst COVID-19 imposed restrictions. Revamping the document management system, automatic data submission of proposals to the policy administration system, implementation of robotic process automation to facilitate the monthly data integrity sign-off process were among the digitalisation initiatives completed within the year.

People development and succession planning had been another focus in 2020. Customised training programmes were conducted with this objective. The programme consisted of classroom training, out bound activities as well as group projects which were focused on upskilling the operations teams. Several incentive schemes were introduced to recognise out-of-job-role contributions by the team within 2020.

PEOPLE REVIEW

At AIA, our talent is a top priority for future growth. In support of AIA Group's vision to be the world's pre-eminent life insurance provider, the quality and professionalism of our people remains paramount. Employee well-being is of utmost importance to AIA, as such there were no employee compensation cuts during the pandemic whilst in fact payments were expedited to ensure comfort for our employees during the pandemic.

With today's technological advancements, we understand that our people expect a highly personalised, digital and mobile experience. Therefore, AIA Sri Lanka joined hands with AIA Group to embark on a journey to transform and modernise the way we work, with the rollout of 'Workday', an industry-leading, global platform to create a new digital app-based experience for our employees.

Great Place to Work Award, for the eighth consecutive year

Compared to many other organisations, AIA has progressed much further in terms of adopting advance HR automations. Not only have these adoptions brought about many improvements but it has also resulted in a change in our workforce strategy. It has vastly expanded the potential and expectations of HR analytics. Workday together with ServiceNow has transformed traditional HR functions and the execution of all these changes have empowered our employees and people managers to better manage their needs. This has allowed HR at AIA Sri Lanka to a play a leading role in supporting the business by providing more extensive data analysis based decision making.

Great Place to Work® - 2019 / 2020

AIA Sri Lanka is proud to have been recognised as a Great Place to Work® in Sri Lanka for the eighth consecutive year. This year, AIA Sri Lanka was adjudged as one of the 40 Best Workplaces in Sri Lanka.

Best Workplace for Women

AIA Sri Lanka was recognised as one of the 'Best Workplaces for Women' by Great Place to Work® (GPW®) Sri Lanka, for the third consecutive year. This award was introduced by GPW® to recognise companies for their commitment in promoting gender parity whilst creating conducive environments for women in the workplace.

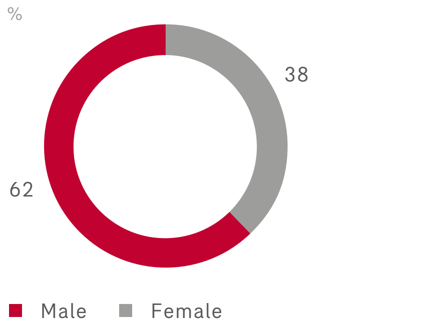
Our comprehensive '100 Working Day Motherhood Benefits' allows our female employees to have an extended maternity leave and flexi work arrangements, helping them return to work after a well-deserved time away with their new-borns. The newly introduced 'New Moms' support scheme; allows our working mothers who return to work, to reimburse the expenses of purchases of essentials for their new-born baby and related childcare payments, up to a maximum of LKR 5,000 per month.

Our People

During the year 2020, the Company's workforce comprised of 713 employees in the permanent cadre with a healthy mix of female and male employees. The female employee population was 38.0 per cent in 2020.

Management Discussion & Analysis

GENDER BREAKDOWN - 2020



We successfully adopted to the 'Work From Home' operating model whilst ensuring employee connectivity in every aspect in a very challenging remote working environment. Hence, we revamped the employee engagement calendar under 'Connecting You & I' tagline adding creative and exciting initiatives through a virtual platform. The 'Digital Avurudu', 'Virtual trip to Yala', 'Digital Awards' are some of the key highlights from the year.

Our performance driven culture is continuously supported by development initiatives. Over 95.0 per cent of our total employees were given learning opportunities in accordance with the 70:20:10 learning model. With the change of work environment due to the pandemic, we initiated many programmes to promote digital learning. All our employees have access to over 16,200 LinkedIn courses through our Workday platform amounting to over 5,700 online learning hours. Along with digital learning, we adopted the blended approach of 70:20:10 which included cross functional project-based learning, mentoring, coaching, formal learning, overseas conferences and secondments. A total investment of over LKR 8.0 million was allocated for these trainings.

Our journey continues...

INVESTMENTS REVIEW

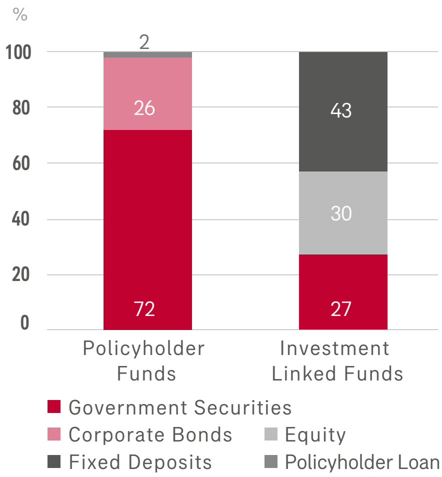
AIA Sri Lanka maintains a prudent investment strategy for its investment portfolios, in line with its investment philosophy and guidelines as set out in the investment policy. The Company advocates a long-term investment strategy supporting long-term growth.

Accordingly, fixed income securities dominate the total investment portfolio. The Company's portfolios are of high credit quality; with the majority of investments comprising of Government bonds while corporate debt investment exposures are sought with counterparties of 'A' (lka) rating and above as rated by Fitch Ratings Lanka.

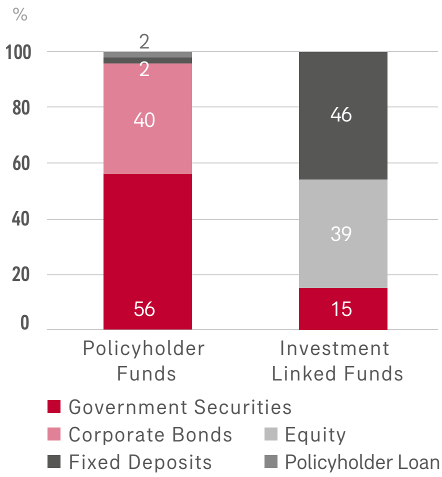
The main policyholder fund does not include any listed equity in accordance with the risk appetite of the portfolio, except for a strategic holding which is negligible compared to the total asset portfolio. Listed equity exposures are maintained in the two unit linked funds, and these are specifically to accommodate policyholder requirements and expectations.

It is worthy of note that in a volatile investment climate such as 2020, the benefits of the long track record of prudent investments comes to the fore and supports the delivery of income to both policyholders and shareholders and supports the capital adequacy ratio of the Company. The concentration of investments in long-term government securities at relatively attractive yields and the absence of high risk assets such as equity investments in the main policyholder funds are conscious investment decisions in line with the prudent long-term investment strategy outlook of the Company, and holds the Company in good stead during such challenging times.

INVESTMENT PORTFOLIO ASSET ALLOCATION - 2020



INVESTMENT PORTFOLIO ASSET ALLOCATION - 2019



FINANCIAL REVIEW

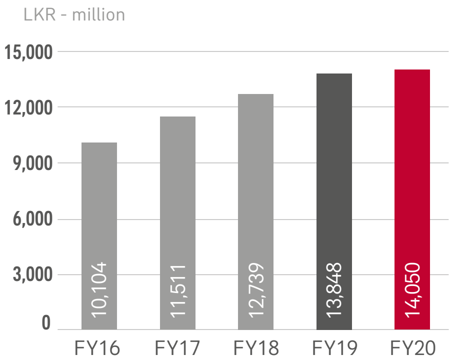
AIA Sri Lanka came back strongly in the second half of 2020 to overcome the challenges of the first half.

The financial review presents the financial results for the Group, comprising of AIA Insurance Lanka Limited and its fully owned subsidiary Rainbow Trust Management Limited.

Gross Written Premium (GWP)

GWP increased to LKR 14.0 billion in 2020 from LKR 13.8 billion in 2019 with a growth rate of 1.5 per cent. The lower growth reflects the challenging operating conditions that existed in the country with movement restrictions in place. First year premium (FYP) was a challenge. However, reflecting the quality of the clientele and technological innovations to improve customer engagement, renewal year premium grew by 4.3 per cent in 2020.

GROSS WRITTEN PREMIUM



Net Written Premium (NWP)

The NWP, which is GWP net of premiums ceded to reinsurers, amounted to LKR 13.6 billion which is a 1.2 per cent increase compared to the previous year.

Investment income

Investment income increased to LKR 5.6 billion in 2020 which is a marginal growth compared to the previous year. Investment income was affected by the maturity of a proportion of the investment portfolio and reinvestments being then made into short term securities within the prevailing low Interest rate environment. In terms of credit risk, AIA Sri Lanka portfolios are less susceptible to vagaries in the broader economy due to the prudent investment strategy outlined above.

"AIA Sri Lanka continued to have the highest RBC capital adequacy ratio in the Sri Lankan life insurance industry which amounted to 488 per cent by end 2020..."

Total income

Total income increased to LKR 20.0 billion in 2020 which is a 1.6 per cent growth compared to the previous year and reflective of the prevailing general economic conditions. NWP contributed 68.0 per cent to total income in 2020 which is relatively unchanged compared to the previous year.

Net claims and benefits

Net claims and benefits decreased by 6.9 per cent to LKR 4.5 billion in 2020. The decline was mainly due to the decline in surrenders compared to the previous year, reflecting the strategic focus by the Company on maintaining the continuity of policies held by the Company.

Operating and administrative expenses

As an outcome of proactively addressing the expense base within the challenging economic environment, the Company was successful in containing the operating and administrating expenses to record a decline of 3.5 per cent in 2020.

Change in contractual liability

The change in contractual liability in 2020 amounted to LKR 6.7 billion which is an increase of LKR 3.5 billion compared to 2019, and this amount was transferred to the Life Policyholders' liabilities. The change in contractual liabilities is reflective of the steep decline in interest rates during 2020 which increases the amount to be held within the long term insurance fund on behalf of policyholders. These transfers to or from the Life Policyholders' liabilities is carried out post the annual Actuarial review by the Company's Appointed Actuary on the adequacy of the policy liabilities and reserving for policy commitments. This is also subject to review and audit by the Company's independent external auditors, PriceWaterhouseCoopers (PwC). In 2019, the sum transferred to the Life Policyholder's liabilities was LKR 3.2 billion.

The Company's total contractual liability stands at LKR 45.6 billion as at 31 December 2020, post the transfer effected during the year.

Life surplus transfer

In 2020, LKR 660.1 million was transferred from the Life Shareholders' fund to the life policyholders' fund to further increase the reserves held within the life policyholders' funds and ensure that the reserves maintained on behalf of policyholders are well in excess of the requirements stipulated by the IRCSL.

The steep decline in interest rates during 2020 caused both asset values and liability values to increase, with liability values increasing at a faster rate than the asset values due to the asset liability mismatch that is typical for a life insurer that has longer tenure policies being purchased by policyholders. The mismatch is caused by the longer tenure of life insurance policies vis-à-vis the investment assets available in the financial markets which are comparatively shorter tenure.

It is worthy of mention that the Company maintained its prudent approach to use the year-end interest rate yield curve in valuing both assets and liabilities, and this approach has been maintained unchanged from previous financial years. As such, the financial statements reflect a true and fair view of the financial performance of the Company for FY2020 and the financial position of the Company as at the end of 2020.

In 2019, the transfer was from the life policyholders' fund to the Life Shareholders' fund which amounted to LKR 1.9 billion.

Profit after tax

The consolidated profit after tax in 2020 amounted to LKR 449.6 million in comparison to LKR 1,981.2 million in 2019, and is a reflection of the impact of interest rate movements and the transfer as explained in the section above titled 'life surplus transfer'.

It is worthy of mention that the Company maintained its accounting policies, asset classifications and basis of accounting estimates unchanged during 2020. As such, the financial statements reflect a true and fair view of the financial performance of the Company for FY2020 and the financial position of the Company as at the end of 2020.

Analysis of the Consolidated Statement of Financial Position

Total assets as at end 2020 amounted to LKR 72.4 billion which is an increase of 16.8 per cent compared to 2019. The growth is mainly attributable to the increase in market value of financial assets in 2020 supported by the increase in market prices of fixed Income financial assets with the steep decline in interest rates. Financial assets represented 87.2 per cent of the total assets as at 31 December 2020.

Property Plant and Equipment (PPE)

The net book value of PPE decreased from LKR 785.1 million in 2019 to LKR 709.4 million in 2020, by LKR 75.7 million. The Right of Use (ROU) Assets of LKR 990.7 million represents amounts recognised on account of leasehold properties and vehicles as per SLFRS 16 Leases. The detailed notes are presented in Notes 07 and 19 to the Financial Statements on pages 100 and 113 respectively.

Intangible assets

Intangible assets increased by 9.5 per cent to LKR 922.9 million during the year which was mainly due to the investments in computer software.

Reinsurance receivables

Reinsurance receivables increased marginally from LKR 138.8 million in 2019 to LKR 141.2 million in 2020 which is a 1.7 per cent growth. This reflects the regular movement in tandem with the growth in the business volumes and change in the product portfolio mix.

Long term insurance fund

The long term insurance fund as at end 2020 amounted to LKR 40.5 billion which is an increase of LKR 9.1 billion or 28.9 per cent compared to the previous year. The increase in the long term insurance fund is a result of the movement in the change in contractual liabilities within the income statement of the Company, and the key drivers of which are explained in the relevant section within this financial review. The Company's Appointed Actuary's Report is provided on page 60 of this Annual Report 2020. Necessary provisions, including those for dividends to policyholders, solvency margins and other required reserves have been made from the long term insurance fund as recommended by the Company's Appointed Actuary.

Shareholder's equity

Total equity as at the end of 2020 was LKR 20.6 billion, and this includes the RBC one-off surplus that is maintained within the shareholders' equity as a restricted regulatory reserve in line with the directions of the IRCSL. The shareholders' equity level supports the Company to maintain a high capital adequacy ratio.

Risk Based Capital (RBC) One-Off Surplus

The Company adopted the RBC solvency regime for solvency purposes with effect from 01 January 2016 in line with the regulations and guidelines issued by the IRCSL. This is a methodology for determining policy liabilities for universal life business under the RBC rules. The surplus of LKR 6,080.8 million that arose due to the change in valuation method from Net Premium Valuation (NPV) basis to Gross Premium Valuation (GPV) basis is referred to as the RBC one-off surplus, and this was transferred to the shareholders' fund as stipulated in the regulations. The IRCSL has instructed that the RBC one-off surplus be held as a 'Restricted Regulatory Reserve' within shareholders' equity and not be distributed.

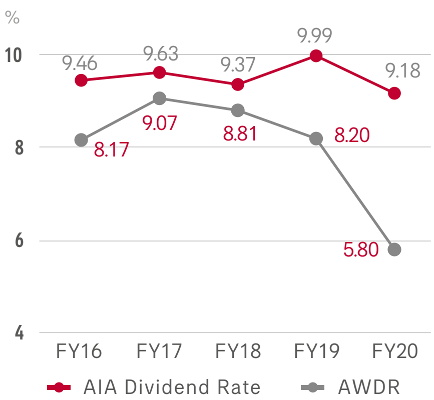
Policyholder dividends

In 2020 the policyholders' dividend declared was 9.18 per cent which is lower than the 9.99 per cent declared in 2019. The historically low interest rate environment and the investment of new funds and reinvestment of maturity proceeds at prevailing low interest rates was the primary reason for the decline in the policyholder dividend rate.

It is worthy of mention that the prudent investment strategy over the past many years supported to maintain the comparatively attractive policyholder dividend rate, despite the challenging investment climate of 2020.

The dividend rate depicted in the chart below is for the lower bound of the dividends earned by policyholders, and certain policies receive a higher dividend rate than those indicated in the chart based on the specific conditions on those specific policy contracts.

DIVIDEND RATES AND AWDR



AIA Sri Lanka has been able to provide a dividend rate exceeding the Average Weighted Deposit Rate (AWDR) continuously as depicted, supported by the prudent investment strategy and by maintaining investments in high credit quality instruments.

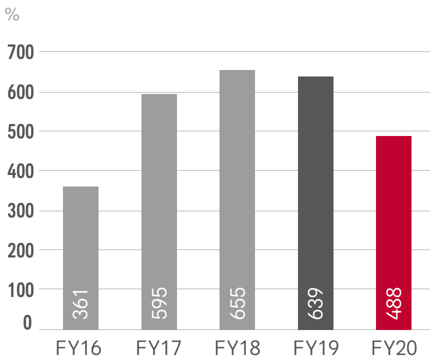
Risk Based Capital Adequacy Ratio

AIA Sri Lanka continued to have the highest Risk Based Capital (RBC) capital adequacy ratio in the Sri Lankan life insurance industry which amounted to 488 per cent by end 2020. The higher ratio is the combined result of the capital that shareholders are maintaining within the business and the prudent investment strategy.

The decline in the capital adequacy ratio from 639 per cent in 2019 to 488 per cent by end 2020 is a result of the steep decline in interest rates. The impact of interest rates on the values of assets and liabilities and their interaction with the asset liability mismatch is explained in great detail in the section titled life surplus transfer.

The Risk Based Capital (RBC) capital adequacy ratio, includes the RBC one-off surplus of LKR 6,080.8 million which is maintained within the shareholders' equity as per the IRCSL's instructions.

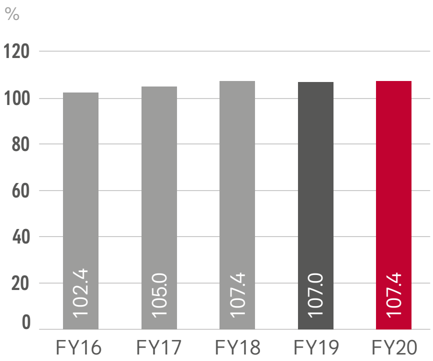
RBC CAPITAL ADEQUACY



Approved assets

Approved assets as a percentage of the long term insurance fund was 107.4 per cent in 2020, and higher than the requirement of 100.0 per cent. The approved asset ratio has remained relatively stable and high over the past years, as reflected below.

APPROVED ASSETS AS A PER CENT OF LIFE FUND



Investment in government securities as a percentage of the life fund

Government securities represented 73.4 per cent of the long term insurance fund which more than adequately surpasses the regulatory minimum of 30.0 per cent.

OUTLOOK 2021

While the case for a resurgence in the broader economy remains strong, the pace of the recovery will be largely determined by how the pandemic is contained both domestically and globally. GDP growth is expected to return to circa 4.0 per cent in 2021 mainly supported by the lower base in 2020. Further, the external sector is also expected to experience a gradual revival as vaccine distribution is already initiated in most countries across the world. We are optimistic on the economic growth prospects in the medium to long term given the political stability, policy consistency and strategic ties to regional economies. However, the strategies through which the government manages the external debt and balance of payments will weigh in on the envisaged trajectory of the economy.

Favourable demographics and higher per capita income levels bode well with our positive expectations for industry growth in the medium to long term. Increasing dependency ratio, growing middle class with dynamic lifestyles, greater awareness on health, retirement and savings are factors that solidify our view on the industry.

During the year, AIA Sri Lanka executed numerous digital initiatives to streamline operations and improve customer experience. We are well poised to capitalise on the social changes that are shaping the future of our country, founded on the vast industry experience, the backing of our parent, the richness of our product portfolio and the professionalism of our highly skilled sales force. We continue to challenge the status-quo in the life insurance industry by deploying strategies and initiatives that will help us in delivering a seamless experience for our customers and sales force.

We are keen on embracing change and persistently pursuing our goals in the journey towards the vision of being the pre-eminent life insurance provider in Sri Lanka and supporting Sri Lankans to live healthier, longer, better lives.

CELEBRATING A SPIRIT OF NURTURING

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 and Group Chief Distribution Officer responsible for AIA Group's businesses operating in Thailand, Vietnam, Australia and New Zealand, India and Sri Lanka as well as the Group's Agency Distribution, Partnership Distribution and Corporate Solutions. Mr. Lisle was 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 Limited and AIA New Zealand Limited. He is also a director of Tata AIA Life Insurance Company Limited, a joint venture between the Group and Tata Sons Limited in India. Mr. Lisle joined AIA Group in January 2011 as Group Chief Distribution Officer.

Prior to joining AIA 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.

STUART ANTHONY SPENCER
Non-Executive Director

Appointed to the Board of Directors of the Company on 03 August 2017. Mr. Stuart Anthony Spencer serves as the Group Chief Marketing Officer of AIA, responsible for the Group's marketing initiatives, customer propositions, consumer digital platforms, health and wellness including AIA Vitality and ESG.

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 and Health General Insurance operations in Latin America and the Caribbean.

In 2004, Mr. Spencer moved to Hong Kong with AIG Life Company's 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 and 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 and Brandeis University.

MANOJ RAMACHANDRAN
Non-Executive Director

Appointed to the Board of Directors of the Company on 04 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 23 years of experience in the financial services industry, principally in the Asia-Pacific region.

He graduated summa cum laude from the University of California and 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 Vietnam, 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 nine 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 was a Director of Sampath Bank PLC and is a Director of Pan Asian Power PLC, Siyapatha Finance PLC, Kelani Cables PLC, Singer Sri Lanka PLC, Lanka Shipping & Logistics (Pvt) Ltd and Managing Director of Sati Human Development Institute (Pvt) Ltd.

Mr. Sooriyaarachchi is a Management Consultant, Author, Trainer, Executive Coach, Mentor and Speaker.

He is a 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 01 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 currently serves as a Director of several other companies including NDB Wealth Management Limited, NDB Investment Bank Limited, NDB Capital Holdings Limited, NDB Capital Limited (Bangladesh), NDB ZEPHYR Partners Limited and Union Bank PLC.

Senior Management

NIKHIL ADVANI
Chief Executive Officer / Principal Officer

UPUL WIJESINGHE
Deputy Chief Executive Officer / Chief Agency Officer

CHATHURI MUNAWEERA
Director / Chief Officer Legal, Governance & Operations

GAVIN D' ROSAIRO
Chief Financial Officer / Director Finance

THUSHARI PERERA
Director Human Resources

UMESHI DE FONSEKA
Director Information Technology / Chief Technology Officer

NIKHIL ADVANI

Chief Executive Officer / Principal Officer

Nikhil Advani is the Chief Executive Officer of AIA Insurance Lanka Limited.

Prior to taking over the role of CEO, Nikhil led the functions of Customer Strategy, Transformation and Marketing of the Company. He was also responsible for Product and Customer Management, Brand and Communications, Channel and Digital Marketing, Analytics and Corporate Solutions. He has been a part of AIA Sri Lanka since 2016 and was responsible for the Company's new life insurance product portfolio and expanded footprint in the health market. His achievements on behalf of AIA Sri Lanka include the successful growth and expansion of the AIA Vitality programme in the country and overseeing the implementation of a variety of initiatives to substantially raise awareness of the AIA brand and increase engagement with customers in Sri Lanka. Prior to joining AIA Group, Nikhil worked in senior roles at New York Life, Genworth Financial and Jackson National Life in USA and ICICI Prudential Asset Management in India.

Nikhil holds a master's in business administration from Columbia University, USA and a bachelor's degree in commerce from the University of Bombay, India.

He has almost 26 years of experience in insurance and financial industries and has been a part of AIA Group since 2011.

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 32 years of 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 & Operations

Chathuri heads the Legal, Governance and Operations functions and is also the Company Secretary.

She is an Attorney-at-Law and holds a bachelor's degree 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.

She counts over 21 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.

GAVIN D' ROSAIRO

Chief Financial Officer / Director Finance

Gavin has over five years experience in the role of Chief Financial Officer / Director Finance. In his current role he leads the functions of Finance, Actuarial and Investments with oversight responsibility for these areas including strategy.

During the past five years, he led the Finance transformation journey for AIA Sri Lanka by successfully executing projects towards finance digitalisation and the implementation of key systems platforms such as an enterprise wide ERP and new Prophet model. He was instrumental in navigating the complexities of key regulatory changes such as the Risk Based Capital solvency regime, the surplus based taxation regime and the move towards adopting the new global insurance accounting standard IFRS 17.

He has been with the Company for over 14 years, and has served in the roles of Chief Strategy Officer, Chief Investment Officer, Chief Risk Officer, Financial Controller and Head Strategy & Planning / Business Manager to the CEO, prior to assuming his current role.

Gavin started his career in investments at Sri Lanka's largest licensed fund manager Eagle NDB Fund Management which is now known as NDB Wealth Management. His association with the capital markets and the fund management industry spans over 17 years, as an analyst, fund manager and Chief Investment Officer for both fixed income and equity investment portfolios.

He was a member of the Industry Advisory Committee of the Colombo Stock Exchange and served on the Corporate Bond Market Development Task Force of the Securities and Exchange Commission of Sri Lanka.

His academic and professional exposure encompasses economics, investments, capital markets and finance. He is a Fellow of the Chartered Institute of Management Accountants (UK) and holds a bachelor of commerce degree from the University of Sri Jayewardenepura with honours, specialising in international trade.

THUSHARI PERERA

Director Human Resources

Thushari heads the Human Resources functions of the Company. She is a senior HR professional who counts over 11 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 post graduate diploma in business administration from the University of Wales, UK. 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 Insurance Association of Sri Lanka.

UMESHI DE FONSEKA

Director Information Technology / Chief Technology Officer

Umeshi heads the IT function of the Company and has been the CTO since 2019. He is responsible for the implementation of the Company's IT strategy and the digitalization roadmap while being the key driver for the group TDA initiative for AIA Sri Lanka. He counts over 18 years of experience in IT, e-commerce & digital transformation in many multinationals and diversified business conglomerates.

Prior to joining AIA, Umeshi was the Group General Manager of ICT and Digital Business of a leading conglomerate where he pioneered and led the cloud journey of the company while improving the business IT alignment. Concurrently Umeshi oversaw the corporate communications and group sustainability functions as well.

Umeshi 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 a Fellow member of the British Computer Society (BCS); the highest professional grade within BCS. Umeshi has recently been awarded the Digital Maestro Award and a Special Jury Appreciation Award at the Innovation Hero Awards in 2020 by DynamicCIO.com.

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 Limited (the Company / AIA Insurance Lanka) has pleasure in presenting their Annual Report on the affairs of the Company during the financial year ended 31 December 2020, together with the audited financial statements for the year ended 31 December 2020 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 68 to 126 of the Annual Report.

VISION

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

PRINCIPAL ACTIVITIES OF THE COMPANY AND OF ITS SUBSIDIARY

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

To the best of the knowledge of the Board, neither the Company nor its aforementioned subsidiary, 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 2020 and of future developments are 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 06 to 25 and 53 to 54 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 2020.

GENERAL OFFER, COMPULSORY ACQUISITION OF SHARES & SINGLE SHAREHOLDER COMPANY.

The Company's fully paid ordinary (voting) shares (share / shares) were delisted on 02 October 2019 from the official list of the Colombo Stock Exchange in terms of the Delisting Rules of the Securities and Exchange Commission of Sri Lanka published in the Gazette Extraordinary No. 1215/2 on 18 December 2001 and pursuant to the Exit Offer made by AIA Company Limited, Hong Kong (AIA CO) dated 16 May 2019, to the Company's minority shareholders to purchase their shares at an offer price of LKR 2,500 per share. AIA CO's total shareholding increased to 3,625,857 shares consequent to it's acquisition of shares from those minority shareholders who had accepted the exit offer.

Thereafter, a general offer was made by AIA Holdings Lanka (Private) Limited (AIA Holdings Lanka), the Company's major shareholder, by its Offer document dated 12 August 2020 made to all remaining shareholders to purchase their shares in the Company at a price of LKR 836 per share (the share price being based on an independent valuation of the Company's shares as at that time). Consequent to the acceptance of the general offer by some of the Company's minority shareholders including AIA CO, the direct shareholding of AIA Holdings Lanka in the Company increased to over 90 per cent, thus entitling AIA Holdings Lanka, as legally advised, to compulsorily acquire the entirety of the balance shares of the Company's minority shareholders in terms of S.246 of the Companies Act No. 07 of 2007. Such compulsory acquisition of shares was accordingly made by AIA Holdings Lanka, in September 2020 at a premium acquisition price of LKR 2,500 per share.

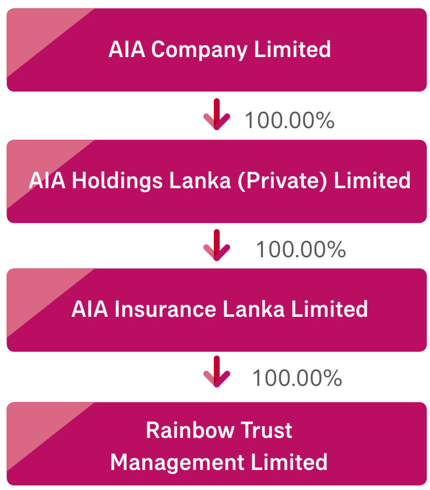
Pursuant to the above compulsory share acquisition, AIA Holdings Lanka is, effective from 13 October 2020, the duly registered sole shareholder of the Company holding the entirety of the Company's issued and fully paid 30,749,370 ordinary voting shares, as enabled by the Companies Act No. 07 of 2007.

SHAREHOLDING STRUCTURE

As at 01 January 2020, AIA CO, effectively held (directly and indirectly together with AIA Holdings Lanka) 99.01 per cent of the issued and fully paid shares of the Company.

As at 31 December 2020 and todate AIA Insurance Lanka was and is a wholly-owned subsidiary of AIA Holdings Lanka and AIA Holdings Lanka is a wholly-owned subsidiary of AIA CO.

The Company's shareholding structure and that of its subsidiary as at 31 December 2020 are as follows:



STATED CAPITAL & RESERVES

The Company's stated capital as at 31 December 2020, was LKR 511,921,836 represented by 30,749,370 issued and fully paid ordinary voting shares.

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

The total capital and reserves for the Group was LKR 20,583 million as at 31 December 2020 (LKR 20,644 million as at 31 December 2019), the details of which are provided in Notes 24 to 27 to the Consolidated Financial Statements.

SHAREHOLDERS

As at 31 December 2020, the Company had only one shareholder holding 100 per cent of the Company's issued and fully paid ordinary voting shares.

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. 07 of 2007 and to the extent applicable, by the Regulation of Insurance Industry Act No. 43 of 2000 (as amended).

The Consolidated Financial Statements duly signed by the Directors are published on pages 70 to 126 and the External Auditors' Report thereon is provided on pages 68 to 69 of the Annual Report.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2020 and the state of the Group's affairs as at that date are set out in the Consolidated Financial Statements on pages 70 to 126 of the Annual Report.

INCOME

Total income of LKR 20,049 million (LKR 19,732 million as at 31 December 2019) comprises income generated from the Company's life insurance business and trustee services.

ACCOUNTING POLICIES

The significant accounting policies applied by the Group in preparing its Consolidated Financial Statements are disclosed on pages 77 to 98 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. The Company has been committed to ensuring the consistent application of accounting policies on a prudent basis , through out the accounting year under review.

LIFE SURPLUS AND POLICYHOLDERS' DIVIDENDS

The Board of Directors received and adopted the report of the Company's Chief Actuary Mr. Samath Perera, for life insurance, recommending the dividends that are payable to policyholders and of the transfer of the surplus / deficit thereof to / from the Consolidated Income Statement. This is set out on page 60 of the Annual Report.

PROPERTY, PLANT AND EQUIPMENT

As at the date of the Statement of Financial Position, the net book value of property, plant and equipment of the Group amounted to LKR 709 million while Right of Use (ROU) assets amounted to LKR 991 million.

During the financial year the capital expenditure on property, plant and equipment for the Company and the Group amounted to LKR 91 million.

The details of the Company's property, plant and equipment and the movement in their values during the year are given in Notes 07 and 14.1 to the Consolidated Financial Statements on pages 100 and 108 of the Annual Report.

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

The market values of the Company's property, plant and equipment are not materially different to their book values as given in the notes to the Consolidated Financial Statements on page 100 of the Annual Report.

The Company owns 13.40 perches of freehold land at No. 76, Kew Road, Colombo 02 and 12.08 perches of freehold land at No. 80, Kew Road, Colombo 02. These properties were subject to annual revaluation as per the relevant accounting policy and a revaluation surplus of LKR 23 million was recognised in 2020, totalling to a revaluation reserve of LKR 216 million as at the reporting date.

The details of the extent, locations and valuation of the Company's land holdings are given in Note 07 to the Consolidated Financial Statements on page 101 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 09 to the Consolidated Financial Statements on pages 102 to 104.

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 3 million utilised as charitable donations for the year 2020. This amount is within 1 per cent of the average profits after tax for the preceding three years.

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

The Annual Report of the Board of Directors

PROVISIONS

The Board of Directors has arranged for the Chief Actuary to review the Life Fund valuations. (Please refer pages 85 and 89 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 2020, amounted to LKR 20,071 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 73 of the Annual Report.

PROVISION FOR TAXATION

Provisions for Taxation for the Company and its subsidiary have been computed at the rates given in Notes 22 and 38 to the Consolidated Financial Statements and are set out on pages 114 and 120 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. For further details please refer to the note on Contingent Liabilities on page 125 of the Annual Report.

EMPLOYEES

AIA Insurance Lanka is proud to have been recognised as a Great Place to Work® in Sri Lanka for the eighth consecutive year. This year too the Company was adjudged as one of the 25 Best Workplaces in Sri Lanka.

AIA Insurance Lanka was recognised as one of the 'Best Workplaces for Women' by Great Place to Work® (GPW®) Sri Lanka. This was the second year GPW® bestowed this award with 10 companies being recognised for their commitment to promoting gender parity while creating conducive environments for women in the workplace.

The details of the unique people practices that enabled the success of the Company's business performance is described in the Management Discussion and Analysis on pages 14 to 25 of the Annual Report.

EVENTS AFTER THE BALANCE SHEET DATE

Dividend

The Board of Directors has recommended the distribution of a first and final dividend of LKR 30 per share for the year 2020, subject to regulatory submissions, to be declared by the Company's shareholder for the year ended 31 December 2020, at the forthcoming Annual General Meeting. The dividend will be paid out of the current year taxable profits and the retained profits of the Company. The Board is of the opinion that the Company will satisfy the solvency test immediately after the dividend is paid and has also obtained a certificate from the Company's External Auditors in that regard in accordance with section 56 of the Companies Act No. 07 of 2007.

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 is committed to conducting the business activities of the Company in conformity with accepted good governance structures and practices.

The status of compliance of the Company with the Corporate Governance Framework for Insurers issued by the Insurance Regulatory Commission of Sri Lanka is given in the Corporate Governance segment on pages 38 to 52.

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 confirm 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 67 of the Annual Report.

INTERESTS REGISTER

The Company maintains an Interests Register in compliance with the requirements of the Companies Act No. 07 of 2007. The particulars of entries made in the Interests Register during the financial year under review, are as stipulated below:

a) Directors' and the Chief Executive Officer's interest in transactions with the Company:

   Directors' and the Chief Executive Officer's interests in transactions of the Company, both direct and indirect, during the year under review are included in Note 42.2 in the related party disclosures to the Consolidated Financial Statements, set out on pages 122 to 124 of the Annual Report. These interests have been duly disclosed in compliance with the section 192(2) of the Companies Act No. 07 of 2007 and further declared at Board meetings and set out herein as appropriate.

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

I. Disclosures in respect of shares held during the year ended 31 December 2020:

The Directors and the Chief Executive Officer have, in pursuance of section 200 of the Companies Act No. 07 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.

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. 07 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 recommended 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 recommended 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 ended 31 December 2020, which have been duly approved by the Board of Directors, are stated below.

	Consolidated Fees	
	2020 LKR '000	2019 LKR '000
Directors' emoluments*	237,611	335,112
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 / the Chief Executive Officer during the financial year 2020, as duly approved by the Board of Directors are stated herein.

	2020 LKR '000	2019 LKR '000
Advance granted to the CEO*	-	-
Outstanding balance as at 31 December	-	-
Consideration recognised in the Consolidated Financial Statements **	-	1,011

**Consideration is based on a rate which lies within the AWPLR 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.

The Annual Report of the Board of Directors

THE BOARD OF DIRECTORS

The Directors who comprised the Board as at 31 December 2020 are set out below:

Name of Director	Date of Appointment	Date of Resignation / Date of ceasing to be a Director	Office held during the year under review:
William Lisle	22 June 2015	-	Chairman of the Board & Non-Executive Director
Deepal Sooriyaarachchi	17 May 2005	-	Independent Non-Executive Director
Manoj Ramachandran	04 December 2012	-	Non-Executive Director
Robert Alexander Hartnett	29 September 2015	-	Non-Executive Director
Drayton Sarath Palitha Wikramanayake	01 August 2016	-	Independent Non-Executive Director
Stuart Anthony Spencer	03 August 2017	-	Non-Executive Director

There were no changes to the Board during the year under review.

The Directors who hold office as at the date of the Annual Report are indicated on pages 28 to 29. A brief resume of each Director including information on the nature of his expertise is set out on pages 28 to 29 of this Annual Report. Disclosures in relation to Non-Executive Directors and their status of independence is described on pages 42 to 43.

DIRECTORS RETIRING BY ROTATION

Messrs Manoj Ramachandran and Robert Alexander Hartnett retire by rotation in terms of Article 30 (1) read with Article 30 (2) of the Articles of Association and being eligible are recommended by the Board for re-election by the Company's Shareholder at the forthcoming Annual General Meeting. A brief profile of each retiring Director is given on pages 28 to 29 of the Annual Report.

BOARD SUB COMMITTEES

The sub committees of the Board, their composition and mandate are provided on pages 50 to 52 of the Annual Report.

DIRECTORS' MEETINGS

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

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

Director	Directors' meetings		Audit & Compliance Committee		Investment Committee		Remuneration Committee		Related Party Transactions Review Committee	
	A	B	A	B	A	B	A	B	A	B
Nikhil Advani*	-	-	5	5	4	4	3	3	4	4
Deepal Sooriyaarachchi	3	4	5	5	-	-	3	3	4	4
Manoj Ramachandran	4	4	-	-	-	-	-	-	-	-
William Lisle	4	4	-	-	-	-	3	3	-	-
Robert Alexander Hartnett	4	4	5	5	-	-	-	-	4	4
Drayton Sarath Palitha Wikramanayake	4	4	5	5	-	-	3	3	4	4
Stuart Anthony Spencer	4	4	-	-	-	-	-	-	-	-
Gavin D' Rosairo*	-	-	5	5	4	4	-	-	4	4
Frank Munro*	-	-	2	2	2	2	-	-	-	-
Hasitha Mapalagama*	-	-	5	5	4	4	-	-	4	4
Vivian Sze*	-	-	1	1	1	1	-	-	-	-
Samath Perera*	-	-	3	3	1	2	-	-	-	-

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

Appropriate disclosures have been made in terms of the Sri Lanka Accounting Standards LKAS 24 - Related Party Disclosures, in Note 42 in the Consolidated Financial Statements.

RISK-BASED CAPITAL REQUIREMENT (RBC)

The Company has adopted the RBC solvency regime for solvency purposes with effect from 01 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 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.

Messrs. PricewaterhouseCoopers do not have any relationship with the Company or with its subsidiary, other than that of External Auditors of the Company and of its Subsidiary. The External Auditors also do not have any interests in the Company or in its Subsidiary.

	Group	
	2020 LKR '000	2019 LKR '000
Audit and related services	3,753	4,894
Non-Audit services	NIL	1,726

ANNUAL REPORT

The information provided herein is in pursuance of the requirements of the Companies Act No. 07 of 2007 to the extent relevant Regulation of Insurance Industry Act No. 43 of 2000 (as amended). 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 of the Group together with the reviews and other reports which form part of the Annual Report as signed off by the External Auditors on 11 February 2021. An appropriate number of copies of the Annual Report will be submitted to 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.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Thursday, 22 April 2021 at 11.00 a.m. at AIA Insurance Lanka Limited, AIA Tower, 92, Dharmapala Mawatha, Colombo 07.

By order of the Board

William Lisle
Chairman / Director

Robert Alexander Hartnett
Director

Chathuri Munaweera
Company Secretary

Colombo
11 February 2021

Corporate Governance

STATEMENT OF COMPLIANCE

AIA Insurance Lanka Limited (the Company) is fully committed to follow sound Corporate Governance practices and uphold the highest business standards in conducting business. The Company continues to focus on building trust with its shareholder, regulators, policyholders, employees, customers, suppliers, statutory authorities and other stakeholders based on the principles of good corporate governance viz. integrity, environment, equity, transparency, fairness, sound disclosure practices, accountability and commitment to values. The Company firmly believes that the effective corporate governance practices constitute the strong foundation on which successful commercial enterprises are built to last. The Company's Corporate Governance architecture has been strengthened through various policies, frameworks, stipulations and guidelines adopted by the Company. The Corporate Governance philosophy of the Company establishes that the Board's independence is essential to bring objectivity and transparency in the management and in dealings of the Company. As such, the Corporate Governance Report of the Company provides information beyond the minimum requirements as specified by applicable legal and regulatory provisions.

AIA Company Limited (AIA CO) Hong Kong acquired an indirect controlling equity stake of 87.28 per cent in AIA Insurance Lanka Limited (AIA Insurance Lanka) in December 2012 *via* AIA Group's purchase of the entire shareholding of AIA Holdings Lanka (Private) Limited (AIA Holdings Lanka), the majority shareholder of AIA Insurance Lanka. It additionally then acquired a direct 5 per cent equity holding in AIA Insurance Lanka.

The Company sought and received the permission of the IRCSL in 2018 to be exempted from the requirement of listing on a stock exchange, based on the listing of its ultimate parent Company AIA Group Limited on the Hong Kong Stock Exchange.

Pursuant to a series of corporate, legal and regulatory re-structures, AIA Holdings Lanka is, effective from 13 October 2020, the sole shareholder of AIA Insurance Lanka with a registered holding of 100 per cent of its issued and fully paid shares. AIA Group consequently (*via* its fully owned subsidiary AIA Holdings Lanka) acquired a consolidated indirect equity holding of 100 per cent in AIA Insurance Lanka.

This is consistent with the target operating model followed by AIA Group, where its insurance operating units are held as wholly owned subsidiaries wherever possible and permissible, with the ultimate parent company AIA Group Limited being the only publicly listed entity.

The Company is compliant with the Guidelines on Corporate Governance Framework issued by the Insurance Regulatory Commission of Sri Lanka (the IRCSL) setting out the requirements (among other) for the composition of the Board of insurers and also to the provisions of the Regulation of the Insurance Industry Act of Sri Lanka Act No. 43 of 2000 (as amended), in relation to appointment of holders of Board as well as other regulated positions.

Additionally, the Company follows and is monitored for governance by its ultimate holding company, AIA Group under the purview of its stringent governance policies. Accordingly, 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 53 to 54 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 LIMITED

Corporate governance refers to the system of structures, rights, duties and obligations by which corporations are directed and controlled. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. AIA Insurance Lanka Limited (the Company) strongly believes in good corporate governance and being a good corporate citizen. The Company recognises the significance of effective corporate governance in achieving the trust of all stakeholders, whilst taking their interests into account.

It is widely acknowledged that corporate governance rules and principles promote efficiency, transparency, and accountability within an organisation, thereby improving a sustainable economic development and financial stability.

Even though the Code on Corporate Governance generally mandates compliance with its principles by public listed companies, the Company is of the view that it is equally important for the non-listed companies to abide by corporate governance rules and principles. In doing so, the Company is able to ensure that its internal governance procedures meet the high reliability standards and deliver current and appropriate information about the Company's financial performance.

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 expert, 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 Corporate Governance Framework issued under Direction #17 (as amended) of the IRCSL. It also examines the status of compliance of the Company with other various laws and regulations applicable to the Company 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 Limited carries on the business of long term insurance as duly licensed by the IRCSL. 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. The primary statutes applicable to the Company and its subsidiary are:

- The Companies Act No. 07 of 2007 (as amended)
- Regulation of Insurance Industry Act No. 43 of 2000 (as amended)
- 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. 06 of 2006
- Prevention of Money Laundering Act No. 05 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. 09 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 and Determinations issued by the IRCSL
- Guidelines issued by the IRCSL
- Section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE), as mandated by Direction #17 (as amended) issued by the IRCSL.

STATUS OF COMPLIANCE WITH CORPORATE GOVERNANCE FRAMEWORK ISSUED UNDER DIRECTION #17 (AS AMENDED) OF THE IRCSL

The IRCSL issued Direction #17 (as amended) setting out the corporate governance framework for the insurers with the intention of ensuring greater transparency in the conduct of the affairs of the insurance companies.

The following captures the status of Company's compliance with the framework of Corporate Governance, stipulated in Direction #17 (as amended) of the IRCSL:

Section	Status of Compliance
Section A	Adhere to majority of the Principles
Section B.1	Complied
Section B.2 (a)	Complied
Section B.2 (b)	Complied
Section B.3 (a)	Complied
Section B.4	Complied
Section B.5	Complied
Section B.6	Complied
Section B.7	Not applicable

Total number of requirements	**9**
Not applicable	1
Fully complied	7
Adhere to majority of the Principles	1
Not complied	-

Corporate Governance

The Company's status of Compliance with the said Direction # 17 (as amended) of the IRCSL is given below;

	Principle / Requirement	Commentary	Status of Compliance
A	Insurers are recommended to adhere to the Code of best Practice on Corporate Governance 2017, issued by the Institute of Chartered Accountants of Sri Lanka (the Code).	The Company has, on a voluntary basis, sought to adhere to majority of the Principles of the Code.	Adhere to majority of the Principles
B.1	The Board of an insurer must be comprised of a minimum of two Directors who are citizens of Sri Lanka and also residents of Sri Lanka.	The Board comprises of two Directors who are residents and citizens of Sri Lanka. They are Mr. Deepal Sooriyaarachchi and Mr. Sarath Wikramanayake. They have both satisfied the 'fit and proper criteria' of the Regulation of Insurance Industries Act (the RII Act).	Complied
B.2 (a) & B.2 (b)	The total period of service of a Director of an insurer, other than an Executive Director, shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such director up to 01 January 2019. Notwithstanding above, the nine year rule shall not be applicable to the following directors / director category: (i) Major Shareholder Director - A Director representing a major corporate shareholder and / or Corporate group with majority shareholding i.e., more than 50 per cent shares of the insurer directly or an individual shareholder director holding more than 50 per cent could hold the directorship of the insurer for more than nine years and upon reaching 70 years she / he could nominate his / her representation to the Board. (ii) Technical Director - Director be allowed to remain in office till the age of 75 provided such person is an Associate or above the Chartered Insurance Institute and having 10 years' experience in an insurance company at senior managerial level. In this context, the following transitional provision shall apply; A Director who has completed nine years as at 01 January 2019, or who completes such term at any time prior to 31 December 2019, may continue for a further maximum period of two years commencing from 01 January 2019.	The Chairman Mr. William Lisle and Directors Messrs. Manoj Ramachandran, Robert Hartnett and Stuart Spencer are Non-Executive Directors representing the major shareholder. Clarification has been sought by the Company from the IRCSL as regards application of the same Principle for Non-Executive Directors Messrs. Deepal Sooriyaarachchi and Sarath Wikramanayake based on Company's present status of shareholding as a single shareholder Company.	Complied
B.3 (a)	The age of a person who serves as Director shall not exceed 70 years	No Director of the Company has attained the age of 70 years.	Complied
B.4	The board of an insurer must adhere to Rule 7.10 of the Listing Rules of the CSE pertaining to Corporate Governance.	The Company is compliant with this requirement. A detailed commentary on the compliance with the requirements stipulated in Rule 7.10 as appropriate for a non-listed company is provided on pages 41 to 45.	Complied

	Principle / Requirement	Commentary	Status of Compliance
B.5	A person shall not hold office as a Director of more than 20 companies / entities inclusive of subsidiaries or associate companies of the insurer.	No Director of the Company holds Directorships exceeding the requirement stipulated in this Principle.	Complied
B.6	The insurers are required to demonstrate compliance with Direction #17 (as amended) of the IRCSL by way of disclosure in their Annual Reports, including the disclosure requirements stated in 7.10 of the Listing Rules of the CSE.	A full disclosure on the compliance with Direction #17 (as amended) of the IRCSL including the disclosure requirements stated in 7.10 of the Listing Rules of the CSE is provided on pages 41 to 45 of this report.	Complied
B.7	The insurers shall rectify its non compliance in respect of items B1 to 6 referred to in the Direction #17 (as amended) of the IRCSL within three months from the date of non compliance of same and inform the IRCSL immediately after three months. Enforcement action will be taken thereafter against insurers in terms of Circular #09 of the IRCSL, for non compliance.	The Company is compliant with items B1 to B6 referred to in the Direction #17 (as amended) of the IRCSL.	Not applicable

STATUS OF COMPLIANCE WITH SECTIONS RULE 7.10 OF LISTING RULES OF THE CSE

The Company is compliant with the applicable requirements of Rule 7.10.

Rule 7.10 of the Listing Rules on Corporate Governance (Status of compliance with Direction #17 (as amended) of the IRCSL)

	Rule	Commentary	Status of Compliance
7.10 COMPLIANCE			
7.10.a	An entity shall publish in the Annual Report relating to the financial year commencing on or after 01 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.	The Company is compliant with the Corporate Governance Rules of the Listing Rules. The Statement of Compliance is published on page 38 of this report*.	Complied
7.10.b	An entity shall comply with the Corporate Governance Rules with effect from the financial year commencing on or after 01 April 2008 and the Annual Report must contain the relevant affirmative statements.	The Company is compliant with the Corporate Governance Rules and respective affirmative statements and the Statement of Compliance is provided on page 38 of this report*.	Complied
7.10.c	Where an entity is required by any law applicable to such entity to comply with rules on Corporate Governance promulgated under such law, the Board of Directors of the Exchange may exempt such entity from the requirement to comply with these Corporate Governance Rules either in full or in part. Such entity shall make disclosures of compliance with Corporate Governance Rules applicable to that sector and the Annual Report must contain the relevant affirmative statements.	*The Company complied with all the mandatory requirements stipulated by the IRCSL in Direction #17 (as amended) .	Complied

Corporate Governance

	Rule	Commentary	Status of Compliance
7.10.1 Non-Executive Directors			
7.10.1.a	Two or such number equivalent to one-third of the total number of Directors, whichever is higher should be Non-Executive Directors.	There are six members on the Board of Directors all of whom are Non-Executive Directors.	Complied
7.10.1.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.	As at the last Annual General Meeting conducted by adopting the circular resolution dated 29 June 2020, there were six members on the Board of Directors. Therefore, the requirement under rule 7.10.1.a is complied with.	Complied
7.10.1.c	Any change occurring to this ratio shall be rectified within ninety days from the date of the change.	No change was reported to the ratio during the year under consideration.	Complied
7.10.2 Independent Directors			
7.10.2.a	Two or one-third of the Non-Executive Directors appointed to the Board of Directors, whichever is higher shall be 'independent'.	There are six members on the Board of Directors and two are classified as Independent Non-Executive Directors. Details of Independent Non-Executive Directors are given on page 29 of this report.	Complied
7.10.2.b	The Board shall require each Non-Executive Director to submit a signed and dated declaration annually of his / her independence or non-independence against the specified criteria.	The Board has obtained, signed and dated declarations from each Non-Executive Director on their independence or non-independence against the said criteria.	Complied
7.10.3 Disclosures relating to Directors			
7.10.3.a	The Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director based on such declaration and other information available to the Board and shall set out in the Annual Report the names of directors determined to be 'independent'.	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 thirteen 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 nine years. The Board taking this disclosure and his re-appointment at the last Annual General Meeting conducted by adopting the circular resolution dated 29 June 2020, 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.	Complied

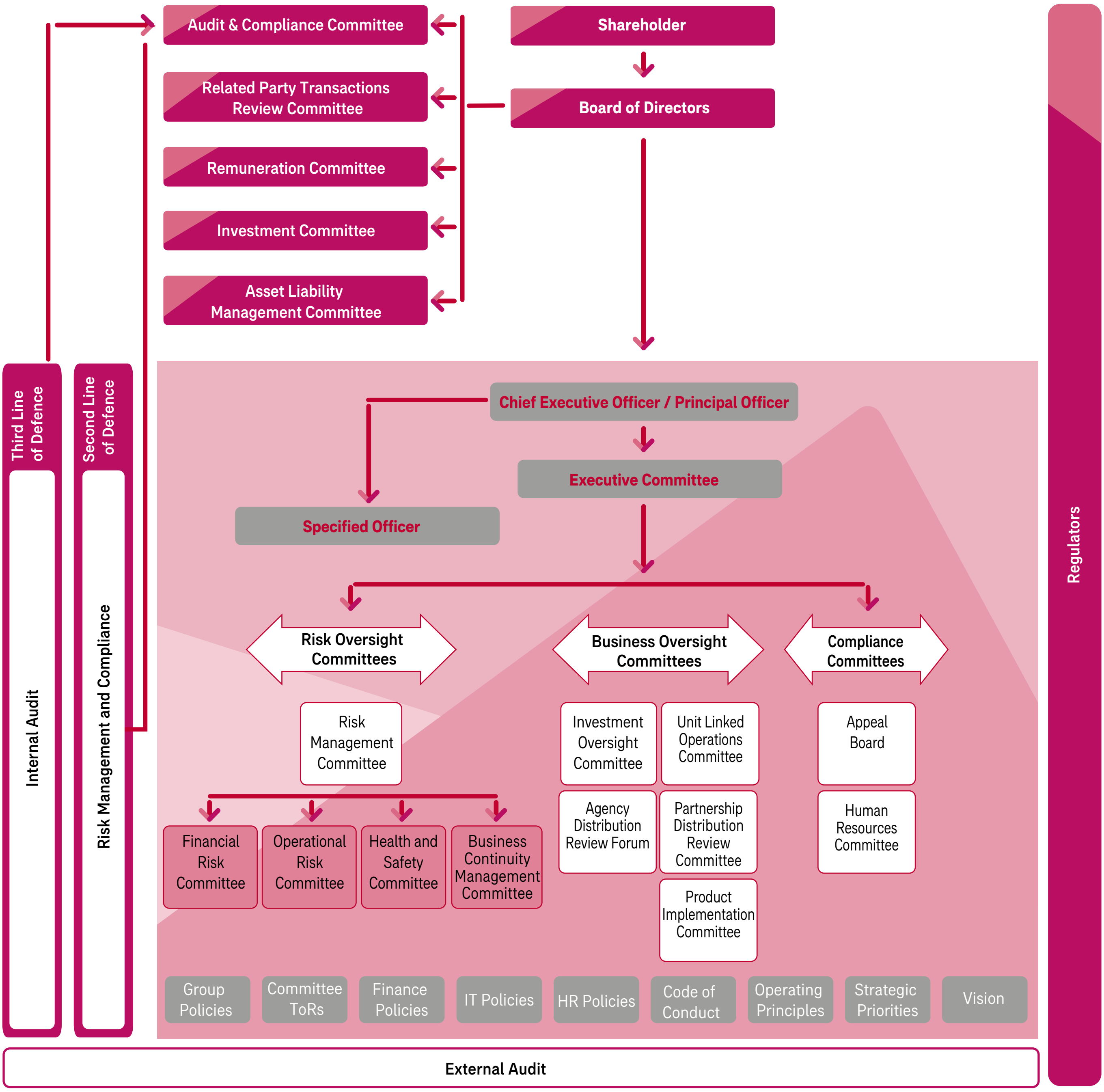
	Rule	Commentary	Status of Compliance
7.10.3.b	In the event a director does not qualify as 'independent' against any of the criteria set out below but if the Board, taking account all the circumstances, is of the opinion that the Director is nevertheless 'independent', the Board shall specify the criteria not met and the basis for its determination in the Annual Report.	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 thirteen 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.	Complied
7.10.3.c	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.	A brief resume of each Director is given on pages 28 to 29 of this report.	Complied
7.10.3.d	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.	This requirement does not arise as the Company is no longer a listed entity.	Not applicable.
7.10.4 Criteria for Defining 'Independence'		Please refer narrations in 7.10.3.a and b respectively.	Complied
7.10.5 Remuneration Committee			
7.10.5.a	**COMPOSITION** The remuneration committee shall comprise of a minimum of two Independent Non-Executive Directors (in instances where an entity has only two Directors on its Board); or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher. One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.	The Remuneration Committee consists of three Non-Executive Directors two of whom are Independent Non-Executive Directors. The Company has a separate Remuneration Committee. Mr. William Lisle functions as the Chairman of the Committee and he is a Non-Executive Director of the Company.	Complied

Corporate Governance

	Rule	Commentary	Status of Compliance
7.10.5.b	**FUNCTIONS** 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.	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.	Complied
7.10.5.c	**DISCLOSURE IN THE ANNUAL REPORT** 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.	Names of the Directors who are members of the Remuneration Committee are given on page 57 of this report. A statement of the remuneration policy is given under the Remuneration Committee Report on page 57 of this report. Disclosure of remuneration paid to Directors is given on page 35 of this report.	Complied
7.10.6 Audit Committee			
7.10.6.a	**COMPOSITION** 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); or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	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. The Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Financial Officer, the Company Secretary, Chief Risk and Compliance Officer, the Chief Actuary, the Head of Internal Audit and the External Auditors are considered as permanent invitees for the meetings of the Committee.	Complied
	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.	The Company has appointed its own Audit Committee.	
	One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors. The Chief Executive Officer and the Chief Financial Officer of the entity shall attend Audit Committee meetings. The Chairman or one member of the committee should be a Member of a recognised professional accounting body.	The Committee fulfils the required qualifications and the qualifications of respective members of the Committee are given on page 55 of the report.	

	Rule	Commentary	Status of Compliance
7.10.6.b	**FUNCTIONS** 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.	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, 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.	Complied
	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.	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.	
	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.	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.	
	iv. Assessment of the independence and performance of the entity's External Auditors.	iv. Assesses the independence and performance of the Company's External Auditors.	
	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.	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. Further information about the Committee and its functions is given on pages 55 to 56 of this report.	
7.10.6.c	**DISCLOSURE IN THE ANNUAL REPORT** The names of the Directors comprising the Audit Committee should be disclosed in the Annual Report. The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the Annual Report.	The names of the Directors who are members of the Audit and Compliance Committee are given on page 55 of this report. 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 pages 55 to 56 of this report.	Complied
	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.	Audit and Compliance Committee Report is given on pages 55 to 56 of this report.	
7.10.7	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 market day from the date of the non-compliance and comply with the specified requirements.	This requirement does not arise as the Company is no longer a listed entity.	Not applicable

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 shareholder. 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 50 to 51 of this report. The Investment Committee and the Asset Liability Management Committee are committees appointed by the Board. Information on the Board appointed management committees is provided on page 52 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 cover 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 28 to 29 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 CEO 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.

The Chief Actuary, Chief Risk and Compliance Officer, Head of Marketing and Senior Assistant General Manager Partnership Distribution are invitees to the Executive Committee meetings.

MEMBERS OF THE EXECUTIVE COMMITTEE ARE:

- Chief Executive Officer / Principal Officer
- Deputy Chief Executive Officer / Chief Agency Officer
- Director / Chief Officer Legal, Governance & Operations / Company Secretary
- Director Human Resources
- Director Information Technology
- Chief Financial Officer / Director Finance

In addition to the above officials, the functions of the Specified Officer, Head of Marketing and Senior Assistant General Manager, Partnership Distribution report to the Chief Executive Officer.

FUNCTIONAL OVERSIGHT AND SUPPORT TO ENSURE SOUND CORPORATE GOVERNANCE

The Company has appointed the Chief Risk and Compliance Officer with a matrix reporting to the Audit & Compliance Committee, AIA Group Chief Risk Officer and administrative reporting to the Chief Executive Officer.

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 53 to 54 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. 06 of 2006 and Prevention of Money Laundering Act No. 05 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.

Corporate Governance

GOVERNANCE COMMITTEES

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

	Committee	Responsibility	Membership	TOR/ Charter
1	Risk Management Committee	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.	Chief Executive Officer (Chair) Members of the Executive Committee Chief Risk and Compliance Officer Nominated members of management	☑
2	Health & Safety Committee	Responsible for providing oversight to physical safety and security within the scope of the Company's business operations, and carrying out activities to ensure that relevant risks are identified, measured, monitored and managed.	Chief Executive Officer (Chair) Members of the Executive Committee Nominated members of management	☑
3	Business Continuity Management Committee	Responsible for ensuring the Business Continuity Management programme 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.	Chief Executive Officer (Chair) Members of the Executive Committee Chief Risk and Compliance Officer	☑
4	Investment Oversight Committee	Responsible for reviewing, monitoring and providing oversight to the investment portfolios, especially on investment strategy, investment exposures and investment performance.	Chief Investment 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)	☑

	Committee	Responsibility	Membership	TOR/ Charter
5	Product Implementation Committee	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.	Chief Executive Officer (Chair) Members of the Executive Committee. Nominated members of management and functions representing Actuarial and Marketing.	☑
6	Agency Distribution Review Forum	Responsible for providing oversight to sales and performance of the Agency Distribution (Agency channel). Responsibilities include setting of goals of the Agency Distribution with stipulated key performance indicators and defined performance metrics.	Deputy Chief Executive Officer (Chair) Senior management of the Agency Distribution and Distribution channel.	☑
7	Partnership Distribution Review Committee	Responsible for providing oversight to sales and performance of the Partnership Distribution channel. Responsibilities include the setting of goals of the Bancassurance Distribution with stipulated key performance indicators and defined performance metrics.	Senior Assistant General Manager Partnership Distribution (Chair) Senior management of the Partnership Distribution channel and selected members of the sales team.	☑
8	Appeal Board	Responsible for hearing the appeals from agents who believes that they are aggrieved by the decisions of the customer complaints investigations unit.	Deputy General Manager - Legal Deputy General Manager - IT Chief Risk and Compliance Officer Head of Marketing Senior Manager, Performance & Rewards	☑
9	HR Committee	Responsible for the proactive management and issue resolution of employee grievances and disciplinary matters.	Director Human Resources Director / Chief Officer Legal, Governance & Operations / Company Secretary Or their representatives	☑

Corporate Governance

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	Chief Executive Officer Deputy Chief Executive Officer Chief Financial Officer / Director Finance Company Secretary Chief Risk and Compliance Officer Chief Actuary Head of Internal Audit External Auditors Other officials as and when required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	▪ 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. ▪ To review and report to the Board on the effectiveness of the systems of internal controls and risk management. ▪ To review the quality of internal and external audits and to secure the timely implementation of audit recommendations. ▪ To ensure that the Internal Audit function is adequately resourced, has an appropriate standing and to ensure coordination between the Internal and External Auditors. ▪ 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. ▪ 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. ▪ To review the effectiveness of the corporate compliance framework with financial services and other relevant legislation. ▪ To review the scope of each annual audit and its cost effectiveness with the External Auditors and the management. ▪ To perform an independent supervisory role in securing corporate compliance with the RII Act and related regulations as well as with other applicable statutes and regulations.

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 Human Resources)
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	▪ To review and approve the remuneration policy applicable to employees of the Company. ▪ To recommend to the Board the remuneration to be paid to Directors, the CEO and their perquisites and allowances. ▪ To review and approve the grant of employees' stock options (if and when applicable) subject to the approval of the Board.

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 (Senior Manager Legal)
Agenda	Available
Invitees	Chief Executive Officer Chief Financial Officer / Director Finance Company Secretary Chief Risk and Compliance Officer Head of Internal Audit Other officials as and when required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	▪ To oversee that all related party transactions of the Company are duly reviewed, undertaken and disclosed. ▪ To ensure compliance with the Transfer Pricing regulations issued under the Inland Revenue Act.

Corporate Governance

BOARD APPOINTED MANAGEMENT COMMITTEES

Investment Committee (Comprising non-Board members)	
Chairman	Nikhil Advani (Chief Executive Officer)
Members	Gavin D' Rosairo (Chief Financial Officer / Director Finance) Samath Perera (Chief Actuary) Hasitha Mapalagama (Chief Risk and Compliance Officer)
Secretary	Zarah Juriansz (Senior Manager Investments)
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	▪ To define the framework and set policy guidelines for the management of investment portfolios. ▪ To monitor investment performance and recommend appropriate investment strategies. ▪ To ensure that the portfolios are managed to achieve their investment objectives whilst adhering to the regulatory requirements. ▪ To design and review the Company's investment policy and place same before the Board of Directors for approval. ▪ To implement the investment policy as approved by the Board of Directors. ▪ To apprise the Board of Directors periodically on the Committee's activities. ▪ 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.

Asset Liability Management Committee (Comprising non-Board members)	
Chairman	Gavin D' Rosairo (Chief Financial Officer / Director Finance)
Members	Samath Perera (Chief Actuary) Hasitha Mapalagama (Chief Risk and Compliance Officer)
Secretary	Chantel Soza (Assistant Manager Actuarial)
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	▪ To provide oversight of asset liability management policies, processes and controls and the implementation of asset liability management decisions and strategic asset allocation processes. ▪ To monitor and review the Company's risk appetites for liquidity position, solvency position and liabilities profile. ▪ 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.

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.

A sound risk management process is vital to ensure the stability of the insurance industry and the financial system. For stakeholders 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 a sound risk management system 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 support of strategic objectives. The RMF provides appropriate tools, processes and capabilities for the identification, assessment and, where required, escalate identified material risks for further evaluation.

AIA Sri Lanka's RMF consists of the following key components:

RISK CULTURE

Risk culture defines the attitude to risk and ensures that the Company's remuneration structure promotes the right behaviour.

RISK MANAGEMENT PROCESS

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

RISK GOVERNANCE

The three Lines of Defence model clearly defines the 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.

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

RISK APPETITE

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.

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.

Investment Risk

Investment risk is the risk arising from AIA Sri Lanka's investment portfolio exposures and arises due to the possibility of asset values changing from conditions such as counterparties defaulting on obligations (credit risk), market movements (market risk) or reduced liquidity in the market (liquidity risk).

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 elements.

Asset Liability Mismatch (ALM)

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

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.

Strategic Risk

Strategic risk is identified as part of the business plan process and is defined as the potential impact of the business strategy on the company's earnings, capital and reputation.

LOOKING BACK AT 2020

In 2020, the Company's key priority from a risk perspective was to contribute and enhance the risk culture within the new norm of business. Significant strides in enriching the control framework of the business by engaging staff at all levels and building up a stringent control mechanism throughout the Company, while fulfilling the new requirements emanating from new norms such as Work From Home (WFH) and Non-Face to Face (NF2F) engagement were main accomplishments. Thus, as a part of operational risk management, AIA Sri Lanka ensured that the business is adequately aware of the risks that are undertaken. Further, appropriate level

Risk Management Review

controls are in-built in the processes and are monitored by enhancing the first line risk ownership.

The Company's risk culture is enhanced 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 framework, model and culture throughout the business.

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

Another important development in our risk sphere was the initiatives that were deployed in terms of managing the cyber security and third-party risk of the business. Aligning with AIA Group's initiatives, AIA Sri Lanka rolled out key actions on cyber security, data privacy and third-party risk.

OUTLOOK FOR 2021

Having established a strong risk management framework which has been operating effectively over the last few years, the focus of 2021 is to continue the Company's risk management journey by balancing both risk and return for effective capital allocation , whilst ensuing that the business is heading towards achieving its business plan objectives. Therefore, the motto for 2021 is that we 'Dedicate to do what is right, not what is easy, while Networking to win net worth by being Agile towards hard work' 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 stakeholder assurance and embracing digitalisation and innovation. The above initiatives will be established in line with the operational risk and control framework and with a more strengthened financial risk management framework.

Consequently, AIA Sri Lanka 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 on its journey advancing towards more digital and an agile culture.

Audit & Compliance Committee Report

COMPOSITION

The Audit and Compliance Committee (the Committee) of AIA Insurance Lanka Limited is appointed by the Board of Directors. In line with the Company's endeavours to adopt high standards of governance requirements as a non-listed limited liability insurance entity and subsidiary of AIA Group, the Company continued with the Audit and Compliance Committee to serve the relevant purposes.

The Committee comprises of the following Directors of the Company as at 31 December 2020:

1. Mr. Robert Alexander 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 Alexander Hartnett is a fellow of the Institute of Actuaries of Australia. Mr. Sarath Wikramanayake is a Chartered Accountant and 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 the 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 Consolidated Financial Statements in accordance with the applicable accounting standards. The Committee recommends the quarterly Consolidated Financial Statements, annual accounts and connected documents for the approval of the Board as and when required. It focuses on a fair presentation and disclosure, reasonability of estimates and judgemental factors and appropriateness of significant accounting policies adopted in preparation of the 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. The 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 2019 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 regular 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 programmes during the year.

Audit & Compliance Committee Report

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 five formal meetings during the year under review and the CEO, the Deputy CEO, the CFO, the Chief Risk Officer, the Chief Actuary, the Company Secretary and the Head of Internal Audit 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 aforestated, 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 2021, subject to approval by the shareholders at the forthcoming Annual General Meeting. The Committee will approve the terms of engagement of the auditors for 2021 subject to the approval of their re-appointment by the shareholders of the Company, and necessary recommendations being made to the Board as regards their remuneration for 2021.

Robert Alexander Hartnett
Chairman, Audit and Compliance Committee

11 February 2021

Remuneration Committee Report

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

COMPOSITION

The Remuneration Committee comprises three Non-Executive Directors.

As at 31 December 2020, 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 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 2020, the Committee held three meetings in order to discharge its businesses.

William Lisle
Chairman, Remuneration Committee

18 January 2021

Related Party Transactions Review Committee Report

COMPOSITION

The Related Party Transactions Review Committee (the Committee) of AIA Insurance Lanka Limited (the Company) was set up in January 2016 as part of the sound governance framework of the Company and to provide oversight on the related party and transfer pricing aspects of the Company.

The Company is no longer under the regulatory purview of the Securities and Exchange Commission, consequent to the Company's delisting from the official list of the Colombo Stock Exchange in 2019, which required the setup of a Related Party Transactions Review Committee. Nevertheless, in line with the Company's endeavours to adopt high standards of governance requirement as a non-listed limited liability subsidiary of AIA Group, the Company continues with the Related Party Transactions Review Committee to serve the relevant purposes.

The Committee comprises of the following Directors of the Company as at 31 December 2020.

1. Mr. Deepal Sooriyaarachchi- Chairman (Independent, Non-Executive Director)
2. Mr. Robert Alexander 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 relevant accounting standards and the Code of Best Practice on Corporate Governance 2017.
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, maintained 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.

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.

During the year under review, the Committee reviewed and pre-approved all proposed non-recurrent related party transactions (if any) 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 defined to include the Directors and Chief Executive Officer for the purpose of ensuring the transparency and all KMP related disclosures / information are reviewed by the Committee.

The Committee further declares that:

- Appropriate disclosures have been made in terms of the Sri Lanka Accounting Standards LKAS 24 - Related Party Disclosures, in Note 42 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. Further, the Company complied with the reporting requirements mandated by the Gazette Notification No. 2104/4 issued by the Inland Revenue Department (the IRD) for the financial year 2018/19 mandating various reporting requirements and their thresholds as applicable for the year under review. As such, the requirements to submit Disclosure Forms, Local File, Master File and Country by Country Report based on different threshold limits as stipulated therein have been duly noted by the Committee and were adhered to during the year under review, as applicable.

MEETINGS

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

10 February 2021

Investment Committee Report

The Investment Committee of AIA Insurance Lanka Limited 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
Nikhil Advani (Chairman from 05 July 2019)	05 July 2019	To date
Gavin D' Rosairo	14 August 2012	To date
Hasitha Mapalagama	30 May 2017	To date
Frank Munro	30 May 2017	05 May 2020
Vivian Sze	06 May 2020	11 August 2020
Samath Perera	12 August 2020	To date
Zarah Juriansz (Secretary from 05 May 2011)	05 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 2020 and given below is the members' attendance:

ATTENDANCE

Member	Attendance			
	31 Jan 2020	30 Apr 2020	07 Aug 2020	04 Nov 2020
Nikhil Advani	✓	✓	✓	✓
Gavin D' Rosairo	✓	✓	✓	✓
Hasitha Mapalagama	✓	✓	✓	✓
Frank Munro	✓	✓	N/A	N/A
Vivian Sze	N/A	✓	N/A	N/A
Samath Perera	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.

Nikhil Advani
Chairman, Investment Committee

08 February 2021

Actuary's Report

AIA Insurance Lanka Limited (Co. No. PQ 18 PB)
AIA Tower
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E-mail : lk.info@aia.com
Web : www.aialife.com.lk

To the shareholder of AIA Insurance Lanka Limited

ACTUARIAL VALUATION AND SOLVENCY OF AIA INSURANCE LANKA LIMITED AS AT 31 DECEMBER 2020

I have enquired into the affairs of the long term insurance business and satisfied myself with the solvency position of the business as required under Section 26 of Regulation of 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 01 May 2007, IRCSL Circular #22 dated 14 February 2006, Extraordinary Gazette dated 15 December 2015 and Direction #16 dated 20 March 2018.

The Company has maintained proper records appropriate for the purpose of conducting an actuarial valuation. The Operations and Finance functions have respectively certified the accuracy and completeness of the data furnished to me. Financial statements are subject to an independent audit by the external auditors Messrs PricewaterhouseCoopers.

I hereby certify the following:

1. Adequate and proper reserves have been provided for as at 31 December 2020 for known liabilities with respect to long term Insurance business in accordance with regulations outlined in the Solvency Margin (Risk Based Capital) Rules dated 15 December 2015.
2. The Company has adequate admissible capital to cover the minimum requirements as per the Solvency Margin (Risk Based Capital) Rules 2015 Issued by the Insurance Regulatory Commission of Sri Lanka as required under the Regulation of Insurance Industry Act No. 43 of 2000.
3. In accordance with SLFRS 4, a liability adequacy test (LAT) was performed to assess the adequacy of the carrying value of insurance liabilities. The carrying value of insurance contract liability is adequate.

In accordance with the policy conditions of Universal Life products featuring dividends, I have recommended an annual dividend of 11.02 per cent / 9.80 per cent / 9.18 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 2020.

Samath Perera
Fellow, Society of Actuaries, USA

10 February 2021

Statement of Solvency

The statement of solvency for Life Insurance has been prepared in accordance with the Solvency Margin (Risk Based Capital) Rules 2015 that are in effect from 01 January 2016, and is in line with the formats stipulated by the Insurance Regulatory Commission of Sri Lanka.

As at 31 December		2020 LKR '000	2019 LKR '000
1	Value of admissible assets	63,094	52,055
2	Value of liabilities		
	2.1 Policy liabilities	29,350	23,741
	2.2 Other liabilities	6,382	4,835
3	Total Available Capital (TAC)	27,362	23,479
4	Risk Based Capital Requirement (RCR)	5,601	3,675
5	Risk Based Capital Adequacy Ratio (CAR) = (TAC/RCR)	488%	639%

Statement of Approved Assets

Determined as per section 25(1) of Regulation of Insurance Industry Act 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.

As at 31 December		2020 LKR '000	2019 LKR '000
1	Approved assets maintained in the long term insurance business	43,545	33,663
2	Long term insurance fund	40,533	31,450
3	Excess in approved assets over the long term insurance fund	3,012	2,213
4	Approved assets as a % of the long term insurance fund	107.4%	107.0%
5	Ratio required	100%	100%

CELEBRATING A SPIRIT OF UNITY

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Financial Calendar

DATE OF APPROVAL OF THE INFORMATION

Interim Results for 2020

First Quarter	05 May 2020
Second Quarter	15 August 2020
Third Quarter	10 November 2020
Fourth Quarter	11 February 2021

Audited Financial Statements

2019	19 February 2020
2020	11 February 2021

Dividends

2019 : First and Final Dividend	19 February 2020
2020 : First and Final Dividend	11 February 2021

Annual General Meetings

2019 : 34th AGM	29 June 2020
2020 : 35th AGM	22 April 2021

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. 07 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 judgements of complexity have been made on a prudent and reasonable basis, and have been discussed with and approved by the Audit and Compliance Committee of the Board of Directors, 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, which are reviewed, evaluated and updated on an ongoing basis in order to safeguard the assets and prevent and detect frauds as well as other irregularities.

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 from pages 68 to 69.

The Audit and Compliance Committee of the Board of Directors 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 of the Board of Directors 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 of the Board of Directors to discuss any matter of substance.

Nikhil Advani
Chief Executive Officer

Gavin D' Rosairo
Chief Financial Officer

11 February 2021

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 68 to 69 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 judgements 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. 07 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. 07 of 2007, to the extent applicable and the Regulation of Insurance Industry Act No. 43 of 2000 (as amended).

The Directors, having reviewed the Company's strategic plan for the period 2021-2023, 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 insurance liabilities and is based on the methodology and assumptions recommended by the Chief Actuary.

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

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

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

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

1. the Consolidated Financial Statements of the Company and its subsidiary which are prepared in accordance with SLFRS / LKAS and other applicable rules and regulations and recommended best practices, give a true and fair view of the state of affairs as at 31 December 2020 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. 07 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
11 February 2021

Independent Auditor's Report

TO THE SHAREHOLDERS OF AIA INSURANCE LANKA LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of AIA Insurance Lanka Limited ("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 2020, 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 2020;
- the income statement for the year then ended;
- 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.

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.

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Partners **D T S H Mudalige FCA, C S Manoharan FCA, Ms S Hadgie FCA, Ms S Perera ACA, N R Gunasekera FCA**
T U Jayasinghe FCA, H P V Lakdeva FCA, M D B Boyagoda FCA, Ms W D A S U Perera ACA

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 skepticism 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 control 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.

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 Limited 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.

PricewaterhouseCoopers

CHARTERED ACCOUNTANTS

Colombo
11 February 2021

Consolidated Statement of Financial Position

As at 31 December	Note	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
ASSETS					
Intangible assets	6	922,941	842,804	922,941	842,804
Property, plant and equipment	7	709,407	785,061	709,407	785,061
Right of use assets - leases	19	990,706	985,025	990,706	985,025
Investments in subsidiary	8	-	-	1,000	1,000
Financial investments	9	63,094,067	52,570,406	63,094,067	52,570,406
Policyholder and other loans	10	565,126	776,164	565,126	776,164
Deferred income tax assets	11	418,449	1,100,978	418,449	1,100,978
Reinsurance receivables	12 & 17.2	141,249	138,821	141,249	138,821
Trade receivables	13	430,796	441,150	430,327	440,717
Other assets	14	3,270,917	3,105,316	3,270,917	3,105,314
Other fund assets	15	393,083	357,122	393,083	357,122
Cash and cash equivalents	16	1,455,772	873,196	1,451,514	869,989
Total assets		72,392,513	61,976,043	72,388,786	61,973,401
LIABILITIES					
Insurance liabilities	17	45,587,414	36,380,211	45,587,414	36,380,211
Retirement benefit obligations	18	338,709	263,294	338,709	263,294
Lease liabilities	19	1,000,071	890,650	1,000,071	890,650
Other fund liabilities	20	393,083	357,122	393,083	357,122
Reinsurance payables		216,764	68,051	216,764	68,051
Accruals and other payables	21	3,990,109	3,320,163	3,989,763	3,319,846
Current income tax liabilities	22	229	192	-	-
Deferred revenue	23	53,367	51,226	53,367	51,226
Bank overdraft	16	229,931	1,618	229,931	1,618
Total liabilities		51,809,677	41,332,527	51,809,102	41,332,018
EQUITY					
Stated capital	24	511,922	511,922	511,922	511,922
Capital reserve	25	216,236	192,916	216,236	192,916
Restricted regulatory reserve	26	6,080,848	6,080,848	6,080,848	6,080,848
Revenue reserves	27	13,773,830	13,857,830	13,770,678	13,855,697
Total equity		20,582,836	20,643,516	20,579,684	20,641,383
Total equity and liabilities		72,392,513	61,976,043	72,388,786	61,973,401

The notes on the pages 77 to 126 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. 07 of 2007.

Rosairo

Gavin D' Rosairo
Chief Financial Officer

The Consolidated Financial Statements on pages 70 to 126 were authorised for issue by the Board of Directors on 11 February 2021and 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 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Gross written premium	28 (a)	14,049,559	13,848,283	14,049,559	13,848,283
Gross reinsurance premium	28 (b)	(408,860)	(369,954)	(408,860)	(369,954)
Net written premium	28	13,640,699	13,478,329	13,640,699	13,478,329
OTHER INCOME					
Investment income	29	5,585,205	5,494,544	5,585,205	5,494,544
Fee income	30	844,518	679,704	842,682	677,983
Net realised losses	31	(123,510)	(53,807)	(123,510)	(53,807)
Net fair value losses	32	(21,538)	(44,513)	(21,538)	(44,513)
Other operating income	33	123,187	177,306	122,996	177,124
Total other income		6,407,862	6,253,234	6,405,835	6,251,331
Total income		20,048,561	19,731,563	20,046,534	19,729,660
Net claims and benefits	34	(4,453,740)	(4,784,528)	(4,453,740)	(4,784,528)
Change in contractual liability	17.1	(6,748,859)	(3,224,888)	(6,748,859)	(3,224,888)
Net acquisition expenses	35	(1,688,611)	(1,880,043)	(1,688,611)	(1,880,043)
Operating and administrative expenses	36	(6,317,003)	(6,544,931)	(6,316,364)	(6,544,352)
Finance expenses	19.3	(114,532)	(128,452)	(114,532)	(128,452)
Profit before tax	37	725,816	3,168,721	724,428	3,167,397
Income tax expense	38	(276,195)	(1,187,511)	(275,826)	(1,187,186)
Profit for the year	39	449,621	1,981,210	448,602	1,980,211
Profit attributable to;					
Owners of the parent		449,621	1,981,210	448,602	1,980,211
Non-controlling interest		-	-	-	-
		449,621	1,981,210	448,602	1,980,211
Basic / diluted earnings per share (in LKR)	40	14.62	64.43	14.59	64.40
Dividend per share (in LKR)	41	50.00	25.00	50.00	25.00

The notes on the pages 77 to 126 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

For the financial year ended 31 December	Note	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Profit for the year		449,621	1,981,210	448,602	1,980,211
OTHER COMPREHENSIVE INCOME					
Items that are / may be subsequently reclassified to profit or loss					
Changes in fair value of available for sale financial assets	27.1	4,277,970	2,575,620	4,277,970	2,575,620
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	17.1	(3,232,162)	(1,845,727)	(3,232,162)	(1,845,727)
Items that will not be reclassified to profit or loss					
Re-measurement of retirement benefit obligations	18	(41,960)	(12,851)	(41,960)	(12,851)
Revaluation of land	7 & 25	23,320	14,000	23,320	14,000
Total other comprehensive income for the year		1,027,168	731,042	1,027,168	731,042
Total comprehensive income for the year		1,476,789	2,712,252	1,475,770	2,711,253
Comprehensive income attributable to ;					
Owners of the parent		1,476,789	2,712,252	1,475,770	2,711,253
Non-controlling interest		-	-	-	-
Total comprehensive income for the year		1,476,789	2,712,252	1,475,770	2,711,253

Items disclosed in the statement above are net of tax.

The notes on the pages 77 to 126 are an integral part of these Consolidated Financial Statements.

Statement of Changes in Equity - Group

			Capital reserve		Revenue reserves		
		Stated capital	Revaluation reserve	Restricted regulatory reserve	Available for sale reserve	Retained earnings	Total equity
	Note	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 01 January 2019		511,922	178,916	6,080,848	(8,847)	11,937,159	18,699,998
Profit for the year		-	-	-	-	1,981,210	1,981,210
OTHER COMPREHENSIVE INCOME							
Changes in fair value of available for sale financial assets	27.1	-	-	-	2,575,620	-	2,575,620
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	17.1	-	-	-	(1,845,727)	-	(1,845,727)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS							
Re-measurement of retirement benefit obligations	18	-	-	-	-	(12,851)	(12,851)
Revaluation of land	7 & 25	-	14,000	-	-	-	14,000
TRANSACTIONS WITH OWNERS:							
First and final dividend 2018	41	-	-	-	-	(768,734)	(768,734)
Balance as at 31 December 2019		511,922	192,916	6,080,848	721,046	13,136,784	20,643,516
Profit for the year		-	-	-	-	449,621	449,621
OTHER COMPREHENSIVE INCOME							
Changes in fair value of available for sale financial assets	27.1	-	-	-	4,277,970	-	4,277,970
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	17.1	-	-	-	(3,232,162)	-	(3,232,162)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS							
Re-measurement of retirement benefit obligations	18	-	-	-	-	(41,960)	(41,960)
Revaluation of land	7 & 25	-	23,320	-	-	-	23,320
TRANSACTIONS WITH OWNERS:							
First and final dividend for 2019	41	-	-	-	-	(1,537,469)	(1,537,469)
Balance as at 31 December 2020		511,922	216,236	6,080,848	1,766,854	12,006,976	20,582,836

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 77 to 126 are an integral part of these Consolidated Financial Statements.

Statement of Changes in Equity - Company

			Capital reserve		Revenue reserves		
		Stated capital	Revaluation reserve	Restricted regulatory reserve	Available for sale reserve	Retained earnings	Total equity
	Note	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 01 January 2019		511,922	178,916	6,080,848	(8,847)	11,936,025	18,698,864
Profit for the year		-	-	-	-	1,980,211	1,980,211
OTHER COMPREHENSIVE INCOME							
Changes in fair value of available for sale financial assets	27.1	-	-	-	2,575,620	-	2,575,620
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	17.1	-	-	-	(1,845,727)	-	(1,845,727)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS							
Re-measurement of retirement benefit obligations	18	-	-	-	-	(12,851)	(12,851)
Revaluation of land	7 & 25	-	14,000	-	-	-	14,000
TRANSACTIONS WITH OWNERS:							
First and final dividend 2018	41	-	-	-	-	(768,734)	(768,734)
Balance as at 31 December 2019		511,922	192,916	6,080,848	721,046	13,134,651	20,641,383
Profit for the year		-	-	-	-	448,602	448,602
OTHER COMPREHENSIVE INCOME							
Changes in fair value of available for sale financial assets	27.1	-	-	-	4,277,970	-	4,277,970
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	17.1	-	-	-	(3,232,162)	-	(3,232,162)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS							
Re-measurement of retirement benefit obligations	18	-	-	-	-	(41,960)	(41,960)
Revaluation of land	7 & 25	-	23,320	-	-	-	23,320
TRANSACTIONS WITH OWNERS:							
First and final dividend for 2019	41	-	-	-	-	(1,537,469)	(1,537,469)
Balance as at 31 December 2020		511,922	216,236	6,080,848	1,766,854	12,003,824	20,579,684

The notes on the pages 77 to 126 are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

For the financial year ended 31 December	Note	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums / fees received from customers		14,305,983	13,894,419	14,304,182	13,892,743
Reinsurance premium (net of commission) paid		(37,908)	(283,456)	(37,908)	(283,456)
Claims and benefits paid		(4,575,482)	(4,913,553)	(4,575,482)	(4,913,553)
Cash paid to and on behalf of employees		(1,800,285)	(1,882,477)	(1,800,285)	(1,882,477)
Interest received		177,091	183,518	176,901	183,334
Interest paid - leases	19.4	(114,532)	(128,452)	(114,532)	(128,452)
Payments to agents and intermediaries		(1,756,198)	(1,917,551)	(1,756,198)	(1,917,551)
Other operating cash payments		(3,306,956)	(3,722,096)	(3,306,346)	(3,721,385)
Cash flow generated from operating activities		2,891,713	1,230,352	2,890,332	1,229,203
Taxes paid	22	(330)	(303)	-	-
Policy loans granted		(225,542)	(406,290)	(225,542)	(406,290)
Policy loans repayment		384,283	514,002	384,283	514,002
Net cash generated from operating activities		3,050,124	1,337,761	3,049,073	1,336,915
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of liquid investments	9.4	(6,601,305)	(6,492,723)	(6,601,305)	(6,492,723)
Purchase of other investments	9.4	(12,822,476)	(6,547,634)	(12,822,476)	(6,547,634)
Proceeds from sale of liquid investments	9.4	10,451,512	3,387,810	10,451,512	3,387,810
Proceeds from sale of other investments	9.4	3,539,393	5,095,575	3,539,393	5,095,575
Investment expenses		(106,329)	(117,692)	(106,329)	(117,692)
Interest received - financial investments		4,927,512	4,813,497	4,927,512	4,813,490
Dividend received		78,744	63,357	78,744	63,357
Purchase of intangible assets		(146,702)	(22,714)	(146,702)	(22,714)
Purchase of property, plant and equipment		(75,143)	(112,594)	(75,143)	(112,594)
Purchases for assets under construction	14.1	(275,945)	(121,393)	(275,945)	(121,393)
Proceeds from disposal of property, plant and equipment		14,574	3,942	14,574	3,942
Net cash used in investing activities		(1,016,165)	(50,569)	(1,016,165)	(50,576)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	41	(1,537,469)	(768,734)	(1,537,469)	(768,734)
Principal payment of lease liabilities	19.4	(130,416)	(212,949)	(130,416)	(212,949)
Short term lease rentals paid	19.4	(11,811)	(94,315)	(11,811)	(94,315)
Net cash used in financing activities		(1,679,696)	(1,075,998)	(1,679,696)	(1,075,998)
Increase in cash and cash equivalents		354,263	211,194	353,212	210,341
Cash and cash equivalents (net of bank overdraft) at the beginning of the year		871,578	660,384	868,371	658,030
Cash and cash equivalents (net of bank overdraft) at the end of the year	16	1,225,841	871,578	1,221,583	868,371

The notes on the pages 77 to 126 are an integral part of these Consolidated Financial Statements.

Long Term Insurance

STATEMENT OF FINANCIAL POSITION - SUPPLEMENTAL

As at 31 December	Note	2020 LKR '000	2019 LKR '000
ASSETS			
Financial investments		45,210,800	35,970,557
Policyholder and other loans		404,275	576,931
Reinsurance receivables		141,249	138,821
Premium receivables		430,327	440,717
Other assets		1,844,027	1,912,512
Cash and cash equivalents		1,438,441	480,970
Total assets		49,469,119	39,520,508
LIABILITIES			
Insurance liabilities	17	45,587,414	36,380,211
Reinsurance payables		216,764	68,051
Accruals and other payables		3,610,364	3,019,402
Deferred revenue		53,367	51,226
Bank overdraft		1,210	1,618
Total liabilities		49,469,119	39,520,508

INSURANCE REVENUE ACCOUNT - SUPPLEMENTAL

For the financial year ended 31 December	Note	2020 LKR '000	2019 LKR '000
Gross written premium	28(a)	14,049,559	13,848,283
Net written premium (net of premium ceded to reinsurers)	28(b)	13,640,699	13,478,329
Investment income and other income		3,882,390	4,053,561
Charges deducted from policyholders fund		836,209	656,946
Net claims and benefits	34	(4,453,740)	(4,784,528)
Net acquisition expenses	35	(1,688,611)	(1,880,043)
Operating and administrative expenses		(6,128,181)	(6,366,956)
Income tax expense		-	(15,903)
		6,088,766	5,141,406
Change in contractual liability	17.1	(6,748,859)	(3,224,888)
Surplus / (Deficit) transfer to or from shareholders' fund		(660,093)	1,916,518

Notes to the Consolidated Financial Statements and Significant Accounting Policies

1 GENERAL INFORMATION

AIA Insurance Lanka Limited, formerly known as 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. 07 of 2007 which came in to effect on 03 May 2007. The address of its registered office is AIA Tower, No. 92, Dharmapala Mawatha, Colombo 07, Sri Lanka.

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 05 December 2012.

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

The Company received approvals on 02 October 2019 to delist the Company's shares from the official list of the CSE, under and in terms of Rule 5 (1) of the SEC Rules published in Gazette Extraordinary No. 1215 / 2 of 18 December 2001 (the 'Delisting Rules') and is known as AIA Insurance Lanka Limited with effect from that date.

The Group Consolidated Financial Statements for the year ending 31 December 2020 have been authorised for issue by the Board of Directors on 11 February 2021.

2 BASIS OF PREPARATION

The Consolidated Financial Statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards, which comprise Sri Lanka Financial Reporting Standards (SLFRS's), Sri Lanka Accounting Standards (LKAS's), relevant interpretations of the Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC). Sri Lanka Accounting Standards further comprises of Statements of Recommended Practices (SoRPs), Statements of Alternate Treatments (SoATs) and Financial Reporting Guidelines issued by the Institute of Chartered Accountants of Sri Lanka.

These Consolidated Financial Statements have been prepared under the historical cost convention except for the revaluation of land, available for sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

The preparation of Consolidated Financial Statements in conformity with Sri Lanka Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's and the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Company's and the Group's Consolidated Financial Statements are disclosed in Note 4 to the Consolidated Financial Statements.

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 4.4 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

(i) Amendments to LKAS 1 and LKAS 8 - Definition of Material

The amendments to LKAS 1 Presentation of Consolidated Financial Statements and LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout Sri Lanka Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in LKAS 1 about immaterial information.

In particular, the amendments clarify:

a. That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the Consolidated Financial Statements as a whole, and

b. The meaning of 'primary users of general-purpose Consolidated Financial Statements' to whom those Consolidated Financial Statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose Consolidated Financial Statements for much of the financial information they need

This amendment is effective for the annual periods beginning on or after 01 January 2020.

(ii) Amendments to SLFRS - 3 Definition of a Business

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

This amendment is effective for the annual periods beginning on or after 01 January 2020.

(iii) Revised Conceptual Framework for Financial Reporting

The revised Conceptual Framework which will be used in standard - setting decisions with immediate effect. Key changes include:

a. increasing the prominence of stewardship in the objective of financial reporting

b. reinstating prudence as a component of neutrality

c. defining a reporting entity, which may be a legal entity, or a portion of an entity

d. revising the definitions of an asset and a liability

e. removing the probability threshold for recognition and adding guidance on derecognition

f. adding guidance on different measurement basis, and

g. stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the Consolidated Financial Statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 01 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

This amendment is effective for the annual periods beginning on or after 01 January 2020.

(iv) Amendments to SLFRS 16 - COVID-19-related Rent Concessions

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. According to the amendment to SLFRS 16, Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

This amendment is effective for the annual periods beginning on or after 01 June 2020.

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

(i) SLFRS 17, 'Insurance contracts'

SLFRS 17 was issued as replacement for SLFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of:

a. discounted probability-weighted cash flows

b. an explicit risk adjustment, and

c. a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under SLFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification to the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the Consolidated Financial Statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

This amendment is effective for the annual periods beginning on or after 01 January 2023.

(ii) 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 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 one loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

The narrow-scope amendments made to SLFRS 9 Financial Instruments which enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

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 periods beginning on or after 2023.

(iii) Classification of Liabilities as Current or Non-current - Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Consolidated Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

In May 2020, the International Accounting Standard Board (IASB) issued an Exposure Draft proposing to defer the effective date of the amendments to 01 January 2023.

(iv) Property, Plant and Equipment: Proceeds before intended use - Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

This amendment is effective for the annual periods beginning on or after 01 January 2022.

(v) Reference to the Conceptual Framework - Amendments to IFRS 3

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

This amendment is effective for the annual periods beginning on or after 01 January 2022.

(vi) Onerous Contracts - Cost of Fulfilling a Contract Amendments to IAS 37

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

This amendment is effective for the annual periods beginning on or after 01 January 2022.

(vii) Annual Improvements to IFRS Standards 2018-2020
The following improvements were finalised in May 2020:

IFRS 9 - Financial Instruments - clarifies which fees should be included in the 10 per cent test for derecognition of financial liabilities.

IFRS 16 - Leases - amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

IFRS 1 - First-time Adoption of International Financial Reporting Standards - allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

IAS 41 - Agriculture - removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

This amendment is effective for the annual periods beginning on or after 01 January 2022.

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.

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

3.4 Financial instruments

3.4.1 Financial assets

3.4.1.1 Initial recognition and measurement

The Group classifies its financial assets into the following categories;

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

b) Loans and receivables (LR),

c) Held to maturity (HTM) and

d) Available for sale (AFS)

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

3.4.1.2 Subsequent measurement

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

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

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

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

a) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or

b) The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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

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

After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in investment income in the 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 2019 and 2020.

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

After initial measurement, available for sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as OCI in the available for sale reserve until the investment is derecognised except in the case of AFS assets of the life policyholders' fund which is transferred to the long term insurance liability through 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 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 20.0 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. 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 Offsetting 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 future premiums. The liability is based on current regulatory and best estimate assumptions.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate via a liability adequacy test using a Gross Premium Valuation (GPV) method. The liability value is adjusted if 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 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.

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

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.

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.

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 project 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.

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.

The Group leases various offices and vehicles. Rental contracts are typically made for fixed periods but may have extension options. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Until 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 01 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from leases are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

3.15 Revenue recognition

3.15.1 Insurance related revenue

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

3.15.2 Fee income

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

3.15.3 Investment income

Interest income

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

Dividend income

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

3.15.4 Fair value gains and losses

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

Fair value gains and losses on financial assets at FVTPL, are recognised in the 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, as well as changes in the gross valuation of insurance and liabilities. 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 Consolidated 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 AIA 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 judgements 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 judgement 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 judgements 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 an RBC-based 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 annual experience studies, allowing for risk margins as prescribed by the Regulator. The Company exercises significant judgement in setting appropriate assumptions.

For unit-linked contracts, insurance contract liabilities represent the unit fund value, plus a non-unit reserve to cover the profit and loss account. Significant judgement is exercised in making appropriate estimates of gross profits, which are also regularly reviewed by the Company.

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

For traditional life insurance contracts, insurance contract liabilities are compared with the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the net liability is increased by the amount of the deficiency.

Significant judgement is exercised in determining the level of aggregation at which liability adequacy testing is performed and in selecting best estimate assumptions. The judgements 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;

Level I	Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level II	Inputs other than quoted prices included within level I that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
Level III	Inputs for the asset or liability that are not based on observable market data

The information regarding fair value hierarchy is given in 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 & 43 to the Consolidated Financial Statements.

5 RISK MANAGEMENT

5.1 Financial risk management

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

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

Management of financial risks falls under the purview of the local 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	2020		2019	
	LKR '000	%	LKR '000	%
Government securities	35,968,263	57.0	27,600,814	52.5
Reverse repurchase agreements	11,538,933	18.3	3,386,974	6.5
Corporate debt	11,560,579	18.3	14,451,771	27.5
Fixed deposits	2,428,229	3.9	5,112,867	9.7
Equity	1,598,063	2.5	2,017,980	3.8
Total	63,094,067	100.0	52,570,406	100.0

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

Equity risk of the unit-linked business is managed by close monitoring of the asset class parameters in each unit-linked fund and by investing in equity in line with the equity investment philosophy of the Company. The Management believes that superior investment returns in equity investments can be secured over the long-term investment horizon by investing in fundamentally sound liquid blue-chip 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.
- Limits for cash and cash equivalents 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 2020	1 Yr LKR '000	1 Yr - 5 Yrs LKR '000	5 Yrs - 10 Yrs LKR '000	Over 10 Yrs LKR '000	No stated maturity LKR '000	Total LKR '000
FINANCIAL ASSETS						
Available for sale						
Government securities	2,787,126	4,153,980	13,964,347	15,062,810	-	35,968,263
Equity instruments	-	-	-	-	46,606	46,606
Loans and receivables						
Reverse repurchase agreements	11,538,933	-	-	-	-	11,538,933
Corporate debt	400,000	7,535,578	3,625,001	-	-	11,560,579
Fixed deposits	2,428,229	-	-	-	-	2,428,229
Fair value through profit or loss						
Equity instruments	-	-	-	-	1,551,457	1,551,457
Other loans and receivables						
Trade receivables	430,327	-	-	-	-	430,327
Reinsurance assets	-	-	-	-	141,249	141,249
Policy loans	-	-	-	-	398,084	398,084
Other receivables	80,433	86,299	310	-	-	167,042
Cash and cash equivalents	1,451,514	-	-	-	-	1,451,514
	19,116,562	11,775,857	17,589,658	15,062,810	2,137,396	65,682,283
FINANCIAL LIABILITIES						
Lease liability	222,313	1,091,718	-	-	-	1,314,031
Agency commission payable	282,624	-	-	-	-	282,624
Franchise fee payable	21,442	-	-	-	-	21,442
Bank overdraft	229,931	-	-	-	-	229,931
	756,310	1,091,718	-	-	-	1,848,028

As at 31 December 2019	1 Yr LKR '000	1 Yr - 5 Yrs LKR '000	5 Yrs - 10 Yrs LKR '000	Over 10 Yrs LKR '000	No stated maturity LKR '000	Total LKR '000
FINANCIAL ASSETS						
Available for sale						
Government securities	602,386	1,646,052	9,720,820	15,631,556	-	27,600,814
Equity instruments	-	-	-	-	33,428	33,428
Loans and receivables						
Reverse repurchase agreements	3,386,974	-	-	-	-	3,386,974
Corporate debt	2,929,867	6,696,904	4,825,000	-	-	14,451,771
Fixed deposits	5,112,867	-	-	-	-	5,112,867
Fair value through profit or loss						
Equity instruments	-	-	-	-	1,984,552	1,984,552
Other loans and receivables						
Trade receivables	440,717	-	-	-	-	440,717
Reinsurance assets	-	-	-	-	138,821	138,821
Policy loans	-	-	-	-	556,825	556,825
Other receivables	107,586	110,709	1,044	-	-	219,339
Cash and cash equivalents	869,989	-	-	-	-	869,989
	13,450,386	8,453,665	14,546,864	15,631,556	2,713,626	54,796,097
FINANCIAL LIABILITIES						
Lease liability	213,345	1,225,288	-	-	-	1,438,633
Agency commission payable	315,861	-	-	-	-	315,861
Franchise fee payable	18,273	-	-	-	-	18,273
Bank overdraft	1,618	-	-	-	-	1,618
	549,097	1,225,288	-	-	-	1,774,385

The financial assets / liabilities of the subsidiary entity are not significant at 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' (lka) and above as assigned by Fitch Ratings Lanka.

Rating movements on the Company's corporate debt investments are monitored on a monthly basis by the Investment Oversight Committee.

The investments portfolios are maintained with the custodian bank, Deutsche Bank AG.

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 maintained minimum haircuts in the range of 4 per cent - 12 per cent, depending on the tenor of the collateral, of the investment amount plus the total accruable interest in 2020. Refer the table on page 95 of the Annual Report for more details.

The Company carries out investment transactions through / with Investment Committee approved intermediaries.

The following table reflects the credit ratings of financial assets- debt instruments of the business as per the National Ratings by Fitch Ratings (Lanka) Ltd.

As at 31 December 2020	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
Available for sale								
Government securities	35,968,263	-	-	-	-	-	-	35,968,263
Loans and receivables								
Reverse repurchase agreements	11,538,933	-	-	-	-	-	-	11,538,933
Corporate debt	-	-	4,360,579	7,200,000	-	-	-	11,560,579
Fixed deposits	-	-	1,430,762	997,467	-	-	-	2,428,229
Premium receivables	-	-	-	-	-	-	430,327	430,327
Reinsurance assets	-	-	-	-	-	-	141,249	141,249
Policy loans	-	-	-	-	-	-	398,084	398,084
Other receivables	-	-	-	-	-	-	167,042	167,042
Cash and cash equivalents	-	23,610	412,716	182,257	10,060	-	-	628,643
	47,507,196	23,610	6,204,057	8,379,724	10,060	-	1,136,702	63,261,349

In addition to the above table, AIA Sri Lanka has cash and cash equivalents amounting to LKR 4.9 million in 'A+' and LKR 819.1 million in 'BBB' international ratings categories respectively.

As at 31 December 2019	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
Available for sale								
Government securities	27,600,814	-	-	-	-	-	-	27,600,814
Loans and receivables								
Reverse repurchase agreements	3,386,974	-	-	-	-	-	-	3,386,974
Corporate debt	-	-	9,863,565	4,588,206	-	-	-	14,451,771
Fixed deposits	-	-	1,701,861	3,411,006	-	-	-	5,112,867
Premium receivables	-	-	-	-	-	-	440,717	440,717
Reinsurance assets	-	-	-	-	-	-	138,821	138,821
Policy loans	-	-	-	-	-	-	556,825	556,825
Other receivables	-	-	-	-	-	-	219,339	219,339
Cash and cash equivalents	-	406	119,775	136,397	299	-	16	256,893
	30,987,788	406	11,685,201	8,135,609	299	-	1,355,718	52,165,021

As at 31 December	2020 LKR '000	2019 LKR '000
Carrying value of investments in reverse repurchase agreements *	11,538,933	3,386,974
Fair value of collateral *	13,266,718	3,803,420
Excess value of collateral	1,727,785	416,446
Margin	15.0%	12.3%

*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 2020	Fixed interest LKR '000	Non-interest bearing LKR '000	Total LKR '000
Loans and deposits	470,386	94,740	565,126
Debt securities	61,496,004	-	61,496,004
Premium receivable	-	430,327	430,327
Reinsurance assets	-	141,249	141,249
Cash and cash equivalents	692,688	758,826	1,451,514
	62,659,078	1,425,142	64,084,220

As at 31 December 2019	Fixed interest LKR '000	Non-interest bearing LKR '000	Total LKR '000
Loans and deposits	681,424	94,740	776,164
Debt securities	50,552,426	-	50,552,426
Premium receivable	-	440,717	440,717
Reinsurance assets	-	138,821	138,821
Cash and cash equivalents	420,982	449,007	869,989
	51,654,832	1,123,285	52,778,117

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.

A s at 31 December	2020		2019	
Impact to;	Net asset value LKR '000	Profit before tax LKR '000	Net asset value LKR '000	Profit before tax LKR '000
Interest rate risk				
+ 100 basis points	(1,269,409)	(1,664,467)	(1,126,307)	(1,678,187)
- 100 basis points	1,418,547	1,659,686	1,260,976	1,674,310

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 policyholders' investment portfolios, except for an equity holding in Serendib Land 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.

The emergence of COVID-19 has had limited impact on mortality experience due to proactive containment measures limiting the spread and case fatality rate remaining low for insurable ages. Mortality experience in 2020 remained favourable against expected assumptions.

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 7 million on any single life insured. The Company reinsures the excess of the insured benefit over LKR 7 million for standard risks (from a medical point of view). Medically impaired lives are charged higher insurance premiums.

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 behavior.

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 benchmark table. Where this is not the case, the best estimate of future mortality is based on benchmark 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. These crude rates are then smoothed *via* a process of graduation. Finally, a blend of the resultant graduated rates and the benchmark mortality rates is taken, weighted according to the credibility of the own experience.

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, premium holiday, 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 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 / adjusted for reasonableness using the latest 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 2020 with three stresses. 110 per cent expense levels and 120 per cent lapse levels along with the 80 per cent lapse levels 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 1,035 million; 4.1 per cent of the policy liability. Decreasing lapse rates by 20.0 per cent would lead to a decrease in policy liabilities of LKR 1,083 million; 4.3 per cent of the policy liability. Increasing lapse rates by 20.0 per cent would lead to an increase in policy liabilities of LKR 978 million; 3.8 per cent of the policy liability.

5.3 Capital management

The focus of capital management is to maintain a strong capital base to support the business and business growth, and to satisfy regulatory capital requirements at all times. In view of this the Company has established the following objectives, policies and approach;

a) To maintain the required solvency level and provide security to policyholders.

b) To allocate capital efficiently and support the growth of the business by ensuring that returns on capital employed meets the requirements of shareholders and policyholders.

c) To maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.

d) To maintain healthy capital ratios in order to support business objectives and optimise shareholder value.

The Company seeks to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Company's approach in managing capital includes managing assets, liabilities and risks in a coordinated manner, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to strengthen the capital position of the Company in view of changes in economic conditions and risk characteristics.

The primary source of capital used by the Company is equity shareholders' funds. The capital requirements are routinely 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.

6 INTANGIBLE ASSETS

	Note	Group / Company			
		2020			2019
		Contractual relationship	Computer software	Total	Total
	Note	LKR '000	LKR '000	LKR '000	LKR '000
Cost		895,991	852,069	1,748,060	1,716,231
(Less) Accumulated amortisation		(237,837)	(667,419)	(905,256)	(792,362)
Net book value as at 01 January		658,154	184,650	842,804	923,869
Additions		-	190,699	190,699	31,829
Amortisation charge	36	(55,749)	(54,813)	(110,562)	(112,894)
Net book value as at 31 December		602,405	320,536	922,941	842,804
Cost		895,991	1,042,768	1,938,759	1,748,060
(Less) Accumulated amortisation		(293,586)	(722,232)	(1,015,818)	(905,256)
Net book value as at 31 December		602,405	320,536	922,941	842,804

The useful life of assets relating to contractual relationships are determined by contract type and lie within individual contract terms.

Intangible assets includes fully amortised assets still in use, the gross carrying value of which amounted to LKR 516,842,088 (2019: LKR 471,810,763) as at the reporting date.

The Board of Directors has assessed potential impairment indicators of intangible assets as at 31 December 2020. Based on such assessment, no impairment indicators were identified, that require adjustments.

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	
	2020	2019
	LKR '000	LKR '000
Approved and contracted for intangible assets	2,257	7,073

7 PROPERTY, PLANT AND EQUIPMENT

	Note	Group / Company						
		2020						2019
		Freehold land	Leasehold improvements	Computer & telecommunication equipment	Furniture, fittings, plant & machinery	Motor vehicles	Total	Total
		LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cost / revaluation		210,000	223,658	575,811	526,042	205,390	1,740,901	1,670,769
(Less) Accumulated depreciation		-	(38,981)	(463,628)	(332,798)	(120,433)	(955,840)	(902,896)
Net book value as at 01 January		210,000	184,677	112,183	193,244	84,957	785,061	767,873
Additions		-	25,474	18,071	23,872	23,400	90,817	190,855
Revaluation surplus	25	23,320	-	-	-	-	23,320	14,000
Depreciation charge	36	-	(24,113)	(58,394)	(72,184)	(35,019)	(189,710)	(186,982)
Disposals		-	-	(129)	(19,966)	(29,269)	(49,364)	(134,721)
Accumulated depreciation on disposals		-	-	89	19,925	29,269	49,283	134,036
Net book value as at 31 December		233,320	186,038	71,820	144,891	73,338	709,407	785,061
Cost / revaluation		233,320	249,132	593,753	529,948	199,521	1,805,674	1,740,903
(Less) Accumulated depreciation		-	(63,094)	(521,933)	(385,057)	(126,183)	(1,096,267)	(955,842)
Net book value as at 31 December		233,320	186,038	71,820	144,891	73,338	709,407	785,061

Property, plant and equipment includes fully depreciated assets still in use, the gross carrying value of which amounted to LKR 623,236,175 (2019: LKR 605,089,714) 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 recognised in the Statement of Other Comprehensive Income (Note 3.5).

As at 31 December	Description of the Property	Location	Extent	Group / Company 2020 Revalued Amount LKR '000	Group / Company 2020 Carrying Value LKR '000	Group / Company 2019 Revalued Amount LKR '000	Group / Company 2019 Carrying Value LKR '000
AIA Insurance Lanka Limited	Freehold Land	No.76 and No. 80, Kew Road, Colombo 02	25.48 (Perches)	233,320	233,320	210,000	210,000

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	31 December 2020	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 2020 and 2019, 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 (2019: 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	
	2020 LKR '000	2019 LKR '000
Approved and contracted for property, plant and equipment	387	690

8 INVESTMENTS IN SUBSIDIARY

As at 31 December	Country of incorporation and place of business	Nature of business	Number of Shares	% holding	Company	
					2020 LKR '000	2019 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

9 FINANCIAL INVESTMENTS

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

As at 31 December		Group / Company			
		2020		2019	
		Carrying value	Fair value	Carrying value	Fair value
	Note	LKR '000	LKR '000	LKR '000	LKR '000
Loans and receivables	9.1	25,527,741	27,796,840	22,951,612	24,201,430
Available for sale financial assets	9.2	36,014,869	36,014,869	27,634,242	27,634,242
Financial assets at fair value through profit or loss	9.3	1,551,457	1,551,457	1,984,552	1,984,552
Total financial investments		63,094,067	65,363,166	52,570,406	53,820,224

9.1 Loans and receivables

As at 31 December	Group / Company			
	2020		2019	
	Amortised cost	Fair value	Amortised cost	Fair value
	LKR '000	LKR '000	LKR '000	LKR '000
Amortised cost				
Corporate debt - listed	11,560,579	13,677,962	14,451,771	15,671,007
Reverse repurchase agreements	11,538,933	11,689,521	3,386,974	3,414,725
Bank deposits	2,428,229	2,429,357	5,112,867	5,115,698
Total loans and receivables	25,527,741	27,796,840	22,951,612	24,201,430

As at 31 December	Group / Company	
	2020	2019
	LKR '000	LKR '000
Loans and receivables at amortised cost		
Current	14,367,163	11,429,708
Non-current	11,160,578	11,521,904
Total loans and receivables	25,527,741	22,951,612

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 Company holds collateral for all reverse repurchase agreements. According to CBSL guidelines, collateral should at least be with an excess of 4 per cent -12 per cent, depending on the tenure of the collateral, of the investment amount plus the total accruable interest.

The fair value of those collateral held are is follows;

As at 31 December		Group / Company	
		2020	2019
Financial Investment	Nature of the collateral	LKR '000	LKR '000
Reverse repurchase agreements	- Government treasury bills	2,263,628	834,150
	- Government treasury bonds	11,003,090	2,969,270
		13,266,718	3,803,420

9.2 Available for sale financial assets

As at 31 December	Group / Company 2020 LKR '000	2019 LKR '000
Government securities	35,968,263	27,600,814
Equity instruments - listed	46,606	33,428
Total available for sale financial assets	36,014,869	27,634,242
Available for sale financial assets		
Current	2,787,126	602,386
Non-current	33,227,743	27,031,856
Total available for sale financial assets	36,014,869	27,634,242

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

9.3 Financial assets at fair value through profit or loss

As at 31 December	Group / Company 2020 LKR '000	2019 LKR '000
Equity instruments - listed	1,551,457	1,984,552
Total financial assets at fair value through profit or loss	1,551,457	1,984,552
Financial assets at fair value through profit or loss		
Current	1,551,457	1,984,552
Non-current	-	-
Total financial assets at fair value through profit or loss	1,551,457	1,984,552

Equity instruments classified as fair value through profit or loss are designated in this category upon initial recognition. There are no non-derivative financial assets held for trading.

The fair value of equity instruments is based on their last traded prices at the Colombo Stock Exchange as at the reporting date. Changes in fair values of financial assets at fair value through profit or loss are recorded in 'net fair value gains and losses' in the Consolidated Income Statement.

9 FINANCIAL INVESTMENTS CONTD.

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

	Group / Company				
	2020				2019
	Loans and receivables LKR '000	Available for sale LKR '000	Fair value through profit or loss LKR '000	Total LKR '000	Total LKR '000
Balance as at 01 January	22,951,612	27,634,242	1,984,552	52,570,406	44,836,419
Purchases	14,797,517	4,273,988	352,276	19,423,781	13,040,357
(Sales) / (maturities)	(12,765,026)	(600,000)	(625,879)	(13,990,905)	(8,483,385)
Realised gains / (losses)	-	-	(137,954)	(137,954)	23,470
Amortisation of discount / (premiums)	543,638	21,966	-	565,604	338,590
Fair value gains / (losses) recorded in Consolidated Income Statement	-	-	(21,538)	(21,538)	(44,513)
Gross fair value gain / (losses) recorded in the Consolidated Statement of Other Comprehensive Income	-	4,684,673	-	4,684,673	2,859,468
Balance as at 31 December	25,527,741	36,014,869	1,551,457	63,094,067	52,570,406

9.5 Determination of fair value and fair value hierarchy

As at 31 December	Group / Company 2020 LKR '000	Group / Company 2019 LKR '000
Level I		
Financial assets at fair value through profit or loss		
Equity instruments - listed	1,551,457	1,984,552
Available for sale financial assets		
Equity instruments - listed	46,606	33,428
Level II		
Available for sale financial assets		
Government securities	35,968,263	27,600,814
Total financial assets measured at fair value	37,566,326	29,618,794

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

10 POLICYHOLDER AND OTHER LOANS

As at 31 December	Note	Group / Company 2020 LKR '000	Group / Company 2019 LKR '000
Policy loans		398,084	556,825
Agent loans		150,104	191,217
Staff loans		21,349	32,489
	10.1	569,537	780,531
(Less) Allowance for impairment losses			
Agent loans	10.2	(4,411)	(4,367)
Total policyholder and other loans		565,126	776,164
Policyholder and other loans			
Current		80,433	328,269
Non-current		484,693	447,895
Total policyholder and other loans		565,126	776,164

10.1 Movement in policyholder and other loans

As at 31 December	Group / Company 2020 LKR '000	Group / Company 2019 LKR '000
Balance as at 01 January	780,531	840,552
Loans granted during the period	398,084	608,470
Loan repayments during the period	(614,019)	(670,147)
Loans written back during the period	1,708	649
Amortisation of discount	3,233	1,007
Balance as at 31 December	569,537	780,531

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

As at 31 December	Group / Company 2020 LKR '000	Group / Company 2019 LKR '000
Balance as at 01 January	4,367	3,852
Additional allowance for impairment during the period	44	515
Balance as at 31 December	4,411	4,367

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 offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity.

As at 31 December	Group / Company 2020 LKR '000	2019 LKR '000
Deferred income tax assets		
On unused tax losses	1,105,559	1,381,385
On temporary difference from fair value losses	-	-
Total deferred income tax assets	1,105,559	1,381,385
Deferred income tax liabilities		
On temporary difference from fair value gains	(687,110)	(280,407)
Total deferred income tax liabilities	(687,110)	(280,407)
Net deferred income tax assets	418,449	1,100,978

The Group / Company has recognised Deferred Tax Asset of LKR 1,106 million as at 31 December 2020 (LKR 1,381 million as at 31 December 2019) by utilising the available tax losses of LKR 3,948 million as at 31 December 2020 (LKR 4,934 million as at 31 December 2019) 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 Inland Revenue Act No. 24 of 2017.

Deferred income tax liabilities of LKR 441,352 (2019: LKR 298,624) 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.

11.1 The movement in net deferred income tax asset / liability is as follows

As at 31 December	Note	Group / Company 2020 LKR '000	2019 LKR '000
Balance as at 01 January		1,100,978	2,552,492
Deferred tax charge / (income) recognised in Consolidated Income Statement			
On unused tax losses	38	(275,826)	(1,167,666)
		(275,826)	(1,167,666)
Deferred tax charge / (income) recognised in the Statement of Other Comprehensive Income			
On temporary difference from fair value differences		(406,703)	(283,848)
		(406,703)	(283,848)
Balance as at 31 December		418,449	1,100,978

12 REINSURANCE RECEIVABLES

Reinsurance receivable balances as at 31 December 2020 and 2019 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 2020 and 2019 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	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Balance as at 01 January	441,150	403,370	440,717	402,981
Revenue receivable from customers	2,820,951	2,264,565	2,819,115	2,262,844
Collection of cash from customers	(2,831,305)	(2,226,785)	(2,829,505)	(2,225,108)
Balance as at 31 December	430,796	441,150	430,327	440,717

14 OTHER ASSETS

As at 31 December	Note	Group		Company	
		2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Inventory		6,237	-	6,237	-
Interest and dividend receivable		1,713,353	1,703,607	1,713,353	1,703,607
Advance company tax recoverable		66,397	66,397	66,397	66,397
Withholding tax recoverable		880,843	901,406	880,843	901,404
Deposits		59,994	65,159	59,994	65,159
Prepayments and advances		216,675	257,553	216,675	257,553
Capital work in progress	14.1	327,418	111,194	327,418	111,194
Total other assets		3,270,917	3,105,316	3,270,917	3,105,314

As at 31 December	Group		Company	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Other assets				
Current	2,081,793	1,965,050	2,081,793	1,965,048
Non-current	1,189,124	1,140,266	1,189,124	1,140,266
Total other assets	3,270,917	3,105,316	3,270,917	3,105,314

14 OTHER ASSETS CONTD.

14.1 Capital work-in-progress

	Group / Company	
	2020	2019
	LKR '000	LKR '000
Balance as at 01 January	111,194	157,711
Additions	275,945	121,393
Amount capitalised in property, plant and equipment	(15,674)	(78,261)
Amount capitalised in intangible assets	(43,997)	(9,115)
Amount written off during the period	(50)	(80,534)
Balance as at 31 December	327,418	111,194

15 OTHER FUND ASSETS

	Group / Company			
	2020		2019	
As at 31 December	Carrying value	Cost	Carrying value	Cost
	LKR '000	LKR '000	LKR '000	LKR '000
Government securities	236,455	234,033	193,682	191,723
Fixed deposits	151,390	150,090	160,737	159,573
Other assets	2,773	2,773	2,770	2,770
Cash and cash equivalents / (bank overdraft)	2,465	2,465	(67)	(67)
Total other fund assets	393,083	389,361	357,122	353,999

16 CASH AND CASH EQUIVALENTS

	Group		Company	
As at 31 December	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Short term investments	696,934	422,936	692,688	420,982
Cash at bank and in hand	758,838	450,260	758,826	449,007
Cash and cash equivalents (excluding bank overdraft)	1,455,772	873,196	1,451,514	869,989

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

	Group		Company	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	1,455,772	873,196	1,451,514	869,989
Bank overdraft	(229,931)	(1,618)	(229,931)	(1,618)
	1,225,841	871,578	1,221,583	868,371

17 INSURANCE LIABILITIES AND RELATED REINSURANCE ASSETS

As at 31 December	Note	Group / Company 2020 Gross LKR '000	2020 Reinsurance LKR '000	2020 Net LKR '000	2019 Gross LKR '000	2019 Reinsurance LKR '000	2019 Net LKR '000
Long term policy liability	17.1	45,061,332	-	45,061,332	35,916,520	-	35,916,520
Life claims provision	17.2	526,082	141,249	384,833	463,691	138,821	324,870
Total insurance contract liabilities		45,587,414	141,249	45,446,165	36,380,211	138,821	36,241,390

17.1 Life insurance fund - Income Statement movement

The movement in the Life insurance fund as follows

As at 31 December	Group / Company 2020 LKR '000	Group / Company 2019 LKR '000
Balance as at 01 January	35,916,520	31,502,851
Balances that are transferred through Consolidated Income Statement		
Net income from life fund before surplus and charges	5,252,557	4,484,460
Charges deducted from policyholders fund	836,209	656,946
Deficit / (Surplus) from life Insurance fund	660,093	(1,916,518)
Change in contractual liability	6,748,859	3,224,888
Balances that are transferred through Statement of Other Comprehensive Income		
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	3,232,162	1,845,727
Other movements in policyholder liability		
Fees and charges deducted from the policyholder life fund	(836,209)	(656,946)
Balance as at 31 December	45,061,332	35,916,520

17.2 Life claims provision

As at 31 December	2020 Gross LKR '000	2020 Reinsurance LKR '000	2020 Net LKR '000	2019 Gross LKR '000	2019 Reinsurance LKR '000	2019 Net LKR '000
Balance as at 01 January	463,691	138,821	324,870	422,432	127,908	294,524
Provisions released for claims paid to clients	(4,575,482)	184,721	(4,760,203)	(4,913,553)	192,705	(5,106,258)
Provisions for claims registered during the period	4,637,873	(182,293)	4,820,166	4,954,812	(181,792)	5,136,604
Balance as at 31 December	526,082	141,249	384,833	463,691	138,821	324,870

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.

The movement in the defined benefit obligation is as follows:

	Group / Company	
	2020 LKR '000	2019 LKR '000
Balance as at 01 January	263,294	217,293
Current service cost	35,323	28,566
Interest cost	27,224	25,858
Amounts recognised in the Income Statement	62,547	54,424
Re-measurements:		
Losses from change in financial assumptions	47,557	19,629
Actuarial gain due to changes in experience	(5,597)	(6,778)
Amounts recognised in the Statement of Other Comprehensive Income	41,960	12,851
Benefits paid	(29,092)	(21,274)
Balance as at 31 December	338,709	263,294

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

	2020 % per annum	2019 % per annum
Future salary increase	11.00	11.00
Discount rate	7.52	10.34
Member withdrawal rate	8.00	8.00
Retirement age	55 Years	55 Years

Sensitivity analysis of key actuarial assumptions used

	Group / Company					
	Future salary increase		Discount rate		Member withdrawal rate	
As at 31 December	1% increase LKR '000	1% decrease LKR '000	1% increase LKR '000	1% decrease LKR '000	1% increase LKR '000	1% decrease LKR '000
The effect on;						
- Retirement benefit obligations 2020	19,416	(17,593)	(18,641)	21,026	(4,072)	4,541
- Retirement benefit obligations 2019	13,581	(12,442)	(12,940)	14,389	(905)	1,004

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

As at 31 December	2020 LKR '000	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	2015 LKR '000
Defined benefit obligations	338,709	263,294	217,293	222,085	188,425	193,691

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

Defined benefit obligation	Less than 1 year LKR '000	1-5 years LKR '000	Above 5 years LKR '000	Total LKR '000
Defined benefit obligations				
As at 31 December 2020	73,766	64,555	200,388	338,709
As at 31 December 2019	39,403	67,540	156,351	263,294

19 LEASES

19.1 Group leasing activities

The Group leases various office premises and vehicles. Rental contracts are typically made for fixed periods of 6 months to 10 years including extension and termination options.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets were not used as security for borrowing purposes.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor and not expected to have a material impact to the Consolidated Financial Statements.

The Group applied practical expedient to all the rent concessions received, which fulfilled the criteria of COVID-19 related rent concessions. Based on directions given in SLFRS 16, changes in lease payments which occurred due to the concessions were accounted as variable lease payments.

This amendment is adopted by the Group from June 2020.

19 LEASES CONTD.

19.2 Amounts recognised in the statement of financial position

19.2 (a) Right-of-use assets

	Group / Company			
	2020			2019
As at 31 December	Buildings LKR '000	Motor Vehicles LKR '000	Total LKR '000	Total LKR '000
Cost	1,166,479	3,880	1,170,359	1,109,830
(Less) Accumulated amortisation	(184,379)	(955)	(185,334)	-
Net book value as at 01 January	982,100	2,925	985,025	1,109,830
Additions	236,577	-	236,577	60,529
Terminations & Lease expiry	(48,411)	-	(48,411)	-
Amortisation charge	(219,038)	(1,940)	(220,978)	(185,334)
Accumulated amortisation on disposals	38,493	-	38,493	-
Net book value as at 31 December	989,721	985	990,706	985,025
Cost	1,358,598	3,880	1,362,478	1,170,359
(Less) Accumulated depreciation	(368,877)	(2,895)	(371,772)	(185,334)
Net book value as at 31 December	989,721	985	990,706	985,025

19.2 (b) Lease Liabilities

	Group		Company	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Current	122,040	97,975	122,040	97,975
Non-current	878,031	792,675	878,031	792,675
	1,000,071	890,650	1,000,071	890,650

19.3 Amounts recognised in the statement of profit or loss

Depreciation charge of right-of-use assets

		Group		Company	
	Note	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Buildings		(219,038)	(184,379)	(219,038)	(184,379)
Vehicles		(1,940)	(955)	(1,940)	(955)
Depreciation charge of right-of-use assets	36	(220,978)	(185,334)	(220,978)	(185,334)
Interest expense (included in finance cost)		(114,532)	(128,452)	(114,532)	(128,452)
Expense relating to short-term leases included within administrative expenses		(10,649)	(14,209)	(10,649)	(14,209)
Lease concessions received (COVID-19)		729	-	729	-
		(345,430)	(327,995)	(345,430)	(327,995)

19.4 Amounts recognised in the Consolidated Statement of Cash Flows

	Group		Company	
	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000
Principal payment of lease liabilities	(130,416)	(212,949)	(130,416)	(212,949)
Short term lease rentals paid	(11,811)	(94,315)	(11,811)	(94,315)
Interest paid - leases	(114,532)	(128,452)	(114,532)	(128,452)
	(256,759)	(435,716)	(256,759)	(435,716)

20 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	
	2020	2019
	LKR '000	LKR '000
Balance as at 01 January	357,122	295,829
Capital deposits	84,133	91,897
Capital withdrawals	(83,311)	(65,277)
Income / gains and losses	35,139	34,673
Balance as at 31 December	393,083	357,122

21 ACCRUALS AND OTHER PAYABLES

As at 31 December	Note	Group		Company	
		2020	2019	2020	2019
		LKR '000	LKR '000	LKR '000	LKR '000
Policyholder advance payments		648,773	457,424	648,773	457,424
Agency commission payable		282,624	315,861	282,624	315,861
Franchise fee payable		21,442	18,273	21,442	18,273
Government taxes and levies		51,901	36,880	51,901	36,880
Accrued expenses	21.1	2,699,164	2,267,453	2,698,818	2,267,136
Other creditors		286,205	224,272	286,205	224,272
		3,990,109	3,320,163	3,989,763	3,319,846
Accruals and other payables					
Current		3,816,401	3,169,795	3,816,055	3,169,478
Non-current		173,708	150,368	173,708	150,368
		3,990,109	3,320,163	3,989,763	3,319,846

21 ACCRUALS AND OTHER PAYABLES CONTD.

21.1 Movement in accrued expenses

As at 31 December	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Balance as at 01 January	2,267,453	1,960,336	2,267,136	1,959,887
Provisions during the year	3,019,823	3,027,924	3,019,344	3,027,489
Payments and reversals during the year	(2,588,112)	(2,720,807)	(2,587,662)	(2,720,240)
Balance as at 31 December	2,699,164	2,267,453	2,698,818	2,267,136
Accrued expenses				
Current	2,548,494	2,117,085	2,548,148	2,116,768
Non-current	150,670	150,368	150,670	150,368
	2,699,164	2,267,453	2,698,818	2,267,136

22 CURRENT INCOME TAX LIABILITIES

As at 31 December	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Balance as at 01 January	192	2,800	-	2,619
Provision / (reversal)	388	(2,294)	-	(2,619)
Payments	(330)	(303)	-	-
Income tax payable set off against tax credits	(21)	(11)	-	-
Balance as at 31 December	229	192	-	-

23 DEFERRED REVENUE

Movement in deferred revenue

	Group / Company 2020 LKR '000	Group / Company 2019 LKR '000
Balance as at 01 January	51,226	48,595
Reinsurance recovered in advance in WOP* claims	7,146	7,686
Reinsurance recovered set off against reinsurance assets	(5,005)	(5,055)
Balance as at 31 December	53,367	51,226

*Waiver of Premium

24 STATED CAPITAL

As at 31 December	2020 No. of shares	2020 LKR '000	2019 No. of shares	2019 LKR '000
Fully paid ordinary shares	30,749,370	511,922	30,749,370	511,922

25 CAPITAL RESERVES

Revaluation reserve

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

	Group / Company	
	2020 LKR '000	2019 LKR '000
Balance as at 01 January	192,916	178,916
Revaluation surplus arising during the year	23,320	14,000
Balance as at 31 December	216,236	192,916

26 RESTRICTED REGULATORY RESERVE

The RBC one-off surplus is the difference between 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, and this was transferred to the 'Restricted Regulatory Reserve' as stipulated by IRCSL. Direction #16 recommended this to be maintained unchanged until further notice from the IRCSL or until distributed to shareholders upon explicit approval of the IRCSL.

	Group / Company	
	2020 LKR '000	2019 LKR '000
Balance as at 01 January	6,080,848	6,080,848
Balance as at 31 December	6,080,848	6,080,848

27 REVENUE RESERVES

As at 31 December	Note	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Available for sale reserve	27.1	1,766,854	721,046	1,766,854	721,046
Retained earnings	27.2	12,006,976	13,136,784	12,003,824	13,134,651
Total revenue reserves		13,773,830	13,857,830	13,770,678	13,855,697

27.1 Available for sale reserve

	Group / Company	
	2020 LKR '000	2019 LKR '000
Balance as at 01 January	721,046	(8,847)
Changes in fair value of available for sale financial assets	4,277,970	2,575,620
Changes in fair value of available for sale financial assets transferred to the long term insurance fund	(3,232,162)	(1,845,727)
Balance as at 31 December	1,766,854	721,046

27 REVENUE RESERVES

27.2 Retained earnings

As at 31 December	Group		Company	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
AIA Insurance Lanka Limited	12,003,824	13,134,651	12,003,824	13,134,651
Rainbow Trust Management Limited	3,152	2,133	-	-
Total retained earnings	12,006,976	13,136,784	12,003,824	13,134,651
Total revenue reserves	13,773,830	13,857,830	13,770,678	13,855,697

28 NET WRITTEN PREMIUM

(a) Gross written premium

For the financial year ended 31 December	Group / Company	
	2020 LKR '000	2019 LKR '000
Conventional	13,263,600	12,933,582
Unit-linked	785,959	914,701
Total gross written premium	14,049,559	13,848,283

(b) Gross reinsurance premium

For the financial year ended 31 December	Group / Company	
	2020 LKR '000	2019 LKR '000
Conventional	(364,036)	(315,336)
Unit-linked	(44,824)	(54,618)
Total gross reinsurance premium	(408,860)	(369,954)
Net written premium	13,640,699	13,478,329

29 INVESTMENT INCOME

For the financial year ended 31 December	Group		Company	
	2020 LKR '000	2019 LKR '000	2020 LKR '000	2019 LKR '000
Dividend income				
Financial assets at fair value through profit or loss	74,945	62,750	74,945	62,750
Available for sale financial assets	643	-	643	-
Total dividend income	75,588	62,750	75,588	62,750
Interest income				
Available for sale financial assets	2,973,876	2,868,867	2,973,876	2,868,867
Loans and receivables	2,535,741	2,562,927	2,535,741	2,562,927
Total interest income	5,509,617	5,431,794	5,509,617	5,431,794
Total investment income	5,585,205	5,494,544	5,585,205	5,494,544

30 FEE INCOME

For the financial year ended 31 December	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Policy administration charges	836,209	656,946	836,209	656,946
Other contract fees	6,473	21,037	6,473	21,037
Trust management fees	1,836	1,721	-	-
Total fee income	844,518	679,704	842,682	677,983

31 NET REALISED LOSSES

For the financial year ended 31 December	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Property, plant and equipment				
Net realised gains / (losses)	14,444	(77,277)	14,444	(77,277)
Financial assets				
Available for sale financial assets				
Debt securities	-	37,135	-	37,135
Fair value through profit or loss				
Equity instruments	(137,954)	(13,665)	(137,954)	(13,665)
Total net realised gains / (losses) from financial assets	(137,954)	23,470	(137,954)	23,470
Total realised losses	(123,510)	(53,807)	(123,510)	(53,807)

32 NET FAIR VALUE LOSSES

For the financial year ended 31 December	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Fair value losses on financial assets at fair value through profit or loss	(21,538)	(44,513)	(21,538)	(44,513)
Total net fair value losses	(21,538)	(44,513)	(21,538)	(44,513)

33 OTHER OPERATING REVENUE

For the financial year ended 31 December	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Interest income on policy loans	108,829	133,831	108,829	133,831
Interest income on other loans	18,817	18,077	18,817	18,077
Interest income on cash and cash equivalents	25,286	9,305	25,096	9,123
Foreign exchange gain / (losses)	(33,206)	4,705	(33,206)	4,705
Other miscellaneous income	3,461	11,388	3,460	11,388
Total other operating revenue	123,187	177,306	122,996	177,124

34 NET CLAIMS AND BENEFITS

For the financial year ended 31 December	Group / Company 2020 LKR '000	Group / Company 2019 LKR '000
Gross claims and benefits	(4,638,747)	(4,985,514)
Claims ceded to reinsurers	185,007	200,986
Net claims and benefits	(4,453,740)	(4,784,528)

35 NET ACQUISITION EXPENSES

For the financial year ended 31 December	Group / Company 2020 LKR '000	Group / Company 2019 LKR '000
Commission and Franchise fees	(1,726,129)	(1,895,310)
Reinsurance commission	37,518	15,267
Net acquisition expenses	(1,688,611)	(1,880,043)

36 OPERATING AND ADMINISTRATIVE EXPENSES

For the financial year ended 31 December	Note	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Employee benefit expenses	36.1	(2,083,310)	(1,940,148)	(2,083,310)	(1,940,148)
Administrative and establishment expenses		(1,953,399)	(2,178,501)	(1,952,912)	(2,178,105)
Selling expenses		(1,610,991)	(1,731,382)	(1,610,839)	(1,731,199)
Amortisation of intangible assets	6	(110,562)	(112,894)	(110,562)	(112,894)
Amortisation of ROU	19.2	(220,978)	(185,334)	(220,978)	(185,334)
Depreciation	7	(189,710)	(186,982)	(189,710)	(186,982)
Other expenses	36.3	(148,053)	(209,690)	(148,053)	(209,690)
Total operating and administrative expenses		(6,317,003)	(6,544,931)	(6,316,364)	(6,544,352)

36.1 Employee benefit expenses

For the financial year ended 31 December	Group / Company 2020 LKR '000	Group / Company 2019 LKR '000
Salaries and bonus	(1,213,408)	(1,004,634)
Contribution to defined contribution plans	(156,813)	(105,878)
Contribution to defined benefit plans	(62,547)	(54,424)
Staff welfare	(103,775)	(113,321)
Staff training	(13,138)	(48,989)
Others staff costs	(533,629)	(612,902)
Total employee benefit expenses	(2,083,310)	(1,940,148)

36.2 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 AIA Group Ltd 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 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 2020 is LKR 56,695,589 (2019: LKR 46,379,296).

36.3 Other expenses

For the financial year ended 31 December	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Increase in provision for bad and doubtful debts	(43)	(516)	(43)	(516)
Other technical expenses	(41,629)	(91,180)	(41,629)	(91,180)
Investment expenses	(103,424)	(117,829)	(103,424)	(117,829)
Other non-technical expenses	(2,957)	(165)	(2,957)	(165)
Total other expenses	(148,053)	(209,690)	(148,053)	(209,690)

37 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 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Auditors' remuneration				
-Audit	3,753	4,894	3,609	4,729
-Non-audit	-	1,726	-	1,653
Directors' / Chief Executive Officer's emoluments	237,611	335,112	237,611	335,112
Directors' fees	8,400	8,400	8,400	8,400
Legal fees	1,664	3,403	1,664	3,403
Donations	2,785	1,711	2,785	1,711
Provision for bad and doubtful debts	43	516	43	516

38 INCOME TAX EXPENSES

For the financial year ended 31 December	Note	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Current income tax					
Current income tax expense		(388)	(325)	-	-
Over Provision recognised for prior period		19	2,619	-	2,619
Notional tax unutilised during the year		-	(22,139)	-	(22,139)
		(369)	(19,845)	-	(19,520)
Deferred income tax					
Deferred tax expense	11.1	(275,826)	(1,167,666)	(275,826)	(1,167,666)
Total income tax expense		(276,195)	(1,187,511)	(275,826)	(1,187,186)

The applicable tax rate - 28% (2019 -28%)

38.1 Reconciliation of tax charge

For the financial year ended 31 December	Group 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Profit before tax	725,816	3,168,721	724,428	3,167,397
Applicable tax rate	28%	28%	28%	28%
Tax at applicable rate	203,228	887,242	202,840	886,871
Add / (less) tax effect of the following items:				
Tax free (gains) / losses	(4,044)	21,638	(4,044)	21,638
Other non-deductible expenses	77,030	77,007	77,030	77,007
Unutilised notional tax for the year	-	16,417	-	16,417
Movement in Deferred tax on brought forward tax lossess	-	187,872	-	187,872
Adjustments of prior periods recognised in the period	(19)	(2,665)	-	(2,619)
Tax charge for the year	276,195	1,187,511	275,826	1,187,186

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 Apr 2018. As per the transitional provisions which is published on 01 Apr 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.

The notional tax credit available to set-off against future tax liability of the Company as at 31 December 2020 is LKR 1,957 million (as at 31 December 2019 is LKR 1,957 million).

39 PROFIT AFTER TAX

The profit after tax of the Company includes the deficit transfer to its life insurance business. The deficit of the policyholders' fund for the financial year 2020 stood at LKR 660 million (2019 a surplus of LKR 1,917 million)

40 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 2020 LKR '000	Group 2019 LKR '000	Company 2020 LKR '000	Company 2019 LKR '000
Profit attributable to the Company's equity holders	(LKR '000)	449,621	1,981,210	448,602	1,980,211
Weighted average number of ordinary shares in issue	('000)	30,749	30,749	30,749	30,749
Basic earnings per share	(LKR)	14.62	64.43	14.59	64.40

41 DIVIDEND PER SHARE

The dividends paid in 2020 and 2019 were LKR 1,537 million (LKR 50 per share) and LKR 769 million (LKR 25 per share) respectively.

42 RELATED PARTY DISCLOSURES

42.1 Transactions with related entities

Details of significant related party disclosures 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	
For the year ended 31 December	Immediate Parent		Parent		Ultimate parent		Fellow subsidiary		Fellow subsidiary		Fellow subsidiary		Fellow subsidiary	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Group recharges	-	-	597,717	438,164	71,105	93,276	186,420	152,847	72,983	61,775	106,080	20,620	103,459	5,390
Dividend paid	1,341,836	580,105	180,961	65,674	-	-	-	-	-	-	-	-	-	-
RI Premium	-	-	301	-	-	-	-	-	-	-	-	-	-	-
RI Commission	-	-	34	-	-	-	-	-	-	-	-	-	-	-

42.2 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 of the Company and those of its Parent and Ultimate Parent.

a) Key Management Personnel compensation

Directors' / CEO's compensation

For the financial year ended 31 December	2020 LKR '000	2019 LKR '000
Directors' / CEO's remuneration	209,212	220,309
Short-term employee benefits	25,173	110,959
Premiums paid for Directors and Officers Liability policy *	3,226	3,844
Directors' fees	8,400	8,400
	246,011	343,512

* 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	2020 LKR '000	2019 LKR '000
Consideration* recognised in the Consolidated Financial Statements	-	1,011

*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	2020 LKR '000	2019 LKR '000
Premium paid on insurance policies taken by Directors in their individual capacity	105	105
	105	105

42 RELATED PARTY DISCLOSURES CONTD.

42.3 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 Limited	This company has Intra-Group master services agreement & SOW relating to Group Distribution organised events with AIA Insurance Lanka Limited
AIA Group Limited	William Lisle	Regional Chief Executive	AIA Group Limited is the parent of AIA Company Limited	This company has Intra-Group master services agreement & SOW relating to long term incentive awards of employees of AIA Insurance Lanka Limited
Singer Sri Lanka PLC	Deepal Sooriyaarachchi	Director	No relationship with AIA Insurance Lanka Limited	AIA Insurance Lanka Limited has transactions in the ordinary course of business with Singer Sri Lanka PLC
NDB Wealth Management Ltd	Sarath Wikramanayake	Director	No relationship with AIA Insurance Lanka Limited	AIA Insurance Lanka Limited 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 Limited	AIA Insurance Lanka Limited has transactions in the ordinary course of business with NDB Investment Bank Ltd
NDB Capital Holdings Limited	Sarath Wikramanayake	Director	No relationship with AIA Insurance Lanka Limited	AIA Insurance Lanka Limited has transactions in the ordinary course of business with NDB Capital Holdings Limited
Union Bank PLC	Sarath Wikramanayake	Director	No relationship with AIA Insurance Lanka Limited	AIA Insurance Lanka Limited has transactions in the ordinary course of business with Union Bank PLC

43 CONTINGENT LIABILITIES

43.1 Outstanding tax assessments

The Company has received assessments relating to income taxes for the assessment periods from 2010/11 to 2017/18. The Inland Revenue Department (IRD) has disallowed management expenses relating to the life insurance business, in raising these assessments. The Company disagreed with these assessments and appeals have been filed, following due process. Based on the stage of the respective appeals against the assessments in accordance with relevant administrative procedures, the appeals have been made before the Court of Appeal, the Tax Appeals Commission and the Inland Revenue Department. Total exposure of the assessment is LKR 9,024.5 million including penalties.

Based on the information available and expert advice received, the Group is of the strong view that it is probable that the tax authority, as defined in IFRIC 23, will accept the tax treatment adopted by the Group in the Consolidated Financial Statements and its tax returns. Therefore, no further accounting provisions or adjustments are required, in accordance with IFRIC 23.

However, in an event that the appeals against the assessments are not favourably concluded by the authorities, the income tax losses that have been indicated in the income tax returns will cease to exist. In such an event, the deferred tax asset on tax losses that had already been recognised (LKR 2.5 billion), will be required to be reversed and charged to the Consolidated Income Statement together with any additional tax liabilities.

The IRD has also issued assessments in relation to VAT on Financial Services (FS) and NBT on FS for year ending 2014 and 2016. The IRD is taking the position that AIA Insurance Lanka Limited is to be considered under the criteria of 'any person who carries on the business of supplying financial services in Sri Lanka' and is hence liable to pay VAT and NBT on FS. The Company disagreed with these assessments and appeals have been filed, following due process. Total exposure of such assessment is LKR 290.5 million. Based on the information available and expert advice received, the Directors are of the considered opinion that the ultimate resolution of the above contingency is unlikely to have a material adverse effect on the Consolidated Financial Statements of the Company. Hence no provision has been made in the Consolidated Financial Statements.

Additionally, the Company has received VAT assessments on fee income for the assessment period from 01 January 2016 to 31 December 2016 from the IRD in relation to which appeals have been filed that Life insurance business is not liable to pay VAT since supplies in relation to Life insurance are exempt from chargeability to VAT. Total exposure of such assessment is LKR 91.9 million. The above contingency is unlikely to have a material adverse effect on the Consolidated Financial Statements of the Company. Hence no provision has been made in the Consolidated Financial Statements.

43.2 Bank guarantees

The Company has provided bank guarantees to third parties amounting to LKR 1,049 million as at 31 December 2020. 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 have been made in the Consolidated Financial Statements.

43.3 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.

44 EVENTS AFTER THE REPORTING PERIOD

The Board of Directors recommended the distribution of a first and final dividend of LKR 30 per share on 11 February 2021, as authorised by the Articles of Association of the Company, to be paid out of the profits for the year subject to the regulatory submission.

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 recommending the first and final dividend of LKR 30 per share. Further, the company has also complied with the requirements specified in the Regulation of Insurance Industry Act No.43 of 2000 (as amended) and such other requirements set out by the Insurance Regulatory Commission of Sri Lanka prior to declaring such dividends.

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 2020.

The Inland Revenue Department on 12 February 2020; issued a public notification, subject to pending formal amendments to the Inland Revenue Act No 24 of 2017. According to these proposed changes; the income tax rate of the Group is revised from existing 28 per cent to 24 per cent, effective from 01 January 2020. However the Group did not adjust the Consolidated Financial Statements due to this event on the basis that such notification is not considered as 'substantially enacted' as required in LKAS 12, Income Taxes.

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.

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Five Year Summary

As at 31 December	2020 LKR '000	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000
Consolidated Statement of Financial Position					
Group					
Assets					
Investments	57,972,437	47,660,024	40,100,312	40,722,460	34,829,199
Investments - Unit-linked	5,121,630	4,910,382	4,736,107	5,013,288	5,258,443
Property, plant and equipment	709,407	785,061	767,873	746,542	229,169
Other assets	8,589,039	8,620,576	8,802,958	6,101,705	5,767,405
Total assets	72,392,513	61,976,043	54,407,250	52,583,995	46,084,216
Equity and liabilities					
Equity					
Stated capital	511,922	511,922	511,922	511,922	511,922
Capital reserves	216,236	192,916	178,916	152,176	72,096
Restricted regulatory reserve	6,080,848	6,080,848	6,080,848	6,080,848	-
Resilience reserve	-	-	-	289,000	289,000
Available for sale reserve	1,766,854	721,046	(8,847)	16,709	-
Retained earnings	12,006,976	13,136,784	11,937,159	10,314,618	4,492,836
Total equity	20,582,836	20,643,516	18,699,998	17,365,273	5,365,854
Liabilities					
Insurance provision - Conventional	40,437,972	31,355,861	27,066,333	26,887,302	32,929,907
Insurance provision - Unit-linked	5,149,442	5,024,350	4,858,950	5,228,990	5,258,443
Other liabilities	6,222,263	4,952,316	3,781,969	3,102,430	2,530,012
Total liabilities	51,809,677	41,332,527	35,707,252	35,218,722	40,718,362
Total equity and liabilities	72,392,513	61,976,043	54,407,250	52,583,995	46,084,216
Long term - supplemental					
Assets					
Investments	40,089,171	31,060,176	26,337,064	25,532,036	31,010,754
Investments - Unit-linked	5,121,630	4,910,382	4,736,107	5,013,288	5,258,443
Other assets	4,258,318	3,549,950	3,944,919	4,058,519	3,976,927
Total assets	49,469,119	39,520,508	35,018,090	34,603,843	40,246,124
Liabilities					
Insurance provision - Long term	40,445,771	31,355,861	27,066,333	26,887,302	32,929,907
Insurance provision - Unit-linked	5,149,442	5,024,350	4,858,950	5,228,990	5,258,443
Other liabilities	3,873,906	3,140,297	3,092,807	2,487,551	2,057,774
Total liabilities	49,469,119	39,520,508	35,018,090	34,603,843	40,246,124

For the financial year ended 31 December	2020 LKR '000	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000
Consolidated Income Statement					
Total business (Group)					
Gross written premium	14,049,559	13,848,283	12,739,351	11,510,581	10,103,915
Gross reinsurance premium	(408,860)	(369,954)	(382,221)	(302,123)	(260,065)
Net written premium	13,640,699	13,478,329	12,357,130	11,208,458	9,843,850
Other revenue	6,407,862	6,253,234	5,638,926	6,012,401	5,235,552
Total revenue	20,048,561	19,731,563	17,996,056	17,220,859	15,079,402
Net claims and benefits	(4,453,740)	(4,784,528)	(5,643,996)	(5,137,265)	(4,759,614)
Change in contractual liability	(6,748,859)	(3,224,888)	(2,169,193)	2,598,054	(3,486,785)
Change in contractual liability due to transfer of RBC one-off surplus	-	-	-	6,080,848	-
Net acquisition expenses	(1,688,611)	(1,880,043)	(1,979,881)	(1,785,510)	(1,303,244)
Finance costs	(114,532)	(128,452)	-	-	-
Operating and administrative expenses	(6,317,003)	(6,544,931)	(6,590,521)	(5,297,224)	(4,735,493)
Profit before tax	725,816	3,168,721	1,612,465	13,679,762	794,266
Income tax expense	(276,195)	(1,187,511)	2,498,172	(238,198)	(283,590)
Profit for the year	449,621	1,981,210	4,110,637	13,441,564	510,676
Surplus / (Deficit) transfer to or from shareholders' fund	(660,093)	1,916,518	1,157,284	13,161,617	314,760

Financial year		2020	2019	2018	2017	2016
Investor Information						
Return on net assets	%	2.18	10.07	22.80	118.27	8.71
Net assets per share	LKR	669.37	671.35	608.14	564.74	174.50
Market price per share - 31 December	LKR	N/A	N/A	1,707.60	327.50	280.10
Basic earnings per share	LKR	14.62	64.43	133.68	437.13	16.61
Price earnings ratio	Times	N/A	N/A	12.77	0.75	16.87
Market capitalisation	LKR Mn	N/A	N/A	52,508	10,070	8,613
Dividend per share	LKR	50.00	25.00	91.00	50.00	49.50
Dividend payout ratio	%	341.95	38.80	68.07	11.44	298.05
Earnings yield	%	N/A	N/A	7.83	133.48	5.93
Dividend yield	%	N/A	N/A	5.33	15.27	17.67
Employee Information						
Revenue per employee	LKR Mn	28.12	24.91	23.62	21.88	18.50
Net profit per employee	LKR '000	630	2,502	5,325	17,079	627
Number of permanent employees	Nos	713	792	772	787	815

Share Information

SHAREHOLDING

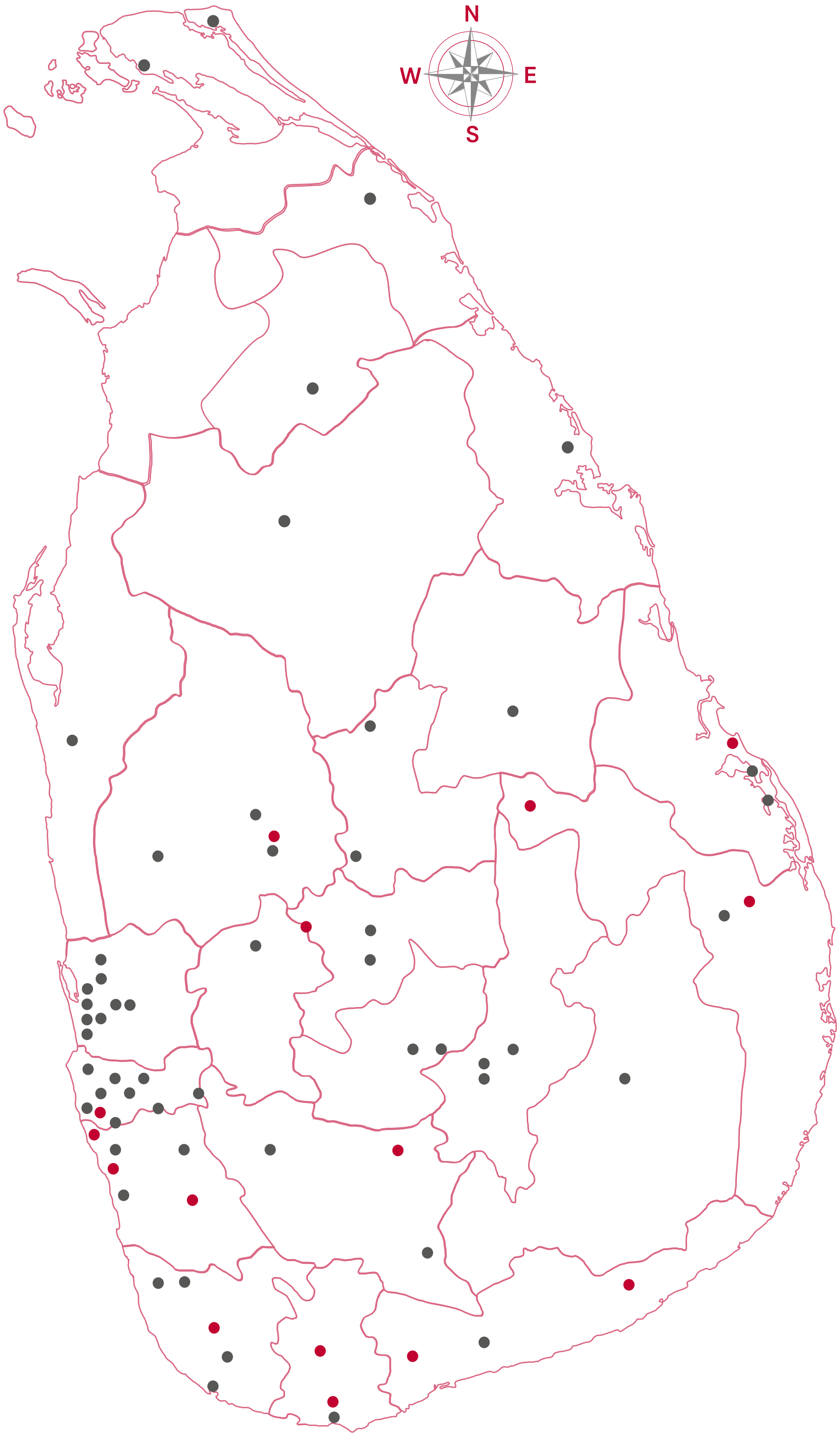
As at 31 December 2020, the Company has only one shareholder AIA Holdings Lanka (Private) Limited holding 100 per cent of the Company's issued and fully paid shares.

20 LARGEST SHAREHOLDERS

The 20 largest shareholders as at 31 December 2020 and 2019 are given below.

		31 December 2020		31 December 2019	
No.	Name of the shareholder	No. of Shares	%	No. of Shares	%
1	AIA Holdings Lanka (Private) Limited	30,749,370	100.00	26,836,716	87.28
2	AIA Company Limited	-	-	3,606,017	11.73
3	Mr. N. W. H. D. Gunaratne	-	-	15,375	0.05
4	Miss. A. S. Gunaratne	-	-	10,375	0.03
5	Mr. A. P. Perera	-	-	6,150	0.02
6	Mrs. P. Meepe	-	-	5,000	0.02
7	Mr. K. S. Thavalingam	-	-	3,075	0.01
8	Mr. J. Parameswaran	-	-	3,075	0.01
9	Ms. T. Manikavasagar	-	-	3,075	0.01
10	Mr. G. M. Izzadeen / Mrs. M. Izzadeen	-	-	3,075	0.01
11	Mr. T. E. De Silva	-	-	3,075	0.01
12	Mrs. M. S. Kelly	-	-	3,070	0.01
13	Miss. H. Siyambalapitiya	-	-	2,561	0.01
14	Mr. C. J. L. De Alwis	-	-	2,561	0.01
15	Mrs. B. S. Sahabandu	-	-	2,091	0.01
16	Mr. V. H. De Silva S. Siriwardena (deceased)	-	-	2,064	0.01
17	Mr. F. M. N. Khan	-	-	2,050	0.01
18	Mr. S. M. P. Malikapulle	-	-	1,845	0.01
19	Mr. B. Suntharalingam / Mrs. R. Sunathralingam	-	-	1,535	0.00
20	Mr. P. H. S. Silva	-	-	1,535	0.00
		30,749,370	100.00	30,514,320	99.25
	Others			235,050	0.75
	Total	30,749,370	100.00	30,749,370	100.00

Our Local Reach



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

AREA DEVELOPMENT OFFICE NETWORK

- Akuressa
- Ampara
- Baddegama
- Balangoda
- Dehiattakandiya
- Kurunegala
- Mathugama
- Matara
- Mawanella
- Moratuwa
- Panadura
- Piliyanadala
- Beliatte
- Thissamaharama

Other Information

Distribution Network

HEAD OFFICE

AIA Insurance Lanka Limited,
AIA Tower,
92, Dharmapala Mawatha,
Colombo 07
Tel : 011 231 0000
Fax : 011 244 7620
E-mail : lk.info@aia.com
Web : www.aialife.com.lk
Hotline : 011 231 0310
Hotline Fax : 011 471 5892

BRANCH OFFICE NETWORK

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

Ambalanthota Region 1
143, Main Street,
Ambalantota
Tel : 047 222 3316 / 222 5630

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

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

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

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

Battaramulla Region 1
1006/4A, Pannipitiya Road,
Battaramulla
Tel : 011 288 9811 / 288 9810

Batticaloa
42/1, Trincomalee Road,
Batticaloa
Tel : 065 222 7975
Fax : 065 222 7988

Batticaloa Metro
42/1, Trincomalee Road,
Batticaloa
Tel : 065 222 7975
Fax : 065 222 7988

Chilaw
89, First Floor, Kurunegala
Road, Chilaw
Tel : 032 222 1217
Fax : 032 222 3027

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

Colombo Metro
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0252

Colombo City
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0573

Colombo Region 1
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0254 / 231 0573
Fax : 011 231 0259

Colombo Region 2
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0289 / 231 0489
Fax : 011 231 0259

Colombo Region 3
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0264 / 231 0272
Fax : 011 231 0259

Colombo Region 4
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0006 / 231 0350
Fax : 011 231 0120

Colombo Region 5
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0010 / 231 0250
Fax : 011 231 0259

Colombo Region 6
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0249 / 231 0265
Fax : 011 231 0259

Colombo Region 7
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0750

Colombo Region 8
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0597

Colombo Region 9
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0610

Colombo Region 10
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0578

Colombo Region 11
AIA Tower, 92, Dharmapala
Mawatha, Colombo 07
Tel : 011 231 0006

Dambulla
723/1, Anuradhapura Road,
Dambulla
Tel : 066 228 3335 / 334
Fax : 066 228 3465

Dambulla Region 1
723/1, Anuradhapura Road,
Dambulla
Tel : 066 228 3335 / 334
Fax : 066 228 3465

Dambulla Region 2
723/1, 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, Bauddhaloka Mawatha, Gampaha
Tel : 033 222 1177 / 222 6840
Fax : 033 223 4700

Gampaha Region 1
85, Bauddhaloka 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
240, Ratnapura Road, Horana
Tel/ Fax : 034 226 2359

Horana Metro
240, Ratnapura Road, Horana
Tel : 034 226 2886

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
169/A, Colombo Road, Pilimathalawa
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 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 2
110/1, Noel Seneviratne Mawatha, Colombo Road, Kurunegala
Tel : 037 222 3990
Fax : 037 222 7707 / 222 3540

Maharagama
131/1/1, Awissawella Road, Maharagama
Tel : 011 283 7611
Fax : 011 283 7488

Mahiyanganaya City
13, Kandy Road, Mahiyangana
Tel : 055 225 8475
Fax : 055 225 8476

Matale
181, Nimali Building, Trincomalee Street, Matale
Tel/ Fax : 066 223 2401-2-3

Matara
24, E H Cooray Building, Third Floor, Anagarika Dharmapala Mawatha, Matara
Tel : 041 222 7344 / 222 2844 / 222 0674
Fax : 041 222 7344

Matara Region 2
24, E H Cooray Building, Third Floor, Anagarika Dharmapala Mawatha, Matara.
Tel : 041 222 7344

Our Local Reach

Matara Region 1
24, E H Cooray Building, Third Floor, Anagarika Dharmapala Mawatha, Matara
Tel : 041 222 0674
Fax : 041 222 7344

Mirigama
19, Negombo Road, Mirigama
Tel : 033 227 3328 / 2273 329
Fax : 033 227 3329

Moneragala
39, Wellawaya Road, Moneragala
Tel : 055 227 6496
Fax : 055 227 6211

Moratuwa Metro
553, Galle Road, Rawathawatte, Moratuwa
Tel/ Fax : 011 264 8020 / 264 9322

Moratuwa Region 1
459/1/1, Galle Road, Rawathawatte, Moratuwa
Tel/ Fax : 011 264 8021 / 265 5615

Moratuwa Region 3
553, Galle Road, Rawathawatte, Moratuwa
Tel/ Fax : 011 264 9009 / 264 8020

Mount Lavinia
230, Galle Road, Mount Lavinia
Tel : 011 271 0267 / 271 0268
Fax : 011 271 0268

Negombo
349/17, Main Street, Negombo
Tel/ Fax : 031 222 2266 / 223 5115

Negombo Region 1
349/17, Main Street, Negombo
Tel/ Fax : 031 223 8149 / 223 5115

Negombo Region 2
349/17, Main Street, Negombo
Tel/ Fax : 031 222 2266 / 223 5115

Nelliady
56, 58 & 60, Nelliyadi Central College Road, Nelliyadi
Tel/ Fax : 021 226 2806 / 226 5560

Nugegoda
513/3/1, High Level Road, Delkanda, Nugegoda
Tel : 011 2804 009
Fax : 011 2804 009

Nuwara Eliya
Fourth Floor, 86, Kandy Road, Nuwara Eliya
Tel/ Fax : 052 222 3478

Polonnaruwa
13 C, Crown Building, Hospital Junction, Polonnaruwa
Tel/ Fax : 027 222 3107-8

Polonnaruwa Region 1
13 C, Crown Building, Hospital Junction, Polonnaruwa
Tel/ Fax : 027 222 3107-8

Ragama City
61A/1/1, Mahabage Road, Ragama
Tel : 011 295 1078

Ratnapura
23A, Bandaranayake Mawatha, Ratnapura
Tel : 045 222 4417
Fax : 045 222 2601

Trincomalee
253, North Coast Road, Trincomalee
Tel/ Fax : 026 222 7949 / 222 6095

Vavuniya
66, Station Road, Vairavapuliyankulam, Vavuniya
Tel : 024 222 5672
Tel/ Fax : 024 222 5673

Wariyapola
90, Putthalam Road, Wariyapola
Tel : 037 226 8615
Fax : 037 226 8616

Wennappuwa
275/A/1, Airbuilding, Colombo Road, Wennappuwa
Tel/ Fax : 031 225 5510 / 225 5600

AREA DEVELOPMENT OFFICE NETWORK

Akuressa
95 1/1, First Floor, Matara Road, Akuressa
Tel : 041 228 4544

Ampara
149, Nidahas Mawatha, Ampara
Tel : 063 222 2630
Fax : 063 222 2554

Baddegama
Hikkaduwa Road, Baddegama
Tel : 091 229 2150

Balangoda
26A, Weerasundararama Road, Balangoda
Tel : 045 228 9516
Fax : 045 228 9517

Beliatte
14, First Floor, Dikwella Road, Beliatte
Tel: 047 225 1126 / 225 1127

Dehiattakandiya
B4, New Town, Dehiattakandiya
Tel / Fax : 027 225 0447

Kurunegala
17, Rajapihilla Road, Colombo Road, Kurunegala
Tel 037 222 2668 / 222 2868
Fax 037 222 2668

Matara
366/2/1, Anagarika Dharmapala Mawatha, Pamburana, Matara
Tel : 041 223 8540

Mathugama
60, Neboda Road, Mathugama
Tel : 034 224 9418 / 224 9955

Mawanella
257, Second Floor, New Colombo Kandy Road, Mawanella
Tel : 035 224 8760 / 224 7881

Moratuwa
559, Galle Road, Rawathawatte, Moratuwa
Tel : 011 264 5805 / 264 5806

Panadura
575/C, Galle Road, Panadura
T: 038 224 8120

Piliyanadala
82, First Floor, Horana Road, Kesbewa, Piliyandala
Tel : 011 270 3644

Thissamaharama
173/1, Iresha Building, Kachcheriyagama, Thissamaharama
Tel : 047 223 9096

Notes

Notes

Corporate Information

NAME OF THE COMPANY

AIA Insurance Lanka Limited
Company Registration No - PQ 18 PB

LEGAL FORM

- A Limited Liability Company.
- Incorporated in Sri Lanka on 12 December 1986 under the Companies Act No. 17 of 1982.
- Re-registered under the Companies Act No. 07 of 2007.
- Life Insurance Company licensed by the Insurance Regulatory Commission of Sri Lanka.

TAX PAYER IDENTIFICATION NUMBER (TIN)

134001356

DIRECTORS

William Lisle - Chairman
Manoj Ramachandran
Robert Alexander Hartnett
Stuart Anthony Spencer
Deepal Sooriyaarachchi
Sarath Wikramanayake

CHIEF EXECUTIVE OFFICER / PRINCIPAL OFFICER

Nikhil Advani

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

Designed & produced by
emagewise
Digital Plates & Printing by Gunaratne Offset Ltd

REGISTERED OFFICE / HEAD OFFICE

AIA Tower, 92, Dharmapala Mawatha,
Colombo 07, Sri Lanka
Telephone : 0094 11 231 0000
Fax : 0094 11 244 7620
E-mail : lk.info@aia.com
Web : www.aialife.com.lk

COMPANY REGISTRARS

SSP Corporate Services (Private) Limited
101, Inner Flower Road, Colombo 03, Sri Lanka
Telephone : 0094 11 257 3894 / 0094 11 257 6871

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place, Colombo 02, Sri Lanka

APPOINTED ACTUARY

Samath Perera
AIA Insurance Lanka Limited
AIA Tower, 92, Dharmapala Mawatha, Colombo 07, Sri Lanka

LAWYERS

Julius & Creasy
Attorneys-at-Law & Solicitors
371, R. A. De Mel Mawatha, Colombo 03, Sri Lanka

REINSURANCE PANEL - LIFE INSURANCE

Munich Re
RGA International Reinsurance Company dac
Zurich Insurance Company Ltd
AIA Company Limited

BANKERS

- Bank of Ceylon
- Commercial Bank of Ceylon PLC
- Deutsche Bank AG
- 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 (HSBC)
- Union Bank of Colombo PLC

CUSTODIAN BANK

- Deutsche Bank AG

AIA Insurance Lanka Limited
AIA Tower, 92, Dharmapala Mawatha
Colombo 07
Sri Lanka
www.aialife.com.lk