

PROTECTING LIVES. SHAPING COMMUNITIES.



ANNUAL REPORT 2019

PROTECTING LIVES. SHAPING COMMUNITIES.

At AIA, we believe in the power of insurance to make a positive difference in people's lives. We are in the business of protecting people and families. We take the responsibility of being the trusted insurer of countless Sri Lankans very seriously. We also understand the importance of giving back, as we continue to engage with and care for the society in which we serve. We believe that the value we generate must be equitable and shared. That's why we place so much importance on protecting lives and shaping communities.

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OUR VISION

Being the pre-eminent life insurance provider in Sri Lanka.

OUR PURPOSE

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

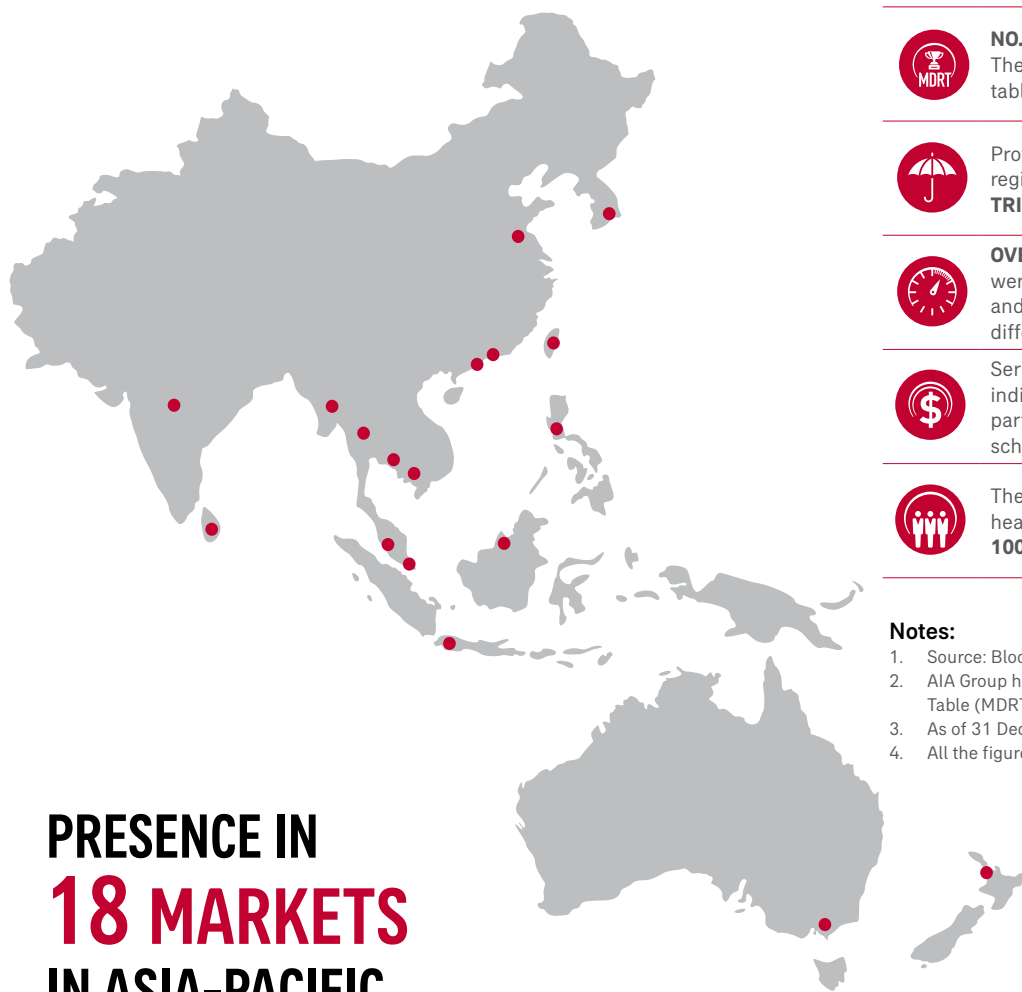
OUR HISTORY

In December 2012, AIA Company Limited ('AIA Group'), Hong Kong acquired the entirety of the shareholding in AIA Holdings Lanka (Private) Limited, the majority shareholder who in turn holds a direct holding of 87.28 per cent in AIA Insurance Lanka Limited. AIA Group also acquired a direct 5.00 per cent and subsequently a further 4.88 per cent direct holding via a voluntary offer in May 2013 and 1.85 per cent direct holding via a voluntary offer made in September 2019 as part of the delisting process of AIA Insurance Lanka Limited. AIA Group now owns an effective shareholding of 99.01 per cent in AIA Insurance Lanka Limited.

AIA Insurance Lanka Limited was delisted from the official list of the Colombo Stock Exchange effective 02 October 2019.

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.”



PRESENCE IN 18 MARKETS IN ASIA-PACIFIC

China 1919

Hong Kong 1931

Singapore 1931

Thailand 1938

Philippines 1947

Malaysia 1948

Brunei 1957

Australia 1972

New Zealand 1981

Macau 1982

Indonesia 1984

Korea 1987

Taiwan 1990

Vietnam 2000

India 2001

Sri Lanka 2012

Myanmar 2013

Cambodia 2015



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



THE LARGEST¹ LIFE INSURER IN THE WORLD



NO.1 WORLDWIDE FOR MDRT MEMBERS²

The only multinational company to top the table for five consecutive years



Provides protection to people across the region with total sum assured of **USD1.58 TRILLION³**



OVER 13 MILLION BENEFIT PAYMENTS

were made during 2018, helping customers and their families to cope with challenges at different life stages



Serving the holders of more than **34 MILLION** individual policies and over **16 MILLION** 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. Source: Bloomberg, 26 August 2019
2. AIA Group has a total of 12,438 registered Million Dollar Round Table (MDRT) members as of 1 July 2019
3. As of 31 December 2018
4. All the figures are as of 30 June 2019, unless otherwise stated

34

Million Individual Policies

16

Over Million Group Scheme Members

FINANCIAL HIGHLIGHTS

Financial Highlights - Group		2019	2018	%
Total income	(LKR mn)	19,732	17,996	9.6
Profit before tax	(LKR mn)	3,169	1,612	96.6
Gross written premium	(LKR mn)	13,848	12,739	8.7
Net assets	(LKR mn)	20,644	18,700	10.4
Total assets	(LKR mn)	61,976	54,407	13.9
Insurance liabilities	(LKR mn)	36,380	31,925	14.0
Basic earnings per share	(LKR)	64.43	133.68	(51.8)
Dividend per share	(LKR)	25.00	91.00	(72.5)

13.8

GWP
LKR billion

2018 : LKR 12.7 billion

19.7

Total Income
LKR billion

2018 : LKR 18.0 billion

20.6

Net Assets
LKR billion

2018 : LKR 18.7 billion

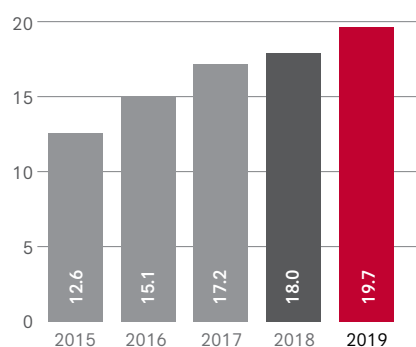
62.0

Total Assets
LKR billion

2018 : LKR 54.4 billion

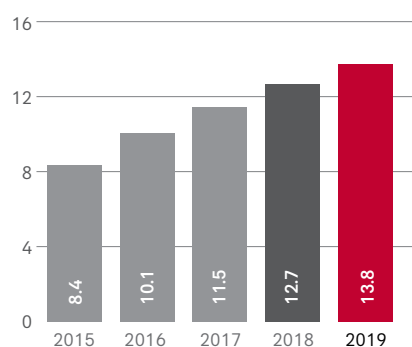
TOTAL INCOME

LKR - Billion



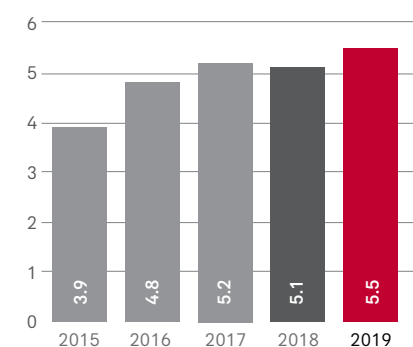
GROSS WRITTEN PREMIUM

LKR - Billion



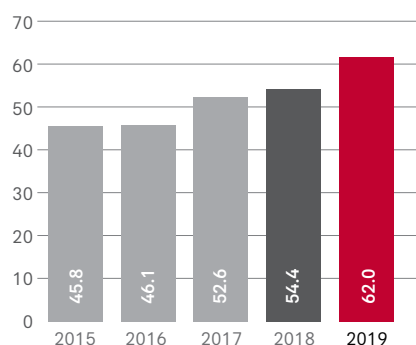
INVESTMENT INCOME

LKR - Billion



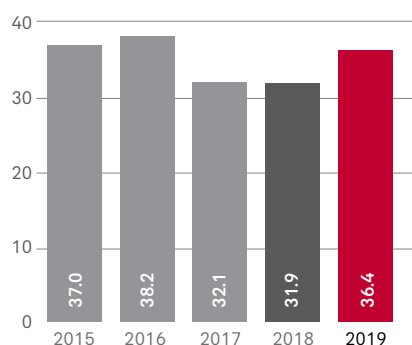
TOTAL ASSETS

LKR - Billion



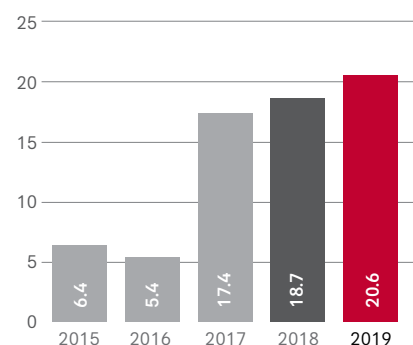
INSURANCE LIABILITY

LKR - Billion



NET ASSETS

LKR - Billion



CHAIRMAN'S MESSAGE



“
We remain focused and committed to playing
a leadership role in driving economic and
social development in Sri Lanka. **”**

I am pleased to report as Chairman of the Board of Directors that 2019 has been another year of resilient performance for AIA Insurance Lanka Limited (AIA Sri Lanka) (previously known as AIA Insurance Lanka PLC), amidst challenging local economic conditions and global headwinds.

The Asia Pacific region continues its trajectory of better economic growth, buoyed by economic diversity and supported by secular trends of an expanding middle class and increasing wealth. Whilst some markets are witnessing challenges from the recent market volatility, political and trade tensions, and a lower interest rate environment, the long-term fundamental drivers of demand for life insurance, protection and long-term savings remain robust across all our markets. Asia's growth is fuelled by the fast expansion of the middle-class population, urbanisation, increasing levels of personal wealth and increasing longevity. These trends will continue to expand the need for life and health insurance products for years to come. AIA's 100-year history and leading position in Asia, coupled with powerful distribution, product innovation and exceptional brand recognition, provide an unrivalled platform to continue creating long-term sustainable value.

2019 was a year of challenges for Sri Lanka, both due to the Easter Sunday tragedy and its impact on the economy, and the uncertainty around the political landscape. The Company remained focused on executing our strategy and demonstrated a resilient performance reporting an 8.7 per cent growth in life insurance gross written premiums in 2019, amounting to LKR 13,848 million.

The Company recorded an after-tax profit of LKR 1,981 million during 2019 compared to LKR 4,111 million in 2018.

The higher after-tax profit in 2018 was due to a one-off adjustment on taxation, caused by the change in taxation regime.

The Company received confirmation to delist from the official list of the CSE effective on 02 October 2019. The Company had commenced its delisting process in July 2018 upon receiving approval of the Insurance Regulatory Commission of Sri Lanka. Delisting of AIA Sri Lanka 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 of AIA Group.

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

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



William Lisle
Chairman

19 February 2020

CEO'S REVIEW



“
We are clear that our purpose is to help people live healthier, longer, better lives. This promise captures important aspects of the value that we offer to our customers by actively promoting lifestyle changes through our unique wellness proposition of AIA Vitality and more importantly, helping protect our customers by making our product propositions more accessible and relevant. ”

2019 will be a year etched in the memory of all Sri Lankans as a year that changed the country in many ways. It certainly validated the resilience of AIA Sri Lanka's franchise, strategy and distribution strength as our gross written premium grew 8.7 per cent against the backdrop of a very challenging year.

The year started with green shoots of an economic recovery from the political challenges of 2018 and just as the economy was turning the corner, we encountered the tragedy of the Easter Sunday bombing which cut short the long-awaited recovery. The Sri Lankan consumer experienced heightened concerns on personal and national security. Inbound tourism, which is one of the mainstays for the economy plummeted to a trickle. The subsequent slowdown in economic activity across the country spared no industry and led to a sharp drop in consumer spending and consumer confidence. The political uncertainty and lack of clear economic direction that continued through most of 2019 did not help the recovery of the economy or business confidence. Business Confidence Index recorded a 11-year low in May 2019 and GDP grew at 1.5 per cent in Q2 in comparison to Q1 growth rate of 3.7 per cent. Being the resilient and positive nation that we are, recovery started to come through in Q3 with GDP growing at 2.7 per cent primarily supported by the services sector. Q4 saw the slow return of economic activity helped by a changing political landscape and hopes for a clearer economic policy direction for the country.

The performance and growth of the Company was impacted by these external factors, and the financial results are contextual to this backdrop and I am pleased to report that gross written premiums increased by 8.7 per cent to LKR 13,848 million in 2019. The Company recorded an after-tax profit of LKR 1,981 million compared to LKR 4,111 million in 2018. The higher after-tax profit in 2018 compared to 2019 is due to a regime

change that triggered a deferred tax asset which was one-off in nature. Details in relation to the consolidated after tax profit is provided in Note 39 to the Consolidated Financial Statements.

I am most proud of the way that AIA Sri Lanka reacted to the Easter Sunday bombing. For us at AIA, our primary focus after the incident was to take care of our customers and ensure that we keep our promise of protection to them and their families. A big thank you to our distribution and operations teams for making sure that the survivors didn't have to deal with paperwork and financial difficulty in already trying times and for ensuring that 14 claims totalling LKR 16.4 million were ready to be paid in 24 hours since the incident, offering some solace to the grieving families.

We are clear that our purpose is to help people live healthier, longer, better lives. This promise captures important aspects of the value that we offer to our customers by actively promoting lifestyle changes through our unique wellness proposition of AIA Vitality and more importantly, helping protect our customers by making our product propositions more accessible and relevant.

During 2019, in meeting evolving Sri Lankan consumer needs and the country's protection gap, AIA Sri Lanka launched its new life with critical illness product, Suwa Diriya, to protect Sri Lankans from four of the most commonly occurring critical illnesses - cancer, heart, stroke and kidney failure at a very affordable premium. In our efforts to making health more affordable in Sri Lanka, AIA Sri Lanka introduced two new packages to our flagship product Health Protector, with reduced minimum premiums and offered preset covers making it easier for our customers to afford. In addressing Sri Lanka's growing need for a comprehensive retirement solution, AIA Sri Lanka upgraded Easy Pension with higher loyalty rewards, increased life and accident benefits and

extended pension period adding flexibility and increased benefits to customer. Our Smart Pension product remains the market leader in features for those looking to plan for retirement.

Building on AIA Sri Lanka's focus in transforming its Agency to a 'Full-Time Premier Agency', the Company expanded the presence of its 'Premier Agency Circle (PAC)' in Colombo through the launch of its second flagship office. PAC is fundamental to AIA Sri Lanka's strategy of building full-time, professional, advice based and digitally enabled agency force and has demonstrated higher levels of efficiency since its creation in 2018. We are very proud of our Wealth Planners who provide great service and advice to our customers from our branches across the Island.

Our bancassurance partnerships with NDB and DFCC are strategic assets to us and these partnerships continued to show resilience through 2019 against the headwinds caused by external events. Our partnership with DFCC Bank grew in its third year of operation with broader coverage of the distribution franchise of DFCC Bank. Our partnership with NDB continued to deliver on our shared objective of providing protection products to the bank's customers as a complimentary sale to their banking products. I take this opportunity to commend our bank partners for their commitment and support for engaging with AIA Sri Lanka's initiatives.

On the digital front, AIA Sri Lanka invested in the use of innovative technology and digital tools which would make a material difference to customer experience and support our distribution channels. Initiatives include digitalising premium payment options including the development of a new payment app which has demonstrated appreciable adoption and the launch of Robotic Process Automation (RPA) to automate routine and repetitive tasks in operations speeding up processing and improving life for employees.

CEO'S REVIEW

The Company was delisted from the official list of the Colombo Stock Exchange (CSE) on 02 October 2019 after securing all regulatory and CSE approvals. Delisting of AIA Sri Lanka 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 of AIA Group. Our commitment to growing our business and investing in our people and our community remains unwavering. We would like to take the opportunity to reiterate that existing policyholder liabilities will not be affected, and AIA Sri Lanka will continue to serve its customers and honour its obligations as the insurer for all customers for the risks duly underwritten per policy terms.

2019 being our centennial year, we celebrated our milestone by giving back to our community in many ways. We organised the 'Walk for Life' in February which was attended by over 2,600 participants, AIA Sri Lanka donated LKR 1,000 for every person that joined for the walk and raised LKR 3 million for the Sri Lanka Heart Association for much needed equipment and services. We initiated a partnership with the Cancer Society to donate LKR 100 for every policy sold and contributed close to LKR 5 million to help support their hospices. We are now in the 25th year of our Scholarship Awards program and celebrated the success of the 25th batch of dynamic students at a special function graced by Acharya Nanda Malini who delivered inspiring advice for the next generation of Sri Lankans. Our Poson Safety program, now in its 26th year of operations, continues to provide lifeguards and safety messages at various sites during the religious pilgrimage period of Poson. This year we prevented seven drownings and have over the several years rescued over 200 people. Through our

various employee and Wealth Planner CSR programs, we continued to help improve the facilities of schools and hospitals throughout the island. This year, over 1,000 man hours of time was spent in improving these facilities.

Yours is a company that is conscious of both, its commercial responsibility to you as shareholders and also of our responsibility of giving back to the community we serve. I am extremely proud to be part of a company with a big heart and for the great efforts our employees, Wealth Planners take to give back to our community.

I would like to take this opportunity to recognise and thank our Wealth Planners, Wealth Planners Managers and Financial Planning Executives for their relentless perseverance and commitment throughout 2019. I extend my sincere appreciation and gratitude to the Board of Directors and all my colleagues for their tireless efforts, commitment and dedication during this challenging year.

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

19 February 2020

MANAGEMENT DISCUSSION & ANALYSIS ►

AIA contributed LKR 3 million to the Sri Lanka Heart Association

As part of AIA Sri Lanka's Centennial Celebrations, a charity walk was organised in Colombo where employees, agents and the general public attended. AIA contributed LKR 1,000 on behalf of each person that joined the walk, to the Sri Lanka Heart Association, resulting in a total contribution of LKR 3 million.



AIA partners Sri Lanka Cancer Society

As part of AIA's Centennial Celebrations, AIA Sri Lanka contributed LKR 100 for each policy sold in 2019, to the Sri Lanka Cancer Society. Contributions were made each quarter to the society for policies sold from 01 January 2019 to 31 December 2019, with a total contribution amount of close to LKR 5 million at the end of the year.

MANAGEMENT DISCUSSION & ANALYSIS

“ AIA Sri Lanka delivered robust results demonstrating its resilience in a very challenging external environment.”

2019 was a significant year for AIA Insurance Lanka Limited (AIA Sri Lanka) with the Company aligning to the target operating model of AIA Group where the individual business units in each market are either fully owned subsidiaries or branches, unless there are specific regulatory conditions that warrant a different ownership structure. This supports the Group to ensure that it can focus on long-term value creation by the retention of profits for re-investment to the benefit of its customers, the community and the organisation as a whole. On 02 October 2019, the Company was delisted from the official list of the Colombo Stock Exchange (CSE) consequent to a voluntary offer made by AIA Company Limited of Hong Kong. Consequent to the delisting of shares, the company's status changed to an Unlisted Limited Liability Company and its corporate name changed to AIA Insurance Lanka Limited, as per the Companies Act No. 07 of 2007.

As regards the business performance during 2019, AIA Sri Lanka delivered robust results demonstrating its resilience in a very challenging external environment. The key highlights of the business performance and the context against which the results need to be reviewed are provided in this Management Discussion & Analysis.

ECONOMIC REVIEW

Sri Lanka once again demonstrated the resilience of its economy as the country provided indications of a resurgence in consumer sentiment and economic recovery towards the tail-end of 2019, recovering from the aftermath of the Easter Sunday terror attacks that hampered tourism and the broader

economic performance over a large part of 2019. On the external front, rising trade tensions between the US and China, slowdown in global manufacturing and monetary easing by advanced economies are notable highlights that had a bearing on the economic and trade performance during the year.

Gross Domestic Product (GDP) grew by 2.6 per cent for the first 9 months of 2019 and is projected at 2.7 per cent for 2019, the lowest in 18 years. The knock-on effects of the tragedy of April 2019 led to a deterioration in consumer and business sentiment and activity which triggered a broad-based economic slowdown. Sales of AIA Sri Lanka are directly impacted from vagaries of economic growth and the events had a bearing on the sales momentum during 2019.

On the operating costs and capital investments, these are typically impacted by inflation. Further, inflation is strongly positively correlated with interest rates, which in turn impacts investment income and contractual liabilities. Inflation remained modest in 2019, supported by low disposable income growth and relative tranquillity in global commodity markets. Inflation stayed within the Flexible Inflation Targeting (FIT) range of 4.0 per cent to 6.0 per cent during 2019. In an attempt to spur economic growth, the Central Bank of Sri Lanka (CBSL) reduced policy rates by 100 basis points during the year which was in harmony with the global monetary easing backdrop. Accordingly, the benchmark 364-day treasury bill rate reduced by 275 basis points in 2019, in contrast to the increase of interest rates in 2018. The longer tenure interest rates as observed via

the five year and ten year treasury bond interest rate also declined by 174 basis points and 187 basis points respectively.

The exchange rate, which is typically highly positively correlated with inflation, appreciated amidst overselling of the LKR in 2018, monetary easing in the Western economies and a notable contraction in the trade account. This resulted in a marginal appreciation of the LKR in 2019, the first time since 2010. These developments largely absorbed the negative impacts from the steep decline in tourism earnings.

The full year's budget deficit target of 4.4 per cent of GDP was exceeded in the first seven months of 2019 where the deficit is expected to reach 6.5 per cent for the full year. Fiscal deficit which increases government borrowings is likely to lead to upward pressure on inflation and interest rates in the forthcoming period.

The equity market performance was volatile in 2019 where the All Share Price Index (ASPI) increased marginally by 77 points. The market witnessed a downturn post the unfortunate events of 2Q 2019 and recorded positive returns with the positive sentiments after the Presidential Election results and the revisions in taxes.

REGULATORY UPDATE REVIEW

The Company was fully compliant with various regulations issued from time to time by the Insurance Regulatory Commission of Sri Lanka (the IRCSL) during 2019.

The IRCSL issued Guidelines on the Corporate Governance Framework for insurers setting out the requirements for the composition of the Board of Directors (the Board) of insurers while recommending that insurers adhere to the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka. 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 Board adopted the Code as comprehensively as possible.

The IRCSL issued the procedure for enforcement action to be taken in the event of violation and / or non-compliance with the reporting requirements stipulated in the Regulation of Insurance Industry Act (as amended) (the RII Act) and subordinate legislation. The regulation also stipulates the procedure for enforcement action to be taken for violation and / or non-compliance with the provisions of the RII Act, other than on reporting requirements. The Company complied with both regulatory reporting and non-reporting requirements under the RII Act and subordinate legislation throughout the year under consideration.

The IRCSL issued a new regulation on the supply of policy documents to policy owners and life assureds. The Company complied with the requirement to obtain an acknowledgment of dispatch of the policy to policyholder / insured / life assured.

The regulation on health insurance covers issued by the IRCSL stipulates that the life cover of insurance policies should contain a significant benefit when compared to the health insurance rider / health related benefit and that the life cover should be identified as the main cover of the product. The regulation also specified that the Company can issue health insurance riders / health related benefits embedded to life insurance policies. The Company is fully compliant with the said regulation.

The Company complied with the regulation on unclaimed benefits of long term insurance business issued by the IRCSL. The regulation prohibited life insurance companies from transferring any unclaimed benefits to shareholders, with effect from the financial year ended 31 December 2018 and further to record same as a liability in the Long Term Insurance Fund balance sheet as

'unclaimed benefits'. The Company is compliant with the said regulation.

Further, the IRCSL instructed all life insurers to take all efforts to refund premium deposits from policyholders or policy proposals that are not recognised to GWP and to not write back or transfer such amounts to the income statement with effect from the financial year 2019. The Company is compliant with the instruction of the IRCSL.

INDUSTRY REVIEW

The industry review is based on the provisional figures provided by Insurance Association of Sri Lanka (IASL) for 2019. The local life insurance industry comprises 15 players and accounted for 2.3 per cent of the financial sector assets in the economy in 2018.

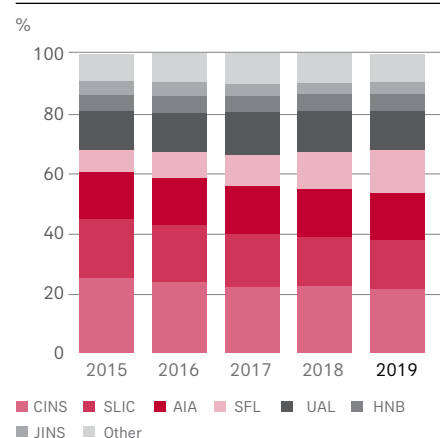
In 2019, the life insurance industry Gross Written Premium (GWP) expanded at a rate of 10.6 per cent, down from 12.2 per cent in 2018. New business sales as observed via the First Year Premium (FYP) decelerated from 8.8 per cent growth in 2018 to 5.2 per cent growth in 2019, and this is mainly attributable to the weak performance in the broader economy. Real wages of public and private sector employees eroded by 0.7 per cent and 0.6 per cent respectively in the first 8 months of 2019, making new business sales challenging. Renewal premium growth increased by 12.4 per cent, only marginally down from 13.0 per cent growth recorded in 2018.

AIA Sri Lanka is the number three player in the life insurance space in terms of GWP. The top five players of the industry account for 80.6 per cent of market share in terms of GWP and 78.1 per cent in terms of FYP.

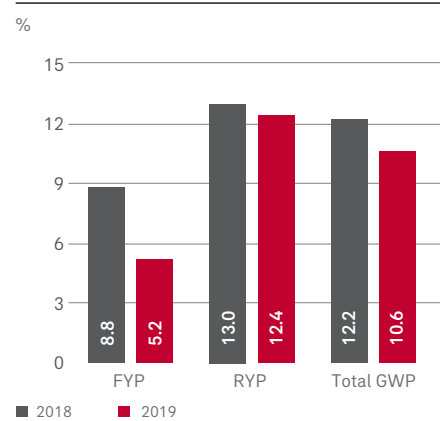
Life insurance penetration in Sri Lanka stands at 0.6 per cent of GDP which is considerably below its regional peer average of 2.5 per cent. Life insurance penetration as a percentage of the population stands at 14.8 per cent and

as a percentage of the workforce stands at 37.9 per cent. These numbers have not improved significantly over the past five years, which indicates the significant growth opportunities available for life insurance penetration in Sri Lanka. The favourable demographic and life style trends and the heightened need awareness for health insurance augurs well for the future prospects of life insurance in Sri Lanka.

MARKET SHARE



LIFE INSURANCE INDUSTRY YOY GROWTH



MANAGEMENT DISCUSSION & ANALYSIS

“2019 saw the launch of ‘Suwa Diriya’, a first-of-its-kind life insurance plan which provides comprehensive protection against the four largest non-communicable diseases that affects everyone; heart conditions, cancer, stroke and kidney failure.”

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

Our team is committed to improving customer experience by achieving continuous process enhancements using technology and innovation, and transforming the customer journey via digitalisation.

AIA Sri Lanka is in the process of transforming the existing customer journey through digital intervention to bring convenience and to upgrade the experience of purchasing a policy, paying premiums, intimating claims and settling claims. Our first ever Digital Premium Payment Solution App was launched in 2019, which enables customers to pay premiums and create a recurring payments from wherever they are with their debit or credit cards.

Engaging and rewarding our customers

‘AIA Real Rewards’, is the Company’s flagship customer rewards programme which offers exciting rewards every quarter for customers who pay their premiums regularly and on time. 120 lucky customers won exciting holiday packages for two from a range of foreign destinations such as Singapore, Thailand, and Malaysia during 2019. We continue to strengthen the AIA 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 customer

AIA Sri Lanka continuously focuses on gaining deeper insights into customers’ needs and their experiences with the Company. Real-time Net Promoter Score (NPS) is 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 on behalf of customers and support the process of offering an enhanced customer service.

Digital journey

AIA Sri Lanka’s digital journey in 2019 started by introducing Instagram as a new social media platform. This was mainly to ensure that we engage with different audiences. We have seen an increase in the follower base ever since.

Another key milestone in the digital journey for 2019 was taking the brand promise ‘Healthier, Longer, Better Lives’ and driving it digitally with the centennial celebrations which took place in Sri Lanka.

We were the first AIA market to launch ‘Little Changes Challenge’ across the AIA family. Little Changes Challenge is an interactive platform which comprises of 37 challenges which includes healthy living habits in many categories. This was launched successfully via digital mediums by engaging people to take up the challenges and these led to a higher number of registrations on the platform.

AIA Vitality

AIA Vitality, a science-backed wellness programme is promoted by AIA Sri Lanka to encourage our customers to stay active and be rewarded. Vitality launched the first ever ‘Sri Lanka’s Healthiest Workplace Awards’ at the Hilton Colombo, where it recognised and rewarded establishments that invested in the health and well-being of their employees, by giving them opportunities through which they could encourage employees to live healthier, longer, better lives. AIA Vitality promotes the importance of staying active, as Asia has now a rising level of non-communicable diseases that impact the health of those in corporate organisations, primarily attributed to individuals living sedentary lifestyles, consuming alcohol, smoking, having long work hours and eating an unhealthy diet. Keeping this in mind, Vitality in Sri Lanka organises wellness days for their corporates and its employees to understand and know their health. This programme, with the help of our Vitality partners, enables employees to manage and improve their health proactively through a calendarised series of wellness activities. This is done free of charge as we at AIA are committed to the vision of helping individuals live healthier longer better lives. Recognising our commitment to this proposition, corporates have appointed AIA Vitality as their wellness partner.

A unique proposition that gives greater value to the customers, AIA Vitality in Sri Lanka has been a market disruptor and will continue to be a differentiator in the active and wellness space as AIA invests and grows Vitality in the coming year.

PRODUCT REVIEW

Our product portfolio offers world-class protection and long-term savings solutions to meet a wide range of customer needs. 2019 saw the launch of ‘Suwa Diriya’, a first-of-its-kind life insurance plan which provides comprehensive protection against the four largest non-communicable diseases that affects everyone; heart conditions, cancer, stroke and kidney

failure. This proposition fills a void in the Sri Lankan market and the Company's offering, and enhances the health portfolio of the business.

The 'health with life protection' or '**Health Protector**' product is designed for individuals who value the best care and the freedom to choose in which country they wish to receive medical treatment. It provides worldwide hospitalisation expense coverage up to LKR 20.0 million per year, coverage against 37 critical illnesses, worldwide coverage against 250 listed surgeries, etc. along with other market leading features.

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

'**Smart Wealth**', the Company's product designed to cater to the protection and savings need of customers with the feature of a limited premium paying period complements the retirement savings and health proposition offerings.

These products are offered with a range of additional / optional covers such as Accidental Death Benefit, Waiver of Premium, Critical Illness Benefit, Hospital Expense Benefit, Spouse and Child Life Covers, etc. in order to provide our customers with a choice of obtaining covers as per their 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 purpose of playing a leadership role in driving social and economic development across the country, we are proud of the work we do to give back to our communities.

The primary premise of our CSR programmes are our brand promise of helping people live healthier, longer, better lives. Our flagship projects the AIA Poson Safety Programme, in its 26th year in 2019 and the AIA Higher Educations Scholarships, in its 25th year in 2019, are intended at protecting lives of poson pilgrims and inspiring academic excellence, respectively.

We also made significant contributions to the Sri Lanka Heart Association and the Sri Lanka Cancer Society as part of our efforts raise awareness on and help fight non-communicable diseases in Sri Lanka. In fact, we have sustained our partnership with the Cancer Society so as to continue to contribute towards caring for those affected by cancer.

Our ongoing employee volunteer programmes have seen a host of renovating and uplifting efforts around the country in hospitals and schools. In 2019, the Lend-a-Hand project saw employees from Colombo and other regions colour-washing the Watuliyadda Primary School in Kandy and the Elayathamby Hindu Vidyalaya in Jaffna, in addition to the donation of a brand-new building to the Uduwela, Watuliyadda Primary School in Kandy.

DISTRIBUTION REVIEW

The Company recorded 8.7 per cent growth in GWP during 2019.

Quality of service and professional conduct are distinctive characteristics embedded in the service provided by AIA Sri Lanka's agents and financial planning executives which enable them to form long-term relationships with our customers. These partnerships support agents and financial planning executives to guide and facilitate the customer to make informed choices that would suit their need from our comprehensive range of products.

AIA Sri Lanka's efforts to build and expand its premier agency was continuing to yield positive results despite the volatile market conditions witnessed throughout 2019, and the performance of existing

agents showed improvements. During the year, Agency performance was backed by several quality enhancing initiatives such as launching the Gold Plus benefits programme to enhance the image of the top achieving agents, promoting the automatic payment modes to provide greater customer convenience, and enhanced agent training to improve the knowledge and skills on promoting health and protection propositions.

The expansion of Premier Agency Circle (PAC) operation to further develop a young professional fulltime agency force, added momentum to the Agency performance in 2019. The revamping of the lead strategy was a key achievement in the Company's digital journey as the Company saw digital leads contributing a higher proportion to the annualised new premium generated to PAC.

During 2019, the Partnership Distribution channel strengthened by existing partners and valuable contributions from financial planning executives delivered notable growth. The most recent partnership established at the end of 2016, with DFCC Bank, demonstrated uplift in momentum. Our partnership with NDB Bank continues to show positive alignment. Both the partner staff and the AIA partnership distribution skill development and training needs were addressed by the setting up of Partnership Training Academy an extension of AIA Sri Lanka Training Academy, during the year.

The Partnership Distribution channel performance was marked by the consolidation of the sales process with the focus on activity and productivity of the sales team.

The 'Road to MDRT' programme was initiated in 2014 and since then has continued successfully, with AIA Sri Lanka becoming the first local insurance company to produce more than 100 MDRT members in 2016 and AIA Sri Lanka has continued to maintain its focus on generating high quality MDRT members.

MANAGEMENT DISCUSSION & ANALYSIS

OPERATIONS REVIEW

2019 marked a significant event for the Company in its endeavor to align to the target operating model of AIA Group for business units operating in the countries where AIA Group has an operating entity. The Company was delisted from the official list of the CSE during the year. The decision to delist from the CSE is based on AIA Group's preferred target operating model for its business units of operating as wholly owned subsidiaries, with the parent company being the only publicly listed entity.

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

In pursuance of Rule 5(2) of the SEC Rules published in the Gazette Extraordinary No. 1215 / 2 dated 18 December 2001, the Company delisted its shares from the official list of the CSE effective 02 October 2019. Subsequently the Registrar of Companies issued the Certificate of Incorporation dated 14 October 2019, changing the corporate name of the Company to 'AIA Insurance Lanka Limited' (PQ 18 PB). Since delisting, the Company no longer falls within the purview of the SEC and therefore the SEC Rules in relation to enforcement on minimum public holding are no longer applicable to the Company.

As regards the business operations, the Operations team focused on enhancing customer experience, driving quality through customer engagement and supporting new business acquisition. The Operations team's initiatives were based on offering an unsurpassed experience to the customer and this was mainly

via digitalisation activities. Being at the forefront of digitalisation initiatives in the life insurance sector and evolving with customer behaviour towards the adoption of digital technology, AIA Sri Lanka launched a multitude of initiatives in 2019. A digital payments solution which was introduced during the year in collaboration with Direct Pay, enables faster and easier premium payments. This provides the opportunity to customers to; pay for their new policy, set up recurring payment plans or standing orders, and pay for policy revivals, all through an online link shared by the sales person.

During 2019, AIA Sri Lanka has partnered with Sri Lanka's leading telemedicine provider, oDoc, to deliver unlimited doctor consultations to selected AIA policyholders and their family members. Another first in the insurance industry in Sri Lanka, this service, made available through the oDoc application, gives selected AIA Sri Lanka customers ready access to Sri Lankan doctors via their smartphones as a free value-added benefit.

Keeping customer convenience at the forefront of our service offering, AIA Sri Lanka initiated automated call centre services equipped with a fully automated and integrated Interactive Voice Response (IVR) system to the inbound call centre, being the first in the Sri Lankan life insurance industry to introduce such a system. Our customers can now enquire on their insurance premiums at their own convenience 24/7, where the IVR system allows our customers to access information on their policy status and premium related details. Additionally, customers will receive an SMS with the required details as an added benefit.

Using digitalisation to create operating efficiencies, AIA Sri Lanka launched Robotic Process Automation (RPA) to

support automated routine and repetitive tasks in operations. Deployment of RPA technology to the time consuming and manually performed operational tasks has resulted in enhanced productivity.

The Operations Customer Conservation team was established with the focus of engaging and retaining customers. The team was strengthened with additional members and the required skills and knowledge to deliver desired outcomes. These initiatives were instrumental in improving the overall customer engagement levels and resulted in contributing to the growth in renewal premiums.

PEOPLE REVIEW

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 in the world, the quality and professionalism of our people remains paramount.

With today's technological advancements, we understand that our people expect a highly personal, 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 – 2018/2019

AIA Sri Lanka is proud to have been recognised as a Great Place to Work® in Sri Lanka for the seventh consecutive year. This year too, AIA was adjudged as one of the 25 Best Workplaces in Sri Lanka, whilst also being awarded the Silver Award for the 'Best in Large Sized Enterprise Category'.

Best Work Place for Women

AIA Sri Lanka was recognised as one of the 'Best Workplaces for Women' by Great Place to Work® (GPW®) Sri Lanka. This was the first year GPW® bestowed this award with 15 companies being recognised for their commitment to promoting gender parity whilst creating conducive environments for women in the workplace.

Our People

During the year 2019, the Company's workforce comprised 792 employees in the permanent cadre with a healthy mix of female and male employees.

The female employee population had increased from 34.0 per cent in 2016 to 39.0 per cent by 2019, resulting a 16.0 per cent growth over the last three years. Our comprehensive '100 working day motherhood benefits' allow our female employees extended maternity leave and flexi work arrangements to help them return to work after a well-deserved time away, with their new-borns.

Our performance driven culture is continuously supported by development initiatives. A total of 202 training programmes were conducted with over

13,000 hours of training being provided, with the total investment of over LKR 51.0 million being allocated to training. Throughout the year 160 individuals were provided best of class foreign exposure including three secondment opportunities in China, Malaysia and Hong Kong.

Our journey continues...

FINANCIAL REVIEW

AIA Sri Lanka remained resilient across key financial parameters.

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 13.8 billion in 2019 from LKR 12.7 billion in 2018 with a growth rate of 8.7 per cent which reflects the broader economic conditions of 2019 and broadly in line with the overall performance of the life insurance industry during the year.



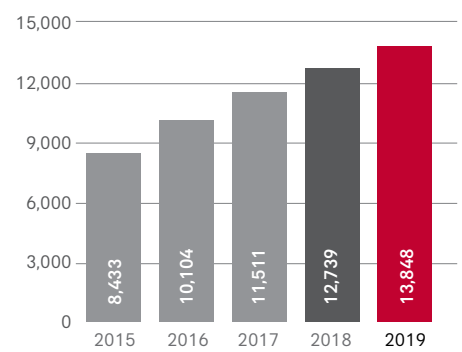
AIA Sri Lanka winning the award for 'Great Place to Work®' for the seventh consecutive year



Receiving the award for 'Best Workplaces for Women'

GROSS WRITTEN PREMIUM (GWP)

LKR - Million



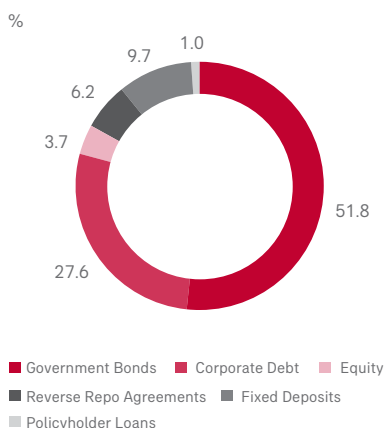
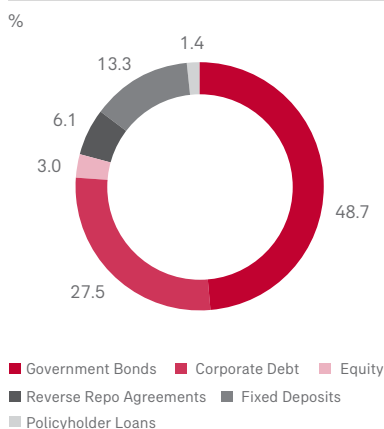
MANAGEMENT DISCUSSION & ANALYSIS

Net Written Premium (NWP)

The NWP, which is GWP net of premiums ceded to reinsurers, amounted to LKR 13.5 billion which is a 9.1 per cent increase compared to 2018.

Investment Income

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

INVESTMENT PORTFOLIO - 2019 ASSET ALLOCATION**INVESTMENT PORTFOLIO - 2018 ASSET ALLOCATION**

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 with counterparties of 'A(lka)' rating and above as issued by Fitch Ratings Lanka.

The Universal Life 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.

Investment income increased by LKR 402.6 million in 2019 recording a growth of 7.9 per cent compared to the previous year. The portfolios took advantage of the spike in interest rates experienced at end 2018, making the portfolio less susceptible to lower yields in 2019.

Total income

Total income increased by LKR 1.7 billion in 2019 to record a growth of 9.6 per cent over the previous year. Contribution of NWP to total income declined slightly to 68.3 per cent from 68.7 per cent.

Net claims and benefits

Net claims and benefits decreased by LKR 859.5 million to LKR 4.8 billion in 2019 (15.2 per cent). Reduction of policy surrenders by customers is the primary reason for the decline in net claims and benefits.

Operating and administrative expenses

As an outcome of the robust expense management approach, the operating and administrative expenses decreased by 0.7 per cent in 2019.

Change in contractual liability

The change in contractual liability in 2019 amounted to LKR 3.2 billion, and this was transferred to the Life Policyholders' liabilities. 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 2018, the sum transferred to the Life Policyholder's liabilities was LKR 2.2 billion.

The Company's total contractual liability stands at LKR 36.4 billion as at 31 December 2019, post the transfer effected during the year.

Life surplus

In 2019, the life surplus transferred to the Life Shareholders' fund increased to LKR 1,916.5 million from LKR 1,157.3 million in 2018. The quantum of the surplus is impacted by and reflects the downward shift in market interest rates during the year as it interacts with the RBC solvency regime.

Profit after tax

The consolidated profit after tax in 2019 amounted to LKR 1,981.2 million, down from LKR 4,110.6 million recorded in 2018. The profit after tax is after the transfers to increase the policyholders' contractual liabilities, which increased by 48.7 percent or LKR 1.1 billion in 2019.

The profit after tax for 2018 was higher due to a one-off adjustment on taxation caused by the change in taxation regime which came in to effect on 01 April 2018. This has a bearing to accentuate the difference in the reported profits for 2018 and 2019.

The profit after tax comparison on a normalised basis reflects LKR 1,981.2 million for 2019 and LKR 1,573.6 million in 2018, removing the one-off adjustment of taxation.

Analysis of the Consolidated Statement of Financial Position

Total assets

Total assets as at end 2019 amounted to LKR 62.0 billion, up by 13.9 per cent compared to the previous year. The growth is attributable to the rise in financial investments and this accounts for 84.8 per cent of the total assets as at end 2019. Timely investment decisions which resulted in an investment income of LKR 5.5 billion and the low interest rate environment which led to increase market prices of fixed income financial investments, collectively contributed to the increase of financial investments by LKR 7.7 billion during the year.

Property Plant and Equipment (PPE) & Right of Use assets – Leases (ROU)

The net book value of PPE increased from LKR 767.9 million to LKR 785.1 million, by LKR 17.2 million. ROU of LKR 985.0 million reflects the amounts recognised on account of leasehold properties and vehicles as per SLFRS 16 Leases. The detailed notes are presented in Notes 07 and 17 to the Financial Statements on pages 98 and 107 respectively.

Intangible Assets

Intangible assets dipped by 8.8 per cent during the year to LKR 842.8 million which was primarily due to the amortisation of computer software.

Reinsurance receivables

Reinsurance receivables increased from LKR 127.9 million in 2018 to LKR 138.8 million in 2019 which is an 8.5 per cent increase. This reflects the normal 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 2019 amounted to LKR 36.4 billion which increased LKR 4.5 billion from the previous year. The Company's Appointed Actuary Frank Munro's report is provided on page 57 of this Annual Report 2019. Adequate provisions, including those for bonuses and 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 increased by LKR 1.9 billion to LKR 20.6 billion during the year, which is 10.4 per cent growth. Stated capital remained unchanged during the year while revenue reserves and capital reserves increased by 16.1 per cent and 7.8 per cent respectively, when compared to the previous year.

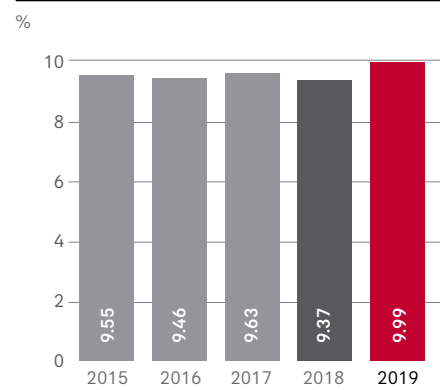
Risk Based Capital (RBC) One-Off Surplus

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 Insurance Regulatory Commission of Sri Lanka. 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 2019 the policyholder dividend declared was 9.99 per cent. This is the lower bound of the dividends earned by policyholders, and certain policies receive a higher dividend rate than that those depicted in the chart below and based on the conditions on those specific policy contracts. The dividend track record over the past years as depicted in the chart below reaffirms that the Company has delivered stable and consistent returns to policyholders over the past years.

DIVIDEND RATES



Above indicates the gross dividend rate based on 75 per cent of the Life Fund yield in accordance with the policy conditions of currently selling life insurance policies.

Please note that past performance is not an indicator of future performance.

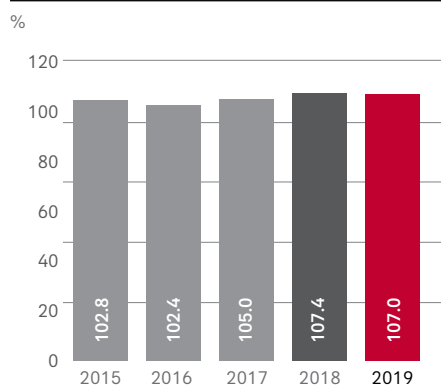
Risk Based Capital ratio

The Risk Based Capital (RBC) capital adequacy ratio, which 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, amounted to 614.5 per cent which is well above the regulatory threshold. The decline in the RBC capital adequacy ratio in 2019 from the 655.1 per cent reported in 2018 is largely due to the adverse impact from the adoption of SLFRS 16 Leases.

MANAGEMENT DISCUSSION & ANALYSIS

“We will relentlessly pursue our goal to deliver on the vision of being the pre-eminent life insurance provider in Sri Lanka and of fulfilling our purpose to play a leadership role in driving economic and social development in Sri Lanka.”

APPROVED ASSETS AS A PER CENT OF THE LIFE FUND



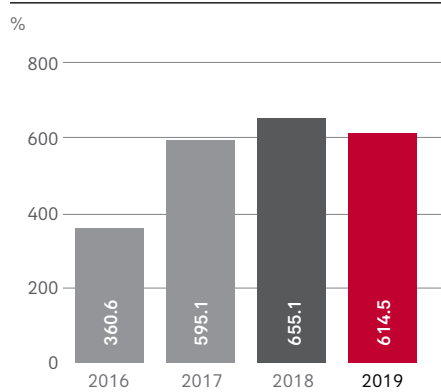
Approved assets

Approved assets as a percentage of the Long Term Insurance Fund was 107.0 per cent in 2019, 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 in the next page.

Investment in government securities as a percentage of the life fund

Government securities represented 60.6 per cent of the Long Term Insurance Fund which more than adequately surpasses the regulatory minimum of 30.0 per cent.

RBC CAPITAL ADEQUACY



Outlook 2020

The case for a revival of the Sri Lankan economy is strong, given the relatively lower GDP base, lower lending rates, improved consumer and business confidence and the effects of the recent fiscal stimulus. The manner in which the government seeks to finance the fiscal deficit will largely weigh in on the economy and impact the economic growth trajectory. We are optimistic of the economic resurgence and higher trajectory of economic growth in 2020 and beyond.

Against this backdrop and the changes in the demographic landscape, we remain optimistic that the prospects for life insurance in Sri Lanka are strong. Higher per capita income levels, a growing affluent middle class, a heightened need awareness for retirement savings and health coverage are the key factors that lend support to this conviction.

The Company is well poised to benefit from these developments with the comprehensive product portfolio and propositions and the professional sales force that delivers these to our customers. The strategies and initiatives that we have and are deploying on digitalisation and ease of doing business supports the endeavour to deliver convenience to the customer and the sales force whilst enabling more efficient processes.

We will relentlessly pursue our goal to deliver on the vision of being the pre-eminent life insurance provider in Sri Lanka and of fulfilling our purpose to play a leadership role in driving economic and social development in Sri Lanka.



AIA Poson Safety Campaign 2019 - 'Keeping Poson Pilgrims Safe'

During the annual Poson season in June, approximately one million people embark on a pilgrimage to the sacred city of Anuradhapura. AIA conducted a unique safety campaign in the district by facilitating the services of life-saving crews from the Life Saving Association of Sri Lanka, the Sri Lanka Police and the Sri Lanka Navy, to ensure that pilgrims who bathe in the surrounding reservoirs are safe. As a result of these efforts there has been a total absence of deaths during Poson. This is probably the longest Corporate Social Responsibility project in Sri Lanka and commenced in 1993. Over the decades, at least 200 lives have been saved and seven lives were saved in 2019.



AIA Higher Education Scholarship Awards

The AIA Higher Education Scholarships started as far back as 1994. The students who top the batch in each of the 25 districts in the Year 5 government scholarship examination benefit from the scholarships granted by AIA Insurance when they enter Advanced Level class. They receive a monthly bursary right up to the completion of their university degree. If they opt not to enter university, AIA gives them a lump sum as a life-starter. AIA Sri Lanka started a trust fund of LKR 10 million to ensure the continuity of the scholarships. This fund has now grown more than six-fold through prudent investment.

BOARD OF DIRECTORS



WILLIAM LISLE

Chairman - Non-Executive Director

Appointed to the Board of Directors of the Company on 22 June 2015.

Mr. William Lisle is the Regional Chief Executive responsible for AIA Group's businesses operating in Thailand, Vietnam, Australia and New Zealand, India and Sri Lanka as well as Group Partnership Distribution. 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 Sovereign Assurance Company. 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 and AIA Vitality.

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

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

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



MANOJ RAMACHANDRAN

Non-Executive Director

Appointed to the Board of Directors of the Company on 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 22 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 Chartered Institute of Marketing, UK, Chartered Marketer, fellow of the Sri Lanka Institute of Marketing, an Accredited Master Coach and a Master Mentor and has a Masters in Business Administration from the University of Sri Jayewardenepura.



SARATH WIKRAMANAYAKE

Independent Non-Executive Director

Appointed to the Board of Directors of the Company on 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 is currently engaged in providing consulting services to the Financial and IT industries. He is also 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 TEAM



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



ASHEAN KARTHELIS

Director Partnership Distribution



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

He has almost 25 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 over 30 of years experience in the insurance industry.

Upul holds a bachelor of science degree with honours from the University of Colombo and is an Associate of the Chartered Insurance Institute, UK. He holds a postgraduate diploma in actuarial science. He is an Alumni of the International Centre for Management Development, Switzerland. He was the President of Sri Lanka Insurance Institute in 2002 and 2003.

CHATHURI MUNAWEERA

Director / Chief Officer Legal, Governance & Operations

Chathuri heads the Legal, Governance and External Relations functions and in addition holds interim responsibility for the Operations function.

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

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

GAVIN D' ROSAIRO

Chief Financial Officer / Director Finance

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

He counts over 10 years of experience in the insurance industry in the areas of investments, strategy, risk and finance and over 16 years of experience as a fund manager, managing both fixed income and equity investment portfolios. His academic and professional exposure encompasses economics, investments, capital markets and finance.

He is an Associate Member of the Chartered Institute of Management Accountants (UK) and holds a bachelors of commerce degree from the University of Sri Jayewardenepura with honours, specialising in international trade.

THUSHARI PERERA

Director Human Resources

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

She is a Member of the Chartered Institute of Personnel Management, UK and holds a 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 of the Insurance Association of Sri Lanka.

SENIOR MANAGEMENT TEAM

ASHEAN KARTHELIS

Director Partnership Distribution

Ashean heads the Partnership Distribution function of the Company and is responsible for Bancassurance Sales, Broker Business, Alternate Channels and Sales Operations.

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

Ashean holds a master's degree in business administration (Cardiff Metropolitan, UK) and professional certificate in marketing – Chartered Institute of Marketing (UK). A talented ruggerite produced by S. Thomas' College Mount Lavinia, Ashean has captained Sri Lanka National Rugby Seven's team, CR & FC Rugby team, S. Thomas' Rugby team as well as being a part of Sri Lanka's National Rugby 15 a side team.

Prior to joining AIA Sri Lanka, he was the Group General Manager of ICT and Digital Business of a leading group of companies where he was a key stakeholder in pioneering the cloud journey of the company and improving the business IT alignment. Concurrently he oversaw the corporate communications and group sustainability functions.

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 member of the British Computer Society.

UMESHI DE FONSEKA

Director Information Technology / Chief Technology Officer

Umeshi heads the Information Technology (IT) function of the Company effective from January 2019. He is responsible for the development and implementation of the IT strategy and the digitization roadmap. He counts over 15 years of experience in the IT, e-commerce & digital spaces in multinationals & diversified business conglomerates.

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) has pleasure in presenting their Annual Report on the affairs of the Company during the financial year ended 31 December 2019, together with the audited financial statements for the year ended 31 December 2019 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 64 to 124 of the Annual Report.

VISION

A statement of the Corporate Vision is given on page 03 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 2019 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 20 and 49 to 50 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 2019.

DELISTING OF SHARES & CHANGE OF CORPORATE STATUS

The Company's 30,749,370 issued and fully paid ordinary (voting) shares (shares) were delisted from the official list of the Colombo Stock Exchange (CSE) on 02 October 2019 as informed by the CSE by its letter dated 02 October 2019.

Consequent to the delisting of shares, the Company's status changed to a limited company (unlisted), its corporate name accordingly changed to AIA Insurance Lanka Limited (Company Registration No. PQ 18 PB) in terms of Section 11(4) of the Companies Act No. 07 of 2007 effective from 14 October 2019 (certificate issued by the Registrar-General of Companies),

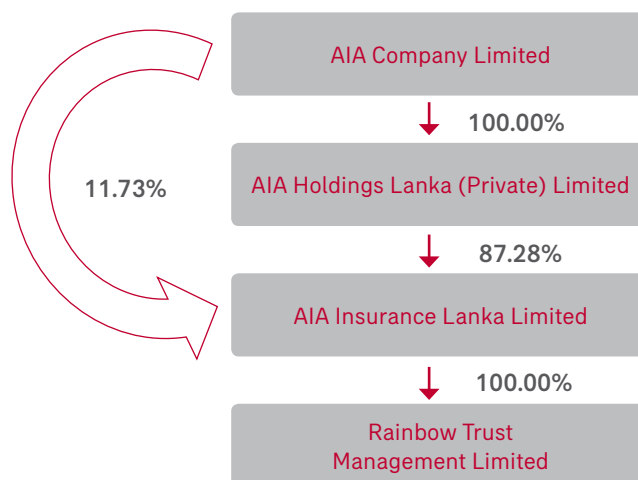
and the Company's Articles of Association amended to conform to its unlisted status.

The delisting of shares and the consequent changes mentioned above were effected pursuant to the Company obtaining the prior approval of the shareholders at the Extraordinary General Meeting held on 27 March 2019 and all other applicable statutory and regulatory approvals in that regard.

SHAREHOLDING STRUCTURE

As at 01 January 2019, AIA Company Limited (AIA) based in Hong Kong, effectively held [directly and indirectly together with AIA Holdings Lanka (Private) Limited] 97.16 per cent of the issued and fully paid shares (shares) of the Company, with the balance 2.84 per cent of the shares being held by the public. As at 31 December 2019, AIA's shareholding in the Company had increased to 99.01 per cent and the percentage of shares held by the public reduced to 0.99 per cent, pursuant to the delisting of shares during the year under review.

The Company's shareholding structure and that of its subsidiary as at 31 December 2019 are as follows:



THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

STATED CAPITAL & RESERVES

The Company's stated capital as at 31 December 2019, was LKR 511,921,836 (Sri Lankan rupees Five hundred and Eleven million Nine hundred and Twenty one thousand Eight hundred and Thirty six only) represented by 30,749,370 (Thirty million Seven Hundred and Forty nine thousand Three hundred and Seventy) Issued and fully paid ordinary shares.

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

The total capital and reserves for the Group was LKR 20,644 million as at 31 December 2019 (LKR 18,700 million as at 31 December 2018), the details of which are provided in Notes 24 to 27 to the Consolidated Financial Statements.

SHAREHOLDERS

As at 31 December 2019 the Company had 1,177 registered shareholders. The details of the 20 largest shareholders as at 31 December 2019 are given on page 129 of the Annual Report.

INTERIM FINANCIAL RESULTS

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

FINANCIAL STATEMENTS CONTAINED IN THE ANNUAL REPORT

The 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 the Insurance Industry Act No. 43 of 2000 (as amended).

The Consolidated Financial Statements duly signed by the Directors are published on pages 66 to 124 and the External Auditors Report thereon is provided on pages 64 to 65 of the Annual Report.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2019 and the state of Group's affairs as at that date are set out in the Consolidated Financial Statements on pages 66 to 124 of the Annual Report.

INCOME

Total income of LKR 19,732 million (LKR 17,996 million as at 31 December 2018) 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 73 to 96 of this Annual Report. These policies have been consistently applied. There were no material changes during the year under review in the accounting policies adopted.

LIFE SURPLUS AND POLICYHOLDERS' DIVIDENDS

The Board of Directors received and adopted the report of the Company's Chief Actuary Mr. Frank Munro, for life insurance, recommending the dividends that are payable to policyholders and of the transfer of the surplus thereof to the Consolidated Income Statement. This is set out on page 57 of the Annual Report.

PROPERTY, PLANT AND EQUIPMENT

As at the date of Statement of Financial Position, the net book value of property, plant and equipment of the Group amounted to LKR 785 million while Right of Use (ROU) assets amounted to LKR 985 million.

During the financial year the capital expenditure on property, plant and equipment for the Company and the Group amounted to LKR 191 million.

The details of the Company's property, plant and equipment and the movement in their values during the year are given in Note 07 to the Consolidated Financial Statements on pages 98 and 99 of the Annual Report.

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

The market values of the Company's property, plant and equipment are not materially different to the book values as given in the notes to the Consolidated Financial Statements on page 98 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 accounting policy and a revaluation surplus of LKR 14 million was recognised in 2019, totaling to a revaluation reserve of LKR 193 million as at the reporting date.

The details of the extents, locations, valuations of the Company's land holdings are given in Note 07 to the Consolidated Financial Statements on page 98 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 100 to 102.

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 1.7 million utilised as charitable donations for the year 2019. This amount is within 1.0 per cent of the average profits after tax for the preceding three years.

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

PROVISIONS

The Board of Directors has arranged for the Chief Actuary to review the Life Fund valuations. (Please refer pages 81 and 85 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 2019, amounted LKR 20,132 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 69 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 113 and 119 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 note on Contingent Liabilities on pages 123 to 124 of the Annual Report.

EMPLOYEES

AIA Sri Lanka is proud to have been recognised as a Great Place to Work® in Sri Lanka for the seventh consecutive year. This year too AIA was adjudged as one of the 25 Best Workplaces in Sri Lanka, while also being awarded the Silver Award for the 'Best in Large Sized Enterprise Category'.

AIA Sri Lanka was recognised as one of the 'Best Workplaces for Women' by Great Place to Work® (GPW®) Sri Lanka. This was the first year GPW® bestowed this award with 15 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 11 to 20 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 50 per share for the year 2019 to be declared by the shareholders at the Company's forthcoming Annual General Meeting. The dividend will be paid out of the current year taxable 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 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 34 to 48.

The Company was also compliant with the Corporate Governance Rules set out in the Listing Rules of the CSE to which it was subject until 02 October 2019 (i.e. the effective date of delisting of shares from the official list of the CSE). The said Rules were complied with as applicable for a non listed company as required.

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 63 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 Chief Executive Officer's interests in transactions with the Company**
Directors' and Chief Executive Officer's interests in transactions of the Company, both direct and indirect, during the year under review are included in Note 42.2 in the related party disclosures to the Consolidated Financial Statements, set out on pages 122 to 123 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 captured herein as appropriate.
- b) **Directors' and Chief Executive Officer's dealings with the shares of the Company**
 - i. Disclosures in respect of shares held during the year ended 31 December 2019:

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

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

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 determined by the Company's Remuneration Committee and approved by the Board of Directors.

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

Details of the Directors' fees and emoluments paid during the financial year 2019, which have been duly approved by the Board of Directors, are stated below.

	Consolidated Fees	
	2019 LKR'000	2018 LKR'000
Directors' emoluments*	188,135	145,320
Directors' fees	8,400	8,400

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

Details of the advance made on behalf of the Directors / Chief Executive Officer during the financial year 2019, as duly approved by the Board of Directors are stated herein.

	2019 LKR'000	2018 LKR'000
Advance granted to the CEO*	-	13,790
Outstanding balance as at 31 December	-	13,790
Consideration recognised in the Consolidated Financial Statements **	1,011	1,029

* forms part of the compensation and benefit structure awarded to the former CEO who resigned on 04 July 2019.

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

The Company has not provided any guarantee or any other form of security in connection with any loan made by any person to a Director or to the Chief Executive Officer of the Company or of any related entity.

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

AIA Group wide D & O cover has been in effect to cover the Directors and Officers of the Company, its holding Company and the subsidiary respectively. AIA Group Limited maintains a D & O cover worth of USD 300 million, and Sri Lanka is covered under the master policy with a locally admitted policy issued.

THE BOARD OF DIRECTORS

The Directors who comprised the Board as at 31 December 2019 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 22 to 23. A brief resume of each Director including information on the nature of his expertise is set out on pages 22 to 23 of this Annual Report. Disclosures in relation to Non-Executive Directors and their status of independence is described on pages 37 to 38.

DIRECTORS RETIRING BY ROTATION

Messrs William Lisle and Stuart Anthony Spencer 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 Shareholders at the forthcoming Annual General Meeting. A brief profile of each retiring Director is given on pages 22 to 23 of the Annual Report.

BOARD SUB COMMITTEES

The sub committees of the Board, their composition and mandate are provided on pages 42 to 43 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 Meetings		Investment Committee Meetings		Remuneration Committee Meetings		Related Party Transactions Review Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
Nikhil Advani*	-	-	2	2	2	2	-	-	2	2
Pankaj Banerjee*	-	-	2	2	2	2	2	2	2	2
Deepal Sooriyaarachchi	4	4	4	4	-	-	2	2	3	4
Manoj Ramachandran	3	4	-	-	-	-	-	-	-	-
William Lisle	4	4	-	-	-	-	2	2	-	-
Robert Alexander Hartnett	4	4	4	4	-	-	-	-	3	4
Drayton Sarath Palitha Wikramanayake	4	4	4	4	-	-	-	-	4	4
Stuart Anthony Spencer	4	4	-	-	-	-	-	-	-	-
Gavin D' Rosairo*	-	-	4	4	4	4	-	-	4	4
Frank Munro*	-	-	4	4	4	4	-	-	-	-
Hasitha Mapalagama*	-	-	4	4	4	4	-	-	4	4

A = Number of meetings attended

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

* Not members of the Board.

* Mr. Nikhil Advani was appointed as the Chief Executive Officer of the Company effective 05 July 2019.

* Mr. Pankaj Banerjee resigned as the Chief Executive Officer of the Company effective 04 July 2019.

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

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.

COMPLIANCE WITH THE LISTING RULE 09 PERTAINING TO RELATED PARTY TRANSACTIONS

It is confirmed that the Company has complied with the Code of Best Practices on Corporate Governance 2017 issued by the Securities and Exchange Commission of Sri Lanka jointly with the Institute of Chartered Accountants of Sri Lanka.

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

It is certified that the Company has complied with the Transfer Pricing Regulations issued under Section 76 of the Inland Revenue Act, No. 24 of 2017. The Directors believe that the record of transactions entered with associated enterprises during the period from 01 January 2019 to 31 December 2019 are: at arm's length; not prejudicial to the interests of the company; and were not carried out for profit shifting purposes.

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

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

The Company sought and received an exemption from the SEC initially until 31 December 2016 and then until 31 December 2018 which was further extended until 18 July 2019, from having to comply with the Listing Rules of the CSE relating to the maintenance of a minimum public holding by listed

companies as a continuous listing requirement. This was on the basis the proposed statutory exemption to the Regulation of the Insurance Industry Act No. 43 of 2000, (as amended) (the Insurance Act) and which exemption was made law by the Parliament in October 2017. The Company secured an exemption as per the Insurance Act from being listed on a licensed Stock Exchange based on the listing of its ultimate parent Company AIA Group Limited Hong Kong, on the Stock Exchange of Hong Kong Limited and the delisting of the Company's shares was accordingly effected in pursuance of such exemption.

In the year under review, the Company, as instructed by the CSE, complied with the requirement of monthly disclosures of its status in relation to the maintenance of a minimum public holding by listed companies as a continuous listing requirement, until the delisting of the Company's shares from the official list of the CSE on 02 October 2019.

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.

	Group	
	2019 LKR'000	2018 LKR'000
Audit and related services	4,894	4,490
Non-Audit services	1,726	8,932

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.

ANNUAL REPORT

The information provided herein is in pursuance of the requirements of the Companies Act No. 07 of 2007. 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 25 February 2020. 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 Tuesday, 31 March 2020 at 9.15.a.m. at AIA Insurance Lanka Limited, AIA Tower, 92, Dharmapala Mawatha, Colombo 07 (Sixth floor).

The Notice of the Annual General Meeting, setting out the business which will be transacted thereat appears on page 134 of the Annual Report.

By order of the Board



William Lisle
Chairman/Director



Robert Alexander Hartnett
Director



Chathuri Munaweera
Company Secretary

Colombo
25 February 2020

CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE

Corporate Governance encompasses a set of systems and practices to ensure that the Company's affairs are being managed in a manner which ensures accountability, transparency and fairness in all transactions in the widest sense. The objective is to meet stakeholders' aspirations and societal expectations. Good governance practices stem from the dynamic culture and positive mindset of the Company. At AIA, we consider our stakeholders as partners in our success, and we remain committed to maximising stakeholders' value, be it shareholders, employees, suppliers, customers, investors, communities or policy makers. As such, the Corporate Governance Report of the Company provides information beyond the minimum requirements as specified by applicable legal and regulatory provisions.

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

In pursuance of Rule 5(2) of the SEC Rules published in the Gazette Extraordinary No. 1215 / 2 dated 18 December 2001, the Company delisted its shares from the official list of the CSE effective 02 October 2019. Subsequently the Registrar of Companies issued the Certificate of Incorporation dated 14 October 2019, changing the corporate name of the Company to 'AIA Insurance Lanka Limited' (PQ 18 PB). Since delisting, the Company no longer falls within the purview of the SEC and therefore the SEC Rules in relation to enforcement on minimum public holding are no longer applicable to the Company. The fundamental operating model adopted by AIA Group as regards

its subsidiaries including AIA Insurance Lanka, is to engage in business through wholly owned subsidiaries so that it can focus on long term value creation by the retention for re-investment of the profits of the business for the benefit of all its stakeholders. The delisting of AIA Insurance harmonised the Company into the above mentioned overall operating structure of AIA Group.

The Insurance Regulatory Commission of Sri Lanka (the IRCSL) issued a Corporate Governance Framework under Direction # 17 for insurers, setting out the requirements for the composition of the board of insurers while recommending the insurers to adhere to the Code of Best practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka. 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 Board adopted the Code as comprehensively as possible. A detailed commentary on the status of compliance with the Corporate Governance Framework issued by the IRCSL is given on pages 35 to 36 of this Report.

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 on pages 49 to 50 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 having the appropriate people, processes and structures to direct and manage the business affairs of the company to enhance financial transparency, whilst taking into account the interests of all stakeholders. Companies that embrace the tenets of good governance, including accountability, transparency and sustainability, are more likely to achieve long-term sustainable business performance.

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 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 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)

- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 (was applicable until the Company was delisted on 02 October 2019)
- 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
- Listing Rules of the CSE, Rules, Regulations and Guidelines issued by the Securities and Exchange Commission of Sri Lanka (the SEC). (was applicable until the Company was delisted on 02 October 2019).

STATUS OF COMPLIANCE WITH CORPORATE GOVERNANCE FRAMEWORK ISSUED UNDER DIRECTION # 17 OF THE IRCSL

The IRCSL issued the Direction # 17 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 of the IRCSL.

Section	Status of Compliance
Section A	Partially complied
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

Total number of requirements	7
Not applicable	-
Fully complied	6
Partially complied	1
Not complied	-

CORPORATE GOVERNANCE

The Company's status of compliance with the said Direction 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).	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 Board adopted the Code as comprehensively as possible. The Company substantially complies with the requirements specified in the Code and is in the process of implementing actions to bridge the identified gaps.	Partially complied
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 RII Act.	Complied
B.2 (a)	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.	The Chairman Mr. William Lisle and Directors Messrs. Manoj Ramachandran, Robert Hartnett and Stuart Spencer hold Directorships for periods less than nine years. Mr. Deepal Sooriyaarachchi had been an Executive Director of the Company and was declared a Non-Executive Director in 2012. Thus, the period of his directorship applicable for this requirement is less than nine years. The position of Mr. Sarath Wikramanayake is explained in light of the Principle B.2(b) in the following section.	Complied
B.2 (b)	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.	Mr. Sarath Wikramanayake has served as a director in the capacity of a Non-Executive Director for more than nine years and is permitted to serve the Company in the similar capacity for a further period of two years commencing from 01 July 2019.	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 Section 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 page no. 37.	Complied
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

Rule 7.10 of the Listing Rules on Corporate Governance (Status of compliance with Direction # 17 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 34 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 34 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 the relevant requirement until the Company was delisted on 02 October 2019. The Company complied with all the mandatory requirements stipulated by the IRCSL in Direction # 17.	Complied
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 held on 27 March 2019, there were six members on the Board of Directors. Therefore, the requirement under rule 7.10.1.a is fully 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 no 23 of this report.	Complied

CORPORATE GOVERNANCE

Rule	Commentary	Status of Compliance
7.10.2.b	The Board shall require each Non-Executive Director to submit a signed and dated declaration annually of his / her independence or non-independence against the specified criteria.	Complied
7.10.3 Disclosures relating to Directors		
7.10.3.a	<p>The Board shall make a determination annually as to the independence or non-independence of each Non-Executive Director based on such declaration and other information available to the Board and shall set out in the Annual Report the names of directors determined to be 'independent'.</p> <p>Mr. Deepal Sooriyaarachchi joined the Board as a Director in May 2005. He resigned and was re-appointed to the Board in 2006 and was declared an independent Non-Executive Director in 2012. In terms of Listing Rule 7.10.4.e., Mr. Sooriyaarachchi declared, during the year under review, that he has served the Board continuously for a period exceeding twelve 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 eight years.</p> <p>The Board taking this disclosure and his re-appointment at the Annual General Meeting held on 27 March 2019, 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.</p>	Complied
7.10.3.b	<p>In the event a director does not qualify as 'independent' against any of the criteria set out below but if the Board, taking account all the circumstances, is of the opinion that the director is nevertheless 'independent', the Board shall specify the criteria not met and the basis for its determination in the Annual Report.</p> <p>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 twelve years. Mr. Sooriyaarachchi does not have any economic interests in the Company. Neither Mr. Sooriyaarachchi nor his family members have entered into any direct or indirect transaction/s with the Company during the year under review which are of a material or significant business or commercial nature. Mr. Sooriyaarachchi holds no shares in the Company and in all circumstances acts and functions as an outside director and is remunerated for his function via the payment of Directors fees declared in this Annual Report.</p>	Complied

	Rule	Commentary	Status of Compliance
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 22 to 23 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.	The Company has a procedure to comply with this requirement. However, no Directors were appointed during the year under review.	Complied
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	<p>COMPOSITION</p> <p>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);</p> <p>or</p> <p>of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.</p> <p>One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.</p>	<p>The Remuneration Committee consists of three Non-Executive Directors two of whom are independent Non-Executive Directors.</p> <p>The Company has a separate Remuneration Committee.</p> <p>Mr. William Lisle functions as the Chairman of the Committee and he is a Non-Executive Director of the Company.</p>	Complied
7.10.5.b	<p>FUNCTIONS</p> <p>The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and Chief Executive Officer of the listed entity and / or equivalent position thereof, to the Board of the listed entity which will make the final determination upon consideration of such recommendations.</p>	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	<p>DISCLOSURE IN THE ANNUAL REPORT</p> <p>The Annual Report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the Remuneration Committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and Non-Executive Directors.</p>	Names of the Directors who are members of the Remuneration Committee are given on page 53 of this report. A statement of the remuneration policy is given under the Remuneration Committee Report on page 53 of this report. Disclosure of remuneration paid to Directors is given on page 30 of this report.	Complied

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Rule	Commentary	Status of Compliance
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);	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.	Complied
or		
of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	The Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Financial Officer, the Company Secretary, the Chief Risk Officer, the Chief Actuary, the Head of Internal Audit and the External Auditors and the are considered as permanent invitees for the meetings of the Committee.	
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 Committee fulfils the required qualifications and the qualifications of respective members of the Committee are given on page 51 of the report.	
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.		
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,	Complied
	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.	
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.	

Rule	Commentary	Status of Compliance
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 42 and 51 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.	Complied
	The names of the Directors who are members of the Audit and Compliance Committee are given on page 51 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 page 52 of this report.	
	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 51 to 52 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 is not applicable as the Company was fully compliant with Rule 7.10. Not Applicable

CORPORATE GOVERNANCE

Information on Board Committees

BOARD SUB COMMITTEES

Audit and Compliance Committee	
Chairman	Robert Alexander 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
	Company Secretary
	Chief Risk 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	<ul style="list-style-type: none"> • 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 ensuring compliance with the Regulation of the Insurance Industry Act and related regulations as well as with other applicable statutes and regulations.

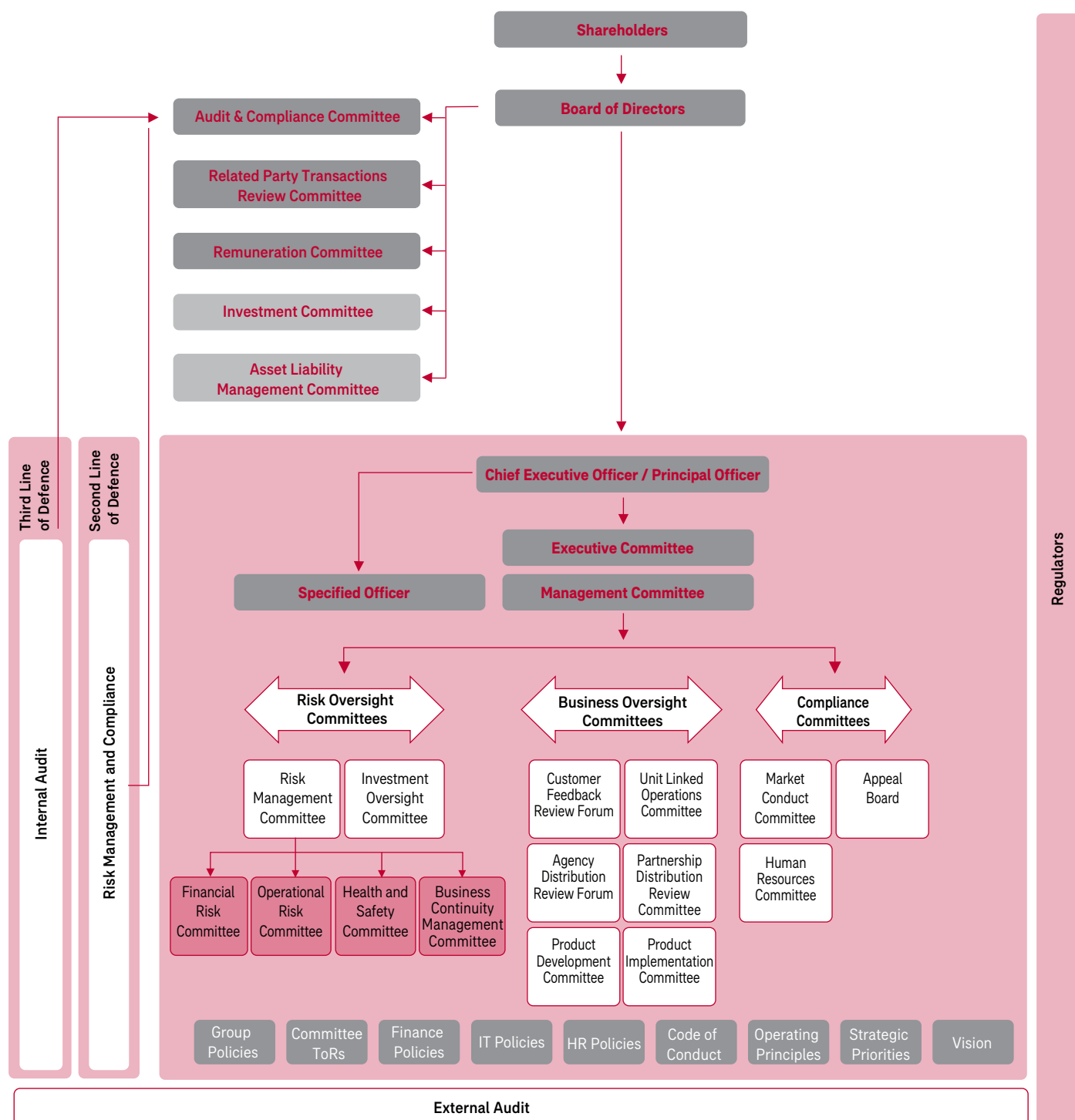
Remuneration Committee

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 (not less than two times a year)
Professional Advice	Available
Terms of Reference	Available
Objectives	<ul style="list-style-type: none"> 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 Alexander 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
	Company Secretary
	Chief Risk Officer
	Head of Internal Audit
	Other officials as and when required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	<ul style="list-style-type: none"> To oversee that all related party transactions of the Company are duly reviewed, undertaken and disclosed. To ensure compliance with the Code of Best Practices on Related Party transactions and the Listing Rules of the CSE (was applicable until the Company was delisted on 02 October 2019).

CORPORATE GOVERNANCE



THE BOARD OF DIRECTORS

The Board of Directors has the overall responsibility to guide the direction of the Company and are accountable to the shareholders. The Board has delegated its authorities to a number of primary and or Board sub-committees to support the Board in the discharge of its governance and oversight responsibilities. The governance and oversight of audit and compliance, remuneration and related party transactions are thus supported via the Board's Audit and Compliance Committee, Remuneration Committee and Related Party Transactions Review Committee respectively. Information on the Board sub committees is provided on pages 42 to 43 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 46 to 48 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 22 to 23 of this report.

THE CHIEF EXECUTIVE OFFICER (CEO)

The Articles of Association of the Company and the Board Terms of Reference recognise the role and position of the Chief Executive Officer of the Company and the duties and obligations of the role. They empower the Board to entrust such responsibilities on the CEO

who is the senior most executive officer of the Company. The CEO reports to the Chairman of the Board of Directors on all matters pertaining to the day-to-day management of the Company's business, its direction and operations in accordance with the policies and objectives set by the Board. Mr. Pankaj Banerjee, the CEO of the Company resigned from office on 04 July 2019 and Mr. Nikhil Ashvani Advani was appointed as the CEO of the Company on 05 July 2019.

THE EXECUTIVE COMMITTEE

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

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

MEMBERS OF THE EXECUTIVE COMMITTEE ARE;

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

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

THE MANAGEMENT COMMITTEE

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

FUNCTIONAL OVERSIGHT AND SUPPORT TO ENSURE SOUND CORPORATE GOVERNANCE

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

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 49 to 50 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

CORPORATE GOVERNANCE

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.

GOVERNANCE COMMITTEES

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

	Committee	Responsibility	Membership	TOR/ Charter
1.	Investment Committee	Responsible for defining the framework and set policy guidelines for the management of investment portfolios. The Committee monitors investment performance and recommend appropriate investment strategies and ensure that the portfolios are managed to achieve their investment objectives whilst adhering to the regulatory requirements. The Committee is also responsible for designing and reviewing the Company's investment policy.	CEO (Chair) Chief Financial Officer Chief Actuary Chief Risk and Compliance Officer Invitees <ul style="list-style-type: none"> Director Investment Solutions, Investment Consulting from AIA Group Investment Function. Representatives from NDB Wealth Management Ltd (External Fund Manager) 	<input checked="" type="checkbox"/>
2	Asset Liability Management Committee	Responsible for providing oversight of asset liability management policies, processes and controls and the implementation of asset liability management decisions and strategic asset allocation processes. The Committee also monitor and review the Company's risk appetites for liquidity position, solvency position and liabilities profile.	Chief Financial Officer (Chair) Chief Actuary Chief Risk and Compliance Officer	<input checked="" type="checkbox"/>
3	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.	CEO (Chair) Members of the Executive Committee Head of Risk and Compliance / Chief Risk Officer Invitees <ul style="list-style-type: none"> Chief Actuary Specified Officer and Other nominated members of management 	<input checked="" type="checkbox"/>

	Committee	Responsibility	Membership	TOR/ Charter
4	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 the relevant risks are identified, measured, monitored and managed.	CEO (Chair) Members of the Executive Committee Nominated members of management	<input checked="" type="checkbox"/>
5	Business Continuity Management Committee	Responsible for ensuring the Business Continuity Management program is complete and effective. The Committee monitors the risks pertaining to business continuity and identify / recommend procedure and controls for mitigating the risks.	CEO (Chair) Members of the Executive Committee Head of Risk and Compliance	<input checked="" type="checkbox"/>
6	Investment Oversight Committee	Responsible for reviewing, monitoring and providing oversight to the investment portfolios, especially on investment strategy, investment exposures and investment performance.	Chief Financial Officer (Chair) Nominated members of management and functional experts representing Investments, Finance, Actuarial, Risk and Compliance based on the scope of the Committee Invitees <ul style="list-style-type: none"> representatives from NDB Wealth Management Ltd (External Fund Manager) 	<input checked="" type="checkbox"/>
7	Customer Feedback Review Forum	Responsible for providing oversight to the management of customer interactions and customer feedback. Responsible for reviewing customer feedback, providing solutions for issues, identifying and implementing proactive measures to mitigate customer dissonance and improve satisfaction and identifying actions to improve agreed customer experience measures.	CEO (Co-Chair) Director / Chief Officer Legal, Governance & Operations (Co-Chair) Deputy CEO Nominated members of management and functional experts representing Distribution, Marketing, Customer Management and Operations.	<input checked="" type="checkbox"/>
8	Product Development Committee	Responsible for identifying, developing / modifying, launching and withdrawing product propositions. Responsible for evaluating proposals to product development and redesigning products.	CEO (Co-Chair) Members of the Executive Committee	<input checked="" type="checkbox"/>
9	Product Implementation Committee	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.	CEO (Co-Chair) Nominated members of management and functional experts representing Marketing and Customer Management, Actuarial, Operations, Distribution, Sales Training, Risk, Compliance, Legal, IT and Finance.	<input checked="" type="checkbox"/>

CORPORATE GOVERNANCE

	Committee	Responsibility	Membership	TOR/ Charter
10	Agency Distribution Review Forum	Responsible for providing oversight to sales and performance of the Agency Force (Agency channel). Responsibilities include setting of goals of the Agency Force with stipulated key performance indicators and defined performance metrics.	Deputy CEO (Chair) Senior management of the Agency Force and Distribution channel.	<input checked="" type="checkbox"/>
11	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 Partnership Distribution with stipulated key performance indicators and defined performance metrics.	Director Partnership Distribution (Chair) Senior management of the Partnership Distribution channel and selected members of the sales team.	<input checked="" type="checkbox"/>
12	Market Conduct Committee	Responsible for implementing the penalty table and actions to be effected in substantiated intermediary misconduct incidents.	DGM Legal DGM Information Technology Director Human Resources Head of Marketing	<input checked="" type="checkbox"/>
13	Appeal Board	Responsible for reviewing the decisions arrived at by the Market Conduct Committee upon the appeals made by the aggrieved agents. The Appeal Board is responsible for making the final decision.	CEO (Chair) Director / Chief Officer Legal, Governance & Operations Chief Financial Officer	<input checked="" type="checkbox"/>
14	Human Resources Committee	Responsible for the proactive management and issue resolution of employee grievances and disciplinary matters.	Director Human Resources Director / Chief Officer Legal, Governance & Operations Or their representatives	<input checked="" type="checkbox"/>
15	Unit Linked Operations Committee	Responsible for providing oversight on day-to-day management of Unit Linked Business. Responsible for drafting policies, practices and processes in order to provide results that are fair to customers and shareholders.	CEO (Chair) Members of the Executive Committee Chief Actuary Chief Risk and Compliance Officer Specified Officer	<input checked="" type="checkbox"/>

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 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, upward referral of 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

Three Lines of Defence model clearly defines 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 structure consist of the Executive Committee members of the business and the Risk Committee 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.

RISK MANAGEMENT REVIEW

LOOKING BACK AT 2019

In 2019, we made 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. 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 of controls are in-built in the processes and are monitored by increasing 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 philosophy 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 risk of the business. Aligning with AIA Group's initiatives, AIA Sri Lanka rolled out key actions on cyber security and data privacy in managing the internal and external vulnerabilities.

OUTLOOK FOR 2020

Having established a strong risk management framework which has been operating effectively over the last few years, the focus of 2020 is to continue our risk management journey as a dedicated facilitator and enabler, whilst ensuring that the business is heading towards achieving its business plan objectives. Therefore, the motto of the Risk function for 2020 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 forward.

AUDIT & COMPLIANCE COMMITTEE REPORT

COMPOSITION

The Audit and Compliance Committee ('the Committee') of AIA Insurance Lanka Limited is appointed by the Board of Directors. The Company was delisted from the official list of the Colombo Stock Exchange on 02 October 2019 and until such date complied with the requirements specified in the Listing Rules of the CSE as a listed company. Since delisting, the Company does not fall within the purview of the SEC and therefore the SEC Rules in relation to enforcement on minimum public holding are no longer applicable to the Company. The Company adopted the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka as practically as possible, which requires the establishment of an Audit Committee. Therefore, in line with the Company's endeavours to adopt high standards of governance requirements as a non-listed limited liability subsidiary of AIA Group, the Company continues 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 2019.

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 and Mr. Sarath Wikramanayake is a Chartered Accountant and is a fellow of the Institute of Chartered Accountants of Sri Lanka. The members of the Committee who have been drawn from

and out of the Non-Executive Directors serving on the Board possess the required knowledge and expertise to perform their duties of the Committee.

OBJECTIVE

The objectives and functions of the Committee are set out in the Terms of Reference of the Committee approved by the Board of Directors and encompass 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 financial statements in accordance with the applicable accounting standards. The Committee recommends the quarterly 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 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 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 2018

AUDIT & COMPLIANCE COMMITTEE REPORT

with audit findings and the Committee reviewed the comments and undertakings by the management with regards to recommendations made by External Auditors.

5. REGULATORY COMPLIANCE

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

6. ANY OTHER SIGNIFICANT MATTERS

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

MEETINGS

The Committee held four formal meetings during the year under review and the CEO, the Deputy CEO, the CFO, the 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 aforesaid, the Committee had continuous communications with the Auditors.

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

Having duly noted the willingness of the External Auditors to continue in office, the Committee recommended to the Board that Messrs. PricewaterhouseCoopers, Chartered Accountants be re-appointed as Statutory Auditors of the Company for the financial year ending 31 December 2020, subject to approval by the shareholders at the forthcoming Annual General Meeting. The Committee will approve the terms of engagement of the auditors for 2020 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 2020.



Robert Alexander Hartnett
Chairman, Audit and Compliance
Committee

19 February 2020

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 2019, the Committee comprised of the following Directors.

1. William Lisle (Non-Executive Director / Chairman of the Committee)
2. Deepal Sooriyaarachchi (Non-Executive Director / Committee Member)
3. Sarath Wickremanayake (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 2019, the Committee held two meetings in order to discharge its businesses.



William Lisle
Chairman, Remuneration Committee

25 February 2020

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 to ensure the interests of shareholders are protected and to provide safeguards to prevent directors, chief executives and substantial shareholders taking advantage of their positions. The Company was delisted from the official list of the Colombo Stock Exchange on 02 October 2019 and until such date complied with the requirements specified in the Listing Rules of the CSE as a listed company. The Company adopted the Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka as practically as possible, which requires the establishment of a Related Party Transactions Review Committee. Therefore, 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 2019.

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 applicable to the related party transactions of an entity.
2. To exercise oversight on behalf of the Board, on all related party transactions including international transactions entered into with associated enterprises, and policies / procedures influencing determination of transfer prices on same. To ensure that the same is reviewed, undertaken, 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 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 on Associated Enterprises. The requirement to maintain and keep documents have been adhered to during the year after having reviewed the records of transactions with the Associated Enterprises and the Certificate of Compliance in regards to Transfer Pricing Regulation by the Board of Directors is mentioned on page 32.

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

19 February 2020

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
Pankaj Banerjee (Chairman from 15 November 2016 to 04 July 2019)	15 November 2016	04 July 2019
Gavin D' Rosairo	14 August 2012	To date
Frank Munro (From 30 May 2017)	30 May 2017	To date
Hasitha Mapalagama (From 30 May 2017)	30 May 2017	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 2019 and given below is the members' attendance.

ATTENDANCE

Member	Attendance			
	08 Feb 2019	10 May 2019	13 Aug 2019	05 Nov 2019
Nikhil Advani	N/A	N/A	✓	✓
Pankaj Banerjee	✓	✓	N/A	N/A
Gavin D' Rosairo	✓	✓	✓	✓
Frank Munro	✓	✓	✓	✓
Hasitha Mapalagama	✓	✓	✓	✓

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

31 January 2020

ACTUARY'S REPORT



AIA Insurance Lanka Limited (Co. No. PQ 18 PB)
AIA Tower
92, Dharmapala Mawatha,
Colombo 7, Sri Lanka
Telephone : 0094 11 231 0000
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 2019

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 the Regulation of the Insurance Industry Act No. 43 of 2000 read in conjunction with the Solvency Margin Rules (Long Term Insurance Rules 2002, amended in 2011), Guidelines on Linked Long Term Business effective from 01 May 2007, IRCSL circular # 22 dated 14 February 2006, Extraordinary Gazette dated 15 December 2015 and Direction # 16 dated 20 March 2018.

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

I have comprehensively reviewed and revised the methodology and assumptions used in determining the policy reserves of the Company in accordance with the Risk Based Capital framework. For areas not covered by the IRCSL regulations and guidelines, reserves are computed in accordance with generally accepted international actuarial principles.

Adequate reserves have been provided for all current and contingent liabilities in respect of the long term insurance business as of 31 December 2019, including the dividend declared up to and including the date of valuation.

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

In accordance with the policy conditions of those policies featuring dividends, I have recommended an annual dividend of 11.99 per cent / 10.66 per cent / 9.99 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 2019.

Frank Munro

Fellow, Institute and Faculty of Actuaries, UK

06 February 2020

STATEMENT OF SOLVENCY

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

	2019 LKR Mn	2018 LKR Mn
1 Value of admissible assets	52,055	44,006
2 Value of liabilities		
2.1 Policy liabilities	23,741	20,621
2.2 Other liabilities	5,725	4,164
3 Total Available Capital (TAC)	22,589	19,222
4 Risk Based Capital Requirement (RCR)	3,676	2,934
5 Risk Based Capital Adequacy Ratio (CAR) = (TAC/RCR)	614.5%	655.1%

STATEMENT OF APPROVED ASSETS

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

	2019 LKR Mn	2018 LKR Mn
1 Approved assets maintained in the long term insurance business	33,663	29,165
2 Long Term Insurance Fund	31,450	27,167
3 Excess in approved assets over the Long Term Insurance Fund	2,213	1,998
4 Approved assets as a % of the Long Term Insurance Fund	107.0%	107.4%
5 Ratio required	100.0%	100.0%

FINANCIAL INFORMATION ►

AIA 'Lend a Hand' CSR Initiative benefits three rural schools.

AIA Sri Lanka's employees from Colombo and other regions colour-washed the Watuliyadda Primary School in Kandy and the Elayathamby Hindu Vidyalaya in Jaffna. AIA Sri Lanka also donated a brand new building to the Uduwela, Watuliyadda Primary School in Kandy enabling a clean and conducive learning environment for less privileged students. AIA also made a donation of school bags and school uniforms to students, validating AIA's commitment to the communities that it serves, promoting equal opportunity for all Sri Lankans and the right to enjoy a healthier, longer, better life.



AIA Mahiyanganaya Base Hospital renovation

Mahiyanganaya Base hospital looks after a large number of patients in the region and the OPD caters to a population of over 550,000. AIA's staff from the Head Office and Regional Offices gathered and cleaned up the hospital and whitewashed the entire OPD. AIA also sponsored the renovation of the two washrooms allocated to the OPD. AIA's efforts created a positive environment for the patients and the staff of the hospital.



FINANCIAL INFORMATION

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FINANCIAL CALENDAR

DATE OF APPROVAL / PUBLICATION OF THE INFORMATION

Interim Results for 2019

First Quarter	15 May 2019
Second Quarter	15 August 2019
Third Quarter	13 November 2019
Fourth Quarter	19 February 2020

Audited Financial Statements

2018	14 February 2019
2019	19 February 2020

Dividends

2018 : First and Final Dividend	21 February 2019
2019 : First and Final Dividend	19 February 2020

Annual General Meetings

2018 : 33rd AGM	27 March 2019
2019 : 34th AGM	31 March 2020

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, 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 64 to 65.

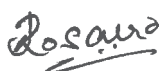
The Audit and Compliance Committee of the Company meets periodically with the Internal Auditors and External Auditors to review the manner in which the auditors carry out their responsibilities and perform their duties and to discuss audit findings, and any deficiencies in internal controls that may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

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

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



Nikhil Advani
Chief Executive Officer



Gavin D' Rosairo
Chief Financial Officer

19 February 2020

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 64 to 65 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 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 2019 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
19 February 2020

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 2019, 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 2019;
- the income statement, and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

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.

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 T U Jayasinghe FCA, H P V Lakdeva FCA, M D B Boyagoda ACA

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal 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.



CHARTERED ACCOUNTANTS
COLOMBO

25 February 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Group		Company	
		2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
ASSETS					
Intangible assets	6	842,804	923,869	842,804	923,869
Property, plant and equipment	7	785,061	767,873	785,061	767,873
Right of use assets - leases	17.2(a)	985,025	-	985,025	-
Investments in subsidiary	8	-	-	1,000	1,000
Financial investments	9	52,570,406	44,836,419	52,570,406	44,836,419
Policyholder and other loans	10	776,164	836,700	776,164	836,700
Deferred income tax assets	11	1,100,978	2,552,492	1,100,978	2,552,492
Reinsurance receivables	12 & 18.2	138,821	127,908	138,821	127,908
Trade receivables	13	441,150	403,370	440,717	402,981
Other assets	14	3,105,316	2,920,816	3,105,314	2,920,795
Other fund assets	15	357,122	295,829	357,122	295,829
Cash and cash equivalents	16	873,196	741,974	869,989	739,620
Total assets		61,976,043	54,407,250	61,973,401	54,405,486
LIABILITIES					
Insurance liabilities	18	36,380,211	31,925,283	36,380,211	31,925,283
Retirement benefit obligations	19	263,294	217,293	263,294	217,293
Lease liabilities	17.2(b)	890,650	-	890,650	-
Other fund liabilities	20	357,122	295,829	357,122	295,829
Reinsurance payables		68,051	189,525	68,051	189,525
Accruals and other payables	21	3,320,163	2,946,337	3,319,846	2,945,888
Current income tax liabilities	22	192	2,800	-	2,619
Deferred revenue	23	51,226	48,595	51,226	48,595
Bank overdraft	16	1,618	81,590	1,618	81,590
Total liabilities		41,332,527	35,707,252	41,332,018	35,706,622
EQUITY					
Stated capital	24	511,922	511,922	511,922	511,922
Capital reserve	25	192,916	178,916	192,916	178,916
Restricted regulatory reserve	26	6,080,848	6,080,848	6,080,848	6,080,848
Revenue reserves	27	13,857,830	11,928,312	13,855,697	11,927,178
Total equity		20,643,516	18,699,998	20,641,383	18,698,864
Total equity and liabilities		61,976,043	54,407,250	61,973,401	54,405,486

The notes on the pages 73 to 124 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.



Gavin D' Rosairo
Chief Financial Officer

The Consolidated Financial Statements on page 66 to 124 were authorised for issue by the Board of Directors on 19 February 2020 and were signed on its behalf.



William Lisle
Chairman / Director



Robert Alexander Hartnett
Director

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 December	Note	Group		Company	
		2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Gross written premium	28 (a)	13,848,283	12,739,351	13,848,283	12,739,351
Gross reinsurance premium	28 (b)	(369,954)	(382,221)	(369,954)	(382,221)
Net written premium	28	13,478,329	12,357,130	13,478,329	12,357,130
OTHER INCOME					
Investment income	29	5,494,544	5,091,897	5,494,544	5,097,477
Fee income	30	679,704	541,154	677,983	539,600
Net realised gains / (losses)	31	(53,807)	80,064	(53,807)	80,064
Net fair value losses	32	(44,513)	(194,158)	(44,513)	(194,158)
Other operating income	33	177,306	119,969	177,124	119,749
Total other income		6,253,234	5,638,926	6,251,331	5,642,732
Total income		19,731,563	17,996,056	19,729,660	17,999,862
Net claims and benefits	34	(4,784,528)	(5,643,996)	(4,784,528)	(5,643,996)
Change in contractual liability	18.1	(3,224,888)	(2,169,193)	(3,224,888)	(2,169,193)
Net acquisition expenses	35	(1,880,043)	(1,979,881)	(1,880,043)	(1,979,881)
Operating and administrative expenses	36	(6,544,931)	(6,590,521)	(6,544,352)	(6,589,942)
Finance expenses	17.3	(128,452)	-	(128,452)	-
Profit before tax	37	3,168,721	1,612,465	3,167,397	1,616,850
Income tax reversal / (expense)	38	(1,187,511)	2,498,172	(1,187,186)	2,499,009
Profit for the year	39	1,981,210	4,110,637	1,980,211	4,115,859
Profit attributable to;					
Owners of the parent		1,981,210	4,110,637	1,980,211	4,115,859
Non-controlling interest		-	-	-	-
		1,981,210	4,110,637	1,980,211	4,115,859
Basic / diluted earnings per share (in LKR)	40	64.43	133.68	64.40	133.85
Dividend per share (in LKR)	41	25.00	91.00	25.00	91.00

The notes on the pages 73 to 124 are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December	Note	Group		Company	
		2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Profit for the year		1,981,210	4,110,637	1,980,211	4,115,859
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	2,575,620	(1,942,468)	2,575,620	(1,942,468)
Changes in fair value of available for sale financial assets transferred to the Long Term Insurance Fund	18.1	(1,845,727)	1,916,912	(1,845,727)	1,916,912
Items that will not be reclassified to profit or loss					
Re-measurement of retirement benefit obligations	19	(12,851)	21,095	(12,851)	21,095
Revaluation of land	7 & 25	14,000	26,740	14,000	26,740
Total other comprehensive income for the year		731,042	22,279	731,042	22,279
Total comprehensive income for the year		2,712,252	4,132,916	2,711,253	4,138,138
Comprehensive income attributable to;					
Owners of the parent		2,712,252	4,132,916	2,711,253	4,138,138
Non-controlling interest		-	-	-	-
Total comprehensive income for the year		2,712,252	4,132,916	2,711,253	4,138,138

Items disclosed in the statement above are net of tax.

The notes on the pages 73 to 124 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	Resilience reserve	Available for sale reserve	Retained earnings	Total equity
	Note	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 01 January 2018		511,922	152,176	6,080,848	289,000	16,709	10,314,618	17,365,273
Profit for the year		-	-	-	-	-	4,110,637	4,110,637
Resilience reserve transfer to retained earnings		-	-	-	(289,000)	-	289,000	-
OTHER COMPREHENSIVE INCOME								
Changes in fair value of available for sale financial assets		27.1	-	-	-	(1,942,468)	-	(1,942,468)
Changes in fair value of available for sale financial assets transferred to the Long Term Insurance Fund		18.1	-	-	-	1,916,912	-	1,916,912
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS								
Re-measurement of retirement benefit obligations		19	-	-	-	-	21,095	21,095
Revaluation of land		7 & 25	-	26,740	-	-	-	26,740
TRANSACTIONS WITH OWNERS:								
First and final dividend 2017		41	-	-	-	-	(2,798,191)	(2,798,191)
Balance as at 31 December 2018		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		18.1	-	-	-	(1,845,727)	-	(1,845,727)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS								
Re-measurement of retirement benefit obligations		19	-	-	-	-	(12,851)	(12,851)
Revaluation of land		7 & 25	-	14,000	-	-	-	14,000
TRANSACTIONS WITH OWNERS:								
First and final dividend for 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

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 73 to 124 are an integral part of these Consolidated Financial Statements.

STATEMENT OF CHANGES IN EQUITY - COMPANY

		Capital reserve	Capital reserve	Capital reserve	Capital reserve	Capital reserve	Capital reserve	Capital reserve
		Stated capital	Revaluation reserve	Restricted regulatory reserve	Resilience reserve	Revenue reserves	Revenue reserves	Total equity
	Note	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at 01 January 2018		511,922	152,176	6,080,848	289,000	16,709	10,308,262	17,358,917
Profit for the year		-	-	-	-	-	4,115,859	4,115,859
Resilience reserve transfer to retained earnings		-	-	-	(289,000)	-	289,000	-
OTHER COMPREHENSIVE INCOME								
Changes in fair value of available for sale financial assets	27.1	-	-	-	-	(1,942,468)	-	(1,942,468)
Changes in fair value of available for sale financial assets transferred to the Long Term Insurance Fund	18.1	-	-	-	-	1,916,912	-	1,916,912
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS								
Re-measurement of retirement benefit obligations	19	-	-	-	-	-	21,095	21,095
Revaluation of land	7 & 25	-	26,740	-	-	-	-	26,740
TRANSACTIONS WITH OWNERS:								
First and final dividend 2017	41	-	-	-	-	-	(2,798,191)	(2,798,191)
Balance as at 31 December 2018		511,922	178,916	6,080,848	-	(8,847)	11,936,025	18,698,864
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	18.1	-	-	-	-	(1,845,727)	-	(1,845,727)
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS								
Re-measurement of retirement benefit obligations	19	-	-	-	-	-	(12,851)	(12,851)
Revaluation of land	7 & 25	-	14,000	-	-	-	-	14,000
TRANSACTIONS WITH OWNERS:								
First and final dividend for 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

The notes on the pages 73 to 124 are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December		Group		Company	
		2019	2018	2019	2018
	Note	LKR '000	LKR '000	LKR '000	LKR '000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums / fees received from customers		13,894,419	12,868,963	13,892,743	12,867,409
Reinsurance premium (net of commission) paid		(283,456)	(79,327)	(283,456)	(79,327)
Claims and benefits paid		(4,913,553)	(5,721,906)	(4,913,553)	(5,721,906)
Cash paid to and on behalf of employees		(1,882,477)	(2,014,902)	(1,882,477)	(2,014,902)
Interest received		183,518	217,275	183,334	217,055
Interest paid - leases	17.4	(128,452)	-	(128,452)	-
Payments to agents and intermediaries		(1,917,551)	(1,901,578)	(1,917,551)	(1,901,578)
Other operating cash payments		(3,722,096)	(4,294,873)	(3,721,385)	(4,288,990)
Cash flows from / (used in) operating activities		1,230,352	(926,348)	1,229,203	(922,239)
Taxes paid	22	(303)	(275)	-	-
Policy loans granted		(406,290)	(319,883)	(406,290)	(319,883)
Policy loans repayment		514,002	431,327	514,002	431,327
Net cash flows from / (used in) operating activities		1,337,761	(815,179)	1,336,915	(810,795)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of liquid investments	9.4	(6,492,723)	(9,245,066)	(6,492,723)	(9,245,066)
Purchase of other investments	9.4	(6,547,634)	(10,230,031)	(6,547,634)	(10,230,031)
Proceeds from sale of liquid investments	9.4	3,387,810	9,902,538	3,387,810	9,902,538
Proceeds from sale of other investments	9.4	5,095,575	8,854,358	5,095,575	8,849,631
Investment expenses		(117,692)	(114,953)	(117,692)	(114,953)
Interest received-financial investments		4,813,497	5,133,482	4,813,490	5,133,482
Dividend received		63,357	67,313	63,357	72,893
Purchase of intangible assets		(22,714)	(91,819)	(22,714)	(91,819)
Purchase of property, plant and equipment		(112,594)	(121,850)	(112,594)	(121,850)
Purchases for assets under construction	14.1	(121,393)	(156,840)	(121,393)	(156,840)
Proceeds from disposal of property, plant and equipment		3,942	8,027	3,942	8,027
Net cash flow from / (used in) investing activities		(50,569)	4,005,159	(50,576)	4,006,012
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	41	(768,734)	(2,798,191)	(768,734)	(2,798,191)
Lease rentals paid	17.4	(212,949)	-	(212,949)	-
Short term lease rentals paid	17.4	(94,315)	-	(94,315)	-
Net cash used in financing activities		(1,075,998)	(2,798,191)	(1,075,998)	(2,798,191)
Increase in cash and cash equivalents					
Cash and cash equivalents (net of bank overdraft)		211,194	391,789	210,341	397,026
at the beginning of the year		660,384	268,595	658,030	261,004
Cash and cash equivalents (net of bank overdraft)					
at the end of the year	16	871,578	660,384	868,371	658,030

The notes on the pages 73 to 124 are an integral part of these Consolidated Financial Statements.

LONG TERM INSURANCE

STATEMENT OF FINANCIAL POSITION - SUPPLEMENTAL

As at 31 December	2019 LKR '000	2018 LKR '000
ASSETS		
Financial investments	35,970,557	31,073,171
Policyholder and other loans	576,931	670,198
Reinsurance receivables	138,821	127,908
Premium receivables	440,717	402,981
Other assets	1,912,512	2,026,846
Cash and cash equivalents	480,970	716,986
Total assets	39,520,508	35,018,090
LIABILITIES		
Insurance liabilities	36,380,211	31,925,283
Reinsurance payables	68,051	189,525
Accruals and other payables	3,019,402	2,773,097
Deferred revenue	51,226	48,595
Bank overdraft	1,618	81,590
Total liabilities	39,520,508	35,018,090

INSURANCE REVENUE ACCOUNT - SUPPLEMENTAL

For the financial year ended 31 December	Note	2019 LKR '000	2018 LKR '000
Gross written premium	28(a)	13,848,283	12,739,351
Net written premium (net of premium ceded to reinsurers)	28	13,478,329	12,357,130
Investment income and other income		4,053,561	4,564,573
Charges deducted from policyholders' fund		656,946	524,101
Net claims and benefits	34	(4,784,528)	(5,643,996)
Net acquisition expenses	35	(1,880,043)	(1,979,881)
Operating and administrative expenses		(6,366,956)	(6,455,657)
Income tax expense		(15,903)	(39,793)
		5,141,406	3,326,477
Change in contractual liability	18.1	(3,224,888)	(2,169,193)
Surplus transfer to shareholders' fund		1,916,518	1,157,284

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 2019 have been authorised for issue by the Board of Directors on 19 February 2020.

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 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

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 01 January 2018;

(i) SLFRS 16, 'Leases'

The Group has adopted SLFRS 16 Leases retrospectively with the cumulative effect of initially applying the Standard recognised at the date of initial application in accordance with provisions of the standard at 01 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 01 January 2019. The new accounting policies are disclosed in Note 3.14.

On adoption of SLFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of LKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 01 January 2019.

There were no leases previously classified as finance leases which the entity requires to recognise the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

of use asset and the lease liability at the date of initial application.

a. Practical expedients applied

In applying SLFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- accounting for leases with a remaining lease term of less than 12 months as at 01 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

b. Measurement of lease liabilities

As at 01 January	Group / Company 2019 LKR'000
Operating leases commitments discounted using the lessee's incremental borrowing rate of at the date of initial application	1,109,830
(-) Prepayments and advances relating to leases	157,221
Lease liability recognised in the Consolidated Statement of Financial Position	952,609

The Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Balance Sheet as at 31 December 2018.

(ii) IFRIC 23 - Uncertainty over income tax treatments.

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty

- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the Consolidated Financial Statements.

This amendment is effective for the annual periods beginning on or after 01 January 2019.

(iii) Long-term Interests in associates and joint ventures – amendments to LKAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under SLFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in LKAS 28 Investments in Associates and Joint Ventures.

(iv) Plan amendment, curtailment or settlement – Amendments to LKAS 19

The amendments to LKAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change
- recognise any reduction in a surplus immediately in profit or loss, either as part of past service cost or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling

- separately recognise any changes in the asset ceiling through other comprehensive income.

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

(i) SLFRS 9, 'Financial Instruments'

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

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 2022.

(ii) SLFRS 17 Insurance Contracts

SLFRS 17 was issued in January 2020 as a replacement for SLFRS 4 Insurance Contracts. It requires entities to apply the General Measurement Model (GMM) where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- 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 Income Statement or directly in Statement of 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 (PAA) is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is an alternative to the GMM called the Variable Fee Approach (VFA) 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 new rules will affect the Consolidated Financial Statements and key performance indicators.

(iii) Definition of Material – Amendments to LKAS 1 and LKAS 8

The amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International 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 financial statements as a whole, and
- b) the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose 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.

(iv) 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 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.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Consolidated Financial Statements the current or future reporting periods except for SLFRS 09 and SLFRS 17.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

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 2018 and 2019.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

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.

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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 Projected Unit Credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related liability.

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

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

3.12.2 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund

does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

3.13 Provisions

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

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

3.15.2 Fee income

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

3.15.3 Investment income

Interest income

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

Dividend income

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

3.15.4 Fair value gains and losses

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

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 19 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 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	2019		2018	
	LKR'000	%	LKR'000	%
Government securities	27,600,814	52.5	22,170,147	49.4
Reverse repurchase agreements	3,386,974	6.4	2,858,419	6.4
Corporate debt	14,451,771	27.6	12,471,296	27.8
Fixed deposits	5,112,867	9.7	5,953,745	13.3
Equity	2,017,980	3.8	1,382,812	3.1
Total	52,570,406	100.0	44,836,419	100.0

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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.
- Minimum liquidity levels are incorporated into the Investment Mandate of each portfolio and are monitored on a daily basis.

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

As at 31 December 2019	1 Yr	1 Yr - 5 Yrs	5 Yrs - 10 Yrs	Over 10 Yrs	No stated maturity	Total
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	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
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Other loans and receivables

Trade receivables	440,717	-	-	-	-	440,717
Reinsurance assets	-	-	-	-	138,821	138,821
Policy loans	221,524	273,319	61,982	-	-	556,825
Other receivables	107,586	110,709	1,044	-	-	219,339
Cash and cash equivalents	869,989	-	-	-	-	869,989
	13,671,910	8,726,984	14,608,846	15,631,556	2,156,801	54,796,097

FINANCIAL LIABILITIES

Lease liability	97,975	668,026	124,649	-	-	890,650
Agency commission payable	315,861	-	-	-	-	315,861
Franchise fee payable	18,273	-	-	-	-	18,273
Bank overdraft	1,618	-	-	-	-	1,618
	433,727	668,026	124,649	-	-	1,226,402

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

As at 31 December 2018	1 Yr	1 Yr - 5 Yrs	5 Yrs - 10 Yrs	Over 10 Yrs	No stated maturity	Total
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
FINANCIAL ASSETS						
Available for sale						
Government securities	570,228	1,127,328	4,945,974	15,526,617	-	22,170,147
Equity instruments	-	-	-	-	38,100	38,100
Loans and receivables						
Reverse repurchase agreements	2,858,419	-	-	-	-	2,858,419
Corporate debt	181,208	9,465,088	2,825,000	-	-	12,471,296
Fixed deposits	5,953,745	-	-	-	-	5,953,745
Fair value through profit or loss						
Equity instruments	-	-	-	-	1,344,712	1,344,712
Other loans and receivables						
Trade receivables	402,981	-	-	-	-	402,981
Reinsurance assets	-	-	-	-	127,908	127,908
Policy loans	-	-	-	-	664,537	664,537
Other receivables	87,567	82,767	1,829	-	-	172,163
Cash and cash equivalents	739,620	-	-	-	-	739,620
	10,793,768	10,675,183	7,772,803	15,526,617	2,175,257	46,943,628
FINANCIAL LIABILITIES						
Agency commission payable	335,320	-	-	-	-	335,320
Franchise fee payable	21,056	-	-	-	-	21,056
Bank overdraft	81,590	-	-	-	-	81,590
	437,966	-	-	-	-	437,966

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 haircut of at least 10.0 per cent on investments in reverse repurchase agreements in 2019. (Refer the table on page 92 of the Annual Report).

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 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

In addition to the figures above, AIA Sri Lanka has cash and cash equivalents exposures amounting to LKR 5.2 million in 'A+' and LKR 607.9 million in 'BBB' international ratings categories respectively.

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As at 31 December 2018	Risk-free LKR'000	AAA LKR'000	AA LKR'000	A LKR'000	BBB LKR'000	BB LKR'000	Non-rated LKR'000	Total LKR'000
Available for sale								
Government securities	22,170,147	-	-	-	-	-	-	22,170,147
Loans and receivables								
Reverse repurchase agreements	2,858,419	-	-	-	-	-	-	2,858,419
Corporate debt	-	1,625,000	6,361,480	4,484,816	-	-	-	12,471,296
Fixed deposits	-	53,000	1,132,337	4,768,408	-	-	-	5,953,745
Premium receivables	-	-	-	-	-	-	402,981	402,981
Reinsurance assets	-	-	-	-	-	-	127,908	127,908
Policy loans	-	-	-	-	-	-	664,537	664,537
Other receivables	-	-	-	-	-	-	172,163	172,163
Cash and cash equivalents	-	4,124	128,099	605,425	1,836	120	16	739,620
	25,028,566	1,682,124	7,621,916	9,858,649	1,836	120	1,367,605	45,560,816

As at 31 December	2019 LKR'000	2018 LKR'000
Carrying value of investments in reverse repurchase agreements	3,386,974	2,858,419
Fair value of collateral	3,803,420	3,270,457
Excess value of collateral	416,446	412,038
Margin	12.3%	14.4%

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.

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.

As at 31 December 2019	Fixed interest LKR'000	Non-interest bearing LKR'000	Total LKR'000
Policy holder and other loans	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

As at 31 December 2018	Fixed interest LKR'000	Non-interest bearing LKR'000	Total LKR'000
Policy holder and other loans	773,099	63,601	836,700
Debt securities	43,453,606	-	43,453,606
Premium receivable	-	402,981	402,981
Reinsurance assets	-	127,908	127,908
Cash and cash equivalents	250,424	489,196	739,620
	44,477,129	1,083,686	45,560,815

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.

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

As at 31 December Impact to;	2019		2018	
	Net asset value	Profit before tax	Net asset value	Profit before tax
	LKR'000	LKR'000	LKR'000	LKR'000
Interest rate risk				
+100 basis points	(1,126,307)	(1,678,187)	(834,831)	(416,831)
- 100 basis points	1,260,976	1,674,310	939,551	486,051

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.

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 behaviour.

The Company uses appropriate base tables of standard mortality according to the type of contract being written. An investigation into the actual experience of the Company over the last five years is carried out and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. Where data is sufficient to be credible, the statistics generated by the data are used without reference to a 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 2019 with three stresses. 110.0 per cent expense levels and 120.0 per cent lapse levels along with the 80.0 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 865 million; 4.2 per cent of the policy liability. Decreasing lapse rates by 20.0 per cent would lead to a decrease in policy liabilities of LKR 915 million; 4.4 per cent of the policy liability. Increasing lapse rates by 20.0 per cent would lead to an increase in policy liabilities of LKR 827 million; 4.0 per cent of the policy liability.

5.3 Capital management

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

- a) To maintain the required solvency level and provide security to policyholders.
- b) To allocate capital efficiently and support the growth of the business by ensuring that returns on capital employed meets the requirements of shareholders and policyholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

- 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		
		2019		2018
		Contractual relationships LKR'000	Computer software LKR'000	Total LKR'000
Cost		895,991	820,240	1,716,231
(Less) Accumulated amortisation		(182,088)	(610,274)	(792,362)
Net book value as at 01 January		713,903	209,966	923,869
Additions		-	31,829	31,829
Amortisation charge	36	(55,749)	(57,145)	(112,894)
Net book value as at 31 December		658,154	184,650	842,804
Cost		895,991	852,069	1,748,060
(Less) Accumulated amortisation		(237,837)	(667,419)	(905,256)
Net book value as at 31 December		658,154	184,650	842,804

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

Intangible assets include fully amortised assets still in use, the gross carrying value of which amounted to LKR 471,810,763 (2018 - LKR 347,166,249) as at the reporting date.

The Board of Directors has assessed potential impairment indicators of intangible assets as at 31 December 2019. 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	
	2019 LKR'000	2018 LKR'000
Approved and contracted for intangible assets	7,073	903

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

7 PROPERTY, PLANT AND EQUIPMENT

	Note	Group / Company						2018 Total
		2019						
		Freehold land	Leasehold improvements	Computer & telecommunication equipment	Furniture, fittings, plant & machinery	Motor vehicles	Total	
		LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cost / revaluation		196,000	170,905	629,368	468,957	205,539	1,670,769	1,570,461
(Less) Accumulated depreciation		-	(19,662)	(529,765)	(265,341)	(88,128)	(902,896)	(823,919)
Net book value as at 01 January		196,000	151,243	99,603	203,616	117,411	767,873	746,542
Additions		-	52,753	76,166	61,936	-	190,855	127,899
Revaluation surplus		14,000	-	-	-	-	14,000	26,740
Depreciation charge	36	-	(19,319)	(63,132)	(72,226)	(32,305)	(186,982)	(131,923)
Disposals		-	-	(129,722)	(4,850)	(149)	(134,721)	(54,331)
Accumulated depreciation on disposals		-	-	129,268	4,768	-	134,036	52,946
Net book value as at 31 December		210,000	184,677	112,183	193,244	84,957	785,061	767,873
Cost / revaluation		210,000	223,658	575,812	526,043	205,390	1,740,903	1,670,769
(Less) Accumulated depreciation		-	(38,981)	(463,629)	(332,799)	(120,433)	(955,842)	(902,896)
Net book value as at 31 December		210,000	184,677	112,183	193,244	84,957	785,061	767,873

Property, plant and equipment includes fully depreciated assets still in use, the gross carrying value (cost) of which amounted to LKR 605,089,714 (2018 - LKR 634,929,410) as at the reporting date.

7.1 Fair value of land and ownership

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

As at 31 December	Description of the Property	Location	Extent	Group / Company			
				2019		2018	
				Revalued Amount LKR'000	Carrying Value LKR'000	Revalued Amount LKR'000	Carrying Value LKR'000
AIA Insurance Lanka Limited	Freehold Land	No.76 and No. 80, Kew Road, Colombo 2	25.48 (Perches)	210,000	210,000	196,000	196,000

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 2019	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 2019 and 2018, the fair value of the land has been determined by independent valuer, Mr. T.M.H. Mutaliph, Chartered Valuer.

If stated on historical cost basis, the value of the land would be LKR 17,084,105 (2018 - 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	
	2019 LKR'000	2018 LKR'000
Approved and contracted for property, plant and equipment	690	51,433

8 INVESTMENTS IN SUBSIDIARY

As at 31 December	Country of incorporation and place of business	Nature of business	Number of Shares	% holding	Company	
					2019 LKR'000	2018 LKR'000
Rainbow Trust Management Limited	Sri Lanka	Provision of trust and ancillary services	100,000	100	1,000	1,000
			100,000	100	1,000	1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

9 FINANCIAL INVESTMENTS

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

As at 31 December	Note	Group / Company			
		2019		2018	
		Carrying value LKR'000	Fair value LKR'000	Carrying value LKR'000	Fair value LKR'000
Loans and receivables	9.1	22,951,612	24,201,430	21,283,460	21,591,670
Available for sale financial assets	9.2	27,634,242	27,634,242	22,208,247	22,208,247
Financial assets at fair value through profit or loss	9.3	1,984,552	1,984,552	1,344,712	1,344,712
Total Financial investments		52,570,406	53,820,224	44,836,419	45,144,629

9.1 Loans and receivables

As at 31 December	Group / Company			
	2019		2018	
	Carrying value LKR'000	Fair value LKR'000	Carrying value LKR'000	Fair value LKR'000
Amortised cost				
Corporate debt - listed	14,451,771	15,671,007	12,471,296	12,500,521
Reverse repurchase agreements	3,386,974	3,414,725	2,858,419	2,867,906
Bank deposits	5,112,867	5,115,698	5,953,745	6,223,243
Total loans and receivables	22,951,612	24,201,430	21,283,460	21,591,670

As at 31 December	Group / Company	
	2019	2018
	LKR'000	LKR'000
Loans and receivables at amortised cost		
Current	11,429,708	8,993,372
Non-current	11,521,904	12,290,088
Total loans and receivables	22,951,612	21,283,460

The fair values of the loans and receivables have been estimated by comparing current market interest rates for similar instruments with the rates offered when the loans were first recognised, together with appropriate market credit adjustments except for the loans and receivables considered to be current of which fair value approximates the carrying value.

The Group holds collateral for the reverse repurchase agreements. Generally the collateral are pledged with an excess of 10 per cent or more of the amortised value of the reverse repurchase agreement in terms of face value of the security pledged.

The fair value of those collateral held is as follows;

As at 31 December	Financial Investment	Nature of the collateral	Group / Company	
			2019	2018
			LKR'000	LKR'000
	Reverse repurchase agreements	- Government treasury bills	834,150	93,853
		- Government treasury bonds	2,969,270	3,176,604
			3,803,420	3,270,457

9.2 Available for sale financial assets

As at 31 December	Group / Company	
	2019 LKR'000	2018 LKR'000
Government securities	27,600,814	22,170,147
Equity instruments - listed	33,428	38,100
Total available for sale financial assets	27,634,242	22,208,247
Available for sale financial assets		
Current	602,386	570,228
Non-current	27,031,856	21,638,019
Total available for sale financial assets	27,634,242	22,208,247

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

9.3 Financial assets at fair value through profit or loss

As at 31 December	Group / Company	
	2019 LKR'000	2018 LKR'000
Equity instruments - listed	1,984,552	1,344,712
Total financial assets at fair value through profit or loss	1,984,552	1,344,712
Financial assets at fair value through profit or loss		
Current	1,984,552	1,344,712
Non-current	-	-
Total financial assets at fair value through profit or loss	1,984,552	1,344,712

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

The fair value of equity instruments is based on their last traded prices at the Colombo Stock Exchange as at the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

9 FINANCIAL INVESTMENTS CONTD.**9.4 Movement in the Group's financial instruments are summarised in the table below by measurement category**

	Group / Company				2018 Total LKR'000
	2019				
	Loans and receivables LKR'000	Available for sale LKR'000	Fair value through profit or loss LKR'000	Total LKR'000	
Balance as at 01 January	21,283,460	22,208,247	1,344,712	44,836,419	45,735,748
Purchases / additions	8,094,052	4,036,892	909,413	13,040,357	19,475,097
(Sales) / (maturities)	(6,709,188)	(1,562,802)	(211,395)	(8,483,385)	(18,756,896)
Realised gains / (losses)	-	37,135	(13,665)	23,470	73,422
Amortisation of discount / (premiums)	283,288	55,302	-	338,590	455,613
Fair value gains / (losses) recorded in Consolidated Income Statement	-	-	(44,513)	(44,513)	(194,158)
Gross fair value gains / (losses) recorded in the Consolidated Statement of Other Comprehensive Income	-	2,859,468	-	2,859,468	(1,952,407)
Balance as at 31 December	22,951,612	27,634,242	1,984,552	52,570,406	44,836,419

9.5 Determination of fair value and fair value hierarchy

As at 31 December	Group / Company	
	2019 LKR'000	2018 LKR'000
Level I		
Financial assets at fair value through profit or loss		
Equity instruments - listed	1,984,552	1,344,712
Available for sale financial assets		
Equity instruments - listed	33,428	38,100
Level II		
Available for sale financial assets		
Government securities	27,600,814	22,170,147
Total financial assets measured at fair value	29,618,794	23,552,959

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

10 POLICYHOLDER AND OTHER LOANS

As at 31 December	Note	Group / Company	
		2019 LKR'000	2018 LKR'000
Policy loans		556,825	664,537
Agent loans		191,217	148,060
Staff loans		32,489	27,955
	10.1	780,531	840,552
(Less) Allowance for impairment losses			
Agent loans	10.2	(4,367)	(3,852)
Total policyholder and other loans		776,164	836,700
Policyholder and other loans			
Current		328,269	87,573
Non-current		447,895	749,127
Total policyholder and other loans		776,164	836,700

10.1 Movement in policyholder and other loans

	Group / Company	
	2019 LKR'000	2018 LKR'000
Balance as at 01 January	840,552	924,371
Loans granted during the period	608,470	705,895
Loans repayments during the period	(670,147)	(781,314)
Loans written off / (written back) during the period	649	(281)
Amortisation of discount	1,007	(8,119)
Balance as at 31 December	780,531	840,552

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

	Group / Company	
	2019 LKR'000	2018 LKR'000
Balance as at 01 January	3,852	1,989
Additional allowance for impairment during the period	515	1,863
Balance as at 31 December	4,367	3,852

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

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	
	2019 LKR'000	2018 LKR'000
Deferred income tax assets		
On unused tax losses	1,381,385	2,549,051
On temporary difference from fair value losses	-	3,441
Total deferred income tax assets	1,381,385	2,552,492
Deferred income tax liabilities		
On temporary difference from fair value gains	(280,407)	-
Total deferred income tax liabilities	(280,407)	-
Net deferred income tax assets	1,100,978	2,552,492

The Group / Company has recognised Deferred Tax Asset of LKR 1.4 billion on unused tax losses of LKR 4.9 billion as at 31 December 2019 (LKR 9.1 billion as at 31 December 2018) to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised in accordance with the provisions of Inland Revenue Act No. 24 of 2017.

Deferred income tax liabilities of LKR 298,624 (2018 - LKR 158,677) 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

	Group / Company	
	2019 LKR'000	2018 LKR'000
Balance as at 01 January	2,552,492	(6,498)
On unused tax losses	(1,167,666)	2,549,051
Deferred tax charge / (income) recognised in Consolidated Income Statement	(1,167,666)	2,549,051
On temporary difference from fair value differences	(283,848)	9,939
Deferred tax charge / (income) recognised in the Statement of Other Comprehensive Income	(283,848)	9,939
Balance as at 31 December	1,100,978	2,552,492

12 REINSURANCE RECEIVABLES

Reinsurance receivable balances as at 31 December 2019 and 2018 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 2019 and 2018 are due within a period of 12 months and are hence classified as current assets.

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

13.1 Movement in trade receivables

	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Balance as at 01 January	403,370	473,803	402,981	473,414
Revenue receivable from customers	2,264,565	1,705,265	2,262,844	1,703,710
Collection of cash from customers	(2,226,785)	(1,775,698)	(2,225,108)	(1,774,143)
Balance as at 31 December	441,150	403,370	440,717	402,981

14 OTHER ASSETS

As at 31 December	Note	Group		Company	
		2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Inventory		-	9,813	-	9,813
Interest and dividend receivable		1,703,607	1,567,096	1,703,607	1,567,096
Advance company tax recoverable		66,397	66,397	66,397	66,397
Withholding tax recoverable		901,406	596,127	901,404	596,106
Deposits		65,159	73,666	65,159	73,666
Prepayments and advances		257,553	450,006	257,553	450,006
Capital work-in-progress	14.1	111,194	157,711	111,194	157,711
Total other assets		3,105,316	2,920,816	3,105,314	2,920,795

As at 31 December		Group		Company	
		2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Other assets					
Current		1,965,050	2,064,685	1,965,048	2,064,664
Non-current		1,140,266	856,131	1,140,266	856,131
Total other assets		3,105,316	2,920,816	3,105,314	2,920,795

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

14 OTHER ASSETS CONTD.**14.1 Capital work-in-progress**

	Group / Company	
	2019 LKR '000	2018 LKR '000
Balance as at 01 January	157,711	7,784
Additions	121,393	156,840
Amount capitalised in property, plant and equipment	(78,261)	(6,049)
Amount capitalised in intangible assets	(9,115)	(864)
Amount written off during the period	(80,534)	-
Balance as at 31 December	111,194	157,711

15 OTHER FUND ASSETS

As at 31 December	Group / Company			
	2019		2018	
	Carrying value LKR '000	Cost LKR '000	Carrying value LKR '000	Cost LKR '000
Government securities	193,682	191,723	120,222	117,647
Fixed deposits	160,737	159,573	173,631	167,057
Other assets	2,770	2,770	2,091	2,091
Cash and cash equivalents/ (Bank overdraft)	(67)	(67)	(115)	(115)
Total other fund assets	357,122	353,999	295,829	286,680

16 CASH AND CASH EQUIVALENTS

As at 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Short term investments	422,936	252,758	420,982	250,424
Cash at bank and in hand	450,260	489,216	449,007	489,196
Cash and cash equivalents (excluding bank overdraft)	873,196	741,974	869,989	739,620

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

As at 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Cash and cash equivalents	873,196	741,974	869,989	739,620
Bank overdraft	(1,618)	(81,590)	(1,618)	(81,590)
Cash and cash equivalents	871,578	660,384	868,371	658,030

17 LEASES

17.1 Group leasing activities

The Group leases various offices and vehicles. Rental contracts are typically made for fixed periods of six 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 may not be 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 are not expected to have a material impact to the Consolidated Financial Statements.

17.2 Amounts recognised in the statement of financial position

17.2 (a) Right-of-use assets

	Group / Company			2018 Total LKR'000
	2019			
	Buildings	Motor Vehicles	Total	
	LKR'000	LKR'000	LKR'000	
Cost	1,109,830	-	1,109,830	-
(Less) Accumulated amortisation	-	-	-	-
Net book value as at 01 January	1,109,830	-	1,109,830	-
Additions	56,649	3,880	60,529	-
Amortisation charge	(184,379)	(955)	(185,334)	-
Net book value as at 31 December	982,100	2,925	985,025	-
Cost	1,166,479	3,880	1,170,359	-
(Less) Accumulated amortisation	(184,379)	(955)	(185,334)	-
Net book value as at 31 December	982,100	2,925	985,025	-

17.2 (b) Lease Liabilities

As at 31 December	Group		Company	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Current	97,975	-	97,975	-
Non-current	792,675	-	792,675	-
Total lease liability	890,650	-	890,650	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

17 LEASES CONTD.**17.3 Amounts recognised in the Consolidated Income Statement**

	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Buildings	(184,379)	-	(184,379)	-
Vehicles	(955)	-	(955)	-
Depreciation charge of right-of-use assets	(185,334)	-	(185,334)	-
Interest expense (included in finance cost)	(128,452)	-	(128,452)	-
Expense relating to short-term leases	(14,209)	-	(14,209)	-
	(327,995)	-	(327,995)	-

17.4 Amounts recognised in the Consolidated Statement of Cash Flows

As at 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Lease rentals paid	(212,949)	-	(212,949)	-
Short term lease rentals paid	(94,315)	-	(94,315)	-
Interest paid - leases	(128,452)	-	(128,452)	-
	(435,716)	-	(435,716)	-

18 INSURANCE LIABILITIES AND RELATED REINSURANCE ASSETS

As at 31 December		Group / Company					
		2019			2018		
Note		Gross LKR'000	Reinsurance LKR'000	Net LKR'000	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Long term policy liability	18.1	35,916,520	-	35,916,520	31,502,851	-	31,502,851
Life claims provision	18.2	463,691	138,821	324,870	422,432	127,908	294,524
Total insurance liabilities		36,380,211	138,821	36,241,390	31,925,283	127,908	31,797,375

18.1 Long term policy liability

The movement in the Life insurance fund as follows;

	Group / Company	
	2019 LKR '000	2018 LKR '000
Balance as at 01 January	31,502,851	31,774,671
Balances that are transferred through Consolidated Income Statement		
Net income from Life Fund before surplus and charges	4,484,460	2,802,376
Charges deducted from policyholders' fund	656,946	524,101
Surplus distributed to shareholders	(1,916,518)	(1,157,284)
Change in contractual liability	3,224,888	2,169,193
Balances that are transferred through Consolidated Statement of Other Comprehensive Income		
Changes in fair value of available for sale financial assets transferred to the Long Term Insurance Fund	1,845,727	(1,916,912)
Other movements in policyholder liability		
Fees and charges deducted from the policyholders' fund	(656,946)	(524,101)
Balance as at 31 December	35,916,520	31,502,851

18.2 Life claims provision

	Group / Company					
	2019			2018		
	Gross LKR'000	Reinsurance LKR'000	Net LKR'000	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Balance as at 01 January	422,432	127,908	294,524	341,621	81,308	260,313
Provisions released for claims paid to clients	(4,913,553)	192,705	(5,106,258)	(5,721,906)	155,549	(5,877,455)
Provisions for claims registered during the period	4,954,812	(181,792)	5,136,604	5,802,717	(108,949)	5,911,666
Balance as at 31 December	463,691	138,821	324,870	422,432	127,908	294,524

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

19 RETIREMENT BENEFIT OBLIGATIONS

The Group has a retirement benefit scheme for the gratuity liability of its employees which is wholly unfunded. There is no change in the scheme for the retirement gratuity obligations during the financial year.

The retiring gratuity is a statutory requirement in Sri Lanka under the Payment of Gratuity Act No 12 of 1983.

As at 31 December	Group / Company	
	2019 LKR '000	2018 LKR '000
Amount of liability recognised in the Statement of Financial Position	263,294	217,293
Amounts recognised in the Income Statement	54,424	45,664
Amounts recognised in the Statement of Other Comprehensive Income	12,851	(21,095)

The movement in the defined benefit obligation is as follows;

	Group / Company	
	2019 LKR '000	2018 LKR '000
Balance as at 01 January	217,293	222,085
Current service cost	28,566	22,812
Interest cost	25,858	22,852
Amounts recognised in the Consolidated Income Statement	54,424	45,664
Re-measurements:		
Gains/ (losses) from change in financial assumptions	19,629	(18,067)
Actuarial gain/ (loss) due to changes in experience	(6,778)	(3,028)
Amounts recognised in the Statement of Other Comprehensive Income	12,851	(21,095)
Benefits paid	(21,274)	(29,361)
Balance as at 31 December	263,294	217,293

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

As at 31 December	Group / Company	
	2019 % Per annum	2018 % Per annum
Future salary increase	11.00	11.00
Discount rate	10.34	11.90
Member withdrawal rate	8.00	8.00
Retirement age	55 Years	55 Years

Sensitivity analysis of key actuarial assumptions used

As at 31 December	Group / Company					
	Future salary increase		Discount rate		Member withdrawal rate	
	1% increase LKR'000	1% decrease LKR'000	1% increase LKR'000	1% decrease LKR'000	1% increase LKR'000	1% decrease LKR'000

The effect on;

- Retirement benefit obligations 2019	13,581	(12,442)	(12,940)	14,389	(905)	1,004
- Retirement benefit obligations 2018	10,378	(9,564)	(9,847)	10,869	155	(163)

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

As at 31 December	2019	2018	2017	2016	2015	2014
Defined benefit obligation (LKR'000)	263,294	217,293	222,085	188,425	193,691	248,986

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

Defined benefit obligation (LKR'000)	Less than 1 year	1-5 years	Above 5 years	Total
As at 31 December 2019	39,403	67,540	156,351	263,294
As at 31 December 2018	39,332	56,090	121,871	217,293

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 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	
	2019 LKR '000	2018 LKR '000
Balance as at 01 January	295,829	235,494
Capital deposits	91,897	90,546
Capital withdrawals	(65,277)	(61,061)
Income / gains and (losses)	34,673	30,850
Balance as at 31 December	357,122	295,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

21 ACCRUALS AND OTHER PAYABLES

As at 31 December	Note	Group		Company	
		2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Policyholder advance payments		457,424	377,718	457,424	377,718
Agency commission payable		315,861	335,320	315,861	335,320
Franchise fee payable		18,273	21,056	18,273	21,056
Government taxes and levies		36,880	38,681	36,880	38,681
Accrued expenses	21.1	2,267,453	1,960,336	2,267,136	1,959,887
Other creditors		224,272	213,226	224,272	213,226
Total accruals and other payables		3,320,163	2,946,337	3,319,846	2,945,888
Accruals and other payables					
Current		3,169,795	2,798,578	3,169,478	2,798,129
Non-current		150,368	147,759	150,368	147,759
Total accruals and other payables		3,320,163	2,946,337	3,319,846	2,945,888

21.1 Accrued expenses

As at 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Provisions for accrued expenses	2,267,453	1,952,218	2,267,136	1,951,769
Operating lease payable	-	8,118	-	8,118
Total accrued expenses	2,267,453	1,960,336	2,267,136	1,959,887
Accrued expenses				
Current	2,117,085	1,812,577	2,116,768	1,812,128
Non-current	150,368	147,759	150,368	147,759
Total accrued expenses	2,267,453	1,960,336	2,267,136	1,959,887

21.2 Movement in accrued expenses

	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Balance as at 01 January	1,960,336	1,783,063	1,959,887	1,782,678
Provisions during the year	3,027,924	3,657,721	3,027,489	3,657,148
Payments and reversals during the year	(2,720,807)	(3,480,448)	(2,720,240)	(3,479,939)
Balance as at 31 December	2,267,453	1,960,336	2,267,136	1,959,887

22 CURRENT INCOME TAX LIABILITIES

	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Balance as at 01 January	2,800	3,476	2,619	3,170
Provision / (Reversal)	(2,294)	3,456	(2,619)	2,619
Payments	(303)	(275)	-	-
Income tax payable set off against tax credits	(11)	(3,857)	-	(3,170)
Balance as at 31 December	192	2,800	-	2,619

23 DEFERRED REVENUE

Movement in deferred revenue

	Group / Company	
	2019 LKR '000	2018 LKR '000
Balance as at 01 January	48,595	11,262
Reinsurance recovered in advance in WOP* claims	7,686	41,402
Reinsurance recovered set off against Reinsurance assets	(5,055)	(4,069)
Balance as at 31 December	51,226	48,595

*Waiver of Premium

24 STATED CAPITAL

As at 31 December	2019		2018	
	No. of shares	LKR'000	No. of shares	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	
	2019 LKR '000	2018 LKR '000
Balance as at 01 January	178,916	152,176
Revaluation surplus arising during the year	14,000	26,740
Balance as at 31 December	192,916	178,916

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

26 RESTRICTED REGULATORY RESERVE

The RBC One-Off Surplus is the difference between the policy liabilities computed using the minimum regulatory basis under the previous NPV based solvency regime and the 'distribution basis' adopted as at 31 December 2017, and this was transferred to the 'Restricted Regulatory Reserve' as stipulated by the 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	
	2019	2018
	LKR '000	LKR '000
Balance as at 01 January	6,080,848	6,080,848
Transferred to / (from) Restricted Regulatory Reserve during the year	-	-
Balance as at 31 December	6,080,848	6,080,848

27 REVENUE RESERVES

As at 31 December	Note	Group		Company	
		2019	2018	2019	2018
		LKR '000	LKR '000	LKR '000	LKR '000
Available for sale reserve	27.1	721,046	(8,847)	721,046	(8,847)
Retained earnings	27.2	13,136,784	11,937,159	13,134,651	11,936,025
Total revenue reserves		13,857,830	11,928,312	13,855,697	11,927,178

27.1 Available for sale reserve

	Group / Company	
	2019	2018
	LKR '000	LKR '000
Balance as at 01 January	(8,847)	16,709
Changes in fair value of available for sale financial assets	2,575,620	(1,942,468)
Changes in fair value of available for sale financial assets transferred to the Long Term Insurance Fund	(1,845,727)	1,916,912
Balance as at 31 December	721,046	(8,847)

27.2 Retained earnings

	Group		Company	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
AIA Insurance Lanka Limited	13,134,651	11,936,025	13,134,651	11,936,025
Rainbow Trust Management Limited	2,133	1,134	-	-
Total retained earnings	13,136,784	11,937,159	13,134,651	11,936,025
Total revenue reserves	13,857,830	11,928,312	13,855,697	11,927,178

28 NET WRITTEN PREMIUM

28. (a) Gross written premium

For the financial year ended 31 December	Group / Company	
	2019 LKR '000	2018 LKR '000
Conventional	12,933,582	11,651,728
Unit-linked	914,701	1,087,623
Total gross written premium	13,848,283	12,739,351

28. (b) Gross reinsurance premium

For the financial year ended 31 December	Group / Company	
	2019 LKR '000	2018 LKR '000
Conventional	(315,336)	(305,757)
Unit-linked	(54,618)	(76,464)
Total gross reinsurance premium	(369,954)	(382,221)
Net written premium	13,478,329	12,357,130

29 INVESTMENT INCOME

For the financial year ended 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Dividend income				
Financial assets at fair value through profit or loss	62,750	67,125	62,750	67,125
Investment in subsidiary	-	-	-	5,580
Total dividend income	62,750	67,125	62,750	72,705
Interest income				
Available for sale financial assets	2,868,867	2,096,645	2,868,867	2,096,645
Loans and receivables	2,562,927	2,928,127	2,562,927	2,928,127
Total interest income	5,431,794	5,024,772	5,431,794	5,024,772
Total investment income	5,494,544	5,091,897	5,494,544	5,097,477

30 FEE INCOME

For the financial year ended 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Policy administration charges	656,946	524,101	656,946	524,101
Other contract fees	21,037	15,499	21,037	15,499
Trust management fees	1,721	1,554	-	-
Total fee income	679,704	541,154	677,983	539,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

31 NET REALISED GAINS/ (LOSSES)

For the financial year ended 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Property, plant and equipment				
Net realised gains / (losses)	(77,277)	6,642	(77,277)	6,642
Financial assets				
Available for sale financial assets				
Debt securities	37,135	92,744	37,135	92,744
Fair value through profit or loss				
Equity instruments	(13,665)	(19,322)	(13,665)	(19,322)
Total net realised gain from financial assets	23,470	73,422	23,470	73,422
Total net realised gains/ (losses)	(53,807)	80,064	(53,807)	80,064

32 NET FAIR VALUE LOSSES

For the financial year ended 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Fair value losses on financial assets at fair value through profit or loss	(44,513)	(194,158)	(44,513)	(194,158)
Total net fair value losses	(44,513)	(194,158)	(44,513)	(194,158)

33 OTHER OPERATING REVENUE

For the financial year ended 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Interest income on policy loans	133,831	154,913	133,831	154,913
Interest income on other loans	18,077	9,384	18,077	9,384
Interest income on cash and cash equivalents	9,305	11,260	9,123	11,040
Foreign exchange loss	4,705	(64,051)	4,705	(64,051)
Other miscellaneous income	11,388	8,463	11,388	8,463
Total other operating revenue	177,306	119,969	177,124	119,749

34 NET CLAIMS AND BENEFITS

For the financial year ended 31 December	Group / Company	
	2019 LKR '000	2018 LKR '000
Gross claims and benefits	(4,985,514)	(5,808,813)
Claims ceded to reinsurers	200,986	164,817
Net claims and benefits	(4,784,528)	(5,643,996)

35 NET ACQUISITION EXPENSES

For the financial year ended 31 December	Group / Company	
	2019	2018
	LKR '000	LKR '000
Commission and Franchise fees	(1,895,310)	(2,028,990)
Reinsurance commission	15,267	49,109
Net acquisition expenses	(1,880,043)	(1,979,881)

36 OPERATING AND ADMINISTRATIVE EXPENSES

For the financial year ended 31 December	Note	Group		Company	
		2019	2018	2019	2018
		LKR '000	LKR '000	LKR '000	LKR '000
Employee benefit expenses	36.1	(1,940,148)	(1,812,156)	(1,940,148)	(1,812,156)
Administrative and establishment expenses		(2,178,501)	(2,201,931)	(2,178,105)	(2,201,532)
Selling expenses		(1,731,382)	(2,133,522)	(1,731,199)	(2,133,342)
Amortisation of intangible assets	6	(112,894)	(117,254)	(112,894)	(117,254)
Amortisation of ROU assets	17.2(a)	(185,334)	-	(185,334)	-
Depreciation	7	(186,982)	(131,923)	(186,982)	(131,923)
Other expenses	36.3	(209,690)	(193,735)	(209,690)	(193,735)
Total operating in administrative expenses		(6,544,931)	(6,590,521)	(6,544,352)	(6,589,942)

36.1 Employee benefit expenses

For the financial year ended 31 December	Note	Group / Company	
		2019	2018
		LKR '000	LKR '000
Salaries and bonus		(1,004,634)	(947,917)
Contribution to defined contribution plans		(105,878)	(98,473)
Contribution to defined benefit plans	19	(54,424)	(45,664)
Staff welfare		(113,321)	(106,861)
Staff training		(48,989)	(64,392)
Other staff costs		(612,902)	(548,849)
Total employee benefit expenses		(1,940,148)	(1,812,156)

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

36 OPERATING AND ADMINISTRATIVE EXPENSES CONTD.**36.2 Share based payments contd.****Employee Share Purchase Plan (ESPP)**

Under the plan, eligible employees of the Group can purchase ordinary shares of AIA Group Limited with qualified employee contributions and 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 2019 is LKR 46,379,296 (2018 - LKR 98,886,807).

36.3 Other expenses

For the financial year ended 31 December	Group		Company	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Increase in provision for bad and doubtful debts	(516)	(1,713)	(516)	(1,713)
Other technical expenses	(91,180)	(76,151)	(91,180)	(76,151)
Investment expenses	(117,829)	(115,743)	(117,829)	(115,743)
Other non-technical expenses	(165)	(128)	(165)	(128)
Total other expenses	(209,690)	(193,735)	(209,690)	(193,735)

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		Company	
	2019	2018	2019	2018
	LKR '000	LKR '000	LKR '000	LKR '000
Auditors' remuneration				
- Audit	4,894	4,490	4,729	4,339
- Non-audit	1,726	8,932	1,653	8,908
Directors'/ Chief Executive Officer's emoluments	188,135	145,320	188,135	145,320
Directors' fees	8,400	8,400	8,400	8,400
Legal fees	3,403	7,484	3,403	7,484
Donations	1,711	7,948	1,711	7,948
Provision for bad and doubtful debts	516	1,713	516	1,713

38 INCOME TAX REVERSAL/ (EXPENSES)

For the financial year ended 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Current income tax				
Current income tax expense	(325)	(3,456)	-	(2,619)
Over Provision recognised for prior period	2,619	-	2,619	-
Notional tax unutilised during the year	(22,139)	(47,423)	(22,139)	(47,423)
	(19,845)	(50,879)	(19,520)	(50,042)
Deferred income tax				
Deferred tax income / (expense)	(1,167,666)	2,549,051	(1,167,666)	2,549,051
Total income tax reversal / (expense)	(1,187,511)	2,498,172	(1,187,186)	2,499,009

The applicable tax rate - 28% (2018 - 28%)

38.1 Reconciliation of tax charge

For the financial year ended 31 December	Group		Company	
	2019 LKR '000	2018 LKR '000	2019 LKR '000	2018 LKR '000
Profit before tax	3,168,723	1,612,465	3,167,396	1,616,850
Applicable tax rate	28%	28%	28%	28%
Tax at applicable rate	887,242	451,490	886,871	452,718
Add / (less) tax effect of the following items:				
Insurance premiums & income not subject to tax	-	(873,014)	-	(873,014)
Insurance claims not deductible for taxes	-	196,501	-	196,501
Tax free investment income	21,638	(112,977)	21,638	(112,977)
Other non-deductible expenses	77,007	34,571	77,007	32,506
Unutilised notional tax for the year	16,417	47,423	16,417	47,423
Movement in Deferred tax on brought forward tax losses	187,872	(2,242,166)	187,872	(2,242,166)
Adjustments of prior periods recognised in the period	(2,665)	-	(2,619)	-
Tax charge / (reversal) for the year	1,187,511	(2,498,172)	1,187,186	(2,499,009)

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 01 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 01 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 2019 is LKR 1,957 million (as at 31 December 2018 is LKR 2,083 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

39 PROFIT AFTER TAX

The profit after tax of the Company includes the surplus from its life insurance business. The surplus from the life insurance business for the financial year 2019 stood at LKR 1,917 million (2018 - LKR 1,157 million) contributing 96.78% (2018 - 28.12%) of the reported profit after tax of the Company.

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		Company	
		2019	2018	2019	2018
Profit attributable to the Company's equity holders	(LKR'000)	1,981,210	4,110,637	1,980,211	4,115,859
Weighted average number of ordinary shares in issue	('000)	30,749	30,749	30,749	30,749
Basic earnings per share	(LKR)	64.43	133.68	64.40	133.85

41 DIVIDEND PER SHARE

The dividends paid in 2019 and 2018 were LKR 769 million (LKR 25 per share) and LKR 2,798 million (LKR 91 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 (LKR' 000)	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	
	Immediate parent		Parent		Ultimate parent		Fellow subsidiary		Fellow subsidiary		Fellow subsidiary		Fellow subsidiary	
For the year ended 31 December	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Group recharges	-	-	438,164	346,214	93,276	112,938	152,847	145,001	61,775	51,690	20,620	11,251	5,390	2,981
	580,105	2,204,744	65,674	248,300	-	-	-	-	-	-	-	-	-	-
Dividend paid														

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

42 RELATED PARTY DISCLOSURES CONTD.**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 and those of its Parent and Ultimate Parent.

a) Key Management Personnel compensation**Directors' / CEO's compensation**

For the financial year ended 31 December	Group / Company	
	2019	2018
	LKR '000	LKR '000
Directors' / CEO's remuneration	103,775	71,111
Short-term employee benefits	84,360	74,208
Premiums paid for Directors and Officers Liability policy *	3,844	3,800
Directors' fees	8,400	8,400
	200,379	157,519

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

b) Advance made on behalf of the Directors/CEO

For the financial year ended 31 December	Group / Company	
	2019	2018
	LKR '000	LKR '000
Advance granted to Directors / CEO	-	13,790
Outstanding balance as at 31 December	-	13,790
Consideration* recognised in the Consolidated Financial Statements	1,011	1,029

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

c) Other transactions**Business transactions of Key Management Personnel**

For the financial year ended 31 December	Group / Company	
	2019	2018
	LKR '000	LKR '000
Premium paid on insurance policies taken by Directors in their individual capacity	105	105
	105	105

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 Sooriyaarchchi	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 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 Wealth Management Limited
NDB Investment Bank 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 Investment Bank Limited
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 2016 / 17. 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.

Based on the information available and expert advice received, the Group is of the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

43 CONTINGENT LIABILITIES CONTD.**43.1 Outstanding tax assessments contd.**

The IRD has issued an assessment in relation to the year ending 31 December 2003, mainly imposing VAT on reinsurance commissions and claim recoveries. The Company has made an appeal against the assessment and the matter at present is before the Court of Appeal. As per the opinion of the legal/ tax experts, the matter would be concluded in the Company's favour on the merits of the facts of the case. Based on the grounds of appeals and the submissions made by the Company's tax consultants, neither the best estimate of future expense to settle this obligation nor the timing of such settlement can be reasonably measured as at the reporting date.

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 has been filed, following due process. 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.

43.2 Bank guarantees

The Company has provided bank guarantees to third parties amounting to LKR 733 million as at 31 December 2019. 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 50.00 per share on 19 February 2020, as authorised by the Articles of Association of the Company, to be paid out of the profits for the year.

As required by Section 56 (2) of the Companies Act No 07 of 2007, the Board of Directors confirmed that the Company satisfies the solvency test in accordance with Section 57 of the Companies Act No. 07 of 2007, and has obtained a certificate from the auditors, prior to recommending the first and final dividend of LKR 50.00 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 2019.

The IRD issued a public notification on 12 February 2020, subject to pending formal amendments to the Inland Revenue Act No 24 of 2017. According to the proposed changes; the income tax rate of the Group is revised from the current 28% to a proposed 24%, 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 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	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	2015 LKR '000
Consolidated Statement of Financial Position					
Group					
Assets					
Investments	47,660,024	40,100,312	40,722,460	34,829,199	35,664,879
Investments - Unit-linked	4,910,382	4,736,107	5,013,288	5,258,443	5,565,077
Property, plant and equipment	785,061	767,873	746,542	229,169	300,079
Other assets	8,620,576	8,802,958	6,101,705	5,767,405	4,287,776
Total assets	61,976,043	54,407,250	52,583,995	46,084,216	45,817,811
Equity and liabilities					
Equity					
Stated capital	511,922	511,922	511,922	511,922	511,922
Capital reserves	192,916	178,916	152,176	72,096	72,096
Restricted regulatory reserve	6,080,848	6,080,848	6,080,848	-	-
Resilience reserve	-	-	289,000	289,000	289,000
Available for sale reserve	721,046	(8,847)	16,709	-	-
Retained earnings	13,136,784	11,937,159	10,314,618	4,492,836	5,493,899
Total equity	20,643,516	18,699,998	17,365,273	5,365,854	6,366,917
Liabilities					
Insurance provision - Conventional	31,355,861	27,066,333	26,887,302	32,929,907	31,228,082
Insurance provision - Unit-linked	5,024,350	4,858,950	5,228,990	5,258,443	5,565,077
Other liabilities	4,952,316	3,781,969	3,102,430	2,530,012	2,657,735
Total liabilities	41,332,527	35,707,252	35,218,722	40,718,362	39,450,894
Total equity and liabilities	61,976,043	54,407,250	52,583,995	46,084,216	45,817,811
Long term - supplemental					
Assets					
Investments	31,060,176	26,337,064	25,532,036	31,010,754	30,075,237
Investments - Unit-linked	4,910,382	4,736,107	5,013,288	5,258,443	5,565,077
Other assets	3,549,950	3,944,919	4,058,519	3,976,927	3,256,546
Total assets	39,520,508	35,018,090	34,603,843	40,246,124	38,896,860
Liabilities					
Insurance provision - Long term	31,355,861	27,066,333	26,887,302	32,929,907	31,228,082
Insurance provision - Unit-linked	5,024,350	4,858,950	5,228,990	5,258,443	5,565,077
Other liabilities	3,140,297	3,092,807	2,487,551	2,057,774	2,103,701
Total liabilities	39,520,508	35,018,090	34,603,843	40,246,124	38,896,860

For the financial year ended 31 December	2019 LKR '000	2018 LKR '000	2017 LKR '000	2016 LKR '000	2015** LKR '000
Consolidated Income Statement					
Total business (Group)					
Gross written premium	13,848,283	12,739,351	11,510,581	10,103,915	8,433,333
Gross reinsurance premium	(369,954)	(382,221)	(302,123)	(260,065)	(232,041)
Net written premium	13,478,329	12,357,130	11,208,458	9,843,850	8,201,292
Other revenue	6,253,234	5,638,926	6,012,401	5,235,552	4,413,413
Total revenue	19,731,563	17,996,056	17,220,859	15,079,402	12,614,705
Net claims and benefits	(4,784,528)	(5,643,996)	(5,137,265)	(4,759,614)	(4,870,695)
Change in contractual liability	(3,224,888)	(2,169,193)	2,598,054	(3,486,785)	(2,486,281)
Change in contractual liability due to transfer of RBC One-off Surplus	-	-	6,080,848	-	-
Net acquisition expenses	(1,880,043)	(1,979,881)	(1,785,510)	(1,303,244)	(1,245,925)
Finance costs	(128,452)	-	-	-	-
Operating and administrative expenses	(6,544,931)	(6,590,521)	(5,297,224)	(4,735,493)	(3,493,276)
Profit before tax	3,168,721	1,612,465	13,679,762	794,266	518,528
Income tax expense	(1,187,511)	2,498,172	(238,198)	(283,590)	(215,365)
Profit for the period from continuing operations	1,981,210	4,110,637	13,441,564	510,676	303,163
Profit for the period of discontinued operations (net of tax)	-	-	-	-	1,187,450
Profit for the period	1,981,210	4,110,637	13,441,564	510,676	1,490,613
Surplus transfer to shareholders' fund	1,916,518	1,157,284	13,161,617	314,760	100,000

Financial year		2019	2018	2017	2016	2015**
Investor Information						
Return on net assets	%	10.07	22.80	118.27	8.71	5.38
Net assets per share	LKR	671.35	608.14	564.74	174.50	207.06
Market price per share - 31 December	LKR	N / A	1,707.60	327.50	280.10	292.00
Basic earnings per share	LKR	64.43	133.68	437.13	16.61	9.86
Price earnings ratio	Times	-	12.77	0.75	16.87	29.62
Market capitalisation	LKR mn	N / A	52,508	10,070	8,613	8,979
Dividend per share	LKR	25.00	91.00	50.00	49.50	7.07
Dividend payout ratio	%	38.80	68.07	11.44	298.05	71.71
Earnings yield	%	-	7.83	133.48	5.93	3.38
Dividend yield	%	-	5.33	15.27	17.67	2.42
Employee Information						
Revenue per employee *	LKR mn	24.91	23.62	21.88	18.50	15.63
Net profit per employee *	LKR' 000	2,502	5,325	17,079	627	376
Number of permanent employees *	Nos	792	772	787	815	807

* Continuing operations only.

** Calculated based on the results of the continuing operations.

SHARE INFORMATION

SHAREHOLDING

As at 31 December 2019 there were 1,177 registered shareholders.

Shareholding	Resident			Non-Resident			Total		
	No.of Shareholders	No.of Shares	%	No.of Shareholders	No.of Shares	%	No.of Shareholders	No.of Shares	%
1 - 1,000	1,121	193,111	0.63	7	700	0.00	1,128	193,811	0.63
1,001 - 10,000	45	87,076	0.28	-	-	-	45	87,076	0.28
10,001 - 100,000	2	25,750	0.08	-	-	-	2	25,750	0.08
100,001 - 1,000,000	-	-	-	-	-	-	-	-	-
Over 1,000,000	1	26,836,716	87.28	1	3,606,017	11.73	2	30,442,733	99.01
Total	1,169	27,142,653	88.27	8	3,606,717	11.73	1,177	30,749,370	100.00

The percentage of shares held by 1,175 public shareholders is 0.99 per cent.

CATEGORIES OF SHAREHOLDERS

Categories	Resident			Non-Resident			Total		
	No.of Shareholders	No.of Shares	%	No.of Shareholders	No.of Shares	%	No.of Shareholders	No.of Shares	%
Individual	1,143	300,131	0.98	7	700	0.00	1,150	300,831	0.98
Institutional	26	26,842,522	87.29	1	3,606,017	11.73	27	30,448,539	99.02
Total	1,169	27,142,653	88.27	8	3,606,717	11.73	1,177	30,749,370	100.00

SUBSTANTIAL SHAREHOLDING

Name of the shareholding	No.of Shares	%
AIA Holdings Lanka (Private) Limited	26,836,716	87.28
AIA Company Limited	3,606,017	11.73

20 LARGEST SHAREHOLDERS

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

No	Name of the shareholder	No. of Shares	%
1	AIA Holdings Lanka (Private) Limited	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
		30,514,320	99.25
	Others	235,050	0.75
	Total	30,749,370	100.00

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

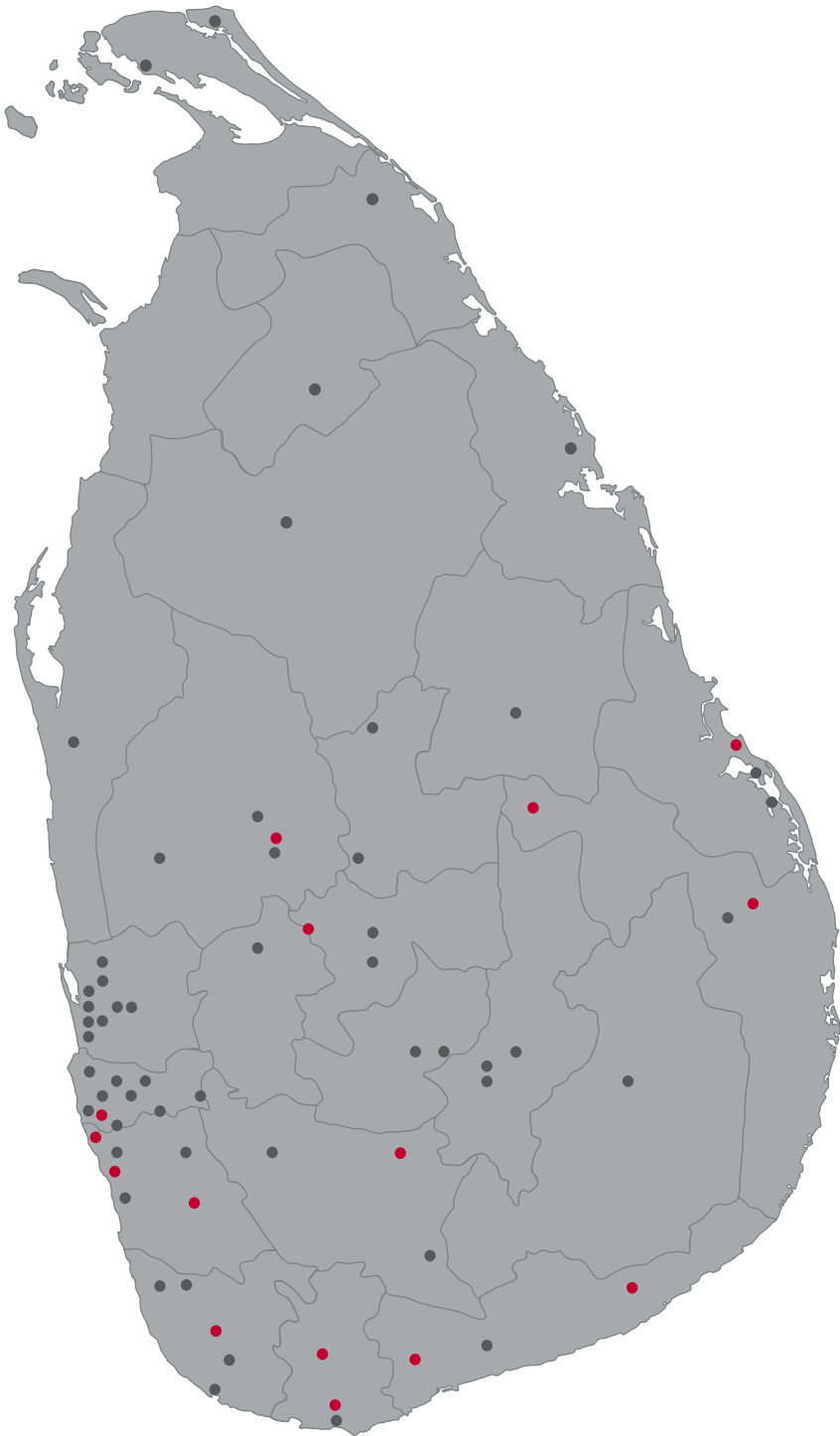
No	Name of the shareholder	No. of Shares	%
1	AIA Holdings Lanka (Private) Limited	26,836,716	87.28
2	AIA Company Limited	3,038,219	9.88
3	Mr. P Subasinghe	42,000	0.14
4	Mr. Srikantha Rasaratnam	38,435	0.12
5	Peoples Merchant Finance PLC / P.T.S De Silva	16,615	0.05
6	Miss. A S Gunaratne	15,375	0.05
7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

OUR LOCAL REACH

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

AREA DEVELOPMENT OFFICE NETWORK

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



DISTRIBUTION NETWORK

HEAD OFFICE

AIA Insurance Lanka Limited,
AIA Tower,
92, Dharmapala Mawatha,
Colombo 7

Tel : 011 231 0000
Fax : 011 244 7620
E-mail : lk.info@aia.com
Web : www.aialife.com.lk
Hotline : 011 231 0310
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

Awissawella

93/1/1, Rathnapura Road,
Awissawella
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/ Fax : 057 222 4869 /
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 7
Tel : 011 231 0252

Colombo City

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

Colombo Region 8

AIA Tower, 92, Dharmapala
Mawatha, Colombo 7
Tel : 011 231 0597

Colombo Region 9

AIA Tower, 92, Dharmapala
Mawatha, Colombo 7
Tel : 011 231 0610

Colombo Region 10

AIA Tower, 92, Dharmapala
Mawatha, Colombo 7
Tel : 011 231 0578

Colombo Region 11

AIA Tower, 92, Dharmapala
Mawatha, Colombo 7
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

DISTRIBUTION NETWORK

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 : 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

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, Dikweella 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

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the thirty fourth Annual General Meeting of AIA Insurance Lanka Limited will be held on Tuesday, 31 March 2020 at 9.15 a.m. at AIA Insurance Lanka Limited, AIA Tower, 92, Dharmapala Mawatha, Colombo 07 (Sixth floor), for the following purposes:

ORDINARY BUSINESS:

1. To receive and consider the Audited Financial Statements for the year ended 31 December 2019 together with the Annual Report of the Board of Directors and the Report of the Auditors thereon.
2. To declare a first and final dividend of LKR 50 per share for the financial year ended 31 December 2019 as recommended by the Directors.
3. To ratify the total donations of LKR 1.7 million which had been made by the Company during the year ended 31 December 2019 and which sum is within the authorised amount of one per cent of the average profits after tax of the Company for the preceding three years.
4. To authorise the Directors, in pursuance of the provisions of the Companies (Donations) Act No. 26 of 1951, to make on behalf of the Company, donations during the year 2020 not exceeding one per cent of the average profits after tax of the Company for the preceding three years.
5. To re-elect Mr. William Lisle as a Director who retires by rotation in terms of Article 30 (1) of the Articles of Association of the Company and whose re-election is recommended by the Board of Directors.
6. To re-elect Mr. Stuart Anthony Spencer as a Director who retires by rotation in terms of Article 30 (1) of the Articles of Association of the Company and whose re-election is recommended by the Board of Directors.
7. To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants as the Company's External Auditors and to authorise the Directors to determine their remuneration.

BY ORDER OF THE BOARD



Chathuri Munaweera
Company Secretary

Colombo
25 February 2020

NOTES

- 1) A shareholder entitled to attend and to vote at the Meeting is entitled to appoint a proxy to attend and to vote in his / her stead. A proxy appointed by and representing many shareholders shall be entitled to exercise the vote of each shareholder he/she represents (including his/her own vote, if a shareholder) when voting on a show of hands.
- 2) A proxy need not be a shareholder of the Company.
- 3) A form of proxy accompanies this Notice.
- 4) The completed form of proxy should be deposited at the registered office of the Company, AIA Insurance Lanka Limited, AIA Tower, 92, Dharmapala Mawatha, Colombo 07, not later than 48 hours before the time appointed for the holding of the Meeting.
- 5) Shareholders must bring with them their National Identity Cards or any other form of valid identification and present same at the time of registration.

FORM OF PROXY

I / We (Please indicate the name)
 bearing NIC / Passport / Com. Reg. No. ofbeing
 shareholder / shareholders of AIA Insurance Lanka Limited do hereby appoint Mr / Ms
 (Please indicate the name of the proxy) bearing NIC No. / Passport No.
 of whom failing:

Mr. Manoj Ramachandran or failing him
 Mr. Robert Alexander Hartnett or failing him
 Mr. Sarath Wikramanayake or failing him
 Mr. Stuart Spencer or failing him
 Mr. Deepal Sooriyaarachchi

as my / our proxy to represent me / us and to vote on my / our behalf at the thirty fourth Annual General Meeting of the Company to be held on Tuesday, 31 March 2020 at 9:15 a.m. at AIA Insurance Lanka Limited, AIA Tower, 92, Dharmapala Mawatha, Colombo 07 (Sixth floor), and at any adjournment thereof, and at every poll which may be taken in consequence of the aforesaid Meeting.

I / We the undersigned, hereby direct my / our proxy to vote on my / our behalf on the specified resolutions referred to below, as indicated by the letter "X" marked in the appropriate cage;*

ORDINARY BUSINESS

	For*	Against*
1. The ordinary resolution numbered (1) set out in the Notice convening the aforesaid Meeting		
2. The ordinary resolution numbered (2) set out in the Notice convening the aforesaid Meeting		
3. The ordinary resolution numbered (3) set out in the Notice convening the aforesaid Meeting		
4. The ordinary resolution numbered (4) set out in the Notice convening the aforesaid Meeting		
5. The ordinary resolution numbered (5) set out in the Notice convening the aforesaid Meeting		
6. The ordinary resolution numbered (6) set out in the Notice convening the aforesaid Meeting		
7. The ordinary resolution numbered (7) set out in the Notice convening the aforesaid Meeting		

Signed on this day of two thousand and twenty.

.....
 Signature(s) of shareholder(s)

Please provide the following details:

Shareholder's NIC No. / Company Registration No.

Folio No. / Number of shares held

Proxy holder's NIC No. (if not a Director)

NOTES:

- 1) If no instructions are given and / or there is in the view of the proxy holder doubt (by reason of the way in which the instructions contained in the proxy form have been completed) as to the way in which the proxy holder should vote, the proxy holder shall vote as he / she thinks fit.
- 2) A proxy holder need not be a shareholder of the Company.
- 3) Instructions as to completion appear on the reverse.
- 4) Proxy holders must bring with them their National Identity Cards or any other form of valid Identification and present same at the time of registration.

FORM OF PROXY

INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the form of proxy, after filling in legibly your name and address and that of the proxy holder, by signing in the space provided and filling in the date of signature.
2. If you have not named another proxy or leave this section blank, you will be deemed to have appointed and authorized the Chairman of the Meeting to act as your proxy holder for the limited purpose of voting as directed by you in the form of proxy.
3. If no directions have been given or if in the view of the Chairman of the Meeting there is doubt (by reason of the way in which the instructions contained in the form of proxy have been completed) as to the way in which your vote is to be cast, you will be deemed to have authorized the Chairman of the Meeting to vote, as your proxy, as he thinks fit.
4. The persons mentioned on the reverse hereof, are Directors of the Company and they are willing to represent any shareholder(s) as proxy, and vote as directed by the shareholder. They will not, however be willing to speak or move or second any amendments to the resolutions or make any statement in regard thereto on behalf of any shareholder.
5. If another proxy is preferred, delete the names printed, add the name of the proxy preferred and initial the alteration.
6. Please indicate your preference with "X" in the appropriate cages provided in the form of proxy, as to how your proxy is to vote on the resolutions. If no indication is given or there is in the view of the proxy holder doubt (by reason of the way in which the instructions contained in the proxy form have been completed) as to the way in which the proxy holder should vote, the proxy holder shall, at his / her discretion, vote as he / she thinks fit.
7. If your proxy represents many other shareholders, he / she shall be entitled to exercise the vote of each shareholder he / she represents (including his / her own vote, if a shareholder) when voting on a show of hands.
8. In the case of a corporate shareholder the proxy form should be executed under its common seal or by a duly authorised officer of the entity in accordance with its Articles of Association or Constitution. If the form of proxy is signed by an Attorney, the relevant power of Attorney or a notarially certified copy thereof should also accompany the completed form of proxy, if it has not already been registered with the Company.
9. If the shares are held jointly, the form of proxy must be signed by all the joint shareholders or alternatively only by the shareholder whose name appears first in respect of the joint holding in the share register (the first-named being the most senior). A proxy holder appointed by a form of proxy so executed is deemed to have been appointed on behalf of each joint holder.
10. To be valid, the completed form of proxy should be deposited at the registered office of the Company, AIA Insurance Lanka Limited, AIA Tower, 92, Dharmapala Mawatha, Colombo 07, not less than 48 hours before the time appointed for the holding of the Meeting or adjourned Meeting and in the case of a Meeting adjourned for the purpose of taking a poll, not less than 24 hours before the holding of such adjourned Meeting. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
11. Deposit of the duly signed form of proxy may be effected by delivery by hand, by post, by facsimile to fax number +94 11 244 7620 or by electronic lodgement of a scanned copy thereof emailed to LKE_cosec@aia.com In pursuance of Article 20 (7) of the Articles of the Association.

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

REGISTERED OFFICE / HEAD OFFICE

AIA Tower, 92, Dharmapala Mawatha,
Colombo 7, 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 3, Sri Lanka
Telephone : 0094 11 257 3894 / 0094 11 257 6871

AUDITORS

PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place, Colombo 2, Sri Lanka

APPOINTED ACTUARY

Frank Munro
AIA Insurance Lanka Limited
AIA Tower, 92, Dharmapala Mawatha, Colombo 7, Sri Lanka

LAWYERS

Julius & Creasy
Attorneys-at-Law & Solicitors
371, R. A. De Mel Mawatha, Colombo 3, Sri Lanka

REINSURANCE PANEL - LIFE INSURANCE

Munich Re
RGA International Reinsurance Company dac
Zurich Insurance Company Ltd
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

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AIA Insurance Lanka Limited
AIA Tower, 92, Dharmapala Mawatha
Colombo 7
Sri Lanka
www.aialife.com.lk