AIA INSURANCE LANKA PLC

LIVE HEALTHIER, LONGER AND BETTER LIVES

ANNUAL REPORT 2017

LIVE HEALTHIER, LONGER AND BETTER LIVES...

At AIA, we believe in the power of insurance to make a positive difference in people's lives. We do this through our products and services as well as by actively promoting the health and well-being of our customers, employees and agents and the communities in which they live and work. We are committed to helping people to live Healthier, Longer and Better lives.

This mission of encouraging healthy living becomes most relevant now, more than ever before, to Sri Lanka. With the rise of Non-Communicable Diseases (NCDs), largely attributed to poor dietary habits and physical inactivity, it remains an important endeavour to motivate people to make healthy choices while supporting them in making the most out of life.

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

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

Please scan the QR code to obtain an e-version of the Annual Report 2017.

AIA GROUP AT A GLANCE

AIA IS THE LARGEST INDEPENDENT PUBLICLY LISTED PAN-ASIAN LIFE INSURANCE GROUP – WITH A PRESENCE IN 18 MARKETS ACROSS THE ASIA-PACIFIC REGION.

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

* AIA has a representative office in Myanmar.

THE LARGEST LISTED COMPANY ON THE HONG KONG STOCK EXCHANGE
WHICH IS INCORPORATED AND HEADQUARTERED IN HONG KONG

THE SECOND LARGEST LIFE INSURER IN THE WORLD*

100% FOCUSED ON ASIA-PACIFIC

#1 WORLDWIDE FOR MDRT MEMBERS;
The standard of excellence in the life insurance business

SERVING THE HOLDERS OF MORE THAN **30 MILLION** INDIVIDUAL POLICIES

OVER **16 MILLION** PARTICIPATING MEMBERS OF GROUP INSURANCE SCHEMES

PROVIDES PROTECTION TO PEOPLE ACROSS THE REGION WITH TOTAL SUM ASSURED OF OVER
US$1 TRILLION

MADE **13 MILLION** BENEFIT PAYMENTS DURING 2016, HELPING CUSTOMERS AND THEIR FAMILIES TO COPE WITH CHALLENGES AT DIFFERENT LIFE STAGES

Note :
* Source : Bloomberg. 30 June 2017
All the figures are as of November 2016, unless otherwise stated

FINANCIAL HIGHLIGHTS

Financial Highlights - Group		2017	2016	%
Total revenue	(LKR mn)	17,221	15,079	14
Profit before tax	(LKR mn)	7,599	794	857
Gross written premium	(LKR mn)	11,511	10,104	14
Net assets	(LKR mn)	11,284	5,366	110
Total assets	(LKR mn)	52,584	46,084	14
Insurance liabilities	(LKR mn)	38,197	38,188	-
Basic earnings per share	(LKR)	239.38	16.61	1,341
Dividend per share	(LKR)	50.00	49.50	1
Market capitalisation	(LKR mn)	10,070	8,613	17

TOTAL REVENUE
LKR billion

17.2
2016 : LKR 15.1 bn

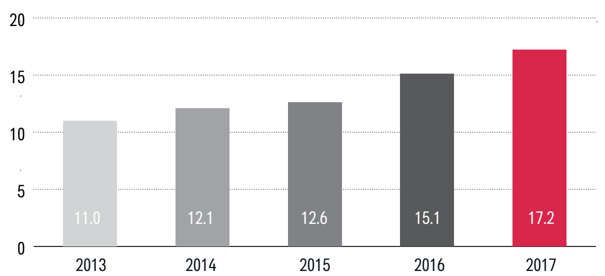
TOTAL ASSETS
LKR billion

52.6
2016 : LKR 46.1 bn

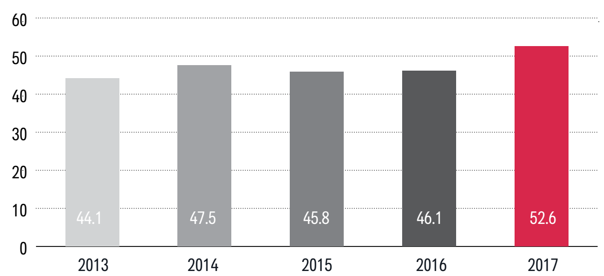
NET ASSETS
LKR billion

11.3
2016 : LKR 5.4 bn

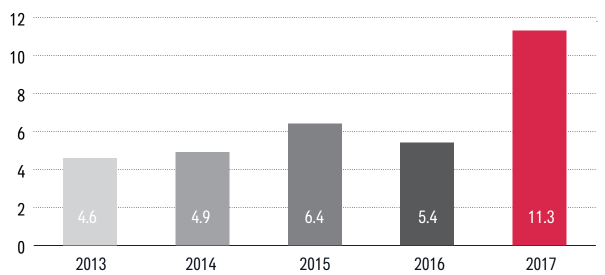
Total Revenue
LKR billion



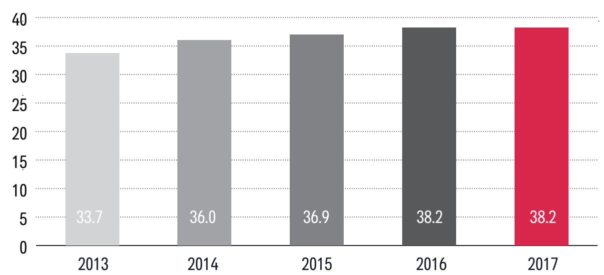
Total Assets
LKR billion



Net Assets
LKR billion



Insurance Liability
LKR billion



MILESTONES OF 2017

JANUARY

AIA VITALITY, MAKING SRI LANKANS HEALTHY, ONE STEP AT A TIME

The AIA Vitality programme, the first of its kind, is the most rewarding wellness platform in Sri Lanka, aimed at making Sri Lankans healthier, one step at a time. It's a science-backed wellness programme that provides participants with the knowledge, tools and motivation to improve their health.

FEBRUARY

AIA DECLARED A STRONG 9.46% DIVIDEND FOR ITS CUSTOMERS

AIA declared a dividend of 9.46 per cent for its policyholders. It was yet another year of AIA delivering impressive dividend figures to policyholders and this consistency is testament to the strength and outstanding investment strategy of AIA's Life Fund, which stands at LKR 32 billion. Since AIA introduced the system of declaring an annual dividend, the amount declared every year has always been well above the guaranteed amount promised by the Company to its policyholders. The dividend is a significant advantage to AIA's policyholders who are already enjoying protection benefits.

MARCH

AIA APPOINTS DAVID BECKHAM AS ITS GLOBAL AMBASSADOR

AIA Group signed a multi-year agreement with David Beckham, under which he became the Company's Global Ambassador. In this newly created role, Beckham will support AIA in its goal of helping people in the Asia-Pacific region live healthier, longer, better lives.

APRIL

AIA SRI LANKA CELEBRATES ITS PEAK PERFORMERS

AIA Sri Lanka's Annual Sales Convention for the year 2017, was held on a grand scale with 1,300 Wealth Planners from across the island convening to celebrate their notable achievements at the Bandaranaike Memorial International Conference Hall (BMICH). Held under the theme 'Race to the Top', these peak performers were honoured for their indomitable stamina in forging ahead and emerging on top of their game.

MAY

AIA TOWER, OPENS FOR BUSINESS

AIA moved into its brand new Head Office building, the AIA Tower, located at 92, Dharmapala Mawatha, Colombo 7. The move to the new building, was testament to AIA's deep commitment to further expand its growing business in Sri Lanka. The AIA Tower is a contemporary, 12 storey office building, which, for the first time, allows all of AIA Sri Lanka's employees based in Colombo the opportunity to work together under one roof. The move creates greater synergy between functions and will of course help the growth of AIA's business.

JUNE

6 LIVES SAVED, THANKS TO AIA'S POSON SAFETY PROGRAMME

Six lives were saved this year, thanks to AIA's Poson Safety Programme. Now in its 24th consecutive year, the programme aims at protecting the lives of the throngs of pilgrims travelling to Anuradhapura, Polonnaruwa and Dambulla for Poson (One of Sri Lanka's important Buddhist festivals). Every year, AIA joins hands with the Sri Lanka Police, Sri Lanka Lifesaving, the Civil Security Division and the Sri Lanka Navy in deploying lifeguards to watch over the reservoirs in the area, which are popular bathing and swimming spots. Over 200 lives have been saved due to this programme since its inception.

JULY

AIA HONOURED WITH PLACE IN THE GREAT PLACE TO WORK® HALL OF FAME

AIA Sri Lanka takes great pride in entering 'Sri Lanka's Best Companies to work for – Hall of Fame,' as the company collected its fifth consecutive Great Place To Work® recognition. This incredible achievement is testament to AIA's commitment to doing the right thing, the right way and most importantly, with the right people.

SEPTEMBER

AIA GROUP CHIEF EXECUTIVE MET THE PRESIDENT AND PLEDGES SUPPORT TO SRI LANKA

Mr. Ng Keng Hooi met with His Excellency the President Maithripala Sirisena, during his first visit to Sri Lanka since his appointment as Group Chief Executive and President of AIA Group. During their meeting, he pledged AIA's support to Sri Lanka and reiterated AIA Group's commitment to growing and investing in the country. He noted that AIA's investment in Sri Lanka has grown considerably since entering the market in 2012 with an investment of USD 109 million and expressed confidence that the growth will continue.

AUGUST

AIA AND WAYAMBA UNIVERSITY CONGRATULATE THE FIRST BATCH OF GRADUATES OF THE DIPLOMA IN PERSONAL FINANCIAL MANAGEMENT

AIA collaborated with the Wayamba University of Sri Lanka in successfully completing the Diploma in Personal Management for Wealth Planners and Wealth Planners' Managers. This was the first time such a programme for insurance agents was carried out in a local university. The 28 certificate recipients were trained under the guidance of an expert panel of lecturers from the Department of Accountancy and the Faculty of Business Studies & Finance of the Wayamba University.

OCTOBER

AIA PENSIONS MONTH

AIA's Easy Pensions campaign which was launched on 8th October, to coincide with National Pensioners Day, also coincided with the AIA Pensions Month. Now in its third consecutive year, the AIA Pensions Month is rolled out in October, with a concentrated effort to create more awareness about the need to start planning for retirement. During this time, AIA's nationwide team of Wealth Planners put all their energy into guiding Sri Lankans to a more secure and ideal retirement.

AIA INSURANCE TOPS MDRT IN SRI LANKA AND CROSSES THE 100 MEMBER MARK

AIA Sri Lanka crossed 100 MDRT (Million Dollar Round Table) members for 2016, making it the first and only insurer in Sri Lanka to do so! AIA had the most number of MDRT members in Sri Lanka, with a total of 110 MDRT certificates awarded to AIA Wealth Planners and Bancassurance Executives in 2016. This achievement is testament to the high calibre of advisors recruited, trained and employed by AIA, to provide the best protection and savings solutions to Sri Lankans. This is the second consecutive year that AIA tops MDRT from Sri Lanka

NOVEMBER

AIA VITALITY INTRODUCES CHARITY REWARDS OPTIONS

AIA Vitality members were given the option of contributing their weekly reward to the Little Hearts Foundation, for children with heart disease and critical illness. This can be done by staying active to achieve your weekly targets on AIA Vitality and selecting the 'Donation' option when claiming rewards. Each time you do so, AIA will donate LKR 500 towards the construction of the Critical Care Unit at the Lady Ridgeway Hospital, facilitated by the Little Hearts Foundation. By choosing to donate your rewards to this worthy cause you not only give back to the community and support children in need but also help those kids with early heart problems in Sri Lanka.

DECEMBER

AIA VITALITY JOINS HANDS WITH 'RUN FOR THEIR LIVES' IN THE BATTLE AGAINST CANCER

After the successful sponsorship of the 'Run for Their Lives' (RFTL) charity run, AIA took the partnership further by encouraging its Vitality members to contribute towards the Apeksha Cancer Hospital in Maharagama. The latest charity rewards option on AIA Vitality, allows users to make a donation towards the hospital. All you have to do is stay active and engaged with AIA Vitality to achieve your weekly target and select the 'Donation' option when claiming your reward. AIA will then donate LKR 500 to the Apeksha Cancer Hospital in Maharagama.

CHAIRMAN'S REVIEW

WILLIAM LISLE
CHAIRMAN

STRONGER PERFORMANCE DURING THE YEAR

2017 WAS ANOTHER STRONG YEAR FOR AIA SRI LANKA REPORTING 14 PER CENT GROWTH IN LIFE INSURANCE GROSS WRITTEN PREMIUMS TO LKR 11,511 MILLION.

I'm pleased to report as Chairman of the Board of Directors that 2017 has been yet another year which signifies AIA Sri Lanka's continued commitment in delivering robust growth, thus providing enhanced value to all stakeholders.

The Asia Pacific region's economic growth is driven by its fast-growing middle class, with increasing disposable income fuelling rapid changes in consumer behaviour including the need for insurance. AIA is uniquely placed with its strong heritage in the Asia Pacific region; equipped with updated technology and holistic customer propositions, catering to the needs of the evolving Asia Pacific consumer. The conditions in Sri Lanka are, in many respects, consistent to that of its Asia Pacific peers, and we remain optimistic of our ability to meet evolving customer needs.

2017 was another strong year for AIA Sri Lanka reporting 14 per cent growth in life insurance Gross Written Premiums to LKR 11,511 million.

The Company recorded a consolidated after tax profit of LKR 7,361 million during 2017 compared to LKR 511 million in 2016. The major driver of the significant increase was the downward shift in market interest rates during the year compared to an upward shift in 2016. In 2017 the 10 year bond rate fell 230 basis points compared with an increase of 215 basis points in 2016, which resulted in an increase in profit of LKR 6,850 million. Despite the yield movements, the operating performance of the business remained broadly stable.

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 excellent results in 2017.

The Board of Directors approved the distribution of a first and final dividend of LKR 91 per share from the profits earned by the Company during 2017.

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 excellent results in 2017.

We remain focused and committed on becoming the pre-eminent life insurer in Sri Lanka.

William Lisle
Chairman

CEO'S REVIEW

PANKAJ BANERJEE
CHIEF EXECUTIVE OFFICER

COMMITTED TO MAKING A DIFFERENCE

THE EFFECTIVE AND EFFICIENT EXECUTION OF OUR LONG-TERM BUSINESS STRATEGY HAS GENERATED CONTINUOUS MOMENTUM AND LED TO A STRONG SET OF RESULTS IN 2017.

At AIA Sri Lanka, 2017 has been a year of transformation in challenging market conditions. I would like to take this opportunity to walk you through our journey in the last 12 months. The effective and efficient execution of our long-term business strategy has generated continuous momentum and led to a strong set of results in 2017.

I am delighted to report that despite an uncertain market environment, AIA Sri Lanka managed to deliver another strong year in 2017. The performance was primarily attributed to the innovative propositions catering to rapidly evolving consumer needs.

During the course of the year, we launched a new pensions proposition, Pension Premier Gold, which targets more affluent customers to fulfil their retirement needs and Easy Pensions provides an affordable and simple product via an easy to choose bundled solution. Our new comprehensive health and protection proposition HealthFirst ensures individuals have adequate financial protection for medical and hospitalisation emergencies. The re-launched savings proposition SmartBuilder Gold allows customers to save over a limited period and enjoy being protected for up to 20 years.

Our distribution channels have performed well. Premier Agency has benefited from upgrades to the quality of the agency force, which has resulted in improved sales quality and enhanced customer engagement. The Bancassurance channel continued its focus on strengthening our existing bank partnership with NDB Bank while making rapid progress with the newly forged partnership with DFCC Bank.

AIA Sri Lanka was inducted into the 'A Great Place to Work' Hall of Fame having won the accolade for five consecutive years, which is a testament to the talent and culture of our people and our corporate philosophy of developing and nurturing our talent.

2017 marked the launch of AIA Vitality for customers in Sri Lanka, AIA's science backed wellness programme which focuses on helping our customers to live healthier, longer and better lives. Consumers at large have appreciated the concept of a life insurance Company encouraging people to live a healthy life style, and rewarding them for it. The Operations and Marketing teams initiated its customer programmes to engage more closely with AIA Sri Lanka's customers.

The Company's financial performance showed continued strength and robustness with Gross Written Premiums of LKR 11.5 billion and consolidated profit after tax of LKR 7,361 million during 2017. The significant contributor to the consolidated profit after tax for the year was the transfer of the life surplus, which is recognised annually post an Actuarial valuation of the Life Insurance business. The major driver of the significant life surplus, as referenced in the Chairman's Review, was the downward shift in market interest rates during the year. As per the regulations issued by the Insurance Regulatory Commission of Sri Lanka, this produced a surplus due to significant movements in assets and liabilities which are measured at fair value under the Risk Based Capital regime for solvency and an associated reduction in risk capital charges.

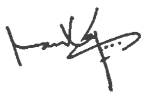
AIA Sri Lanka was inducted into the 'A Great Place to Work' Hall of Fame having won the accolade for five consecutive years, which is a testament to the talent and culture of our people and our corporate philosophy of developing and nurturing our talent. 2017 also marked a milestone year as AIA Sri Lanka moved into its new and modern headquarters, AIA Tower.

I'd like to take this opportunity to recognise and congratulate our Wealth Planners and Bancassurance Financial Planning Executives for the excellent results AIA Sri Lanka has delivered for 2017 following their relentless perseverance, enhanced focus and commitment.

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

To our customers, I extend my gratitude for their consistent confidence and faith in our capabilities, products and services.

Best Regards,



Pankaj Banerjee
Chief Executive Officer

LIVE HEALTHIER

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS

AIA Sri Lanka delivered a strong set of results in 2017, amidst a very challenging external environment. The challenge from the external environment was evident with the lower than projected economic growth, natural disasters that impacted the general living conditions of the population and the sluggish consumer demand. The drought that prevailed for 20 months until October 2017 across the key agricultural districts and the severe floods that inundated most parts of the Western and Southern provinces during mid 2017 had a bearing on the socio-economic conditions in the country. The achievements of AIA Sri Lanka are evident in the performance of 2017 and the foundation that is being built to support the growth aspirations of the business.

Asia's dynamic economies continue to lead global growth, withstanding widespread concerns regarding protectionism, with a rapidly growing ageing population and low productivity. As domestic consumption continues to become a significant factor driving economic growth, the shift in spending habits and the growing middle class, is leading to a step change in life insurance demand across the region. The economic performance of Sri Lanka during 2017 and the external environment within which AIA Sri Lanka operated is briefly discussed in this report.

The report presents AIA Sri Lanka's performance during the year with a robust set of financial results being reported.

ENVIRONMENT

Economic update

Sri Lanka's economic performance will have a direct impact on AIA Sri Lanka's business operations and financial performance. Economic growth will have an impact on sales, inflation will have a bearing on the costs of operations and capital investments, and interest rate and equity market performance will have an influence on investment income.

Economic growth

Sri Lanka's Gross Domestic Product (GDP) for 2017 is estimated to be below projections made at the beginning of the year with growth expected to be lower than that recorded in 2016. This is reflected by the annual GDP growth presented in Figure 1. The service sector which is the largest component of Sri Lanka's economy reported higher growth, particularly in the financial and transportation sectors. The industry sector showed modest growth stemming from activity in the construction sector. The agriculture sector continued to be affected by unfavourable weather conditions which prevailed over the last two years.

The demographic composition and low insurance penetration provides significant upside for Life insurance growth in Sri Lanka, with the right socio-economic conditions to support.

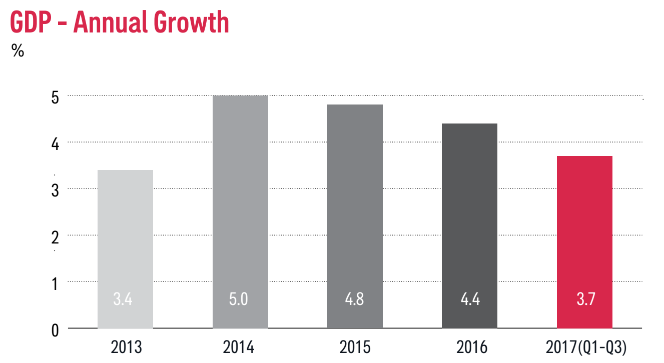


Figure 1

Inflation

Inflation remained at single digit levels in 2017. However, general price levels increased in the latter half of the year due to supply-side shocks and increased prices of import commodities. The deceleration in private sector credit growth and broad money growth (M_2b), as reflected in Figures 2 to 4, indicate the possible slowdown of inflationary pressure in forthcoming periods.

A decrease in inflation to near or above double digits may lead to an increase in the individual's disposable income and capacity to save and may have a positive impact on sales and growth of the Life insurance industry.

A decrease in inflation is also expected to lead to a reduction in interest rates over time which would result in savers and investors earning comparatively lower returns on their savings and investments.

Inflation
%

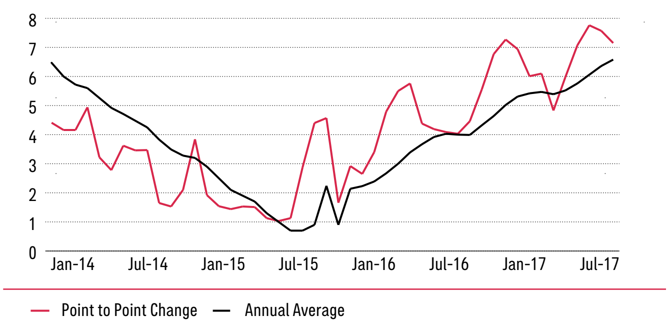


Figure 2

M_2b-growth
%

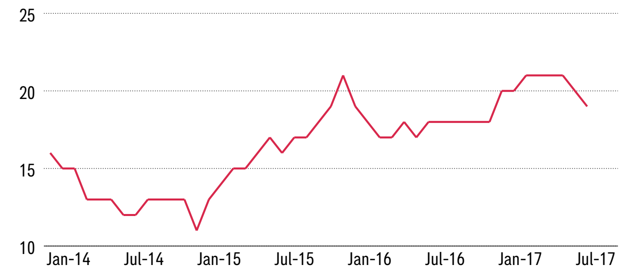


Figure 3

Net credit growth to the private sector
%

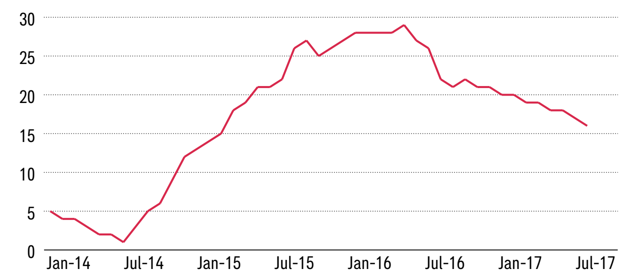


Figure 4

Interest rates

The benchmark 364-day T-bill rate decreased notably to 8.90 per cent by December 2017, a decrease of 127 bps during 2017, as shown in Figure 5. The five-year Treasury bond Interest rate decreased by 225 bps over 2017. The decline in interest rates was a result of measures taken by the Central Bank to ease repayment pressure in the latter half of the year, as well as a deceleration in demand for credit by the private sector amidst a policy rate hike in the first quarter of the year. Demand for domestic credit by the public sector reduced as a result of the issue of a USD 1.5 billion sovereign bond and receipt of USD 418.6 million being the third and fourth tranches of the Extended Fund Facility (EFF) from IMF.

Interest Rate -364-day T-bill
%

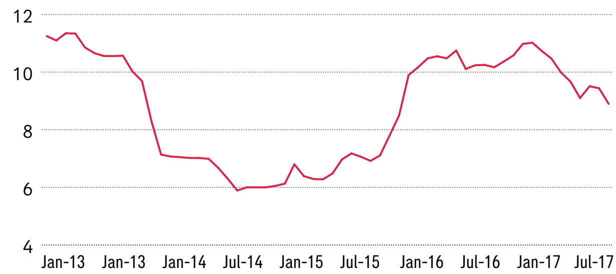


Figure 5

A stable and sustainable low interest rate environment would encourage business investments and economic activity due to the lower cost of capital. However, this would provide lower returns to investors in fixed income securities. The low interest rate environment would cause an increase in the market value of fixed income investments that have already been made when interest rates were higher.

External reserves and exchange rates

Sri Lanka's gross official reserves are estimated to be USD 7.9 billion in December 2017, mainly strengthened by the international sovereign bond issue and the three-year EFF from the IMF. The purpose of these were to enhance the external reserve position of the country and to support the government's broad economic reform agenda. The Central Bank continued to absorb foreign exchange from the domestic market to build non-borrowed reserves. Furthermore, the government received USD 292.1 million being the first tranche of the divestment proceeds of the Hambantota harbour.

During the year, foreign investor interest in government securities improved, and the government managed to secure USD 1.0 billion through syndicated loans and USD 1.1 billion from long-term loans. The foreign reserves were affected by lower growth in tourism earnings and a notable decrease in worker remittances due to adverse economic and geopolitical conditions in the Middle-Eastern region.

The LKR depreciated 2.3 per cent during 2017 as depicted In Figure 6. The Central Bank's efforts to float the exchange rate helped ease pressure on the rupee. This together with an increase in foreign reserves helped to maintain a steady exchange rate.

MANAGEMENT DISCUSSION & ANALYSIS

The strengthening of external reserves and a steady exchange rate may ease inflation due to the lower increase in prices of imported items. Upward pressure on interest rates may remain in 2018 with higher debt repayments expected in the second half of the year.

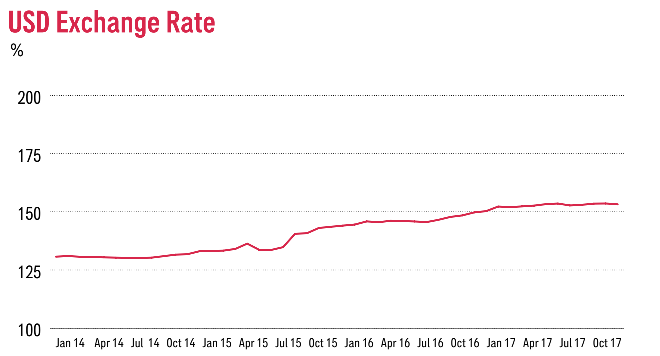


Figure 6

Fiscal out-turn

In 2017, Sri Lanka managed to achieve fiscal discipline to some degree with an increase in tax revenue. During the first ten months, government revenue expanded by 10.4 per cent to LKR 1,470.7 billion through an increase in tax revenue by 14.2 per cent to LKR 1,370.3 billion. The increase in tax revenue helped to a certain degree to achieve the IMF target of tax to GDP ratio of 14.4 per cent.

The expenditure increased by 9.8 per cent to LKR 2,408.0 billion due to increase in both recurrent expenditure (9.0 per cent increase) and capital and net lending expenditure (11.3 per cent increase).

The overall fiscal deficit is estimated at 5.2 per cent of GDP and is forecast to decline further to 4.8 per cent in 2018, and in this context revenue collection is a crucial focus for the State Treasury.

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

Equity market performance

Equity market performance for the year 2017 improved after two years of negative returns as the All Share Price Index (ASPI) closed the year with a gain of 2.3 per cent against the 9.7 per cent drop recorded in 2016. The ASPI grew by 141.00 index points while blue-chip constituent S&P SL20 index increased by 175.28 index points.

Higher foreign investor activity and few strategic trades improved market performance where average turnover increased to LKR 927.0 million (LKR 747.7 million in 2016). During the year net foreign inflows topped LKR 18.0 billion.

During 2017 the stock market witnessed four IPOs worth LKR 3.3 billion and four debenture issues worth LKR 12.0 billion. In 2017, market PE reduced to 10.6 times by December 2017 from 12.4 times reported as at December 2016 as a result of growth in company earnings.

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

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

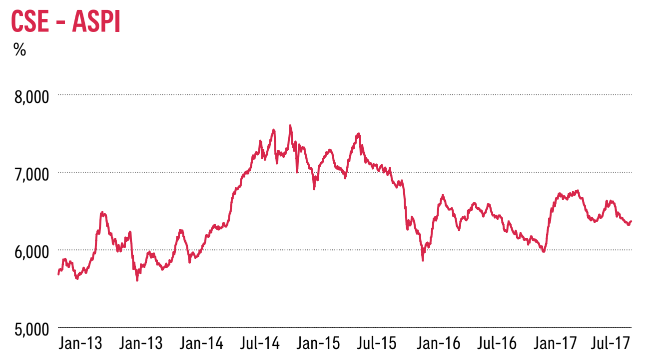


Figure 7

REGULATORY UPDATE REVIEW

The Company has fully implemented the Risk-Based Capital (RBC) Regime since 1 January 2016, in compliance with the applicable regulations. From December 2016, the Insurance Regulatory Commission of Sri Lanka (IRCSL) required that the insurance companies maintain the one-off surplus arising from change in policy liability valuation within the Long Term insurance fund / insurance contract liabilities separately, in the name of "Surplus created due to change in valuation method from NPV to GPV" and not to transfer / distribute any part of the said surplus until specific instructions are issued by the IRCSL. The Company complied with the above ruling by taking steps not to distribute but to hold the one-off surplus created when migrating to the RBC regime within the long term insurance fund / insurance contract liabilities, separately in the name of "Surplus created due to change in valuation method from NPV to GPV".

As per the Directives issued by the Securities and Exchange Commission (SEC), the Listing Rules of the Colombo Stock Exchange applicable to the Company mandates (among other things) of a continuous listing requirement in relation to the maintenance of a minimum public float. Accordingly, it is mandatory that the Company being listed on the Main Board, maintained by 31 December 2016, a minimum public float of 20 per cent of its total listed ordinary shares in the hands of a stipulated number of minimum public shareholders (Directive dated 17 November 2016).

The Company sought and received an exemption from the SEC initially until 31 December 2016 and thereafter an extension for the said exemption until 31 December 2017, from having to comply with the Listing Rules of the CSE relating to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. This was on the basis of a then proposed statutory exemption to the Regulation of the Insurance Industry Act No. 43 of 2000, as amended (the Insurance Act) which exemption was made law by the Parliament in October 2017.

The said extension granted by the SEC expired on 31 December 2017. The Company, as allowed by the Listing Rules of the CSE has since complied with the requirement of monthly disclosure of its status of non-compliance in relation to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. The Company is in the process of considering taking of appropriate steps in relation to same.

The Amendment Act to the regulation of insurance industry Act (RII Act) was passed by the Parliament and became law on 19 October 2017. The Amendment Act to the RII Act replaced the name Insurance Board of Sri Lanka to Insurance Regulatory Commission of Sri Lanka.

As stated above, the Amendment Act to the RII Act carries the exemption from the mandatory listing requirement for local insurance companies that are subsidiaries of foreign listed companies if they fulfil the requirements specified therein.

The Insurance Regulator issued Guidelines on Investments for insurance companies in 2017 setting out the minimum policies that need to be observed in governance of prudent investment management, management of investment portfolios and associated risks. The said Guidelines on Investments has made it mandatory for all insurance companies to have an investment policy in place, which governs the investment management of the company. The Company had already been complaint with the said requirement.

A new Inland Revenue Act was passed as law on 24 October 2017 bringing about a significant change as regards the taxation of Life insurance businesses. Effective 1 April 2018, Life insurance businesses will be taxed on a surplus based tax regime which replaces the hitherto 'I-E' based taxation regime. It is expected that the effective tax rate of Life insurers will increase with the enactment of this new basis of taxation.

INDUSTRY REVIEW

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

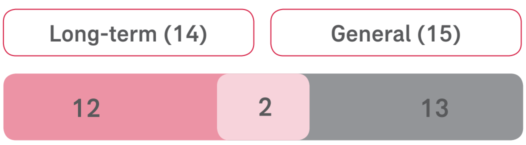


Figure 8

The industry review is based on the 2016 official figures published by the insurance regulator, and will focus on the Life insurance industry.

Life insurance industry performance

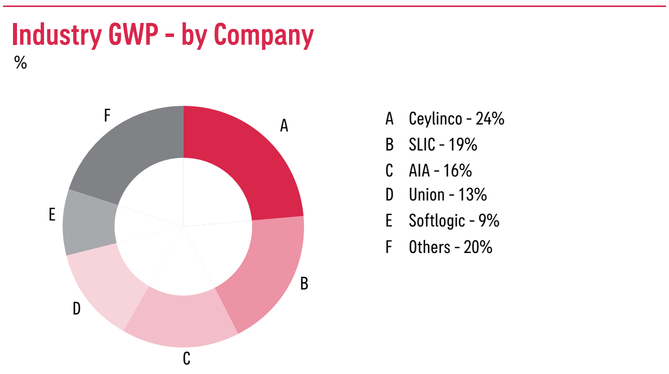
The Life insurance industry reported a growth rate of 18.3 per cent in GWP during 2016, which is an industry measure. This is attributable to factors driven by the industry such as increased awareness on life insurance, the introduction of new life insurance products to cater to changing customer requirements such as retirement solutions and investment products, and enhanced customer service. AIA Sri Lanka accounted for 15.9 per cent of the GWP and maintained its rank as the third largest Life insurer in the country. AIA Sri Lanka accounted for 6.1 per cent of the total branches and 8.6 per cent of insurance agents of the Life insurance industry. Parallel to the increase in GWP, the industry sold 662,701 new long term insurance policies during 2016, which is a 10.5 per cent decrease compared to the number of policies issued in the preceding year.

Industry growth	2012	2013	2014	2015(a)	2016(b)
Long term insurance GWP - Industry (LKR mn)	37,477	41,676	44,596	53,591	63,495
Growth rate in long term insurance premium (%)	6.6	11.2	7.0	20.4	18.3

Source: IRCSL Annual Report 2016
(a) Restated Audited figures
(b) Provisional figures

Figure 9

The industry remained concentrated among the key players. In 2016, the top five companies held a market share of 80.2 per cent, which is marginally less than the 80.9 per cent market share held in 2015.



Source: IRCSL Annual Report 2016

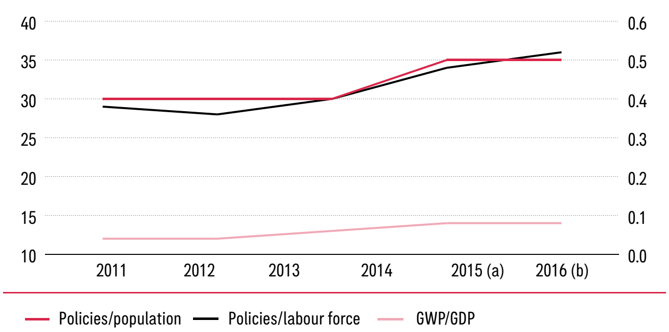
Figure 10

MANAGEMENT DISCUSSION & ANALYSIS

Agency remained the key distribution channel for Life Insurance business contributing 87.4 per cent of overall GWP volumes. Similarly, Direct and Bancassurance channels expanded during 2016, adding 6.1 per cent and 5.0 per cent to GWP of Life insurance, which increased from 4.8 per cent and 4.0 per cent in 2015.

Insurance penetration albeit low when compared to many other economies in the Asian region, increased marginally during 2016 when compared to 2015.

Insurance penetration - long term Insurance



	2012	2013	2014	2015(a)	2016(b)
Policies/population	12%	12%	13%	14%	14%
Policies/labour force	29%	28%	30%	34%	36%
GWP/GDP	0.4%	0.4%	0.4%	0.5%	0.5%

Source: IRCSL Annual Report 2016
(a) Restated Audited figures
(b) Provisional figures

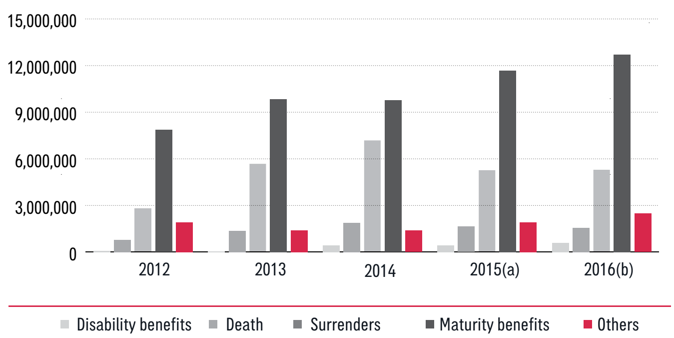
Figure 11

Claims and maturity benefits

The industry paid a total of LKR 22.6 billion in claims and maturity benefits during 2016. Maturity benefits recorded an increase during the year and represented 55.8 per cent of the total outgo. Further, Surrenders as a percentage of in force policies increased from 1 per cent in 2015 to 2 per cent in 2016.

The industry paid a total of LKR 22.6 billion in claims and maturity benefits during 2016. Maturity benefits recorded an increase during the year and represented 55.8 per cent of the total outgo.

Claims and maturity benefits



LKR'000	2012	2013	2014	2015(a)	2016(b)
Disability benefits	77,717	45,457	436,518	430,617	591,147
Death	789,166	1,358,337	1,889,289	1,640,801	1,549,791
Surrenders	2,823,924	5,677,638	7,184,611	5,267,864	5,295,957
Maturity benefits	7,860,715	9,839,833	9,754,751	11,687,811	12,712,720
Others	1,920,859	1,388,698	1,378,929	1,906,560	2,472,666

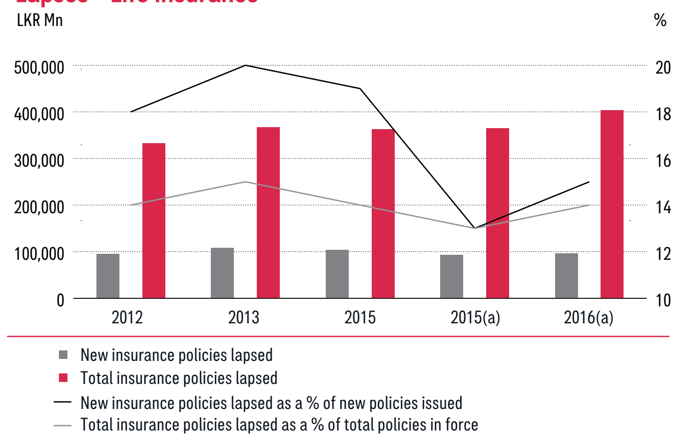
Source: IRCSL Annual Report 2016
(a) Restated Audited figures
(b) Provisional figures

Figure 12

Lapses

During 2016, lapse rates remained high, while the proportion of new policies lapsing as a percentage of new policies issued increased during the year and will be a key challenge for the industry.

Lapses - Life insurance



	2012	2013	2014	2015(a)	2016(b)
New insurance policies lapsed	94,936	107,906	103,500	93,008	96,502
Total insurance policies lapsed	332,707	366,506	362,664	364,567	403,423
New insurance policies lapsed as a % of new policies issued	18%	20%	19%	13%	15%
Total insurance policies lapsed as a % of total policies in force	14%	15%	14%	13%	14%

Source: IRCSL Annual Report 2016
(a) Restated Audited figures
(b) Provisional figures

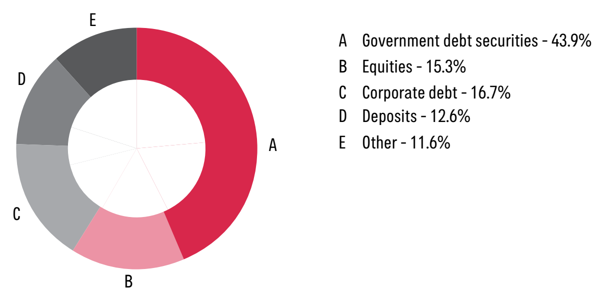
Figure 13

Assets of long-term insurance business

Total assets held by the Life Insurance business increased by 10.5 per cent during the year, and the composition of investment assets remained relatively similar to the previous year. Due to the weak performance in the stock market, investments in equity recorded a 10.0 per cent decrease over 2015, while a substantial reduction of 28.0 per cent for investments in deposits occurred during the year (IRCSL Annual Report 2016). There was a substantial increase in investments into corporate debt instruments by the Life insurance industry during 2017.

Concentration of assets as at 31 December 2016 - Life insurance business

%



%	2015(a)	2016(b)
Government debt securities	43.9%	46.9%
Equities	15.3%	12.5%
Corporate debt	16.7%	20.7%
Deposits	12.6%	8.2%
Other	11.6%	11.8%

Source: IRCSL Annual Report 2016
(a) Restated Audited figures
(b) Provisional figures

Figure 14

CUSTOMER REVIEW

Consumer behaviour in Sri Lanka is rapidly changing along with the demographic and lifestyle shifts that are taking place. With a steadily ageing population, it is expected that one out of every four persons will be above the age of 60 by 2050. This means an increased need for proper healthcare and infrastructure as well as retirement planning and facilities. Another prominent trend is the rise in Non-Communicable Diseases (NCDs). As per Health Ministry statistics, 70 per cent of deaths are due to NCDs. Lifestyle choices such as unhealthy diet and lack of exercise are recognised as key reasons for the rise of NCDs.

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

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

Expanding our service to customers

A total of 65,902 new policies were issued in 2017. This is a testament to the trust Sri Lankans have in AIA and the Company's ability to provide the differentiated solutions that meet their needs, which is further complemented by our superior customer service and dedicated intermediary support.

Simplifying customer interaction

For AIA Sri Lanka, customers are at the heart of our business and our team is committed to improving customer experience by achieving continuous process efficiencies through the use of technology and innovation. In efforts to provide the highest level of service and in keeping with the Company's promise to customers, AIA's team handles customer requirements such as claims, policy servicing and new business underwriting, within a day.

A dedicated contact centre answers 750 calls daily and 80 per cent of calls are answered within the short span of 20 seconds, further reinforcing the commitment AIA has to each and every customer.

MANAGEMENT DISCUSSION & ANALYSIS

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

Engaging and rewarding our customers

Further enhancing and enriching the customer experience is 'AIA Real Rewards', the flagship customer rewards programme which offers exciting rewards every month for customers, who pay their premiums regularly and on time. Each month, ten lucky customers win a three day holiday for two at a choice of six exciting holiday destinations, which include, Bali, Bangkok, Chennai, Kuala Lumpur, Kerala and Singapore.

Listening to customers

AIA is focused on gaining deeper insights into customers' needs and their experience with the Company. A centralised customer feedback and complaints management process empowers all employees to act on behalf of customers in resolving complaints. A Customer Feedback Review Forum comprising of all key customer unit heads and complaint resolution champions meet regularly to take corrective measures and implement initiatives to keep our customers satisfied. A streamlined process of resolving customer complaints helps the Company to identify and prioritise emerging issues, finding permanent solutions on a timely basis. AIA also gathers valuable feedback from customers through social media where the Company has over 115,510 active members.

AIA Vitality

AIA Vitality, launched in Sri Lanka in January 2017 is a science-backed wellness programme that helps you make positive changes to your health by rewarding you for living a more active lifestyle. Available on the Apple App Store and the Google Play Store, over 25,000 users enjoy weekly rewards such as movie tickets, mobile reloads, shopping vouchers and free car washes. Users also have the option of donating their rewards to a charitable cause. In addition to the mobile application, Vitality engagement programmes are also conducted regularly at leading corporate organisations, in an effort to help more Sri Lankans live healthier, longer and better lives.

Please scan the QR code to download AIA Vitality.

Figure 15

PRODUCT REVIEW

Our portfolio of products in 2017

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

Products in a nutshell

Name of product	For Whom	Special Features
Health First	Our comprehensive health with life protection product is designed to help individuals and families protect themselves financially during medical emergencies	• Critical illness coverage • Adult surgery coverage • Hospitalisation coverage for the entire family including treatment in Singapore, Malaysia, Thailand, India and Sri Lanka • Cashless hospital admittance at over 60 hospitals • Daily hospital cash benefit
Easy Pensions	Our latest packaged pensions product allows customers to select the retirement solution they need in three easy steps	• Four premium amounts and Life Benefit options to choose from • An option of a lump sum or a monthly pension at retirement
SmartBuilder Gold	Designed for high net-worth individuals who seek a worthy savings investment with the convenience of shorter premium paying term options	• Short premium paying terms of four or six years but protected for up to 20 years • A Loyalty Reward of up to 250 per cent of the annual basic premium • Option to decide between a lump sum and a drawdown at maturity • Ability to withdraw funds in an emergency

Name of product	For Whom	Special Features
SmartBuilder	For individuals who seek life protection and savings with the convenience of short term premium paying term options	• Short premium paying terms of four or six years but protected for up to 20 years • The fund increases based on the annually declared dividend rates • Option to decide between a lump sum and a drawdown at maturity • Ability to withdraw funds in an emergency
Pensions Premier Gold	Our flagship pensions product, offering an affordable and comprehensive solution for a happy and comfortable retirement	• A monthly pension up to a period of 10-30 years upon reaching the retirement age • A monthly pension for your spouse or dependants should the unforeseen occur • The retirement fund increases based on the annually declared dividend rates • An in-built Life Cover of up to 5-165 times the annual basic premium • A Loyalty Reward of up to 400 per cent of the initial annual basic premium on the 10th policy anniversary • Ability to withdraw funds in an emergency
Savings Plus Gold	For individuals who seek both insurance and long-term savings solutions in one package	• In-built Life Cover that could be customised to suit your need • A Loyalty Reward of up to 350 per cent of the initial annual basic premium at 10th policy anniversary • The fund increases based on the annually declared dividend rates • Ability to withdraw funds in an emergency
AIA Pensions	A comprehensive retirement solution for individuals who desire greater investment choice to build their retirement fund	• A monthly pension up to a period of 10-30 years upon reaching the retirement age • A monthly pension for your spouse or child should the unforeseen occur • An in-built Life Cover of up to two times the annual basic premium • Ability to withdraw funds in an emergency • An Investment choice to invest the Pension Fund in investment options ranging from Treasury bills to the stock market
AIA Education Plan	For parents who have the need for a guaranteed education fund for their children, even if they are not around	• In-built Life Cover that can be customised to suit your needs • A Loyalty Reward of up to 400 per cent of the annual basic premium at the 10th policy anniversary • The education fund increases based on the annually declared dividend rates • A guaranteed education fund at maturity even if the life assured is not there
AIA Protected Savings	For individuals who are married and have the need for a higher protection coverage to safeguard the future of their loved ones	• In-built Life Cover that can be customised to suit your needs • Range of additional protection benefits • A Loyalty Reward of 400 per cent of the initial annual basic premium at the 10th policy anniversary • The savings fund increases based on the annually declared dividend rates • A guaranteed savings fund at maturity even if the main life has passed

MANAGEMENT DISCUSSION & ANALYSIS

Name of product	For Whom	Special Features
AIA SavingsPlan	For individuals who seek both insurance and savings solutions under one package and desire greater investment choice to build their savings fund	• An inbuilt Life Cover that's worth up to 15 times the annual basic premium • Ability to 'top-up' your existing savings fund • Ability to withdraw funds in an emergency • Opportunity to invest your Savings Fund in investment options ranging from Treasury bills to the stock market
AIA Investment Plan	For individuals who wish to build a Savings Fund	• A single premium unit linked product with flexibility to switch between funds to maximise your returns • A Life Cover of 110 per cent of one-off investment • Ability to top-up the existing investment
AIA Fund Builder 10	For individual who have both fund building and protection needs	• In-built natural & accidental death benefits • In the event of death, the available fund balance and the Life Cover will be paid • A Loyalty Reward of up to 325 per cent of the initial annual basic premium at maturity • The savings fund increases based on an annually guaranteed rate of return

Additional Benefit	Description
Accident Benefit	Provides additional Life Cover in the event of accidental death. This benefit will also provide the policyholder with financial assistance in the event of a permanent disability due to accidents
Hospitalisation Benefit	Provides a daily cash payment of up to LKR 10,000 per day from the first day onwards if the life assured is hospitalised for over three days. This sum is doubled if admitted to the Intensive Care Unit
Adult Surgery Benefit	Provides financial support for the life assured and spouse for over 250 surgeries performed in Sri Lanka, India, Malaysia, Thailand or Singapore (For AIA HealthFirst Only)
Child Healthcare Benefit	Financial support for 250 listed surgeries performed in Sri Lanka, India, Malaysia, Thailand or Singapore (For AIA HealthFirst Only). In addition, it also provides cash for hospitalisation and a special allowance if a parent stays over with a child under 12 years of age
Critical Illness Cover	Financial assistance for life assured and spouse for 22 listed critical illnesses. Ability to choose the cover up to a maximum of LKR 3 million
Income Protection Benefit	In the unforeseen event of the death of the main life assured or total permanent disability, the dependants will be provided a monthly income during the term of the policy for a maximum period of 10 years
Spouse Life Cover	Provides a Life Cover for the spouse
Hospital Expense Cover	Provides an individual healthcare coverage and reimbursement solution
Family Hospital Expense Cover	A comprehensive family healthcare solution with a single cover for the entire family that reimburses the hospital expenses in Sri Lanka

COMMUNITY REVIEW

Poson Safety Programme

Six lives were saved this year, thanks to AIA's Poson Safety Programme. Now in its 24th consecutive year, the programme aims at protecting the lives of the throngs of pilgrims travelling to Anuradhapura, Polonnaruwa and Dambulla for Poson.

Every year, AIA joins hands with the Sri Lanka Police, Sri Lanka Lifesaving Association, the Civil Security Division and the Sri Lanka Navy in deploying lifeguards to monitor activity in the reservoirs in the area, which are popular bathing and swimming spots. Over 200 lives have been saved due to this programme since its inception.

AIA's 'Lend a Hand' School Building Project

As part of its commitment to giving back to the community, AIA constructed a brand new building for the Mo/Hindikula Kanishta Vidyalaya in Monaragala. This was fourth school building project under AIA's 'Lend a Hand' initiative, intended at uplifting the lives of children who are less privileged.

AIA Higher Education Scholarships

AIA's Higher Education Scholarships Programme, now in its 23rd consecutive year, rewards the top performer from each district at the Grade 5 scholarship examination, by giving them a monthly bursary from Advanced Level (A/L) right up to the completion of their University degree.

Started in 1994, the programme was initiated to lend a hand to Sri Lanka's brightest and most promising students, as they are the future of our nation. AIA scholarships do not require the winners to be an AIA Insurance customer, but awards are purely based on academic merit.

Scholarship for outstanding insurance student at Wayamba University

AIA partnered with Wayamba University of Sri Lanka to offer a Scholarship for Excellence in Insurance Studies to the most outstanding final year student in the Insurance & Valuation Department of the University, for the seventh consecutive year. This year the scholarship was awarded to Ms. Shanika Sajeewani who received a six month internship programme at the Company together with a monthly allowance.

BUSINESS REVIEW

AIA Sri Lanka's main distribution channels are the Agency and Bancassurance channels. The Agency channel's contribution to total GWP was 89.8 per cent during the year 2017, whilst the Bancassurance channel sustained its commendable growth during 2017.

As the Leading insurer in Asia Pacific, AIA believes in changing people's lives by providing 'Real Life' solutions and power of insurance in order to make a difference in people's lives. Therefore, the Brand is committed to assist people to live healthier, longer and better lives. AIA Sri Lanka provides and offers these solutions to its clients through both its channels, namely Agency and Bancassurance.

Building on its initiatives launched in 2016 for quality recruitment, the agency channel launched its new recruitment proposition in 2017 focused on recruiting individuals with distribution skills and professionalism.

The AIA Sri Lanka Training Academy was re-launched with the enhanced and comprehensive training structure covering all channels under top strategic priorities of 2017 based on the Pioneer 2 (P2) framework. The training architecture was revamped to upgrade the skills of the distribution to better focus on the customer needs. The re-launched academy aims to maintain highest professional standards with technology enabled learning whilst ensuring quality and career development through focused development programmes for both new and existing Wealth Planners and Agency management. Additionally, with the objective of providing a higher standard of service to customers the training academy rolled out several key training programmes concentrated on both new and existing products.

The Road to MDRT (The Million Dollar Round Table) programme was launched in 2014 and has continued ever since. AIA Sri Lanka became the first local insurance company to produce more than 100 MDRT members in 2016. The grooming of MDRT members continued with the same enthusiasm and the momentum in the year 2017. The Agency and Bancassurance Channels produced 130 MDRT qualifiers for the year of 2017, setting a new milestone.

During 2017, several initiatives were taken to enhance Digital solutions and interphases that support Wealth Planners/Wealth Planner Managers on Sales Management and Recruitment Management. Both Sales Activity Management systems (SAMS) and Interactive Point Of Sales (iPos) systems were enhanced to monitor and report phases of the sales distribution to enable advanced support to both Wealth Planners, Bancassurance Executives and Management equally. The continuing use of iPads in the sales process provided AIA Sri Lanka distribution with a unique competitive advantage. The E-submission of insurance proposals has enabled the AIA distribution to provide an enhanced experience to customers whilst maintaining professionalism and efficiency. To ensure higher quality of service and technological versatility training on the e-platforms was conducted throughout 2017. Consequently, the number of agents using the e-platforms has shown a notable increase in 2017.

The Bancassurance channel includes NDB Bank, Standard Chartered Bank and DFCC bank. The channel made a contribution of 10.2 per cent of GWP in 2017 following valuable contributions by all AIA Sri Lanka's partners and Bancassurance Executives. The new partnership with DFCC gathered momentum and supported AIA Sri Lanka's Bancassurance channel's performance for the year 2017.

MANAGEMENT DISCUSSION & ANALYSIS

The Bancassurance channel maintained its focus of strengthening its operating model during the year, implementing initiatives to improve service delivery and monitoring of key performance drivers, and these resulted in the improvement in the quality, efficiency and performance of the channel.

OPERATIONS REVIEW

The Company's strong performance is mainly attributed to the introduction of enhanced products to stay up to date with customer needs. Further, the efficient execution of the Premier Agency 2.0' strategy in 2016 led to improved sales quality and enhanced customer engagement. The Bancassurance channel continues to grow its presence with partner banks. AIA Sri Lanka has built a solid foundation to progress towards the stated ambition of market leadership in the local Life insurance industry and be the pre-eminent Life insurer in Sri Lanka.

In 2017, the Operations unit of AIA Sri Lanka continued to instil the core components of AIA Group's Operating Philosophy of "Doing the Right Thing, in the Right Way with the Right People and be confident that the Right Results will come". The year was marked by enhancing effectiveness and efficiency of existing customer service points and engagement points with the objective of upgrading overall customer experience.

During the year, recognising the importance of existing customers, AIA Sri Lanka Operations conducted a number of customer programmes to highlight the importance and benefits of customers maintaining their policies with consistent premium payments throughout the policy term. The campaigns added positivity by communicating to AIA customers their eligibility to qualify for AIA Sri Lanka Real Reward programme which offers exciting rewards to customers. Further, the operations call centre was actively involved in renewal premium communication, follow up and concentrating on ensuring that customers benefit by maintaining their policies with the Company.

Emphasising its continuous progression towards digitisation and completing a key phase of its Target Operating Model implementation, AIA Sri Lanka operations has eliminated physical cash collection at AIA branches by the end of 2017. This recognises the customer behaviour transition where more and more individuals prefer to transact in non-cash modes of payment. Standing orders, online payments and credit card payments have grown in popularity amongst customers and AIA Sri Lanka is supporting customers to adopt to these trends.

The Company upgraded its cash collection methods via launching mobile cash remittance platforms during 2016, with the aim of increasing premium collection, a secure substitute for cash collection and provide greater convenience to both customers and Wealth Planners.

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

INVESTMENT STRATEGY

AIA Sri Lanka maintains a prudent investment strategy for its investment portfolios in line with its investment philosophy and as detailed in its investment policy. The Company believes in a long-term investment strategy to provide long-term growth, while also ensuring that funds are available when needed. The fixed income investment strategy has a buy-and-maintain orientation with an objective of capital preservation and stable income. It also focuses on asset liability matching, matching the durations to ensure that investments support the liability profile of the business. The investment philosophy also ensures that investments are made into high grade financial instruments. Equity investments are made for the unit-linked insurance business only, and the equity investment strategy focuses on liquid blue-chip stocks with sound fundamentals.

Investment Portfolio - 2017 Asset Allocation

%

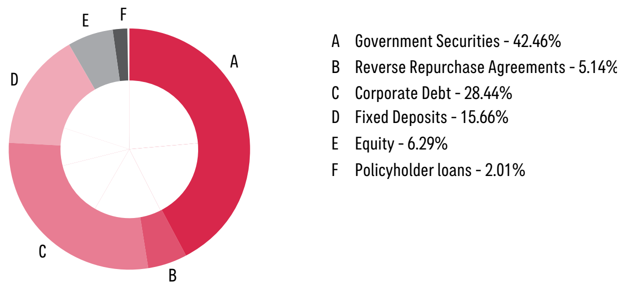


Figure 16

The Company does not maintain exposure to quoted equity in its conventional Life Policyholders' fund, in line with the portfolio's risk appetite, except for a strategic holding. Exposure into quoted equity is maintained at present in two unit-linked funds that are required to maintain exposure to equity in line with their policyholder expectations and requirements. The asset allocations of the Company's investments as at 31 December 2017 are given in Figure 16.

PEOPLE REVIEW

Our people are the strength guiding the Company's success. We invest in developing them, recognising and rewarding merit through transparent and equitable processes and above all fostering a climate of self-confidence and empowerment. We foster a culture of out-performance, of delivering the right results and creating more and more satisfied customers. We encourage people's ambition. Our employer branding of 'Real Ambition brought to Life' aptly recognises this.

Accolades - AIA Sri Lanka - adjudged a Great Place to Work for the 5th consecutive year

Our culture focuses on creating conditions to attract and retain the best talent, with a drive to succeed and who will optimise the growth opportunities at AIA Sri Lanka to get there. AIA Sri Lanka takes great pride in entering 'Sri Lanka's Best Companies to Work for - Hall of Fame,' as the Company collected its 5th consecutive Great Place To Work® recognition. This incredible achievement is a testament to AIA Sri Lanka's commitment to doing the right thing, in the right way and most importantly, with the right people.

Employee engagement

An Employee Engagement Survey is conducted annually, across all entities within AIA Group. Gallup, a distinguished, independent research agency administered the survey for the 7th consecutive year. This survey was conducted across the Company in the 3rd quarter of 2017, to measure the engagement levels of our employees. Employee responses collected through this survey were analysed to understand the success of the people practices that govern our business.

The survey results revealed that engagement levels at AIA Sri Lanka continues to be strong. The percentage of engaged staff were at 64 per cent, continuing to be in the top quartile. With a Grand Mean of 4.32, in 2017 AIA Sri Lanka occupies the 88th percentile on the Gallup Finance and Insurance Industry database.

Talent attraction and retention

In our journey to be 'Pre-Eminent', the quality and professionalism of our people are very important to us. We consider our employees to be our Brand Ambassadors. Our dedication towards creating an ambitious workforce goes beyond the Company's talent requirements. We continue to participate in career fairs of local universities and private higher educational institutions whilst conducing workshop sessions for undergraduates. Our career fairs link us with the undergraduate talent pool across the island providing them many internal opportunities.

During 2017, the Company's workforce included 797 employees in the permanent cadre, with our growing Bancassurance channel contributing to a main share of the headcount.

Total employee category breakdown

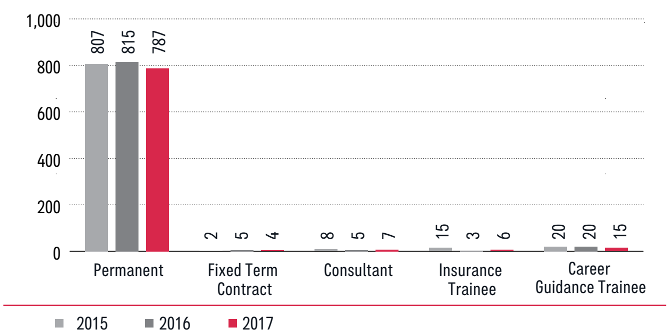


Figure 17

Gender Breakdown - 2017

%

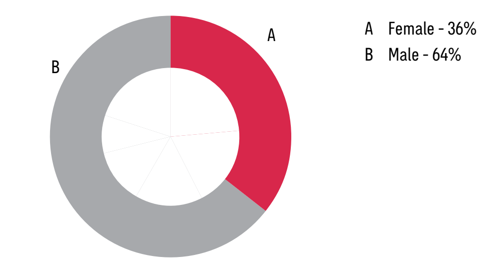


Figure 18

Figure 19

MANAGEMENT DISCUSSION & ANALYSIS

With our conscious and active efforts to maintain a healthy mix of female and male employees, the Company increased the female employee population to 36 per cent, a 6 per cent growth over the last four years. Our comprehensive 'motherhood' leave benefit and flexi work arrangements are a few of the HR initiatives introduced to empower, encourage and retain our female employees.

Another unique feature of our workforce demographics is the age and experience mix. 46 per cent of our employees are aged below 30 years whilst 21 per cent have been with the Company for over ten years. This diverse mix creates the perfect blend of enthusiasm of the 'tech savvy new blood' mixed with those with 'maturity and experience', setting the foundation for a workforce with an optimum balance of knowledge and expertise.

Service Period Analysis

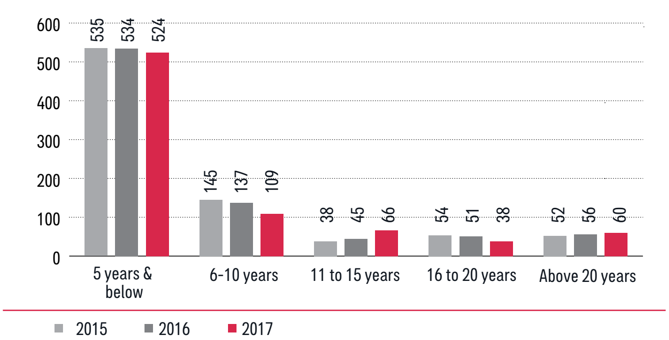


Figure 20

Age analysis

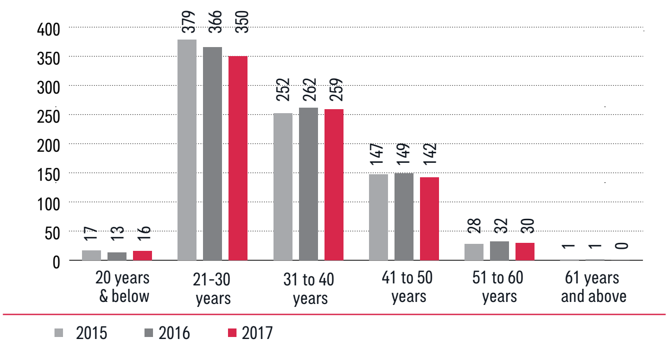


Figure 21

Measuring performance of our people

The Performance Management process uniquely known as Performance Development Dialogue (PDD) is about helping everyone succeed in AIA so that they can bring out the best of them at work every day. During the year under review, 576 employees took part in the PDD process via the automated Performance Management System. The PDD process is one tool that aligns our contributions – both 'WHAT' we do and 'HOW' we do it, to our overall strategic framework.

Recognising and rewarding outperformance

AIA Group's total rewards philosophy is built upon the principles of providing an equitable, motivating and market-competitive remuneration package to foster an outperformance-oriented culture. Our total rewards comprise both financial and non-financial rewards and recognitions, to attract and retain the best of talent.

Taking recognition, a step higher, AIA introduced 'I am AIA' as a people initiative in 2017 with a three-year horizon in mind. This starts with the simple premise that Company's vision to be pre-eminent can and can only be successful if the people at AIA rally around and truly support it.

Developing our people

As an organisation, we develop our people to do the right thing in the right way through the process of Learning and Development. We follow a 70:20:10 model, a globally accepted methodology in people development.

Following are some key highlights from our Learning and Development (L&D) calendar

The AIA Manager Series is a three-part leadership development programme, tailor-made to AIA. Our leaders in Agency Distribution, Bancassurance and Support Services attended AIA Manager programmes continuing their leadership development journey.

The Company pioneered in launching AIA Sri Lanka Academy, a dedicated internal learning institute primarily focused on sales development. Along with many other development initiatives, the Academy also launched a flagship programme for Distribution Unit heads in 2017.

Figure 22

'Ignite'- a female empowerment initiative

AIA launched 'Ignite'- a female empowerment initiative with the objective of developing its talent pool of women to become tomorrow's leaders. This is a programme series that enables the

Company's female employees to excel at what they do and reach positions of leadership at all levels, so they can achieve career growth and development, balancing 'home' and 'career'. As an organisation with a strong focus on diversity, these initiatives have resulted in a healthy balance of female power with our next generation of leaders.

Organisation and People Review

'Organisation and People Review (OPR)', our talent management process assists in assessing the capability requirements across the business in order to identify Company's current and future leadership capability needs and ability to meet them. The review encourages a proactive approach to resourcing, development and succession planning to ensure leadership continuity for the future.

Being a part of a multinational Group, AIA Sri Lanka has the unique advantage of harnessing and exchanging knowledge and expertise from a wider talent pool within the AIA Group.

Our sustainability efforts continue

AIA's people have always stood by the Company and the Company in turn endeavours to provide them with 'best in class' work culture and practices. The greatest testimony to this mutually rewarding partnership is the Company's growth story. 2017 is no exception. Amidst a fair share of internal and external challenges, it proved to be a year of business growth, tremendously successful performance and step changing reforms. Behind this success were the people of AIA leading the Company forward together, making 'I'm AIA' truly come alive, and connecting Company's Vision with its people's ambitions.

FINANCIAL REVIEW

The financial review presents the business performance of AIA Insurance Lanka PLC during 2017. The Company delivered another year of solid performance during 2017 across key financial parameters, with a strong performance in both top line and bottom line.

Company results

Gross Written Premium (GWP)

Total GWP of the life business increased to LKR 11.5 billion in 2017 recording a growth rate of 13.9 per cent over LKR 10.1 billion in 2016.

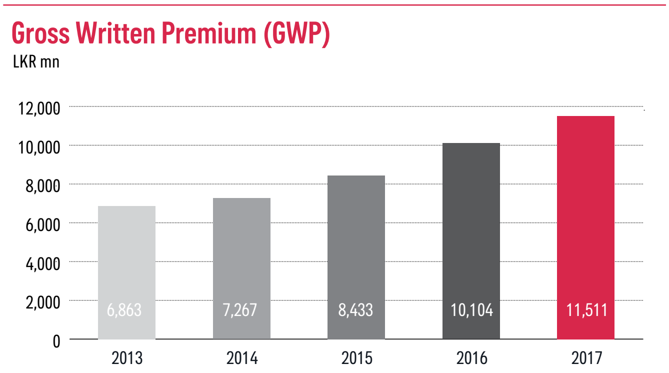


Figure 23

GWP – Product mix

Conventional product premium recorded an increase of LKR 1,192.8 million whilst unit-linked product premium increased by LKR 152.1 million in comparison with the performance of 2016. The product mix remained in line with the 2016 performance with conventional products dominating the portfolio.

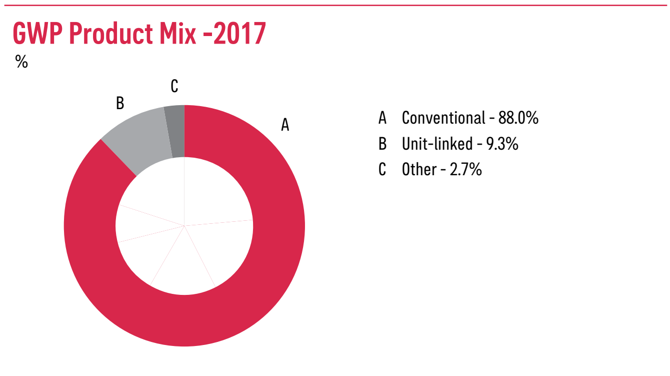


Figure 24

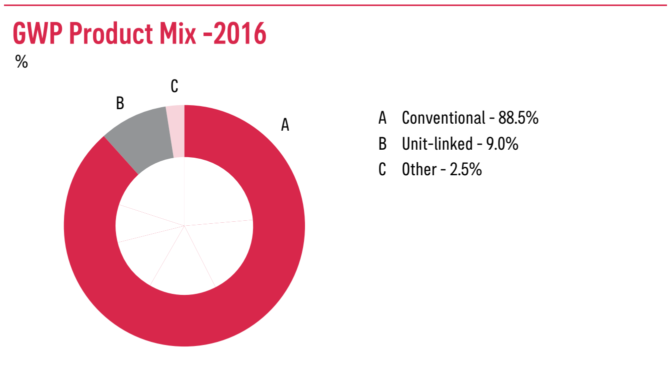


Figure 25

GWP - Channel mix

The channel mix remained similar to that reported in 2016. Agency continued to dominate the distribution performance in 2017 with an 88.3 per cent share of the total GWP achievement. The Agency Channel recorded a GWP of LKR 10.2 billion; an increase of 13.5 per cent from the performance recorded during 2016. The Bancassurance channel delivered a robust 24.6 per cent GWP growth rate helping it increase its share marginally. However, it is noteworthy that the Bancassurance channel has maintained its steady growth in the last two years, almost doubling its performance.

MANAGEMENT DISCUSSION & ANALYSIS

GWP Channel Mix - 2017

%

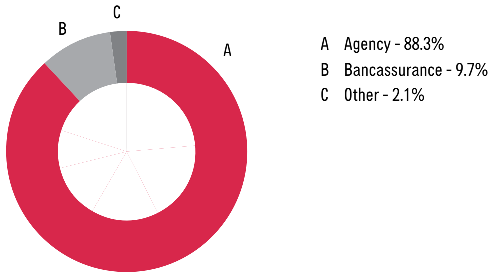


Figure 26

GWP Channel Mix - 2016

%

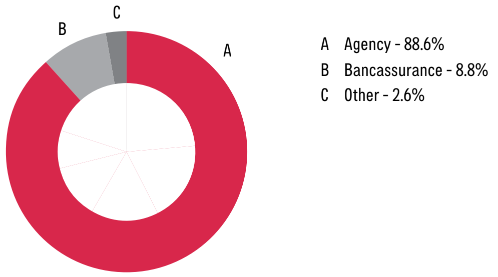


Figure 27

Investment Income

Investment income in 2017 increased by LKR 468.8 million compared to the prior year, recording a growth of 9.9 per cent. The investment performance is a result of the timely execution of investment strategy and is discussed against the backdrop of the decrease in interest rates over the year. During the year, AIA Sri Lanka further streamlined its internal treasury management operations and this too contributed to an increase in investment income. Long-term investments made previously during periods with relatively higher interest rates provide the Life Policyholders' fund with a sound locked-in yield base.

A combination of the lock-in of attractive interest rates together with the increase in the portfolio size resulted in the growth in investment income. The Company is able to thereby declare attractive dividends to Life policyholders for 2017.

Net Written Premium (NWP)

The NWP, which is GWP net of premiums ceded to reinsurers, amounted to LKR 11.2 billion in 2017. This depicts an increase in NWP of 13.9 per cent in comparison to 2016. The growth was fuelled by the increase in GWP by LKR 1.4 billion.

Operating and Administrative Expenses

During 2017, the Company continued its prudent approach to expense management and directing capital to key areas that warrant investment. As a result, the Company was successful in containing the increase in Operating and Administrative Expenses to 11.9 per cent for the year under review despite the inflationary pressure on expenses. Curtailing the growth in Expenses to the aforementioned growth rate is considered a significant achievement especially in comparison the growth rate of 33.8 per cent recorded in 2016. The increase in Administrative Expenses, Selling Expenses and Staff Expenses were the major contributors to growth in Operating Expenses.

Net Claims Benefits

Company's Net Claims and Benefits increased to LKR 5.1 billion in 2017 from LKR 4.8 billion in 2016 recording a growth of 7.9 per cent compared to 2016. The increase in Gross Claims and Benefits by LKR 390.7 million proved to be the major catalyst for the growth.

Life Business Surplus

The Life Business Surplus, typically the accounting profit from the Life insurance business as per the local accounting treatment increased from LKR 314.8 million in 2016 to LKR 7,080.8 million in 2017. A major contribution to the surplus arose from the increase in total available capital due to the reinvestment of income generated by the investment portfolio. The surplus was also negatively impacted by the movement in assets and liabilities due to the downward shift in market interest rates. However, the positive impacts of the boost in capital outweighed the negative impacts caused by the declining interest rates paving the way for a significant increase in surplus by LKR 6,766.0 million in 2017.

Analysis of Consolidated Statement of Financial Position

Total Assets

The Total Assets of the company recorded a growth of LKR 6.5 billion during the financial year. It is noteworthy that the increase in Total Assets was subsequent to the distribution of interim dividend of LKR 1,476.0 million and a final dividend of LKR 61.5 million to shareholders during 2017.

The growth in Total Assets was primarily driven by the growth in Financial Assets which accounted for approximately 86.9 per cent of Total Assets for the year under review. Financial assets of the company increased by 14.1 per cent which amounted to an increase of LKR 5.6 billion for the financial period.

Financial assets comprise investments in government securities, listed debentures, bank deposits and listed shares and reflect a portfolio quality AA+ based on the weighted average portfolio rating using the local currency rating by Fitch Ratings Lanka. The details of the investments including the movement during the year are presented in note 9 to the financial statements.

Property Plant and Equipment (PP&E)

Company's Net Book Value of PP&E amounted to LKR 746.5 million as at 31 December 2017. Compared to the previous year of operations, the Company's net book value of PP&E has increased by LKR 517.4 million in the year 2017. The accounting policies and detailed notes to Property, Plant and Equipment are presented in note 7 to the financial statements.

Intangible Assets

Intangible Assets balance of AIA slightly dipped by LKR 9.4 million which is a decrease of 1.0 per cent compared to year 2016. The amortisation of computer software mainly contributed to the decrease in balance. Further details on Intangible Assets are provided in note 6 to the financial statements.

Reinsurance Receivables

Reinsurance receivables did not record a material change for the period in review in comparison with the previous year. Reinsurance Receivable balance slightly dipped by LKR 5.5 million in 2017 from LKR 86.7 million in 2016.

Life Insurance fund

The Life insurance fund as at 31 December 2017 was LKR 38.2 billion. The fund was in line with the previous year's fund which was LKR 38.2 billion. The Company's appointed actuary Frank Munro's report is provided on page 76 of this report. Adequate provisions, including those for bonuses and dividends to life policyholders, solvency margins and other required reserves have been made from the life fund as recommended by the appointed actuary.

Shareholders' Equity

Shareholders' Equity increased by 110.4 per cent from LKR 5.4 billion in 2016 to LKR 11.3 billion in 2017. The stated capital of the Company remained at LKR 511.9 million during the year. The Revenue Reserves increased by LKR 5.8 billion for the year under review. In January 2017, the Company Board of Directors approved the distribution of an Interim Dividend of LKR 1,476.0 million (LKR 48.00 per share) as authorised by the Company's Articles of Association. The said dividend was distributed out of the retained profits of the Company. A final dividend of LKR 61.5 million was also distributed among the shareholders in 2017.

One off Surplus

New RBC rules were legislated by the IRCSL and were effective from 1 January 2016. The resultant change in the valuation methodology from NPV to GPV as per the new regulations generated a one-off surplus of LKR 8,768.2 million of which the details are given in note 16.3.

Solvency Margin

A healthy solvency margin is an indicator of the financial stability of the Company. From January 2016 the insurance industry in Sri Lanka adopted the RBC solvency regime. Life business solvency on this measure stands at 595.1 per cent as at 31 December 2017 reflecting the strong financial position of the Company. This is a significant improvement in the margin from 360.6 per cent as at 31 December 2016. The solvency margin of 595.1 per cent includes the RBC one-off surplus of LKR 8,768.2 million which is maintained within the policyholders' liabilities as per the IRCSL's instructions.

OUTLOOK

2018 is likely to pose its challenges as Sri Lanka seeks to balance the twin targets of revitalising growth in the economy whilst maintaining macroeconomic stability. Also, the economy has been weakened by poor weather conditions for the past two years, which has disrupted the agriculture sector. The government remains committed to fiscal consolidation and stimulating growth in a sustainable basis by improving access to credit for small and medium-sized enterprises, enhancing trade competitiveness by the removal of tariffs, promoting tourism and attracting foreign direct investment. Notwithstanding the challenging environment, AIA Sri Lanka looks to the future with optimism founded on the AIA Group's strategy, working towards its vision of being the pre-eminent Life insurer in Sri Lanka.

During 2018, the Company will continue to focus on enhancing the quality of the Agency force, the sales process and the customer experience to ensure continuity of customer policies. Furthermore, the progression towards digitisation and improving operational efficiencies would support the Company in becoming the local market leader.

In line with AIA's mission of playing a leadership role in driving economic and social development all across the region. The successful launch of AIA Vitality, which is a science-backed health and wellness program designed to encourage an active lifestyle. This programme was well received by customers, employees and other stakeholders. It demonstrates AIA's commitment towards helping people to live, longer, healthier and better lives.

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

LIVE LONGER

GOVERNANCE

BOARD OF DIRECTORS

① **WILLIAM LISLE**
CHAIRMAN - NON-EXECUTIVE DIRECTOR

② **ROBERT ALEXANDER HARTNETT**
NON-EXECUTIVE DIRECTOR

③ **MANOJ RAMACHANDRAN**
NON-EXECUTIVE DIRECTOR

④ **STUART ANTHONY SPENCER**
NON-EXECUTIVE DIRECTOR

⑤ **DEEPAL SOORIYAARACHCHI**
INDEPENDENT NON-EXECUTIVE DIRECTOR

⑥ **SARATH WIKRAMANAYAKE**
INDEPENDENT NON-EXECUTIVE DIRECTOR

BOARD OF DIRECTORS

WILLIAM LISLE

CHAIRMAN - NON-EXECUTIVE DIRECTOR

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

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

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

MANOJ RAMACHANDRAN

NON-EXECUTIVE DIRECTOR

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

Prior to joining the AIA Group Mr. Ramachandran served as the Head of Legal-Asia, for Fidelity International, a global investment management company. Mr. Ramachandran has over 20 years experience in the financial services industry, principally in the Asia - Pacific region.

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

ROBERT ALEXANDER HARTNETT

NON-EXECUTIVE DIRECTOR

Appointed to the Board of Directors of the Company on 29 September 2015. Mr. Robert Alexander Hartnett is currently Regional Business Development Director and works with the AIA Group's businesses in Korea, Australia, 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 AIA for 9 years in both Australia and the Philippines in actuarial and related finance functions.

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

STUART ANTHONY SPENCER

NON-EXECUTIVE DIRECTOR

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

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

In 2004, Mr. Spencer moved to Hong Kong with AIG Life Companies' Accident & Health Division, and from 2006 to 2009 he was the President – Accident & Health Worldwide. Following AIG, he was the Chubb Global Head and COO-Worldwide Life, Accident & Health where he was responsible for leading Chubb's Global Life and Accident & Health 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.

DEEPAL SOORIYAARACHCHI

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

Mr. Sooriyaarachchi is an acclaimed management consultant, author, trainer, executive coach, mentor and speaker.

He is a fellow of the Chartered Institute of Marketing, UK, Chartered Marketer, fellow of the Sri Lanka Institute of Marketing, an accredited Master Coach and a Master Mentor and has a masters in business administration from the University of Sri Jayewardenepura.

SARATH WIKRAMANAYAKE

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board of Directors of the Company on 1 August 2016. Mr. Sarath Wikramanayake has worked with the Bank of Butterfield, a Bermuda-based international bank for 19 years, where he reached the position of Executive Vice-President. Since returning to Sri Lanka, he has been the Chief Executive Officer of Union Assurance Limited and the President of the Insurance Association of Sri Lanka in 2002.

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

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

SENIOR MANAGEMENT TEAM

① **GAVIN D' ROSAIRO**
CHIEF FINANCIAL OFFICER / DIRECTOR FINANCE

② **ALANZO DOLL**
CHIEF TECHNOLOGY OFFICER / DIRECTOR INFORMATION TECHNOLOGY

③ **THUSHARI PERERA**
DIRECTOR HUMAN RESOURCES

④ **UPUL WIJESINGHE**
DEPUTY CHIEF EXECUTIVE OFFICER / CHIEF AGENCY OFFICER

⑤ **PANKAJ BANERJEE**
CHIEF EXECUTIVE OFFICER

⑥ **NIKHIL ADVANI**
CHIEF MARKETING OFFICER

⑦ **AMAL PERERA**
DIRECTOR PARTNERSHIPS

⑧ **CHATHURI MUNAWEERA**
DIRECTOR & CHIEF OFFICER – LEGAL, GOVERNANCE CORPORATE & EXTERNAL RELATIONS / COMPANY SECRETARY

⑨ **KELUM SENANAYAKE**
DIRECTOR OPERATIONS

SENIOR MANAGEMENT TEAM PROFILES

GAVIN D' ROSAIRO
CHIEF FINANCIAL OFFICER / DIRECTOR FINANCE

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

He counts over 8 years experience in the insurance industry in the areas of investments, strategy, risk and finance and over 16 years experience as a fund manager managing both fixed income and equity investment portfolios. His academic and professional exposure encompasses economics, investments, capital markets and finance.

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

ALANZO DOLL
CHIEF TECHNOLOGY OFFICER / DIRECTOR INFORMATION TECHNOLOGY

Alan heads the IT function of the Company and is responsible for the development and implementation of IT strategy for AIA Sri Lanka. He counts over 24 years experience in the information technology industry in the areas of senior management, corporate strategy, big data analytics, solutions architecture and design. His work experience include working at some of the top 10 technology companies and leading ICT systems integrators.

He holds a master's in business administration from the Cardiff Metropolitan University, Bachelor of computer studies from the University of Sunderland and is a Professional Member of the British Computer Society (MBCS) where he serves as an executive committee member for the past 6 years.

THUSHARI PERERA
DIRECTOR HUMAN RESOURCES

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

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

She is a 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.

UPUL WIJESINGHE
DEPUTY CHIEF EXECUTIVE OFFICER / CHIEF AGENCY OFFICER

Upul heads the Agency Distribution function of the Company and functions as the Deputy Chief Executive Officer. He has held the positions of Specified Officer and Principal Officer of the Company.

His present forte also includes overseeing of the AIA Sri Lanka Academy, dedicated for development of sales and agency capability in the Company.

He holds a Bachelor of Science degree with honours from the University of Colombo and is an Associate of the Chartered Insurance Institute, UK. He holds a postgraduate diploma in actuarial science. He is an Alumni of the International Center for Management Development, Switzerland. He was the President, Sri Lanka Insurance Institute in 2002 and 2003. He counts over 28 years of leadership experience in insurance.

PANKAJ BANERJEE
CHIEF EXECUTIVE OFFICER

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

His most recent role prior to taking over the role of CEO in AIA Sri Lanka, was the Chief Executive Officer of Prudential (Cambodia) Life Assurance, where he successfully grew the Company from a start-up position in 2013 to a market leading position as it remains today. Prior to this, he was the Chief Officer – Partnership Distribution, Prudential Vietnam, where he played a crucial role in growing its Partnership Distribution four-fold within the space of two years. Pankaj's career to date spans over 16 years of experience in the Life insurance industry.

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

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

NIKHIL ADVANI
CHIEF MARKETING OFFICER

Nikhil leads the Marketing function of the Company and is responsible for the development and implementation of the marketing strategy for AIA Sri Lanka and oversees the Product Management, Brand and Communications, Channel and Digital Marketing. Nikhil also oversees the Corporate Solutions team in addition to his role as Chief Marketing Officer. He has been with the AIA Group for 6 years and prior to this has held senior level positions in insurance companies in Asia and the US.

He has over 22 years of work experience in financial services and holds a master's degree in business administration from Columbia Business School, New York.

AMAL PERERA
DIRECTOR PARTNERSHIPS

Amal heads the Bancassurance and Partnership Distribution function of the Company and was responsible for Bancassurance sales and operations for the last 5 years.

Prior to taking over the role of Director Partnerships, he was the General Manager Marketing and Customer Management of the Company. Amal was a key stakeholder in Company's brand migrations, development and management of flagship products and corporate social responsibility strategies.

He joined the Company in 1996, as a management trainee and counts over 22 years of management experience in the company, heading the functions of Product Management, Corporate Planning and Strategy, Marketing and Bancassurance.

He holds a master's degree in business administration from the Postgraduate Institute of Management (PIM) of the University of Sri Jayewardenepura. He is a Chartered Marketer and a Member of the Chartered Institute of Marketing, UK. He was a Board Member of the Chartered Institute of Marketing (CIM) Sri Lanka Region and held the positions of Head of Communications and Regional Secretary.

CHATHURI MUNAWEERA
DIRECTOR & CHIEF OFFICER – LEGAL, GOVERNANCE CORPORATE & EXTERNAL RELATIONS / COMPANY SECRETARY

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

She is a member of The Chartered Institute of Personnel Management, UK and also holds a postgraduate certificate in human resource management from the University of Sri Jayewardenepura. She is an Attorney at Law and holds a Bachelor of Laws and a Master of Laws from the University of Colombo. She has successfully completed the international diploma in compliance of the International Compliance Association, UK. Chathuri is a committee member of the Training Council at the International Chamber of Commerce in Sri Lanka and was the Chairperson of the HR Sub Committee of the Insurance Association of Sri Lanka for the years 2011 /2012.

She counts over 21 years of leadership experience in the fields of corporate law, litigation, compliance, company secretarial practice, customer service and business operations and was previously the Director Human Resources of the Company.

KELUM SENANAYAKE
DIRECTOR OPERATIONS

Kelum is responsible for the overall Life Operations function and branch support. He joined AIA Sri Lanka in 2009 and has over 35 years experience in both Life and General insurance. Prior to joining AIA, he worked in Union Assurance and was the Assistant General Manger – Life Operations at the time he left the company.

Kelum holds a diploma in business management from World View Institute and a master's degree in business administration from the University of Western Sydney. He has been trained both locally and internationally on various aspects of Life insurance. He is a senior and experienced insurance professional who contributed immensely to the industry to develop many young insurance professionals.

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

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

The Board of Directors (the Directors / the Board) of AIA Insurance Lanka PLC (the Company) has pleasure in presenting their Annual Report on the affairs of the Company during the financial year ended 31 December 2017, together with the audited financial statements for the year ended 31 December 2017 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 83 to 136 of the Annual Report.

VISION

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

PRINCIPAL ACTIVITIES OF THE COMPANY AND OF ITS SUBSIDIARY

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

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

CORPORATE ADDRESS CHANGE

The Company, its subsidiary and the parent Company changed their registered corporate address from No. 75, Kumaran Ratnam Road, Colombo 2 to AIA Tower, 92, Dharmapala Mawatha, Colombo 7, in May 2017 with the shifting of the corporate head office to this new address. The registered address change was duly notified to relevant regulators, customers and the general public as required.

REVIEW OF PERFORMANCE AND FUTURE DEVELOPMENTS

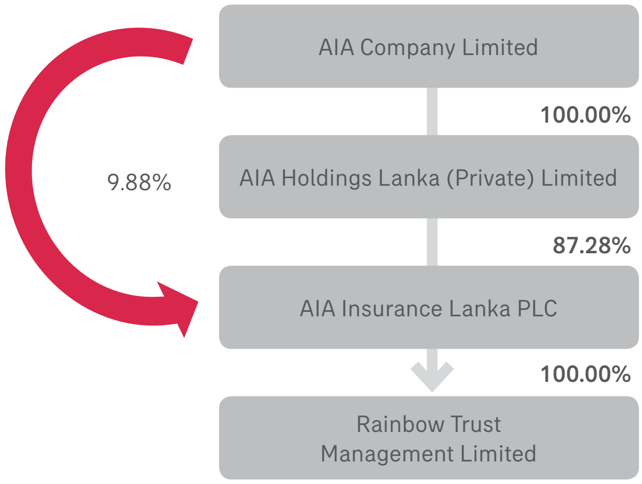
An overview of the Company's and of the Group's financial and operational performance for the year ended 31 December 2017 and of future developments is contained in the Chairman's Message and the Chief Executive Officer's Review with a detailed review being provided in the Management Discussion and Analysis segment on pages 14 to 29 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 2017.

SHAREHOLDING STRUCTURE

As at 1 January 2017, AIA Company Limited (AIA) based in Hong Kong, effectively held (directly and indirectly together with AIA Holdings Lanka (Private) Limited) 97.16 per cent of the issued and fully paid up shares of the Company. The said shareholding remained unchanged as at 31 December 2017.

The public holding of the Company is 2.84 per cent. This is distributed among the minority shareholders of the Company as at 31 December 2017 and remained unchanged during the year under review.

The Company's shareholding structure as at 31 December 2017 is as follows:



STATED CAPITAL & RESERVES

The Company's stated capital as at 31 December 2017, was LKR 511,921,836 (Sri Lankan rupees five hundred eleven million nine hundred twenty one thousand eight hundred and thirty six only) represented by 30,749,370 (thirty million seven hundred forty nine thousand three hundred and seventy) ordinary shares.

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

The total capital and reserves for the Group was at LKR 11,284 million as at 31 December 2017 (LKR 5,366 million as at 31 December 2016), details of which are provided in Notes 23 to 25 of the financial statements.

SHAREHOLDING

The Company had 1,857 registered shareholders, as at 31 December 2017. The distribution of shareholding, the public holding percentage and the details of the 20 largest shareholders, are given on pages 142 to 143 of the Annual Report.

SHARE INFORMATION

Information relating to share valuation and share performance is given on page 144 of the Annual Report.

INTERIM FINANCIAL RESULTS

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

FINANCIAL STATEMENTS CONTAINED IN THE ANNUAL REPORT

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

The financial statements, duly signed by the Directors are published on pages 84 to 136 and the External Auditors Report thereon is provided on page 83 of the Annual Report.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2017 and the state of Group's affairs as at that date are set out in the financial statements on pages 84 to 136 of the Annual Report.

REVENUE

The revenue of LKR 17,221 million (LKR 15,079 million as at 31 December 2016) comprises income generated from the life insurance business and trustee services.

ACCOUNTING POLICIES

The significant accounting policies applied by the Group in preparing its consolidated financial statements are disclosed in pages 91 to 105 of this Annual Report. These policies have been consistently applied, except for the changes in accounting policies as disclosed in note 3.1.C to the audited financial statements.

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 76 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 747 million.

During the financial year the capital expenditure on property, plant and equipment for the Company and the Group amounted to LKR 575 million.

The details of the Company's property, plant and equipment and the movement in their values during the year are given in note 7 of the financial statements on pages 114 and 115 of the Annual Report.

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

The market values of the Company's property, plant and equipment are not materially different to the book values as given in the notes to the financial statements on page 114 of the Annual Report.

The Company owns 13.40 perches of freehold land at No.76, Kew Road, Colombo 2 and 12.08 perches of freehold land at No. 80, Kew Road, Colombo 2. These properties were subject to valuations during the year 2007, 2012 and 2017 as per the accounting policy, for revaluing the land once in every five years and the Group had accounted for revaluation surpluses of LKR 39.9 million, LKR 32.2 million and LKR 80.1 million respectively in each year, totalling to a revaluation reserve of LKR 152.2 million as at the Balance Sheet date.

The details of the extents, locations, valuations of the Company's land holdings are given in note 7.1 of the financial statements on page 114 of the Annual Report.

INVESTMENTS

A detailed description of the investments held as at the date of the Statement of Financial Position is given in note 9 of the financial statements on pages 115 to 118.

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 5.5 million utilised as charitable donations for the year 2017. This amount is within 1 per cent of the average profits after tax for the preceding three years.

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

PROVISIONS

The Board of Directors has arranged for the Chief Actuary to review the Life fund valuations. (Please refer pages 100 and 103 for the policies adopted for provisioning and the basis thereof).

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

RESERVES

The total reserves of the Group as at 31 December 2017, amounted to LKR 10,772 million consisting of the Resilience Reserve, Available for Sale Reserve, and Retained Earnings, all being revenue reserves and a Revaluation Reserve being a capital reserve. Movements in these reserves are given in the Group Statement of Changes in Equity set out on pages 87 and 88 of the Annual Report.

THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

PROVISION FOR TAXATION

Provisions for Taxation for the Company and its subsidiary have been computed at the rates given in notes 21 and 36 of the financial statements and are set out on pages 126 and 132 of the Annual Report.

OUTSTANDING LITIGATION

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

EMPLOYEES

In 2017, the Company entered the Hall of Fame of Great Place to Work® for winning for 05 consecutive years since 2013, the accolade of being one of the best Companies to work for in Sri Lanka. AIA employees were the proud recipients of Vitality initiatives rolled out by the Company focused on ensuring the wellness and well-being of our people.

The details of the unique people practices that enabled the success of the business performance is described in the Management Discussion and Analysis in pages 14 to 29 in the Annual Report.

EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors approved the distribution of a first and final dividend of LKR 91.00 per share for 2017 as authorised by the Articles of Association of the Company, to be paid out of the retained profits of the Company.

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

CORPORATE GOVERNANCE AND INTERNAL CONTROLS

The Board of Directors of the Company acknowledges the responsibility of conducting the business activities of the Company in conformity with accepted good governance practices. Having reviewed the effectiveness of the internal control systems, the Board of Directors is of the considered view that the Company has taken necessary precautions to safeguard the interests of its stakeholders.

STATUTORY PAYMENTS

The Board of Directors confirms that to the best of their knowledge and belief, due payments to all relevant regulatory and statutory authorities, have been paid or provided for by the Company where necessary. A Statement of Compliance by the Board of Directors in relation to statutory payments is included in the Directors' Statement of Responsibilities on Financial Reporting, on page 82 of the Annual Report.

INTERESTS REGISTER

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

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

Directors' and Chief Executive Officer's interests in transactions of the Company, both direct and indirect, during the year under review are included in note 40 in the related party disclosures to the financial statements, set out on pages 135 to 136 of the Annual Report. These interests have been duly disclosed in compliance with the section 192(2) of the Companies Act No. 7 of 2007 and further declared at Board meetings and captured herein as appropriate.

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

I. Disclosures in respect of shares held during the year ended 31 December 2017:

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

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

Neither the Directors nor the Chief Executive Officer of the Company as at 31 December 2017 have acquired shares of the Company during the year under review.

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

Neither the Directors nor the Chief Executive Officer of the Company as at 31 December 2017 have disposed shares in the Company during the year under review.

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

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

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

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

The remuneration and fees of the 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 Non-Executive independent Directors are made in accordance with the specified scales of payments as determined by the Remuneration Committee and approved by the Board from time to time.

Details of the Directors' fees and emoluments paid during the financial year 2017, which have been duly approved by the Board of Directors, are stated below.

	Consolidated Fees	
	2017	2016
	LKR'000	LKR'000
Directors' emoluments*	162,232	168,479
Directors' fees	8,400	5,950

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

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

Details of the advance made on behalf of the Directors/Chief Executive Officer (CEO) during the financial year 2017, as duly approved by the Board of Directors, are stated below.

	2017	2016
	LKR'000	LKR'000
Advance granted to the CEO*	10,850	10,890
Outstanding balance as at 31 December	10,850	10,890
Consideration recognised in the Financial Statements **	1,116	-

* forms part of the compensation and benefit structure.

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

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

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

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

Directorate during the year under consideration and changes thereto.

The Directors who hold office as at date are indicated in pages 32 to 35.

Name of Director	Date of Appointment	Date of Resignation/ Date of ceasing to be a Director
Deepal Sooriyaarachchi	17-May-2005	-
Manoj Ramachandran	4-Dec-2012	-
Mitchell David New	28-Jun-2013	3-Aug-2017
William Lisle*	22-Jun-2015	-
Robert Alexander Hartnett	29-Sep-2015	-
Drayton Sarath Palitha Wikramanayake	1-Aug-2016	-
Stuart Anthony Spencer	3-Aug-2017	-

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

Disclosures in relation to Non-Executive Directors and their status of independence is described in pages 53 to 54.

In accordance with Article 30 of the Articles of Association of the Company, Messrs. Robert Alexander Hartnett and Manoj Ramachandran shall retire by rotation at the Annual General Meeting and being eligible, are recommended by the Board for re-election. Details of said Directors are provided on page 34.

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.

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Director	Directors' Meetings		Audit & Compliance Committee Meetings		Investment Committee Meetings		Remuneration Committee Meetings		Related Party Transactions Review Committee	
	A	B	A	B	A	B	A	B	A	B
Pankaj Banerjee*	-	-	-	-	4	4	-	-	-	-
Deepal Sooriyaarachchi	3	3	4	4	-	-	2	2	4	4
Manoj Ramachandran	2	3	-	-	-	-	-	-	-	-
Mitchell David New	1	1	-	-	-	-	2	2	-	-
William Lisle	3	3	-	-	-	-	-	-	-	-
Robert Alexander Hartnett	3	3	3	4	-	-	-	-	3	4
Drayton Sarath Palitha Wikramanayake	3	3	4	4	-	-	1	1	4	4
Stuart Anthony Spencer	2	2	-	-	-	-	-	-	-	-
Gavin D' Rosairo*	-	-	-	-	4	4	-	-	-	-
Benjamin Deng*	-	-	-	-	4	4	-	-	-	-
Frank Munro*	-	-	-	-	2	2	-	-	-	-
Hasitha Mapalagama*	-	-	-	-	2	2	-	-	-	-

A = Number of meetings attended

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

* not members of the Board

RELATED PARTY TRANSACTIONS

There were no related party transactions which exceeded the 10 per cent of equity or 5 per cent of the total assets of the Company as at 31 December 2017 to be disclosed herein or to the CSE. Appropriate disclosures have been made in terms of the Sri Lanka Accounting Standards LKAS 24 - Related Party Disclosures, in Note 40 in the financial statements.

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

It is certified that the company has complied with the Transfer Pricing Regulations issued under Section 104 of the Inland Revenue Act, No. 10 of 2006. The information relating to these Regulations is given in approved accountant's certificate produced under Section 107(2) (a) of the Inland Revenue Act. We believe that the record of transactions entered into with associated undertakings during the period from 1 January 2017 to 31 December 2017 are at arm's length, not prejudicial to the interests of the company and not carried out for profit shifting purposes.

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

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

The Company sought and received an exemption from the SEC initially until 31 December 2016 and thereafter an extension for the said exemption until 31 December 2017, from having to comply with the Listing Rules of the CSE relating to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. This was on the basis of a then proposed statutory exemption to the Regulation of the Insurance Industry Act No. 43 of 2000, as amended (the Insurance Act) which exemption was made law by the Parliament in October 2017.

The said extension granted by the SEC expired on 31 December 2017. The Company, as allowed by the Listing Rules of the CSE has since complied with the requirement of monthly disclosure of its status of non-compliance in relation to the maintenance of a minimum public holding by listed companies as a continuous listing requirement.

RISK-BASED CAPITAL REQUIREMENT (RBC)

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

GOING CONCERN

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

ENVIRONMENTAL PROTECTION

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

EQUITABLE TREATMENT TO STAKEHOLDERS

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

RE-APPOINTMENT OF EXTERNAL AUDITORS

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

EXTERNAL AUDITORS' REMUNERATION

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

	Group	
	2017	2016
	LKR'000	LKR'000
Audit and related services	4,157	4,136
Non-Audit services	1,413	1,198

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

ANNUAL REPORT

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

The Board of Directors has approved the financial statements of the Company and the Group together with the reviews and other reports which form part of the Annual Report as signed off by the External Auditors on 14 February 2018. An appropriate number of copies of the Annual Report will be submitted to the Colombo Stock Exchange, the Insurance Regulatory Commission of Sri Lanka, the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Registrar General of Companies, within applicable time frames.

In terms of the applicable provisions of the Listing Rules of Colombo Stock Exchange, the Board of Directors has duly resolved to issue the Annual Report of the Company in CD ROM format to all shareholders. Printed copies will only be dispatched to those shareholders who make a request for a printed copy.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on Tuesday, 27 March 2018 at 10.00 a.m. at Kings Court, Cinnamon Lakeside Hotel, No. 115, Sir Chittampalam A Gardiner Mawatha, Colombo 02.

The Notice of the Annual General Meeting, setting out the business which will be transacted thereat appears on page 154 of the Annual Report.

By order of the Board

William Lisle
Chairman/Director

Robert Alexander Hartnett
Director

Chathuri Munaweera
Company Secretary

Colombo
14 February 2018

CORPORATE GOVERNANCE

This report explains the status of compliance of the Company with the applicable laws and regulations laid down by regulators and the Company's internal governance structures.

Corporate governance involves a set of relationships amongst the company's management, its board of directors, shareholders, auditors and other stakeholders.

These relationships, which involve various rules and procedures, provide the structure through which the objectives of the company are set, and the means of attaining these objectives as well as monitoring of performance is determined. The key aspects of good corporate governance include transparency of corporate structures and operations; the accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders.

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

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

STATEMENT OF COMPLIANCE

AIA Insurance Lanka PLC firmly believes in an ethically driven business process that is committed to values aimed at enhancing the Company's wealth generating capacity. This is ensured by taking ethical business decisions and conducting business with a firm commitment to values, while meeting stakeholders expectations. For AIA Insurance Lanka PLC, it is imperative that the Company affairs are managed in a fair and transparent manner. This is vital to gain and retain the trust of the stakeholders. As such the corporate governance report of the Company provides information beyond the minimum requirements as specified by applicable legal and regulatory provisions.

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

The Company has established its risk and compliance functions based on AIA Group standards that have contributed towards the advancement of corporate governance and transparency of the Company's activities. Further information on such functions is provided in page 65 of this report.

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

AIA INSURANCE LANKA PLC

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

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

- The Companies Act No. 7 of 2007 (as amended)
- Regulation of Insurance Industry Act No. 43 of 2000 (as amended)
- Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987
- Inland Revenue Act No. 10 of 2006 (as amended)
- Shop and Office Employees Act No. 15 of 1954
- Employees' Provident Fund Act No. 15 of 1958 (as amended)
- Employees' Trust Fund Act No. 46 of 1980 (as amended)
- Payment of Gratuity Act No. 12 of 1980 (as amended)
- Financial Transactions Reporting Act No. 6 of 2005 (as amended)
- Prevention of Money Laundering Act No. 5 of 2006
- Foreign Exchange Act No. 12 of 2017
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Various other laws that govern the tax regime for companies in Sri Lanka

IT IS ALSO REQUIRED THAT THE COMPANY AND ITS SUBSIDIARY COMPLY WITH THE FOLLOWING RULES, REGULATIONS, DIRECTIVES AND GUIDELINES.

- Circulars issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL)
- Directives 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

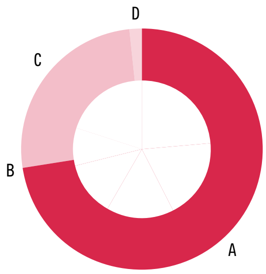
STATUS OF COMPLIANCE WITH SECTIONS 7 AND 9 OF LISTING RULES OF THE COLOMBO STOCK EXCHANGE

AT A GLANCE

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

Complied Not Complied Not Applicable Exempted

7.1	a	b	c	d	e	f	g													
7.2	7.2																			
7.3	7.3																			
7.4	a	b	c																	
7.5	a	b	c	d	e															
7.6	i	ii	iii	iv	v	vi	vii	viii	ix	x	xi	xii	xiii	xiv	xv					
7.7	7.7																			
7.8	7.8																			
7.9	7.9																			
7.10	a	b	c	1.a	1.b	1.c	2.a	2.b	3.a	3.b	3.c	3.d	4	5.a	5.b	5.c	6.a	6.b	6.c	7
7.11	1	2	3																	
7.12	a	b																		
7.13	7.1.3																			
9.2.1	9.2.1																			
9.2.2	9.2.2																			
9.3.2	a	b	c																	



No. of Requirements		66
A	Complied	48
B	Not Complied	0
C	Not Applicable	17
D	Exempted	1

By the Directive dated 13 October 2017 issued by the SEC the Listing Rules have been revised with a view to adopt a more stringent policy of enforcement and it was required to give effect to the enforcement procedures contained therein effective 1 January 2018. A detailed commentary on the status of compliance with specific requirements under Sections 7 and 9 of the revised Listing Rules of the Colombo Stock Exchange during the year 2017, is given below.

Requirement		Status of Compliance	Comment
7.1	**Dividend Payment Announcement to the Exchange**		
7.1.a	The Entity shall, immediately upon authorising a dividend distribution, make an announcement to the Exchange with specified information.	Complied	Following announcements (with required information) were made in respect to the dividends paid during the year: Interim Dividend announcement for the year ended 2016 was made on 19 January 2017 Final Dividend announcement for the year ended 2016 was made on 21 February 2017
7.1.b	Unless the Entity's Articles of Association provides otherwise, upon the Board of Directors' authorising a dividend distribution, the shareholders must approve such distribution by an ordinary resolution.	Complied	The Board of Directors approved the distribution of an Interim Dividend for 2016 of LKR 48.00 per share on 19 January 2017 as authorised by the Articles of Association of the Company, to be paid out of the retained profits of the Company. Shareholder approval for the final dividend distribution for the year 2016 was obtained by way of an ordinary resolution at the Annual General Meeting held on 27 March 2017 although not mandatorily required by the Articles of Association of the Company.

CORPORATE GOVERNANCE

Requirement		Status of Compliance	Comment
7.1.c	Date of dispatch of dividend payment when the approval of the Shareholders is required; the date of dispatch of the dividend payment shall be within seven (7) market days from and excluding the date on which the related resolution is passed by the shareholders at a meeting. The Entity shall promptly notify the Exchange of the date of dispatch of the dividend payment.	Complied	The final dividend payment for the year 2016 was made on 31 March 2017 which was within the specified time period and the CSE was notified of the said date of dispatch on 22 March 2017.
7.1.d	Date of dispatch of dividend payment when the approval of the shareholders is not required; the date of dispatch of the dividend payment shall be within seven (7) market days from the 'XD' date.	Not Applicable	An interim dividend for the year ended 31 December 2016 was declared on 19 January 2017 with the approval of the Board as per the Articles of Association of the Company and the date of dispatch was 8 February 2017 which was scheduled within seven (7) market days from the 'XD' date.
7.1.e	Once a dividend distribution has been announced an entity shall not alter the dividend per share without consulting the Exchange.	Not Applicable	This requirement was not applicable to the Company.
7.1.f	Solvency Certificate The Entity shall forward to the Exchange a certified copy of the certificate of solvency issued by a firm of auditors as soon as the same is issued and in any event prior to dispatching the dividend payment.	Complied	The Company forwarded to the CSE a certified copy of the Solvency Certificate issued by the External Auditors of the Company on 26 January 2017 in respect to the interim dividend payment for the year ended 31 December 2016. The Company forwarded to the CSE a certified copy of the Solvency Certificate issued by the External Auditors of the Company on 06 March 2017 in respect to the final dividend payment for the year ended 31 December 2016.
7.1.g	Dividend distribution by way of a scrip dividend.	Not Applicable	This requirement was not applicable for the Company as there was no scrip dividend declared for the year 2017.
7.2	**RESOLUTIONS**		
	The Exchange must be notified at the same time as shareholders regarding any resolution to be voted on at any members' meeting. The Exchange shall be notified immediately after the meeting whether the resolution was passed or not.	Complied	The CSE was notified about the resolutions passed during the year as required.
7.3	**CIRCULARS TO SHAREHOLDERS**		
	Fifty (50) copies of circulars to shareholders should be sent to the Exchange at the same time as they are dispatched to the holders of Listed Securities.	Not Applicable	This requirement was not applicable to the Company.
7.4	**INTERIM FINANCIAL STATEMENTS**		
7.4.a	A listed entity shall give to the Exchange, an Interim Financial Statement prepared on a quarterly basis, as soon as the figures have been approved by the Board of Directors of the Entity and in any event not later than forty five (45) days from the end of the first, second and third quarters and two (2) months from the end of the fourth quarter.	Complied	The Company submitted the quarterly Financial Statements to the CSE in line with the requirements specified in terms of the formats and the number of copies within the specified time limits.

Requirement		Status of Compliance	Comment
7.4.b	A listed entity shall ensure that the Financial Statements fulfil the specified requirements.	Complied	The Quarterly Financial Statements of the Company complied with the specified requirements including but not limited to statements to the effect that such financial statements are not audited and carried signatures of two Directors.
7.4.c	In the event the listed entity fails to submit the Interim Financial Statements within the time period set out in Rule 7.4 (a) the securities of the listed entity shall be transferred to the Watch List on or before the expiry of five (05) Market Days from the expiry of said time period the listed entity is required to comply with the specified requirements.	Not Applicable	This requirement is not applicable as the Company submitted the Financial Statements to the CSE in line with the requirements specified in terms of the formats and the number of copies within the specified time limits as set out in 7.4.a.
7.5	**CIRCULATION OF ANNUAL REPORT**		
7.5.a	A listed entity shall ensure that the Annual Report is issued to the Entity's shareholders and given to the Exchange within a period not exceeding five (05) months from the close of the financial year of the listed entity. The Audited Financial Statements shall be published in accordance with the Sri Lanka Accounting Standards, audited in accordance with Sri Lanka Auditing Standards and shall comply with any other applicable regulatory requirements.	Complied	The financial year of the company closes on 31 December and the Annual Report for the year 2016 was issued to the shareholders within the stipulated time lines and required copies were submitted to the CSE. The Audited Financial Statements published in the Annual Report were prepared and audited in accordance with the Sri Lanka Accounting Standards and also in compliance with any other applicable regulatory requirements.
7.5.b	A listed entity may issue its Annual Report in a CD-ROM to its shareholders provided that the Entity complies with the specified requirements.	Complied	The Annual Report for the year 2016 was issued in a CD-ROM. The Company has complied with the specified requirements applicable for such issuance as follows. Provided printed copies to shareholders upon written requests. A designated person was made available to attend to requests for printed copies of the Annual Report. Printed copies of the Annual Report were forwarded to shareholders who have requested for same within eight market days from the date of receipt of such request. A note with required statements/information was sent to the shareholders along with the CD-ROM.
7.5.c (i)	In the event the independent auditor's report in the Audited Financial Statements of a listed entity submitted to the Exchange contains a Modified Audit Opinion, it shall be the duty of such Entity to resolve the matters giving rise to the Modified Audit Opinion and have such matters independently verified by an auditor that such matters have been resolved within the time period provided for in the Rules and to comply with the specified requirements.	Not Applicable	This requirement is not applicable as the independent auditor's report in the Audited Financial Statements of the Company did not contain a Modified Audit Opinion.

CORPORATE GOVERNANCE

Requirement		Status of Compliance	Comment
7.5.c (ii)	In the event the independent auditor's report in the Audited Financial Statements of a listed entity submitted to the Exchange contains an emphasis of matter on going concern, it shall be the duty of such Entity to resolve such matters within the time period provided for in the Rules and to comply with the specified requirements.	Not Applicable	This requirement is not applicable as the independent auditor's report in the Audited Financial Statements of the Company did not contain an emphasis of matter on going concern.
7.5.d	In the event the listed entity fails to submit the Annual Report within the time period set out in Rule 7.5 (a) the securities of the listed entity shall be transferred to the Watch List on or before the expiry of five (05) Market Days from the expiry of said time period and the listed entity is required to comply with the specified requirements.	Not Applicable	This requirement is not applicable as the Company submitted the Annual Report in line with the requirements specified in terms of the formats and the number of copies, within the specified time limits set out in 7.5.a.
7.5.e	If an entity prior to circulating the Annual Report, files copies of financial statements with the Registrar General of Companies in compliance with Section 170 (1) of the Companies Act, the Entity shall also simultaneously submit such financial statements to the Exchange. The Entity shall give to the Exchange thirty five (35) copies of the Annual Report in printed form and one (1) copy in a CD-ROM.	Complied	The Company submitted the required number of copies of the Annual Report of year 2016 to the CSE in the required formats. The Company submitted its financial statements to the Registrar General of Companies and the CSE, as required.
7.6	**CONTENTS OF ANNUAL REPORT**		
	A listed entity must include in its Annual Report and Accounts, inter alia;		
	i Names of persons who during the financial year were directors of the Entity.	Complied	This information is provided on page 43 of this report.
	ii Principal activities of the Entity and its subsidiaries during the year and any changes therein.	Complied	The principal activity of the Company during the year has been to engage in Life insurance business as per the licence issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL). Further details of the activities of the Company are highlighted in the CEO's review and Management Discussion and Analysis on page 10 to 29 of this report.
	iii The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	Complied	This information is provided on page 143 of this report.
	iv The public holding percentage.	Complied	This information is provided on page 142 of this report.
	v A statement of each director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year.	Complied	This information is provided on pages 42 and 43 of this report.
	vi Information pertaining to material foreseeable risk factors of the Entity.	Complied	This information is captured in Risk Management Review on page 66 of this report.

Requirement		Status of Compliance	Comment
vii	Details of material issues pertaining to employees and industrial relations of the Entity.	Complied	The Company did not have any material issues pertaining to employees and industrial relations during the year under review. Information on HR practices of the Company is provided on page 25 of this report.
viii	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	Complied	This information is provided on page 114 of this report.
ix	Number of shares representing the Entity's stated capital.	Complied	This information is provided on page 126 of this report.
x	A distribution schedule of the number of holders in each class of equity instruments, and the percentage of their total holdings in specified categories.	Complied	This information is provided on page 126 of this report.
xi	Specified ratios and market price information.	Complied	Following information is provided on pages 141 to 144 of this report. 1. Dividend per share 2. Dividend pay out 3. Net asset value per share 4. Market value per share - highest and lowest values recorded during the financial year - value as at the end of financial year
xii	Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Complied	There were no significant changes in the Company's fixed assets as at 31 December 2017. Further information on this is provided on page 114 of this report.
xiii	Specified information, in the event during the year the Entity has raised funds either through a public issue, Rights Issue, and private placement.	Not Applicable	This requirement is not applicable as the Company did not raise funds during the year from any of the specified methods.
xiv	a. Employee Share Option Schemes.	Not Applicable	The Company did not operate any Employee Share Option Schemes in relation to shares of the Company.
	b. Employee Share Purchase Schemes	Not Applicable	The Company did not operate any Employee Share Purchase Schemes in relation to shares of the Company.
xv	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules.	Complied	These disclosures are provided on pages 54 to 56 of this report.

CORPORATE GOVERNANCE

Requirement		Status of Compliance	Comment
7.7	**SECURITIES CERTIFICATES**		
	Listed entities shall issue Definitive Certificates in respect of Securities which are listed in the Exchange.	Complied	The Company actively encourages the dematerialisation of shares in line with the guidelines of the Securities & Exchange Commission of Sri Lanka.
7.8	**DISCLOSURES OF DEALINGS BY DIRECTORS**		
	A listed entity shall make an immediate announcement to the Exchange of disclosures made by a director in terms of Section 200 of the Companies Act, of any acquisition or disposal of a relevant interest in shares issued by the Entity.	Complied	The Company has procedures in place to make these immediate disclosures. However, no such disclosures were made during the year under review as none of the Directors disclosed any dealings of shares of the Company.
7.9	**LOSS OF CERTIFICATES**		
	The entities shall inform the CDS as and when a report is lodged with the Entity on any loss of certificates or when the Entity discovers a forgery in a certificate of the Entity.	Complied	The Company has procedures in place to make these notifications as and when required.
7.10	**CORPORATE GOVERNANCE**		
Compliance			
7.10.a	A listed entity shall publish in the Annual Report relating to the financial year commencing on or after 1 April 2007 a statement confirming that as at the date of the Annual Report they are in compliance with the Corporate Governance Rules and if they are unable to confirm compliance, set out the reasons for its inability to comply.	Complied	The Company is compliant with the Corporate Governance Rules of the Listing Rules, subject to necessary explanations provided under 57 hereof. The statement of compliance is published on page 46 of this report.
7.10.b	A listed entity shall comply with these Corporate Governance Rules with effect from the financial year commencing on or after 1 April 2008 and the Annual Report must contain the relevant affirmative statements.	Complied	The Company is compliant with the Corporate Governance Rules and respective affirmative statements and the statement of compliance is provided on page 56 of this report.

Requirement		Status of Compliance	Comment
7.10.c	Where a listed entity is required by any law applicable to such listed entity to comply with rules on Corporate Governance promulgated under such law, the Board of Directors of the Exchange may exempt such listed entity from the requirement to comply with these Corporate Governance Rules either in full or in part. Such listed entity shall make disclosures of compliance with Corporate Governance Rules applicable to that sector and the Annual Report must contain the relevant affirmative statements.	Complied	The Company sought and received an exemption from the SEC initially until 31 December 2016 and thereafter an extension for the said exemption until 31 December 2017, from having to comply with the Listing Rules of the CSE relating to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. This was on the basis of a then proposed statutory exemption to the Regulation of the Insurance Industry Act No. 43 of 2000, as amended (the Insurance Act) which exemption was made law by the Parliament in October 2017. The said extension granted by the SEC expired on 31 December 2017. The Company, as allowed by the Listing Rules of the CSE has since complied with the requirement of monthly disclosure of its status of non-compliance in relation to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. Except for the above, the Company has neither requested nor did the SEC/CSE grant any exemptions to the Company, in respect of the Corporate Governance Rules, either in full or in part. Further an amendment to the Regulation of Insurance Industry Act No. 43 of 2000 (as amended by the amendment dated 23 of 2017) was passed by the Parliament unanimously and became law on the 19 October 2017 and thereby exempting a local insurance company from being listed on the CSE subject to said insurance Company satisfies requirements as stipulated therein. The details of the said amendment are provided in page 17 of this report.
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.	Complied	There are six members on the Board of Directors all of whom are Non-executive Directors.
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.	Complied	As at the last Annual General Meeting held on 27 March 2017, there were six members on the Board of Directors. Therefore, the requirement under rule 7.10.1.a is fully complied with.
7.10.1.c	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	Complied	No change was reported to the ratio during the year under consideration.
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".	Complied	There are six members on the Board of Directors and two are classified as Independent Non-executive Directors. Details of Independent, Non-executive Directors are given on pages 32 to 35 of this report.
7.10.2.b	The Board shall require each Non-executive Director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	Complied	The Board has obtained, signed and dated declarations from each Non-executive Director on their independence or non-independence against the said criteria upon their appointment to the Board and also on an annual basis in terms of declaration specified in Appendix 7A of the CSE Listing Rules.

CORPORATE GOVERNANCE

Requirement		Status of Compliance	Comment
7.10.3	**DISCLOSURES RELATING TO DIRECTORS**		
7.10.3.a	The Board shall make a determination annually as to the independence or non-independence of each Non-executive Director based on such declaration and other information available to the Board and shall set out in the Annual Report the names of directors determined to be 'independent'.	Complied	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 2010. In terms of Listing Rule 7.10.4.e., Mr. Sooriyaarachchi declared, during the year under review, that he has served the Board continuously for a period exceeding ten years, notwithstanding that his directorship was subject to retirement by rotation and re-appointment by the shareholders of the Company at respective general meetings. The Board taking this disclosure and his re-appointment at the last Annual General Meeting held on 27 March 2017, and on the authority permitted under Rule 7.10.3 b. of the CSE Listing Rules, forms its opinion that Mr. Sooriyaarachchi is nevertheless independent. The Board bases this opinion taking into account all the applicable circumstances as specified in disclosures made as per 7.10.3.a. below.
7.10.3.b	In the event a director does not qualify as 'independent' against any of the criteria set out below but if the Board, taking account all the circumstances, is of the opinion that the director is nevertheless 'independent', the Board shall specify the criteria not met and the basis for its determination in the Annual Report.	Complied	The Board as per Rule 7.10.3 b. of the CSE Listing Rules takes the considerations herein mentioned, in declaring Mr. Sooriyaarachchi as a non-executive independent Director on the Board of the Company notwithstanding that Mr. Sooriyaarachchi, does not satisfy the "independence" criteria set out in Listing Rule 7.10.4 e. due to his tenure on the Board which now exceeds 10 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. Hence based on the above considered view it is the due opinion of the Board that Mr. Sooriyaarachchi is not precluded in any circumstance or manner, in acting in the capacity of an independent director in spite of the disqualification stated in Listing Rule 7.10.4.e.
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.	Complied	A brief resume of each Director is given on pages 34 to 35 of this report.
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.	Complied	The Company has complied with this requirement in view of the appointments of Directors throughout, along with such information as specified under CSE Rules 7.10.3 (a), (b) and (c).

Requirement		Status of Compliance	Comment
7.10.4	CRITERIA FOR DEFINING 'INDEPENDENCE'	Complied	Please refer narrations in 7.10.3.a & b respectively.
7.10.5	REMUNERATION COMMITTEE		
7.10.5.a	COMPOSITION The remuneration committee shall comprise of a minimum of two independent Non-executive Directors (in instances where an entity has only two directors on its Board); or of Non-executive Directors a majority of whom shall be independent, whichever shall be higher. One Non-executive Director shall be appointed as Chairman of the Committee by the Board of Directors.	Complied	The Remuneration Committee consists of three Non-executive Directors two of whom are independent Non-executive Directors. The Company has a separate Remuneration Committee. Mr. Mitchell David New resigned from the Remuneration Committee on 3 August 2017. Mr. William Lisle was appointed as a member of the Remuneration Committee in place of Mr. New effective 3 August 2017. Mr. William Lisle also functions as the Chairman of the Committee from 3 August 2017. Mr. William Lisle is a Non-executive Director of the Company.
7.10.5.b	FUNCTIONS The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and Chief Executive Officer of the listed entity and/or equivalent position thereof, to the Board of the listed entity which will make the final determination upon consideration of such recommendations.	Complied	The Remuneration Committee recommends to the Board the remuneration payable to the Chief Executive Officer based on the performance ratings obtained at the annual performance appraisal, and compensation market surveys (where available) and applicable to foreign and local Chief Executive Officers, the value of the role and talent requirements of the Company. The Board placing due consideration of such criteria makes the final decision.
7.10.5.c	DISCLOSURE IN THE ANNUAL REPORT The Annual Report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and Non-executive Directors.	Complied	Names of the Directors who are members of the Remuneration Committee are given on page 73 of this report. A statement of the remuneration policy is given under the Remuneration Committee Report on page 73 of this report. Disclosure of remuneration paid to Directors is given on page 43 of this report.
7.10.6	AUDIT COMMITTEE		
7.10.6.a	COMPOSITION The audit committee shall comprise of a minimum of two independent Non-executive Directors (in instances where a Entity has only two directors on its Board); or of Non-executive Directors a majority of whom shall be independent, whichever shall be higher. One Non-executive Director shall be appointed as Chairman of the committee by the Board of Directors. The Chief Executive Officer and the Chief Financial Officer of the listed entity shall attend audit committee meetings. The Chairman or one member of the committee should be a Member of a recognised professional accounting body.	Complied	The Audit Committee of the Company is named as Audit and Compliance Committee and consists of three Non-executive Directors two of whom are Independent Non-executive Directors. The Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Actuary and Head of Internal Audit and Company Secretary are considered as permanent invitees for the meetings of the Committee. The Committee fulfils the required qualifications and the qualifications of respective members of the Committee are given in page 71 of the report.

CORPORATE GOVERNANCE

Requirement		Status of Compliance	Comment
7.10.6.b	**FUNCTIONS** i. Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a listed entity, in accordance with Sri Lanka Accounting Standards. 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. 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. iv. Assessment of the independence and performance of the Entity'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.	Complied	The Terms of Reference of the Committee capture the required functions in addition to many other functions assigned by the Board. Accordingly, the Committee, i. Oversees the preparation, presentation and adequacy of disclosures in the financial statements of the Company in accordance with the Sri Lanka Accounting Standards. ii. Oversees the Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. iii. 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. Assesses the independence and performance of the Company's External Auditors. v. Makes recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors and to approve the remuneration and terms of engagement of the External Auditors. Further information about the Committee and its functions are given on page 71 of this report.
7.10.6.c	**DISCLOSURE IN THE ANNUAL REPORT** The names of the directors comprising the audit committee should be disclosed in the Annual Report. The committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the Annual Report. The 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.	Complied	The names of the Directors who are members of the Audit and Compliance Committee are given on page 71 of this report. The Committee determined the independence of the External Auditors and the basis of such determination is mentioned in the Audit and Compliance Committee Report on page 72 of this report. Audit and Compliance Committee Report is given on page 71 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 (01) Market Day from the date of the non-compliance and comply with the specified requirements.	Not Applicable	This requirement is not applicable as the Company was fully compliant with Rule 7.10.

Requirement		Status of Compliance	Comment
7.11 7.11.1 7.11.2 7.11.3	**RE-PURCHASE / REDEMPTIONS / MINORITY BUYOUTS**	Not Applicable	The Company did not take any actions relating to re-purchase of its own shares or redemptions of shares or minority buyouts. Therefore, this requirement was not applicable to the Company during the year under review.
7.12 7.12.a 7.12.b	**RATINGS / REVISIONS IN RATINGS ASSIGNED TO DEBT SECURITIES**	Not Applicable	The Company does not have any debt securities listed on a Stock Exchange; hence this requirement is not applicable to the Company during the year under review.
7.13	**MINIMUM PUBLIC HOLDING AS A CONTINUOUS LISTING REQUIREMENT**	Exempted from compliance till 31 December 2017	The Company sought and received an exemption from the SEC initially until 31 December 2016 and thereafter an extension for the said exemption until 31 December 2017, from having to comply with the Listing Rules of the CSE relating to the maintenance of a minimum public holding by listed companies as a continuous listing requirement. This was on the basis of a then proposed statutory exemption to the Regulation of the Insurance Industry Act No. 43 of 2000, as amended (the Insurance Act) which exemption was made law by the Parliament in October 2017. The said extension granted by the SEC expired on 31 December 2017. The Company, as allowed by the Listing Rules of the CSE has since complied with the requirement of monthly disclosure of its status of non-compliance in relation to the maintenance of a minimum public holding by listed companies as a continuous listing requirement.
9.	**RELATED PARTY TRANSACTIONS REVIEW COMMITTEE**		
9.2.1	**FUNCTIONS** The Related Party Transactions Review Committee shall review in advance all proposed Related party transactions. At each subsequent scheduled meeting of the Committee, the management shall update the Committee as to any proposed material changes in any previously reviewed Related Party Transactions and seek approval of the Committee for such proposed material changes prior to the completion of the transaction. In the event a related party transaction will be ongoing, the Related Party Transactions Review Committee shall review and assess ongoing relationship with the related party to determine whether they are in compliance with the committee's guidelines and that such transactions remain appropriate.	Complied	The Terms of Reference of the Committee capture the required functions in addition to many other functions assigned by the Board. Accordingly, the Committee, reviews in advance all proposed Related Party Transactions of the Company and its subsidiary that are submitted for the Committee except for such transactions which are specified as exempted under applicable regulations/statutes. The Committee reviews and approves as deemed fit, any proposed material changes in any previously reviewed Related Party Transactions, prior to completion of such transactions, which have been updated by the management of the Company provided that relevant facts and circumstances concerning the matter/s are provided along with same. The Committee also reviews and assesses the appropriateness of the ongoing transactions and their compliance with the guidelines established by the Committee.

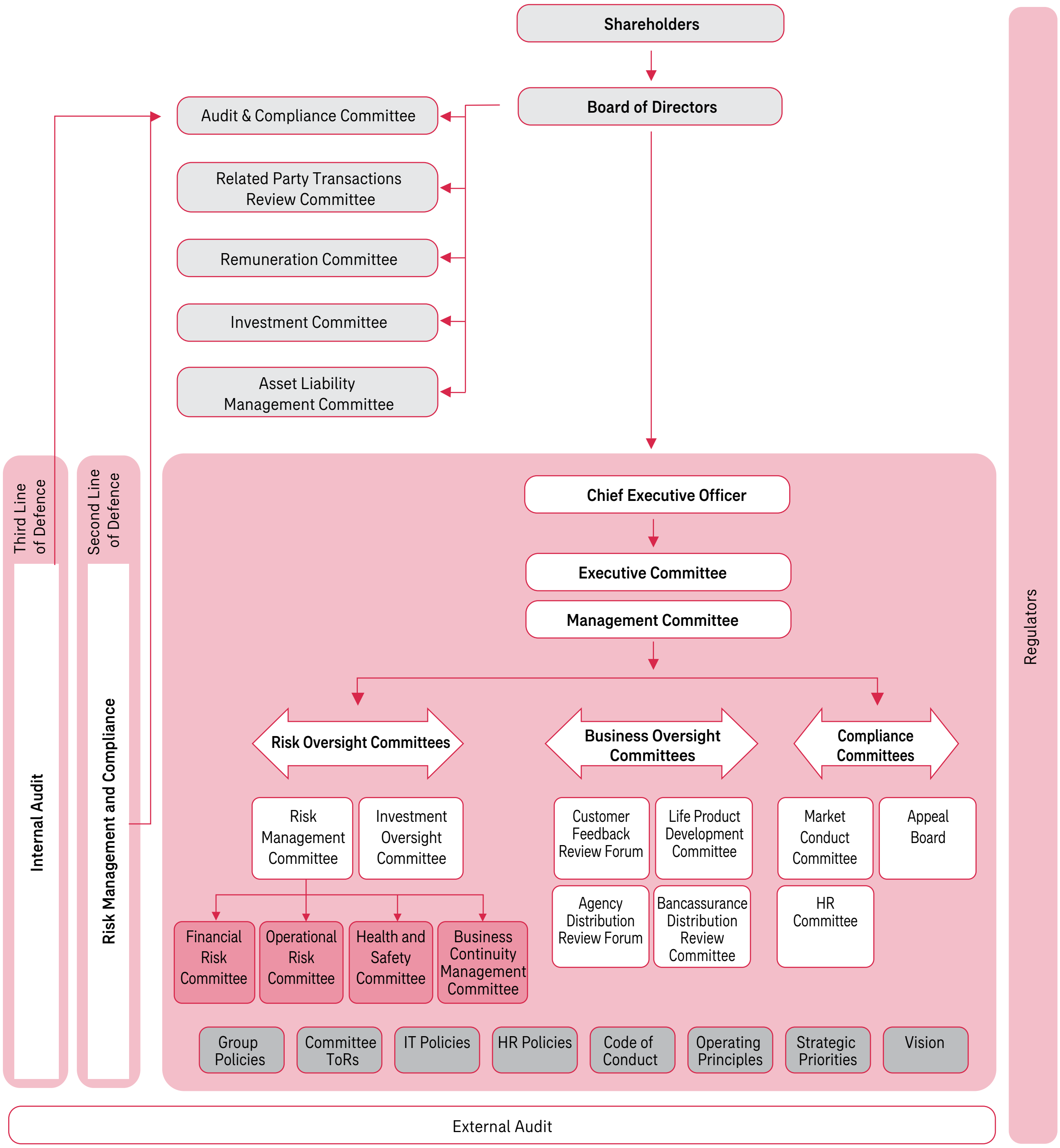
CORPORATE GOVERNANCE

Requirement		Status of Compliance	Comment
9.2.2	**COMPOSITION** The Committee should comprise a combination of Non-executive Directors and independent Non-executive Directors. The composition of the Committee may also include executive directors, at the option of the listed entity. One independent Non-executive Director shall be appointed as Chairman of the Committee.	Complied	The Related Party Transactions Review Committee consists of three Non-executive Directors two of whom are independent Non-executive Directors. Mr. Deepal Sooriyaarachchi functions as the Chairman of the Committee and he is an Independent Non-Executive Director of the Company. The Chief Executive Officer, Chief Financial Officer, Company Secretary, Chief Risk Officer and the Head of Internal Audit are considered as permanent invitees for the meeting of the Committee.
9.3.2	**DISCLOSURE IN ANNUAL REPORT** a) In the case of non-recurrent Related party transactions, if aggregate value of the non-recurrent related party transactions exceeds 10 per cent of the equity or 5 per cent of the total assets, whichever is lower, as per the latest audited financial statements, the Annual Report should set out the name of the related party, relationship, value of the related party transactions entered into during the financial year, value of related party transactions as a percentage of equity and as a percentage of total assets, terms and conditions of the related party transactions and the rationale for entering into the transactions.	Not applicable	This requirement is not applicable as the Company did not enter into any non-recurrent related party transactions that exceeded the thresholds prescribed giving rise to the disclosure requirements.
	b) In the case of recurrent Related party transactions, if aggregate value of the recurrent related party transactions exceeds 10 per cent of the gross revenue/income, as per the latest audited financial statements, the Annual Report should set out the name of the related party, relationship, aggregate value of the related party transactions entered into during the financial year, aggregate value of related party transactions as a percentage of net revenue/income and terms and conditions of the related party transactions.	Not applicable	This requirement is not applicable as the Company did not enter into any recurrent related party transactions that exceeded the thresholds prescribed giving rise to the disclosure requirements.
	c) The Annual Report shall contain a report by the Related Party Transactions Review Committee, setting out the names of the directors comprising the committee, a statement to the effect that the committee has reviewed the related party transactions during the financial year and has communicated the observations to the Board of Directors and the policies and procedures adopted by the committee for reviewing the related party transactions.	Complied	Related Party Transactions Review Committee Report is given on page 74 of this report.

GOVERNANCE STRUCTURE

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

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



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 Sub Board 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 by the function of the Board's Audit and Compliance Committee, Remuneration Committee and Related Party Transactions Review Committee respectively. The newly formed Asset Liability Management Committee is entrusted with the responsibility of providing oversight of Asset Liability Management Policies, processes and controls and the implementation of asset liability management decisions and strategic asset allocation process. The Investment Committee and Asset Liability Committee are committees appointed by the Board. The Committees are required to report their activities to the Board on a quarterly / annual basis and communications between the Committees and the Board take place as appropriate. The reporting by the Board Committees covers the update of activities of regular meetings held on delegated authorities and decisions taken or recommendations made by these committees. The functions of the Board of Directors and Board Committees are regulated primarily by the Articles of Association, Board Terms of Reference, the respective Board Committee Terms of Reference and where applicable, rules, regulations and legislations in force. Further information about the Board of Directors are given on the page 34 and 35 of this report.

THE CHIEF EXECUTIVE OFFICER (CEO)

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

THE EXECUTIVE COMMITTEE

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

The Executive Committee functions within its Terms of Reference in collectively and individually supporting the CEO in operational, business and strategic decisions and the execution of the Company Strategic Plan. Some significant changes had taken place in the composition of the Executive Committee during the year under review. Mr. Chandana Jayasooriya, Director IT / Chief Information Officer resigned from the Company effective 1 June 2017 and assumed the role of Chief Technology / Chief Operation Officer of AIA Cambodia. Mr. Alanzo Doll was appointed as the Director IT / Chief Information Officer in place of Mr. Chandana Jayasooriya effective 3 July 2017.

MEMBERS OF THE EXECUTIVE COMMITTEE ARE;

- Chief Executive Officer / Principal Officers
- Deputy Chief Executive Officer / Chief Agency Officer
- Director & Chief Officer – Legal, Governance Corporate & External Relations / Company Secretary
- Director HR
- Director IT / Chief Information Officer
- Chief Financial Officer / Director Finance
- Director Operations
- Director Partnerships
- Chief Marketing Officer

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

THE MANAGEMENT COMMITTEE

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

GOVERNANCE COMMITTEES

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

	Committee	Responsibility	Membership	TOR/Charter
1	Risk Management Committee	Financial Risk Committee and Operational Risk Committee function within the mandate of the Risk Management Committee. Responsible for overseeing the aggregate financial risk exposure of the business and for managing the optimisation of capital and the risk and return profile of the business. Responsible for reviewing, monitoring and providing oversight to the key operational risks of the business. Key forum for the identification and escalation of current and emerging key operational risks of the business.	CEO (Chair) Members of the Executive Committee Head of Risk and Compliance Nominated members of management	✓
2	Health & Safety Committee	Responsible for providing oversight to physical safety and security within the scope of the Company's business operations, and carrying out activities to ensure that relevant risks are identified, measured, monitored and managed.	CEO (Chair) Director HR, Director IT, Director Operations and nominated members of management representing different locations.	✓
3	Business Continuity Management Committee	Responsible for ensuring the Business Continuity Management program of the business is complete and effective. The Committee monitors risks pertaining to business continuity and identify/ recommend procedure and controls for mitigating the risks.	CEO (Chair) Director Operations Chief Financial Officer Director Legal Director HR Director IT Head of Risk and Compliance Chief Marketing Officer	✓
4	Investment Oversight Committee	Responsible for reviewing, monitoring and providing oversight to the investment portfolios, especially on investment strategy, investment exposures and investment performance.	Chief Financial Officer (Chair) Nominated members of management and functional experts representing Investments, Finance, Actuarial, Risk and Compliance based on scope of the Committee Invitees - representatives from NDB Wealth Management Ltd [External Fund Manager]	✓
5	Customer Feedback Review Forum	Responsible for providing oversight to the management of customer interactions and customer feedback. Responsible for reviewing customer feedback, providing solutions for issues, identifying and implementing proactive measures to mitigate customer dissonance and improve satisfaction and identifying actions to improve agreed customer experience measures.	Chief Marketing Officer (Chair) Director Operations Deputy CEO Nominated members of management and functional experts representing Distribution, Marketing and Customer Management and Operations.	✓

CORPORATE GOVERNANCE

	Committee	Responsibility	Membership	TOR/Charter
6	Life Product Development Committee	Responsible for identifying, developing / modifying, launching and withdrawing Life product propositions. Responsible for reviewing and updating of the product development process, reviewing product propositions, ensuring products are developed within relevant Group, Company and regulatory requirements and processes.	Chief Marketing Officer (Chair) Nominated members of management and functional experts representing Marketing and Customer Management, Actuarial, Operations, Distribution, Sales Training, Risk, Compliance, Legal, IT and Finance.	✓
7	Agency Distribution Review Forum	Responsible for providing oversight to sales and performance of the Agency Direct Sales Force (Agency channel). Responsibilities include setting of goals of the Agency Direct Sales Force with stipulated key performance indicators and defined performance metrics.	Deputy CEO (Chair) Senior management of the Agency Direct Sales Force and distribution channel.	✓
8	Bancassurance Distribution Review Committee	Responsible for providing oversight to sales and performance of the Bancassurance distribution channel. Responsibilities include the setting of goals of the Bancassurance distribution with stipulated key performance indicators and defined performance metrics.	Director Partnerships (Chair) Senior management of Bancassurance channel and selected members of sales team.	✓
9	Market Conduct Committee	Responsible for implementing the penalty table and actions to be effected in substantiated intermediary misconduct incidents.	DGM Legal (Chair) DGM IT Director HR	✓
10	Appeal Board	Responsible for reviewing the decisions arrived at by the Market Conduct Committee upon the requests made by the aggrieved agents. The Appeal Board is responsible for making the final decision.	CEO (Chair) Director HR Chief Financial Officer	✓
11	HR Committee	Responsible for the proactive management and issue resolution of employee grievances and disciplinary matters.	Director HR Director Legal Or their representatives	✓

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

BOARD SUB-COMMITTEES

Audit and Compliance Committee

Chairman	Robert Hartnett (Non-executive Director)
Members	Deepal Sooriyaarachchi (Independent Non-executive Director) Sarath Wikramanayake (Independent Non-executive Director)
Secretary	Thusara Ranasinghe (Deputy General Manager Legal)
Agenda	Available
Invitees	Chief Executive Officer Chief Financial Officer Chief Actuary Head of Risk and Compliance Internal Auditor External Auditors Other officials as and when required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	• To review and make recommendations to the Board with regard to the approval of the Annual Report and accounts of the Company, including the interim financial statements. • To review and report to the Board on the effectiveness of the systems of internal controls and risk management. • To review the quality of internal and external audits and to secure the timely implementation of audit recommendations. • To ensure that the Internal Audit function is adequately resourced and has an appropriate standing and to also ensure coordination between the Internal and External Auditors. • To determine the fees to be paid to the External Auditors and to make recommendations to the Board with regard to their appointment and also with regard to their ceasing to hold office. • To review reports from the External Auditor on significant issues arising from the audit of the Company's financial statements and on the Company's internal control environment, as well as to review regular updates on related matters. • To review the effectiveness of the corporate compliance framework with financial services and other relevant legislation. • To review the scope of each annual audit and its cost effectiveness with the External Auditors and the management. • To perform an independent supervisory role in securing corporate compliance with the 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	Chathuri Munaweera (Director / Chief Officer - Legal, Governance Corporate and External Relations)
Agenda	Available
Invitees	Chief Executive Officer Other officials as and when required

CORPORATE GOVERNANCE

Frequency of Meetings	As and when required
Professional Advice	Available
Terms of Reference	Available
Objectives	• To review and approve the remuneration policy applicable to employees of the Company. • To recommend to the Board the remuneration to be paid to Directors, the CEO, and, their perquisites and allowances. • To review and to approve the grant of employees' stock options (if and when applicable) subject to the approval of the Board.

Related Party Transactions Review Committee

Chairman	Deepal Sooriyaarachchi (Independent Non-executive Director)
Members	Robert Hartnett (Non-executive Director) Sarath Wikramanayake (Independent Non-executive Director)
Secretary	Devika Weerakoon (Legal and Regulatory Manager)
Agenda	Available
Invitees	Chief Executive Officer Chief Financial Officer Company Secretary Assistant Company Secretary Director IT DGM Legal Head of Risk and Compliance Head of Internal Audit Other officials as and when required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	• To oversee that all related party transactions of the Company are duly reviewed, undertaken and disclosed. • To ensure compliance with the Code of Best Practices on Related Party transactions and the Listing Rules of the CSE.

BOARD APPOINTED MANAGEMENT COMMITTEES

Investment Committee (Comprising non-Board members)

Chairman	Pankaj Banerjee (Chief Executive Officer)
Members	Benjamin Deng (Head of Investment Solutions & Derivatives from AIA Group investment function) Gavin D' Rosairo (Chief Financial Officer) Frank Munro (Chief Actuary, a member from 30 May 2017) Hasitha Mapalagama (Head of Risk and Compliance, a member from 30 May 2017)
Secretary	Zarah Juriansz (Investments Governance Manager)
Agenda	Available
Invitees	Officials representing the management of the Company as and when required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available

Objectives	•	To define framework and set policy guidelines for the management of investment portfolios
	•	To monitor investment performance and recommend appropriate investment strategies
	•	To ensure that the portfolios are managed to achieve their investment objectives whilst adhering to the regulatory requirements
	•	To design and review the Company's investment policy and place same before the Board of Directors for approval
	•	To implement the investment policy as approved by the Board of Directors
	•	To apprise the Board of Directors periodically on the Committee's activities
	•	To liaise with the Insurance Regulator in connection with regulations pertaining to investments and provide information to help define the framework of investment management of insurance portfolios

Asset Liability Management Committee (Comprising non-Board members)

Chairman	Gavin D' Rosairo (Chief Financial Officer / Chief Investment Officer)
Members	Frank Munro (Chief Actuary) Hasitha Mapalagama (Chief Risk Officer)
Secretary	Umedha Wanniarachchi (Manager - Actuarial Services)
Agenda	Available
Invitees	Officials representing the management of the Company as and when required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	• To provide oversight of asset liability management policies, processes and controls and the implementation of asset liability management decisions and strategic asset allocation processes. • To monitor and review the Company's risk appetites for liquidity position, solvency position and liabilities profile. • To monitor and review the need to ensure that the Company holds sufficient assets of appropriate nature, term and liquidity to enable such entities to meet its liabilities as they become due.

FUNCTIONAL OVERSIGHT AND SUPPORT TO ENSURE SOUND CORPORATE GOVERNANCE

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

By establishing the risk function and the rollout of the risk management framework, the Company has ensured that prudent approach to understanding and managing the risks is in place, to safeguard the assets and interests. A comprehensive report on risk management of the Company is given on page 66 of this report.

The compliance function established by the Company is responsible for promoting and establishing a culture of compliance within the Company. The position of the Chief Compliance Officer (CCO) is identified in the overall compliance structure, recognising the statutory / regulatory purposes of the role arising from the insurance regulations and Financial Intelligence Unit (FIU) established under the Central Bank of Sri Lanka. The insurance regulations recognise the function of a CCO and the FIU recognises the role and responsibility of the CCO to ensure compliance in terms of the Anti-Money Laundering regulations and Counter Terrorist Financing measures arising out of the Financial Transactions Reporting Act No. 6 of 2006 and Prevention of Money Laundering Act No. 5 of 2006 (as amended). The CCO's function is also responsible for matters arising from the operations of the Company. The Compliance function of the Company maintains the second line oversight responsibility on sales compliance, investment compliance, anti-money laundering and counter terrorist financing, regulatory compliance, record management, data privacy and anti-fraud, anti-corruption and whistle blowing programme.

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

RISK MANAGEMENT REVIEW

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

For regulators, sound risk management is vital to ensure the stability of the insurance industry and the financial system. For shareholders and investors, it is a means of protecting and enhancing the long-term value of their investment. At AIA Sri Lanka, we recognise that strong corporate governance and sound risk management are at the core of our business proposition and our focus on these areas has been a significant contributor to our performance. As our business grows in scale and complexity, and given the dynamic nature of the external environment with changes and developments in the political, social and economic spheres, so evolves our approach to risk management to better align and stay relevant.

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

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

RISK CULTURE

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

ACCOUNTABILITY

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

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

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

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

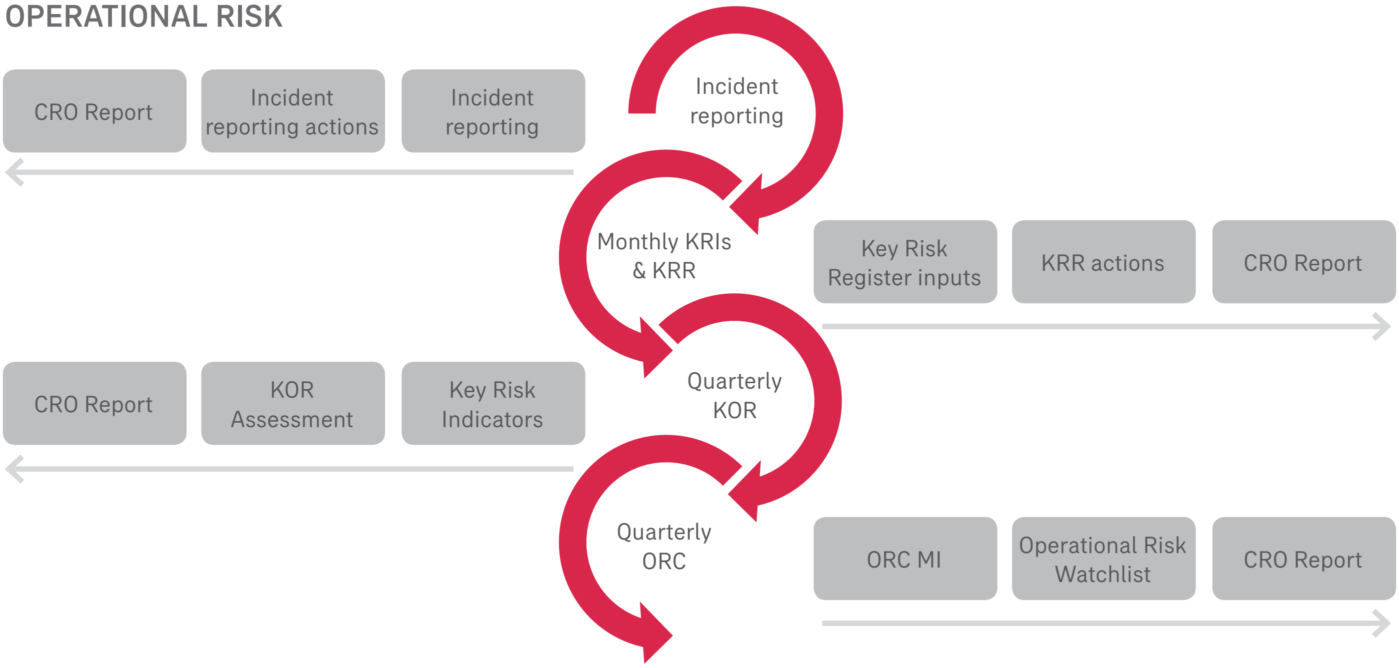
REMUNERATION

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

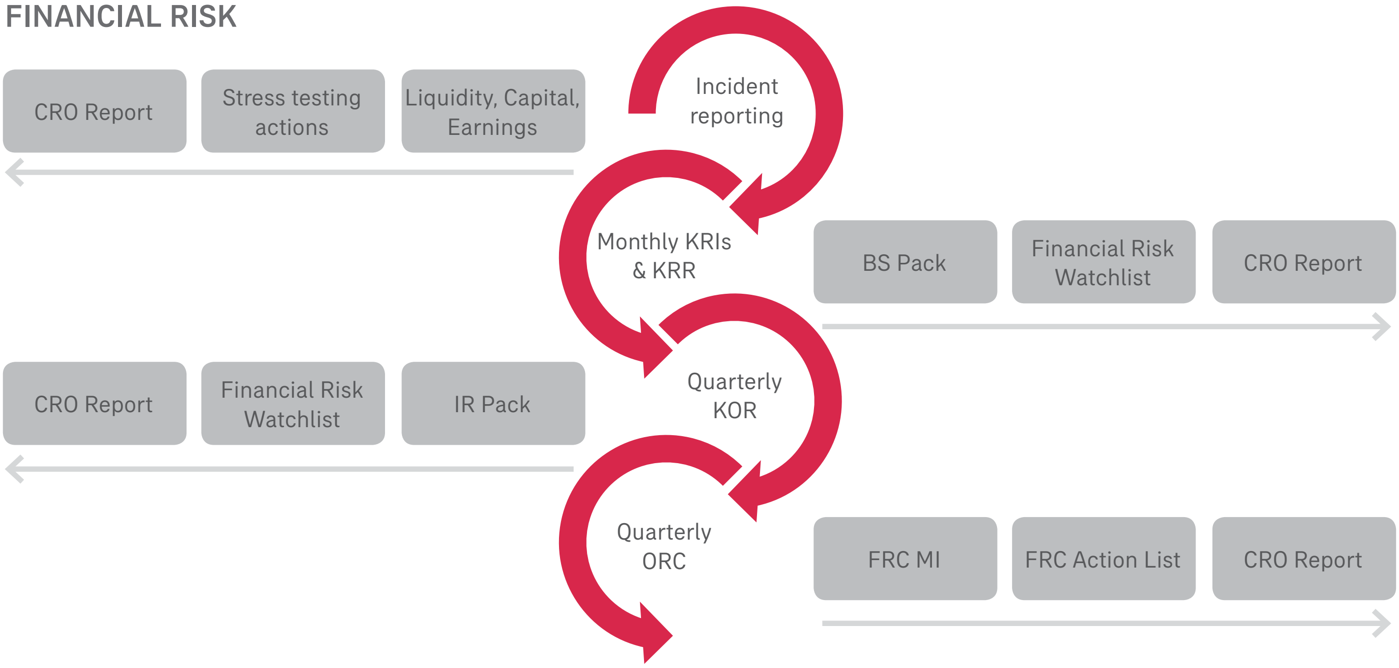
RISK MANAGEMENT PROCESS

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

OPERATIONAL RISK



FINANCIAL RISK



INCIDENT REPORTING

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

MONTHLY DEPARTMENTAL RISK REGISTER

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

RISK MANAGEMENT REVIEW

QUARTERLY KEY OPERATIONAL RISK (KOR) ASSESSMENT

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

STRESS TESTS

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

QUARTERLY BALANCE SHEET PACK AND INVESTMENT RISK PACK

The balance sheet pack and the investment risk pack are key components of MI for managing financial risk. The balance sheet pack provides a comprehensive picture of balance sheet risks of the business covering capital, earnings, liquidity, interest rate and foreign exchange risks. The investment risk pack reviews portfolio composition, strategic asset allocation and analyses risks associated with, credit, equity, property and other investments.

RISK GOVERNANCE

THREE LINES OF DEFENCE

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

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

Second line of defence – comprises the independent Risk and Compliance function. These functions are independent from the first line but work closely with them to ensure that they are appropriately supported in meeting their obligations in respect of risk management, and to exercise effective oversight of first line activities.

The Risk function manages the RMF, ensuring that consistent policies and processes are adopted across the Company and that all decisions are made within policies and risk appetite following a full assessment of all risks associated with the Company providing review, challenge and support to the first line.

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

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

RISK COMMITTEE STRUCTURE

Risk committee structure is designed to provide:

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

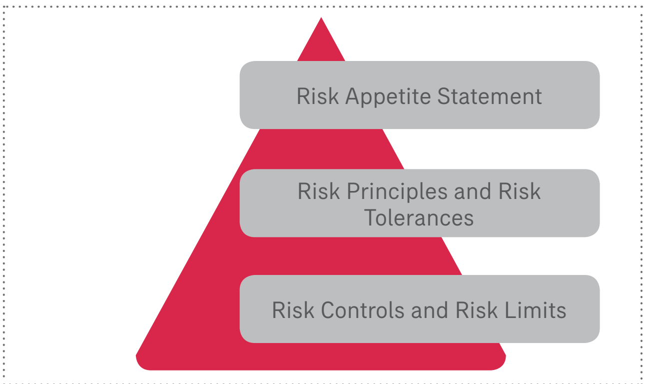
RISK COMMITTEE

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

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

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

RISK APPETITE



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

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

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

RISK LANDSCAPE

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

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

INVESTMENT RISK

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

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

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

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

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

- **Investment Liquidity**
  The risk arising from AIA Insurance Lanka PLC's ability to buy and sell investments subject to market availability and pricing.

RISK MANAGEMENT REVIEW

INSURANCE RISK

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

- **Lapse**
  The rate of policy terminations deviating from AIA Insurance Lanka PLC's expectations.

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

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

ASSET LIABILITY MISMATCH (ALM)

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

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

- **Foreign Exchange Rate**
  The risk arising from foreign exchange rate movement on the value of future assets and liability cash flows, and the translational balance sheets to the group reporting currency.

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

OPERATIONAL RISK

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

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

- **Regulatory Compliance Risk**
  This concerns compliance with the relevant laws and regulations.

- **Financial and Operational Process Risk**
  This involves the controls in key processes in business functions such as product management, investment, finance, actuarial, underwriting, claims and policy administration.

- **Systems and Information Security risk**
  This includes system performance, disaster recovery and cyber and information security standard.

STRATEGIC RISK

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

LOOKING BACK AT 2017

In 2017, we made significant strides in inculcating the risk management culture across the business with the re-alignment of the Risk & Compliance function. The engagement with the first line was strengthened by appointing risk champions across the business and rolling out the new operational risk management process where the business came up with a new risk universe.

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

OUTLOOK FOR 2018

Having established a strong risk management framework which has been operating effectively over the last few years, the focus of 2018 is to create and enrich the risk culture of the business engaging staff at all levels to create an Integrated Risk Management framework. The objective of this is to ensure that business is adequately aware of risks that is undertaken and appropriate level of escalation is established for risks which requires significant senior management attention.

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

AUDIT & COMPLIANCE COMMITTEE REPORT

COMPOSITION

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

The Committee comprises the following Directors of the Company as at 31 December 2017.

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

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

OBJECTIVE

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

1. FINANCIAL REPORTING

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

2. INTERNAL AUDIT

The Committee is responsible for reviewing and approving the annual internal audit plan for the year as presented by the Internal Audit function of the Company. The Committee receives constant updates on matters relating to progress of the plan during the year. In addition the Committee reviews the quarterly reports presented by the Internal Audit function regarding audit reports and progress of management actions in closing identified issues. Head of Internal Audit had unfettered access to the Committee and had private meetings with the Committee ensuring independence of the internal audit function. The Committee is satisfied with the independence of Internal Auditor.

3. RISK, GOVERNANCE AND INTERNAL CONTROL

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

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

4. EXTERNAL AUDIT

External Audit is another key area which receives attention of the Committee. The Committee received the External Audit Plan and approved same after having discussed with the management. External Auditors were invited to attend the Committee's quarterly meetings and also for private meetings. The External Auditors were given adequate access by the Committee to ensure independence and objectivity. Messrs. PricewaterhouseCoopers, Chartered Accountants, being the appointed External Auditor of the Company has submitted the Management Letter for the year 2017 with audit findings and the Committee reviewed the comments and undertakings by the management with regards to recommendations made by External Auditors.

5. REGULATORY COMPLIANCE

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

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

AUDIT & COMPLIANCE COMMITTEE REPORT

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

MEETINGS

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

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

INDEPENDENCE OF THE EXTERNAL AUDITORS AND THEIR APPOINTMENT

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

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

Having duly noted the willingness of the External Auditors to continue in office, the Committee recommended to the Board that Messrs. PricewaterhouseCoopers, Chartered Accountants be re-appointed as Statutory Auditors of the Company for the financial year ending 31 December 2018, subject to approval by the shareholders at the forthcoming Annual General Meeting. The Committee will approve the terms of engagement of the auditors for 2018 subject to the approval of their re-appointment by the shareholders of the Company, and necessary recommendations be made to the Board as regards for their remuneration for 2018.

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

Robert Hartnett
Chairman, Audit and Compliance Committee

12 February 2018

REMUNERATION COMMITTEE REPORT

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

COMPOSITION

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

As at 31 December 2017, the Committee comprised of the following Directors.

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

Mr. Mitchell David New who had been serving as the Chairman of the Committee since 12 August 2013 ceased to be a Director/ Chairman of the Committee effective 3 August 2017. With the resignation of Mr. New from the Board and Board Committees, Mr. William Lisle was appointed to the Remuneration Committee as its Non-Executive Director / Chairman of the Committee.

SCOPE AND OBJECTIVES

The overall objectives and functions of the Remuneration Committee are:

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

REMUNERATION POLICY OF THE COMPANY

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

PROCEEDINGS & REPORTING

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

The Remuneration Committee meets not less than two times a year. The Committee reports on its deliberations, activities, matters reviewed, recommendations and decisions reached to the Board of Directors of the Company for advice, approval and or ratification. In 2017, the Committee held two meetings in order to discharge its businesses.

DISCLOSURES

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

William Lisle
Chairman, Remuneration Committee

20 February 2018

RELATED PARTY TRANSACTIONS
REVIEW COMMITTEE REPORT

COMPOSITION

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

The Committee comprises the following Directors of the Company as at 31 December 2017.

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

OBJECTIVE

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

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

SCOPE

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

THE POLICIES AND PROCEDURES ADOPTED BY THE COMMITTEE

RELATED PARTY TRANSACTIONS MONITORING

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

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

The Committee further declares that:

- There were no related party transactions which exceeded the value of 10 per cent of equity or 5 per cent of the total assets of the Company (whichever is lower) as at 31 December 2017 to be disclosed in the Annual Report 2017.
- Appropriate disclosures have been made in terms of the Code of Best Practices on Related Party Transactions and Sri Lanka Accounting Standards LKAS 24 - Related Party Disclosures, in note 40 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 107 (2) (a) of the Inland Revenue Act, No. 10 of 2006 on Associated Undertakings. Required disclosures and submissions have been made to the relevant authorities during the year after having reviewed the records of transactions with the Associated Undertakings.

MEETINGS

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

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

Deepal Sooriyaarachchi
Chairman, Related Party Transactions Review Committee

12 February 2018

INVESTMENT COMMITTEE REPORT

The Investment Committee of AIA Insurance Lanka PLC is appointed by the Board of Directors of the Company and comprises five 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 of Directors
- 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.

Pankaj Banerjee
Chairman, Investment Committee

8 February 2018

MEMBERS

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

	Period	
Member	**From**	**To**
Pankaj Banerjee (Chairman from 15 November 2016)	15 November 2016	To date
Benjamin Deng	5 December 2012	To date
Gavin D' Rosairo	14 August 2012	To date
Frank Munro	30 May 2017	To date
Hasitha Mapalagama	30 May 2017	To date
Zarah Juriansz (Secretary from 5 May 2011)	5 May 2011	To date

MEETINGS AND ATTENDANCE

The Investment Committee meets at least four times during the year and the Fund Manager attends the meeting on invitation by the Committee. The Investment Committee convened on four occasions during 2017 and given below is the members' attendance.

ATTENDANCE

	Attendance			
Member	**7-Feb 2017**	**3-May 2017**	**8-Aug 2017**	**9-Nov 2017**
Pankaj Banerjee	✓	✓	✓	✓
Gavin D' Rosairo	✓	✓	✓	✓
Benjamin Deng	✓	✓	✓	✓
Frank Munro	N/A	N/A	✓	✓
Hasitha Mapalagama	N/A	N/A	✓	✓

REPORTING

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

ACTUARY'S REPORT

AIA Insurance Lanka PLC (Co. No. PQ 18)
AIA Tower
92, Dharmapala Mawatha,
Colombo 7, Sri Lanka
Telephone : 0094-11-2310000
Fax : 0094-11-2447620 / 2310076
E-mail : lk.info@aia.com
Web : www.aialife.com.lk

To the shareholders of AIA Insurance Lanka PLC

ACTUARIAL VALUATION AND SOLVENCY OF AIA INSURANCE LANKA PLC AS AT 31 DECEMBER 2017

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

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

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

Adequate reserves have been provided for all current and contingent liabilities in respect of the long term life business as of 31 December 2017, taking into account the dividend declared up to and including the date of valuation.

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

In accordance with the policy conditions of Insurance for Living policies, I have recommended an annual dividend of 11.56 per cent / 10.27 per cent / 9.63 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 2017.

Frank Munro
Fellow, Institute and Faculty of Actuaries UK

9 February 2018

STATEMENT OF SOLVENCY

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

		2017 LKR mn	2016 LKR mn
1	Value of admissible assets	44,841	39,348
2	Value of liabilities		
	2.1 Policy liabilities	17,772	15,579
	2.2 Other liabilities	3,203	2,658
3	Total available capital (TAC)	23,867	21,111
4	Risk-based capital requirement (RCR)	4,011	5,854
5	Risk-based capital adequacy ratio (CAR) = (TAC/RCR)	595%	361%

STATEMENT OF APPROVED ASSETS

Determinated 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, April 2016.

		2017 LKR mn	2016 LKR mn
1	Approved assets maintained in long term insurance business	34,750	34,018
2	Long term insurance fund	33,083	33,236
3	Excess in approved assets over long term insurance fund	1,667	782
4	Approved assets as a percentage of long term insurance fund	105.0%	102.4%
5	Ratio required	100%	100%


LIVE BETTER

FINANCIAL INFORMATION

FINANCIAL CALENDAR

	Date of approval / publication of the information
Interim Results for 2017	
First Quarter	12 May 2017
Second Quarter	10 August 2017
Third Quarter	15 November 2017
Fourth Quarter	14 February 2018
Audited Financial Statements	
2016	22 February 2017
2017	14 February 2018
Dividends	
2016 : Interim Dividend	19 January 2017
2016 : Final Dividend	27 March 2017
2017 : First and Final Dividend	14 February 2018
Annual General Meetings	
2016 : 31st AGM	27 March 2017
2017 : 32nd AGM	27 March 2018

FINANCIAL INFORMATION

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

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

The accounting policies used in the preparation of the financial statements are appropriate and have been consistently applied during the year under review, except for the changes in accounting policies as disclosed in note 3.1.C to the Annual Report.

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

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

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

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

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

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

The audit opinion issued by the External Auditors is provided on page 83.

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

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

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

Pankaj Banerjee
Chief Executive Officer

Gavin D' Rosairo
Chief Financial Officer

14 February 2018

DIRECTORS' STATEMENT OF RESPONSIBILITY
ON FINANCIAL REPORTING

The Directors are responsible for the preparation of the consolidated financial statements of the Company and of its subsidiary in accordance with applicable laws and regulations. These responsibilities differ from the responsibilities of the External Auditors, which are set out in their report on page 83 of this Annual Report.

In preparing these financial statements the Directors are required to:

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

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

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

The Directors, having reviewed the Company's strategic plan for the period 2018-2020, are of the considered view that the Company and its subsidiary have adequate resources to continue operations.

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

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

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

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

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

1. the consolidated financial statements of the Company and its subsidiary which are prepared in accordance with SLFRS / LKAS and other applicable rules and regulations and recommended best practices, give a true and fair view of the state of affairs as at 31 December 2017 and the profits and cash flows for the financial year then ended.
2. all financial and non–financial requirements stipulated under the Companies Act No. 7 of 2007 pertaining to Directors' duties and responsibilities have been complied with wherever applicable; and
3. the segment titled "Management Discussion and Analysis" included in this Annual Report presents a fair review of the progress and performance of the business and the financial standing of the Company and its subsidiary.

BY ORDER OF THE BOARD

Chathuri Munaweera
Company Secretary

Colombo
14 February 2018

INDEPENDENT AUDITOR'S REPORT

pwc

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

We have audited the accompanying financial statements of AIA Insurance Lanka PLC ("the Company"), and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statements of financial position as at 31 December 2017, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out in pages 84 to 136.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements of the Company and the consolidated financial statements of the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and of their financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The accounting records of AIA Insurance Lanka PLC have also been maintained by the management in the manner required by the rules made by the Insurance Regulatory Commission of Sri Lanka established under section 47 (2) of the Regulation of Insurance Industry Act No. 43 of 2000 so as to clearly indicate the true and fair view of the financial position of the insurer.

CHARTERED ACCOUNTANTS

Colombo
14 February 2018

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Group		Company	
As at 31 December		2017	2016	2017	2016
	Note	LKR'000	LKR'000	LKR'000	LKR'000
			Restated		Restated
ASSETS					
Intangible assets	6	948,440	957,855	948,440	957,855
Property, plant and equipment	7	746,542	229,169	746,542	229,169
Investments in subsidiary	8	-	-	1,000	1,000
Financial assets	9	45,735,748	40,087,642	45,735,748	40,087,642
Policyholder and other loans	10	922,382	1,058,444	922,382	1,058,444
Reinsurance receivables	11	81,308	86,771	81,308	86,771
Trade receivables	12	473,803	389,103	473,414	388,759
Other assets	13	3,166,061	2,783,895	3,165,994	2,783,853
Other fund assets	14	235,494	195,713	235,494	195,713
Cash and cash equivalents	15	274,217	295,624	266,626	289,344
Total assets		**52,583,995**	**46,084,216**	**52,576,948**	**46,078,550**
LIABILITIES					
Insurance liabilities	16	38,197,140	38,188,350	38,197,140	38,188,350
Retirement benefit obligations	17	222,085	188,425	222,085	188,425
Deferred income tax liabilities	18	6,498	-	6,498	-
Other fund liabilities	19	235,494	195,713	235,494	195,713
Reinsurance payables		91,288	36,866	91,288	36,866
Accruals and other payables	20	2,526,705	2,072,950	2,526,320	2,072,259
Current income tax liabilities	21	3,476	2,410	3,170	2,305
Deferred revenue	22	11,262	14,246	11,262	14,246
Bank overdraft	15	5,622	19,402	5,622	19,402
Total liabilities		**41,299,570**	**40,718,362**	**41,298,879**	**40,717,566**
EQUITY					
Stated capital	23	511,922	511,922	511,922	511,922
Capital reserves	24	152,176	72,096	152,176	72,096
Revenue reserves	25	10,620,327	4,781,836	10,613,971	4,776,966
Total equity		**11,284,425**	**5,365,854**	**11,278,069**	**5,360,984**
Total equity and liabilities		**52,583,995**	**46,084,216**	**52,576,948**	**46,078,550**

The notes on the pages 91 to 136 are an integral part of these financial statements.
I certify that the financial statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.

Gavin D' Rosairo
Chief Financial Officer

The financial statements on page 84 to 136 were authorised for issue by the Board of Directors on 14 February 2018 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 2017 LKR'000	Group 2016 LKR'000 Restated	Company 2017 LKR'000	Company 2016 LKR'000 Restated
Gross written premium	26 (a)	11,510,581	10,103,915	11,510,581	10,103,915
Gross reinsurance premium	26 (b)	(302,123)	(260,065)	(302,123)	(260,065)
Net written premium	**26**	**11,208,458**	**9,843,850**	**11,208,458**	**9,843,850**
OTHER REVENUE					
Investment income	27	5,228,329	4,759,573	5,228,329	4,759,573
Fee income	28	494,929	409,431	493,418	408,087
Realised gains	29	71,617	49,111	71,617	49,111
Fair value losses	30	(30,147)	(201,557)	(30,147)	(201,557)
Other operating revenue	31	247,673	218,994	246,971	218,572
		6,012,401	**5,235,552**	**6,010,188**	**5,233,786**
Total revenue		**17,220,859**	**15,079,402**	**17,218,646**	**15,077,636**
Net claims and benefits	32	(5,137,265)	(4,759,614)	(5,137,265)	(4,759,614)
Change in contractual liability		2,598,054	(3,486,785)	2,598,054	(3,486,785)
Net acquisition expenses	33	(1,785,510)	(1,303,244)	(1,785,510)	(1,303,244)
Operating and administrative expenses	34	(5,297,224)	(4,735,493)	(5,296,827)	(4,734,744)
Profit before tax	**35**	**7,598,914**	**794,266**	**7,597,098**	**793,249**
Income tax expense	36	(238,198)	(283,590)	(237,868)	(283,398)
Profit for the year	**37**	**7,360,716**	**510,676**	**7,359,230**	**509,851**
Profit attributable to;					
Owners of the parent		7,360,716	510,676	7,359,230	509,851
Non-controlling interest		-	-	-	-
		7,360,716	510,676	7,359,230	509,851
Basic / diluted earnings per share (in LKR)	38	239.38	16.61	239.33	16.58
Dividend per share (in LKR)	39	50.00	49.50	50.00	49.50

The notes on the pages 91 to 136 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December	Note	Group 2017 LKR'000	Group 2016 LKR'000 Restated	Company 2017 LKR'000	Company 2016 LKR'000 Restated
Profit for the year		7,360,716	510,676	7,359,230	509,851
OTHER COMPREHENSIVE INCOME					
Items that are / may be subsequently reclassified to profit or loss					
Changes in fair value of available for sale financial assets		3,069,771	(1,800,256)	3,069,771	(1,800,256)
Changes in fair value of available for sale financial assets transferred to the long term insurance fund		(3,037,459)	1,784,636	(3,037,459)	1,784,636
Items that will not be reclassified to profit or loss					
Re-measurement of retirement benefit obligations	17	(17,068)	25,975	(17,068)	25,975
Revaluation of land	7	80,080	-	80,080	-
Total other comprehensive income for the year		**95,324**	**10,355**	**95,324**	**10,355**
Total comprehensive income for the year		**7,456,040**	**521,031**	**7,454,554**	**520,206**
COMPREHENSIVE INCOME ATTRIBUTABLE TO;					
Owners of the parent		7,456,040	521,031	7,454,554	520,206
Non-controlling interest		-	-	-	-
Total comprehensive income for the year		**7,456,040**	**521,031**	**7,454,554**	**520,206**

Items disclosed in the statement above are net of tax.
The notes on the pages 91 to 136 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY - GROUP

	Note	Stated capital LKR'000	Capital reserve: Revaluation reserve LKR'000	Revenue reserves: Resilience reserve LKR'000	Revenue reserves: Available for sale reserve LKR'000	Revenue reserves: Retained earnings LKR'000	Total equity LKR'000
Balance as at 1 January 2016		**511,922**	**72,096**	**289,000**	**17**	**5,493,882**	**6,366,917**
Profit for the year		-	-	-	-	510,676	510,676
OTHER COMPREHENSIVE INCOME							
Changes in fair value of available for sale financial assets		-	-	-	(1,800,256)	-	(1,800,256)
Changes in fair value of available for sale financial assets transferred to the long term insurance fund		-	-	-	1,784,636	-	1,784,636
Items that will not be reclassified to profit or loss							
Re-measurement of retirement benefit obligations		-	-	-	-	25,975	25,975
TRANSACTIONS WITH OWNERS:							
Final dividend for 2015	39	-	-	-	-	(1,522,094)	(1,522,094)
Balance as at 31 December 2016		**511,922**	**72,096**	**289,000**	**(15,603)**	**4,508,439**	**5,365,854**
Profit for the year		-	-	-	-	7,360,716	7,360,716
OTHER COMPREHENSIVE INCOME							
Changes in fair value of available for sale financial assets		-	-	-	3,069,771	-	3,069,771
Changes in fair value of available for sale financial assets transferred to the long term insurance fund		-	-	-	(3,037,459)	-	(3,037,459)
Items that will not be reclassified to profit or loss							
Re-measurement of retirement benefit obligations		-	-	-	-	(17,068)	(17,068)
Revaluation of land		-	80,080	-	-	-	80,080
TRANSACTIONS WITH OWNERS:							
Interim dividend for 2016	39	-	-	-	-	(1,475,970)	(1,475,970)
Final dividend for 2016	39	-	-	-	-	(61,499)	(61,499)
Balance as at 31 December 2017		**511,922**	**152,176**	**289,000**	**16,709**	**10,314,618**	**11,284,425**

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 91 to 136 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY - COMPANY

			Capital reserve	Revenue reserves			
	Note	Stated capital LKR'000	Revaluation reserve LKR'000	Resilience reserve LKR'000	Available for sale reserve LKR'000	Retained earnings LKR'000	Total equity LKR'000
Balance as at 1 January 2016		**511,922**	**72,096**	**289,000**	**17**	**5,489,837**	**6,362,872**
Profit for the year		-	-	-	-	509,851	509,851
OTHER COMPREHENSIVE INCOME							
Changes in fair value of available for sale financial assets		-	-	-	(1,800,256)	-	(1,800,256)
Changes in fair value of available for sale financial assets transferred to the long term insurance fund		-	-	-	1,784,636	-	1,784,636
Items that will not be reclassified to profit or loss							
Re-measurement of retirement benefit obligations		-	-	-	-	25,975	25,975
TRANSACTIONS WITH OWNERS:							
Final dividend for 2015	39	-	-	-	-	(1,522,094)	(1,522,094)
Balance as at 31 December 2016		**511,922**	**72,096**	**289,000**	**(15,603)**	**4,503,569**	**5,360,984**
Profit for the year		-	-	-	-	7,359,230	7,359,230
OTHER COMPREHENSIVE INCOME							
Changes in fair value of available for sale financial assets		-	-	-	3,069,771	-	3,069,771
Changes in fair value of available for sale financial assets transferred to the long term insurance fund		-	-	-	(3,037,459)	-	(3,037,459)
Items that will not be reclassified to profit or loss							
Re-measurement of retirement benefit obligations		-	-	-	-	(17,068)	(17,068)
Revaluation of land		-	80,080	-	-	-	80,080
TRANSACTIONS WITH OWNERS:							
Interim dividend for 2016	39	-	-	-	-	(1,475,970)	(1,475,970)
Final dividend for 2016	39	-	-	-	-	(61,499)	(61,499)
Balance as at 31 December 2017		**511,922**	**152,176**	**289,000**	**16,709**	**10,308,262**	**11,278,069**

The notes on the pages 91 to 136 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the financial year ended 31 December	Note	Group 2017 LKR'000	Group 2016 LKR'000	Company 2017 LKR'000	Company 2016 LKR'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premiums / fees received from customers		11,412,282	10,137,944	11,410,815	10,136,597
Reinsurance premium (net of commission) received / (paid)		(91,980)	11,877	(91,980)	11,877
Claims and benefits paid		(4,745,094)	(4,811,149)	(4,745,094)	(4,811,149)
Cash paid to and on behalf of employees		(2,004,238)	(1,503,806)	(2,004,238)	(1,503,806)
Interest received		247,672	347,351	247,003	346,970
Payments to agents and intermediaries		(2,376,053)	(1,630,795)	(2,376,053)	(1,630,795)
Other operating cash payments		(1,978,168)	(2,783,476)	(1,977,393)	(2,782,917)
Cash flow from / used in operating activities		**464,421**	**(232,054)**	**463,060**	**(233,223)**
Taxes paid	21	(50)	(178)	-	-
Policy loans granted		(462,730)	(510,871)	(462,730)	(510,871)
Policy loans repayment		588,476	699,079	588,476	699,079
Net cash flow from / used in operating activities		**590,117**	**(44,024)**	**588,806**	**(45,015)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of liquid investments		(1,189,935)	(1,939,399)	(1,189,935)	(1,939,399)
Purchase of other investments		(38,092,570)	(29,211,520)	(38,092,570)	(29,211,520)
Proceeds from sale of liquid investments		711,048	1,481,831	711,048	1,481,831
Proceeds from sale of other investments		35,864,259	27,636,245	35,864,259	27,636,245
Investment expenses		(115,426)	(109,126)	(115,426)	(109,126)
Interest received		4,294,431	4,001,364	4,294,431	4,001,364
Dividend received		82,490	74,841	82,490	74,841
Purchase of intangible assets		(104,064)	(543,994)	(104,064)	(543,994)
Purchase of property, plant and equipment		(533,726)	(78,631)	(533,726)	(78,631)
Disposal of property, plant and equipment		23,218	8,385	23,218	8,385
Net cash flow from investing activities		**939,725**	**1,319,996**	**939,725**	**1,319,996**
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	39	(1,537,469)	(1,522,094)	(1,537,469)	(1,522,094)
Net cash used in financing activities		**(1,537,469)**	**(1,522,094)**	**(1,537,469)**	**(1,522,094)**
Decrease in cash and cash equivalents		(7,627)	(246,122)	(8,938)	(247,113)
Cash and cash equivalents (net of bank overdraft) at the beginning of the year	15	276,222	522,344	269,942	517,055
Cash and cash equivalents (net of bank overdraft) at the end of the year	15	**268,595**	**276,222**	**261,004**	**269,942**

The notes on the pages 91 to 136 are an integral part of these financial statements.

LONG TERM INSURANCE

STATEMENT OF FINANCIAL POSITION - SUPPLEMENTAL

As at 31 December	2017 LKR'000	2016 LKR'000 Restated
ASSETS		
Financial assets	36,626,172	36,269,197
Policyholder and other loans	784,788	901,728
Reinsurance receivables	81,308	86,771
Premium receivables	473,414	388,759
Other assets	2,453,965	2,318,428
Deferred income tax assets	-	24,159
Cash and cash equivalents	265,044	246,571
Total assets	**40,684,691**	**40,235,613**
LIABILITIES		
Insurance liabilities	38,197,140	38,188,350
Reinsurance payables	91,288	36,866
Accruals and other payables	2,379,379	1,976,749
Deferred revenue	11,262	14,246
Bank overdraft	5,622	19,402
Total liabilities	**40,684,691**	**40,235,613**

INSURANCE REVENUE ACCOUNT

For the financial year ended 31 December	2017 LKR'000	2016 LKR'000 Restated
Gross written premium	11,510,581	10,103,915
Net written premium (net of premium ceded to reinsurers)	11,208,458	9,843,850
Investment income and other income	5,712,314	4,758,596
Net claims and benefits	(5,137,265)	(4,759,614)
Change in contractual liability	2,598,054	(3,486,785)
Net acquisition expenses	(1,785,510)	(1,303,244)
Operating and administrative expenses	(5,262,643)	(4,496,743)
Income tax expense	(252,639)	(241,300)
Surplus transfer to shareholders' fund	**7,080,769**	**314,760**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AND SIGNIFICANT ACCOUNTING POLICIES

1 GENERAL INFORMATION

AIA Insurance Lanka PLC ('the Company') was incorporated as a company with limited liability in Sri Lanka on 12 December 1986 under the Companies Act No. 17 of 1982 and re-registered on 24 August 2009 under the Companies Act No. 7 of 2007 which came in to effect on 3 May 2007. The address of its registered office is AIA Tower, No.92, Dharmapala Mawatha, Colombo 7, Sri Lanka.

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

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

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

Group consolidated financial statements for the year ending 31 December 2017 have been authorised for issue by the Board of Directors on 14 February 2018.

2. BASIS OF PREPARATION

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in preparing its consolidated financial statements are depicted in the notes 3.2 to 4.3 and those policies have been consistently applied to all periods presented except for the changes in accounting policies disclosed in the note 3.1.C.

3.1 Changes in accounting policies and disclosures

a) New and amended standards adopted by the Group

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2017:

(i) Amendments to LKAS 12; Recognition of Deferred Tax Assets for Unrealised Losses, clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. Specifically, the amendments confirm that:

- A temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period.
- An entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit.
- Where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type.
- Tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

(ii) Amendments to LKAS 7; Disclosure initiative required to explain changes in the liabilities arising from financing activities. This includes changes arising from cash flows (eg. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

Entities may include changes in other items as part of this disclosure, for example; by providing a 'net debt' reconciliation. However, in this case the changes in the other items must be disclosed separately from the changes in liabilities arising from financing activities.

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

(i) SLFRS 9, 'Financial Instruments' 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

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.

The standard is effective for annual periods beginning on or after 1 January 2018.

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

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

The Group is yet to assess the impact of adopting this new standard and is likely to opt for the deferral option given in the standard for Life insurance entities.

(ii) SLFRS 15; Revenue from contracts with customers will replace LKAS 18 which covers contracts for goods and services and LKAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

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

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Key changes to current practice are:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.) – minimum amounts must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised

- at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few.
- There are also increased disclosures.

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

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

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

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

Adoption of this standard is not expected to have a significant impact on the financial statements of the Company.

(iii) SLFRS 16; Leases will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

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

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

The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under SLFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

Company is yet to assess the impact of adopting this new standard on the financial statements of the Company.

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

(vi) Amendments to SLFRS 1; 'First Time Adoption of SLFRS' deleted short-term exemptions covering transition provisions of SLFRS 7, LKAS 19 and SLFRS 10 which are no longer relevant.

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

(vii) Amendments to LKAS 28; 'Investments in associates and joint ventures' clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

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

Further LKAS 28 includes amendments to clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied using SLFRS 9.

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

(viii) Amendments to LKAS 40; Transfers of Investment Property clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer.

The list of evidence in the standard for a change of use was re-characterised as a non-exhaustive list of examples to help illustrate the principle.

Provided two option for transition:

- prospectively, with any impact from the reclassification recognised as adjustment to opening retained earnings as at the date of initial recognition, or
- retrospectively, only permitted without the use of hindsight.

Additional disclosures are required if an entity adopts the requirements prospectively.

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

(ix) IFRIC 22; 'Foreign Currency Transactions and Advance Consideration' clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

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

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

Entities can choose to apply the interpretation:

- retrospectively for each period presented
- prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or
- prospectively from the beginning of a prior reporting period presented as comparative information.

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

(x) IFRIC 23; 'Uncertainty Over Income Tax Treatments' clarifies how the recognition and measurement requirements of LKAS 12 'Income Taxes', are applied where there is uncertainty over income tax treatments.

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

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

Adoption of the above amendments to standards are not expected have a significant impact on the financial statements of the Company.

c) **Changes in accounting policies**

The following changes in accounting policies were applied retrospectively to increase the reliability, relevance and comparability of the financial statements.

(i) Recognition of Unearned Premium Reserve (UPR) and Deferred Acquisition Cost (DAC)

During the current financial year the Group discontinued the deferment of unearned premiums and connected acquisition costs mainly to align the financial statements to the reserving basis adopted by the Group as disclosed in note 3.C.ii. Changes in accounting policy applies retrospectively and prior year reported figures are restated accordingly as explained in the table below.

	Deferred Expenses LKR'000	Long term policy liability LKR'000
Balance as at 1 January 2017 (As previously reported)	242,301	38,139,675
Impact on discontinuation of deferment of premiums and related acquisition expenses	(242,301)	(242,301)
Balance as at 1 January 2017 (Restated)	**-**	**37,897,374**

(ii) Recognition of Long Term Policy Liability

The Group changed its accounting policy in valuing its Life insurance contract liability from Net Premium Valuation (NPV) method to Risk-Based Capital (RBC) method as stipulated by the Insurance Regulatory Commission of Sri Lanka plus any other mandatory reserves required by the regulator. The new accounting policy for valuing policyholder liabilities ensures that the capital is managed more efficiently, the liability is more reflective of the market conditions and also aligns to the liability valuation as required by the regulator.

Consequent to the solvency regime change in 2015, a difference was noted between the liability valued based on the NPV method and RBC method. The Regulator instructed the Life insurance companies to hold such difference, one-off in nature, within the policyholder liabilities. Therefore, the liability based on NPV method was equal to the liability valued based on RBC method plus such mandatory reserves as at the cut-off date. The adjustments are made on retrospective basis where applicable. However, it is noted that there are no significant changes to the reported results in the prior periods which warrants a restatement of prior periods due to the change of this accounting policy.

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 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AND SIGNIFICANT ACCOUNTING POLICIES

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

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

3.2.2 Associates

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

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

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

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

3.3 Foreign currency translation

The Group's consolidated financial statements are presented in Sri Lanka Rupees (LKR) which is also the 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 Balance Sheet date. All differences are taken to the Consolidated Income Statement.

3.4 Financial instruments
3.4.1 Financial assets
3.4.1.1 Initial recognition and measurement

The Group classifies its financial assets into the following categories;

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

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

3.4.1.2 Subsequent measurement

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

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

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

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

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

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

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

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

Held to maturity investments (HTM)
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The losses arising from impairment are recognised in the Consolidated Income Statement. The Group did not have any held to maturity investments during the years ended 31 December 2016 and 2017.

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 Balance Sheet date whether a financial asset or group of financial assets is impaired.

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

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

a) Significant financial difficulty of the issuer or debtor;
b) A breach of contract, such as a default or delinquency in payments;
c) It is becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
d) The disappearance of an active market for that financial asset because of financial difficulties; or
e) Observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of

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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 per cent or more is regarded as significant, and a period of 12 months or longer is considered to be prolonged. If any such quantitative evidence exists for available for sale financial assets, the asset is considered for impairment, taking qualitative evidence into account.

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

3.4.2 Financial liabilities

3.4.2.1 Initial recognition and measurement

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

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

3.4.2.2 Subsequent measurement

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

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

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

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

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

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

3.4.2.3 Derecognition of financial liabilities

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

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

3.4.3 Offsetting of financial assets

Financial assets and liabilities are off-set and the net amount reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to off-set the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.5 Property, plant and equipment

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

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

The Group has adopted a policy of revaluing the assets held at valuation every five years. Revaluation is performed on freehold land by a professionally qualified valuer. Increases in the carrying amount arising on revaluation of land are credited to 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.

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

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

3.9.2 Insurance receivables

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

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

3.10 Reinsurance contracts

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

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

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

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

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

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

3.11 Current and deferred income tax

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

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

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

Deferred income tax assets and liabilities are 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.

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

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

The liability recognised in the 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.

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.

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3.14 Leases

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

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

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

3.15 Revenue recognition

3.15.1 Insurance related revenue

The premium income is recognised on accrual basis and net of reinsurance premium. The gross written premiums are recognised either where the policy is issued or the installment 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 with Discretionary Participation Features (DPF), as well as changes in the gross valuation of insurance and liabilities with DPF. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due.

3.16.2 Reinsurance claims

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

3.17 Taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the 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.

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

3.18 Share-based compensation plans

AIA Group Limited (AIAGL) operates a number of share-based compensation plans, under which the Company receives services from the employees, directors and officers as consideration for the shares and / or options of

AIAGL. These share-based compensation plans comprise the Share Option Scheme (SO Scheme), the Restricted Share Unit Scheme (RSU Scheme) and the Employee Share Purchase Plan (ESPP).

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

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

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

Valuation methodology

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

4 CRITICAL ACCOUNTING ESTIMATES AND THE USE OF JUDGMENT

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

4.1 Insurance contracts

4.1.1 Product classification

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

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

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

4.1.2 Life insurance liabilities

SLFRS 4 permits a wide range of accounting treatments to be adopted for the recognition and measurement of insurance contract liabilities, including liabilities in respect of insurance contracts. The Company calculates insurance contract liabilities for Traditional Life and Universal Life insurance contracts using a RBC method plus any other mandatory reserves as required by the regulator, whereby the liability represents the present value of estimated future policy related outflows, less the present value of estimated future gross premiums to be collected from policyholders. This method uses best estimates assumptions for mortality, morbidity, lapse, expenses and investment yields. Interest rate assumptions can vary by product and are prescribed by regulation. Mortality, morbidity, lapse and expense assumptions are based on the experience studies, allowing for Risk Margin as prescribed by the Regulator. The Company exercises significant judgment in making appropriate assumptions.

For unit-linked contracts, insurance contract liabilities represent the fund value, plus a non-unit reserve to cover

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the risk portion. Significant judgment is exercised in making appropriate estimates of gross profits, which are also regularly reviewed by the Company.

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

4.1.3 Liability adequacy testing

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

For Traditional Life insurance contracts, insurance contract liabilities, reduced by value of business acquired on acquired insurance contracts, are compared with the gross premium valuation calculated on a best estimate basis, as of the valuation date. If there is a deficiency, the unamortised balance of value of business acquired on acquired insurance contracts are written down to the extent of the deficiency. If a deficiency exists, the net liability is increased by the amount of the remaining deficiency.

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

4.2 Fair value estimation

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

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 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 Balance Sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the last traded price in an active market. These instruments are included in level I. Instruments included in level I comprise primarily investments in equity instruments traded in 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 17 to the financial statements.

4.4 Segment information

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

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

5 RISK MANAGEMENT

5.1 Financial risk management

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

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

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

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

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

As at 31 December	2017		2016	
	LKR'000	%	LKR'000	%
Government securities	21,519,274	45.2	15,534,702	37.2
Reverse repurchase agreements	2,680,411	5.6	3,553,521	8.5
Corporate debt	13,845,724	29.1	14,093,663	33.8
Fixed deposits	8,019,148	16.7	6,917,238	16.6
Equity	1,596,020	3.4	1,649,654	3.9
Total	**47,660,577**	**100.0**	**41,748,778**	**100.0**

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

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

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

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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 2017	1 Yr LKR'000	1 Yr - 5 Yrs LKR'000	5 Yrs - 10 Yrs LKR'000	10 Yrs LKR'000	No stated maturity LKR'000	Total LKR'000
FINANCIAL ASSETS						
Available for sale						
Government securities	449,041	978,286	3,105,800	16,375,140	-	20,908,267
Equity instruments	-	-	-	-	38,100	38,100
Loans and receivables						
Reverse repurchase agreements	2,639,703	-	-	-	-	2,639,703
Corporate debt	3,066,632	4,964,621	4,834,351	-	-	12,865,604
Fixed deposits	7,726,155	-	-	-	-	7,726,155
Equity instruments						
At fair value through profit or loss	-	-	-	-	1,557,919	1,557,919
Other loans and receivables						
Premium receivables	473,414	-	-	-	-	473,414
Reinsurance assets	-	-	-	-	81,308	81,308
Policy loans	-	-	-	-	775,981	775,981
Other receivables	146,401	-	-	-	-	146,401
Cash and cash equivalents	261,004	-	-	-	-	261,004
	14,762,350	**5,942,907**	**7,940,151**	**16,375,140**	**2,453,308**	**47,473,856**
FINANCIAL LIABILITIES						
Agency commission payable	221,179	-	-	-	-	221,179
Franchise fee payable	7,785	-	-	-	-	7,785
	228,964	**-**	**-**	**-**	**-**	**228,964**

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

- All investments are denominated in LKR and the Company does not maintain any investment exposures to assets held overseas.
- Minimum investment grade rating criteria been implemented for determining investment decisions.
- The Company maintains a predominant exposure to Government securities and high grade corporate debt thus prudently managing credit default risk from these investments.
- The Company places corporate debt investment exposures with counterparties with "A" (lka) and above as assigned by Fitch Ratings Lanka.
- Rating movements on the Company's corporate debt investments are monitored on a monthly basis by the Investment Oversight Committee.
- All Company investments are maintained with the custodian bank, Deutsche Bank.
- Government securities, including collateral from reverse repurchase agreements are held at Lanka Secure, which is maintained by the Central Bank of Sri Lanka.
- All reverse repurchase agreements maintain its exposure to Government securities.
- The Company has a Collateral Management Policy and maintains a haircut of at least 10 per cent on investments in reverse repurchase agreements. (Refer the table on page 109 of the Annual Report).
- The Company carries out investment transactions through / with Investment Committee approved intermediaries.

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

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

As at 31 December 2016	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	15,007,562	-	-	-	-	-	-	15,007,562
Loans and receivables								
Reverse repurchase agreements	3,553,521	-	-	-	-	-	-	3,553,521
Corporate debt	-	-	3,511,526	9,585,789	-	-	-	13,097,315
Fixed deposits	-	277,000	2,559,552	3,943,038	-	-	-	6,779,590
Premium receivables	-	-	-	-	-	-	388,759	388,759
Reinsurance assets	-	-	-	-	-	-	86,771	86,771
Policy loans	-	-	-	-	-	-	901,728	901,728
Other receivables	-	-	-	-	-	-	156,716	156,716
Cash and cash equivalents	-	5,473	115,763	143,381	1,080	644	3,601	269,942
	18,561,083	**282,473**	**6,186,841**	**13,672,208**	**1,080**	**644**	**1,537,575**	**40,241,904**

As at 31 December	2017 LKR'000	2016 LKR'000
Carrying value of investments in reverse repurchase agreements	2,639,703	3,553,521
Fair value of collateral *	3,069,506	4,044,765
Excess value of collateral	429,803	491,244
Margin	16%	14%

* The amounts stated above are inclusive of accrued interest.

5.1.3 Market risk

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

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

Interest rate risk

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

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

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

As at 31 December 2016	Fixed interest LKR'000	Non-interest bearing LKR'000	Total LKR'000
Loans and deposits	967,569	90,875	1,058,444
Debt securities	38,437,988	-	38,437,988
Premium receivable	-	388,759	388,759
Reinsurance assets	-	86,771	86,771
Cash and cash equivalents	198,701	71,241	269,942
	39,604,258	**637,646**	**40,241,904**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

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

Sensitivity analysis on market, equity and interest rate risk

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

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

As at 31 December	2017		2016	
Impact to;	Net asset value	Profit before tax	Net asset value	Profit before tax
	LKR'000	LKR'000	LKR'000	LKR'000
Interest rate risk				
+ 100 basis points	(1,761,393)	(1,749,349)	(1,183,159)	(1,166,553)
- 100 basis points	538,433	526,063	1,309,940	1,292,896

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 Life Policyholders' Fund investment portfolio, except for an equity holding in Serendib Land which is held outside the investment portfolio as at the Balance Sheet date.

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

5.2 Insurance risk

5.2.1 Life insurance

Frequency and severity of claims

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

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

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

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

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

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

The Company uses appropriate base tables of standard mortality according to the type of contract being written. An investigation into the actual experience of the Company over the last five years is carried out and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. Where data is sufficient to be credible, the statistics generated by the data are used without reference to a regulatory table. Where this is not the case, the best estimate of future mortality is based on standard regulatory tables adjusted for the Company's overall experience. For contracts that insure survival, an adjustment is made for future mortality improvements based on trends identified in the continuous mortality investigations performed by international actuarial bodies. The Company maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates. An allowance is then made for any trends in the data to arrive at a best estimate of future termination rates.

Process used to decide on assumptions

a) **Mortality / morbidity**

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

b) **Persistency**

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

c) **Investment returns**

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

d) **Renewal expense level and inflation**

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

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

Change in assumptions and sensitivity analysis

The main insurance risks to the life business are lapse and expense levels. A sensitivity analysis was conducted in 2017 with 3 stresses. 110 per cent expense levels and 120 per cent lapse level along with the 80 per cent lapse level for persistency. For all cases the impact to the policyholders' liabilities of assuming such a change was reflective of future conditions.

Increasing expense rates by 10 per cent would lead to an increase in policy liabilities of LKR 556 million; 3.8 per cent of the policy liability. Decreasing lapse rates by 20 per cent would lead to a decrease in policy liabilities of LKR 918 million; 6.3 per cent of the policy liability. Increasing lapse rates by 20 per cent would lead to an increase in policy liabilities of LKR 809 million; 5.6 per cent of the policy liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

5.3 Capital management

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

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

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

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

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

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

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

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

The responsibility for capital management is entrusted to the Chief Financial Officer (CFO) and as such the CFO is a key participant in discussions and decisions that impact asset-liability management, strategic asset allocation and solvency management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 INTANGIBLE ASSETS

	Group / Company		
	Contractual relationships LKR'000	Computer software LKR'000	Total LKR'000
Cost	807,866	711,618	1,519,484
(Less) Accumulated amortisation	(81,811)	(479,818)	(561,629)
Net book value as at 1 January 2017	**726,055**	**231,800**	**957,855**
Additions	-	104,064	104,064
Amortisation charge	(47,201)	(66,278)	(113,479)
Net book value as at 31 December 2017	**678,854**	**269,586**	**948,440**
Cost	807,866	815,682	1,623,548
(Less) Accumulated amortisation	(129,012)	(546,096)	(675,108)
Net book value as at 31 December 2017	**678,854**	**269,586**	**948,440**

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

Intangible assets include fully amortised assets still in use, the gross carrying value of which amounted to LKR 296,511,008 (2016 : LKR 296,276,386) as at the date of Statement of Financial Position.

6.1 Disclosure on reporting of amortisation of intangible assets
The amortisation charge of the intangible items is shown under operating and administrative expenses in the Consolidated Income Statement.

6.2 Capital commitments - intangible assets
Capital expenditure on intangible assets approved by the Board of Directors is as follows.

	Group / Company	
As at 31 December	2017 LKR'000	2016 LKR'000
Approved and contracted for intangible assets	-	27,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 PROPERTY, PLANT AND EQUIPMENT

	Group / Company					
	Freehold land	Leasehold improvements	Computer & telecommunication equipment	Furniture, fittings, plants & machinery	Motor vehicles	Total
	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000	LKR'000
Cost / revaluation	89,180	-	508,992	351,317	62,952	1,012,441
(Less) Accumulated depreciation	-	-	(466,151)	(261,969)	(55,152)	(783,272)
Net book value as at 1 January 2017	**89,180**	**-**	**42,841**	**89,348**	**7,800**	**229,169**
Additions	-	170,905	129,668	200,696	74,100	575,369
Revaluation surplus	80,080	-	-	-	-	80,080
Depreciation charge	-	(11,394)	(66,903)	(38,244)	(11,570)	(128,111)
Disposals	-	-	(8,178)	(79,956)	(9,295)	(97,429)
Accumulated depreciation on disposals	-	-	8,178	69,991	9,295	87,464
Net book value as at 31 December 2017	**169,260**	**159,511**	**105,606**	**241,835**	**70,330**	**746,542**
Cost / revaluation	169,260	170,905	630,482	472,057	127,757	1,570,461
(Less) Accumulated depreciation	-	(11,394)	(524,876)	(230,222)	(57,427)	(823,919)
Net book value as at 31 December 2017	**169,260**	**159,511**	**105,606**	**241,835**	**70,330**	**746,542**

Property, plant and equipment includes fully depreciated assets still in use, the gross carrying value which amounted to LKR 619,752,490 (2016 : LKR 608,443,953) as at the date of Statement of Financial Position.

7.1 Fair value of land

An independent valuation of the Group's land was performed by valuers to determine the fair value of the land. As per the Group's Accounting Policies, revaluation gain or loss is recognised once every five years through other comprehensive income (note 3.5). The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows;

Recurring fair value measurements
Freehold land at No.76 and 80, Kew Road, Colombo 2

	Group / Company	
As at 31 December	2017	2016
	LKR'000	LKR'000
Fair value (Level III - Input for the asset or liability that are not based on observable market data)	169,260	165,000

Valuation techniques used to derive level III fair values
Fair value of land has been derived using the sales comparison approach. Sales prices of comparable lands in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot.

Valuation processes of the Group
On an annual basis, the Group engages external, independent and qualified valuers to determine the fair value of the Group's land. As at 31 December 2017, the fair values of the land have been determined by independent valuer, Mr. T.M.H. Mutaliph, Chartered Valuer. Valuation was made on the basis of open market value.

If stated on historical cost basis, the value of the land would be LKR 17,084,105 (2016 : 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 2017 LKR'000	Group / Company 2016 LKR'000
Approved and contracted for property, plant and equipment	8,665	5,749

8 INVESTMENTS IN SUBSIDIARY

As at 31 December	Country of incorporation and place of business	Nature of business	Number of Shares	% holding	Company 2017 LKR'000	Company 2016 LKR'000
Rainbow Trust Management Limited	Sri Lanka	Provision of trust and ancillary services	100,000	100	1,000	1,000
			100,000		**1,000**	**1,000**

9 FINANCIAL ASSETS

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

As at 31 December	Note	Group / Company 2017 Carrying value LKR'000	2017 Fair value LKR'000	2016 Carrying value LKR'000	2016 Fair value LKR'000
Loans and receivables	9.1	23,231,462	24,084,362	23,430,426	23,067,265
Available for sale financial assets	9.2	20,946,367	20,946,367	15,050,278	15,050,278
Financial assets at fair value through profit or loss	9.3	1,557,919	1,557,919	1,606,938	1,606,938
Total Financial assets		**45,735,748**	**46,588,648**	**40,087,642**	**39,724,481**

9.1 Loans and receivables

As at 31 December	Group / Company 2017 Amortised cost LKR'000	2017 Fair value LKR'000	2016 Amortised cost LKR'000	2016 Fair value LKR'000
Amortised cost				
Corporate debt - listed	12,865,604	13,474,280	13,097,315	12,731,487
Reverse repurchase agreements	2,639,703	2,679,547	3,553,521	3,554,440
Bank deposits	7,726,155	7,930,535	6,779,590	6,781,338
Total loans and receivables	**23,231,462**	**24,084,362**	**23,430,426**	**23,067,265**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 FINANCIAL ASSETS (CONTD.)

9.1 Loans and receivables (contd.)

As at 31 December	Group / Company 2017 LKR'000	Group / Company 2016 LKR'000
Loans and receivables at amortised cost		
Current	13,432,490	10,694,367
Non-current	9,798,972	12,736,059
Total financial assets	**23,231,462**	**23,430,426**

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 market value of the securities pledged.

The fair value of those collateral held are as follows;

As at 31 December		Group / Company 2017 LKR'000	Group / Company 2016 LKR'000
Financial asset	**Nature of the collateral**		
Reverse repurchase agreements	- Government Treasury bills	222,470	781,964
	- Government Treasury bonds	2,847,036	3,262,801
		3,069,506	**4,044,765**

9.2 Available for sale financial assets

As at 31 December	Group / Company 2017 LKR'000	Group / Company 2016 LKR'000
Government securities	20,908,267	15,007,562
Equity instruments - listed	38,100	42,716
Total available for sale financial assets	**20,946,367**	**15,050,278**
Available for sale financial assets		
Current	449,041	635,216
Non-current	20,497,326	14,415,062
Total available for sale financial assets	**20,946,367**	**15,050,278**

The Group did not transfer any gains during the financial year (2016 : LKR 62,101,748) from the Statement of Other Comprehensive Income to the Consolidated Income Statement.

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

9.3 Financial assets at fair value through profit or loss

As at 31 December	Group / Company 2017 LKR'000	2016 LKR'000
Equity instruments - listed	1,557,919	1,606,938
	1,557,919	**1,606,938**
Financial assets at fair value through profit or loss		
Current	1,557,919	1,606,938
Non-current	-	-
Total financial assets at fair value through profit or loss	**1,557,919**	**1,606,938**

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 the last traded prices at the Colombo Stock Exchange as at the date of Financial Position. Changes in fair values of financial assets classified at fair value through profit or loss are recorded in 'fair value gains and losses' in the Consolidated Income Statement.

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

	Group / Company			
	Loans and receivables LKR'000	Available for sale LKR'000	Fair value through profit or loss LKR'000	Total LKR'000
Balance as at 1 January 2017	23,430,426	15,050,278	1,606,938	40,087,642
Purchases	35,694,639	3,328,780	259,086	39,282,505
(Sales) / (maturities)	(36,022,392)	(600,000)	(336,321)	(36,958,713)
Realised gains / (losses)	-	-	58,363	58,363
Amortisation of discount / (premiums)	128,789	60,813	-	189,602
Fair value gains / (losses) recorded in Consolidated Income Statement	-	-	(30,147)	(30,147)
Fair value gains / (losses) recorded in the Statement of Other Comprehensive Income	-	3,106,496	-	3,106,496
Balance as at 31 December 2017	**23,231,462**	**20,946,367**	**1,557,919**	**45,735,748**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9 FINANCIAL ASSETS (CONTD.)

9.5 Determination of fair value and fair value hierarchy

As at 31 December	Group / Company 2017 LKR'000	2016 LKR'000
Level I		
Financial assets at fair value through profit or loss		
Equity instruments - quoted	1,557,919	1,606,938
Available for sale financial assets		
Equity instruments - quoted	38,100	42,716
Level II		
Available for sale financial assets		
Government securities	20,908,267	15,007,562
Total financial assets	**22,504,286**	**16,657,216**

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

10 POLICYHOLDER AND OTHER LOANS

As at 31 December	Group / Company 2017 LKR'000	2016 LKR'000
Policy loans	775,981	901,728
Agent loans	112,563	131,088
Staff loans	35,827	37,011
	924,371	1,069,827
(Less) Provision for impairment		
Agent loans	(1,989)	(11,383)
Total policyholder and other loans	**922,382**	**1,058,444**
Policyholder and other loans		
Current	91,827	101,773
Non-current	830,555	956,671
Total policyholder and other loans	**922,382**	**1,058,444**

10.1 Movement in policyholder and other loans

	Group / Company LKR'000
Balance as at 1 January 2017	1,069,827
Loans granted during the period	623,403
Loan repayments during the period	(759,354)
Loans written off during the period	(10,580)
Amortisation of discount	1,075
Balance as at 31 December 2017	**924,371**

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

	Group / Company LKR'000
Balance as at 1 January 2017	11,383
Write off during the period	(12,039)
Additional provision for impairment during the period	2,645
Balance as at 31 December 2017	**1,989**

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

11 REINSURANCE RECEIVABLES

Reinsurance receivable balances as at 31 December 2017 and 2016 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 approximates to its carrying value largely due to the short-term maturities of these instruments.

12 TRADE RECEIVABLES

Trade receivable balances as at 31 December 2017 and 2016 due within a period of 12 months, hence classified as current assets.

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

12.1 Movement in trade receivables

	Group LKR'000	Company LKR'000
Balance as at 1 January 2017	389,103	388,759
Revenue receivable from customers	1,771,713	1,770,201
Collection of cash from customers	(1,687,013)	(1,685,546)
Balance as at 31 December 2017	**473,803**	**473,414**

13 OTHER ASSETS

	Group		Company	
As at 31 December	2017 LKR'000	2016 LKR'000 Restated	2017 LKR'000	2016 LKR'000 Restated
Inventory	28,296	3,981	28,296	3,981
Interest and dividend receivable	2,214,641	1,938,811	2,214,641	1,938,811
Advance company tax recoverable	66,397	66,397	66,397	66,397
Withholding tax recoverable	472,251	391,462	472,184	391,420
Deposits	72,740	93,937	72,740	93,937
Prepayments and advances	303,952	239,880	303,952	239,880
Capital work in progress	7,784	49,427	7,784	49,427
Total other assets	**3,166,061**	**2,783,895**	**3,165,994**	**2,783,853**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 OTHER FUND ASSETS

As at 31 December	Group/Company			
	2017		2016	
	Carrying value LKR'000	Cost LKR'000	Carrying value LKR'000	Cost LKR'000
Government securities	84,783	82,691	114,467	112,542
Fixed deposits	133,860	127,697	79,544	76,819
Other assets	1,037	1,037	63	63
Cash at bank	15,814	15,814	1,639	1,639
Total other fund assets	**235,494**	**227,239**	**195,713**	**191,063**

15 CASH AND CASH EQUIVALENTS

As at 31 December	Group		Company	
	2017 LKR'000	2016 LKR'000	2017 LKR'000	2016 LKR'000
Short term investments	207,763	182,266	207,763	176,064
Cash at bank and in hand	66,454	113,358	58,863	113,280
Cash and cash equivalents (excluding bank overdraft)	**274,217**	**295,624**	**266,626**	**289,344**

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

As at 31 December	Group		Company	
	2017 LKR'000	2016 LKR'000	2017 LKR'000	2016 LKR'000
Cash and cash equivalents	274,217	295,624	266,626	289,344
Bank overdraft	(5,622)	(19,402)	(5,622)	(19,402)
	268,595	**276,222**	**261,004**	**269,942**

16 INSURANCE LIABILITIES AND RELATED REINSURANCE ASSETS

As at 31 December		Group / Company					
		2017			2016		
		Gross LKR'000	Reinsurance LKR'000	Net LKR'000	Gross LKR'000 Restated	Reinsurance LKR'000	Net LKR'000 Restated
Long term policy liability	16.1	37,855,519	-	37,855,519	37,897,374	-	37,897,374
Life claims provision	16.2	341,621	81,308	260,313	290,976	86,771	204,205
Total insurance contract liabilities		**38,197,140**	**81,308**	**38,115,832**	**38,188,350**	**86,771**	**38,101,579**

16.1 Long term policy liability

	Group / Company		
	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Balance as at 1 January 2017 (As previously reported)	38,139,675	-	38,139,675
Impact on discontinuation of deferment of premiums and related acquisition expenses	(242,301)	-	(242,301)
Balance as at 1 January 2017 (Restated)	**37,897,374**	**-**	**37,897,374**
Expected increase in the policy liability during the year	193,223	-	193,223
Actual experience variance	2,255,332	-	2,255,332
Movement in inadmissible assets	89,917	-	89,917
Solvency margin and surplus with the market movements	(2,580,327)	-	(2,580,327)
Balance as at 31 December 2017	**37,855,519**	**-**	**37,855,519**

16.2 Life claims provision

	Group / Company		
	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Balance as at 1 January 2017	290,976	86,771	204,205
Provisions for claims registered during the period	5,055,834	180,096	4,875,738
Provisions released for claims paid to clients	(5,005,189)	(185,559)	(4,819,630)
Balance as at 31 December 2017	**341,621**	**81,308**	**260,313**

16.3 Implementation of solvency margin (Risk-Based Capital) rules

The Insurance Regulatory Commission of Sri Lanka (IRCSL) implemented the Risk-Based Capital (RBC) framework for solvency purposes with effect from 1 January 2016, and as by the IRCSL by their letter dated 30 December 2016, the surplus created due to change in valuation method from NPV to GPV is required to be maintained within the long term insurance fund / insurance contract liabilities.

The surplus created due to change in valuation method from NPV to GPV on 1 January 2016 is as follows;

	LKR'000
Long term policy liability as per NPV	36,749,652
Long term policy liability for solvency margin rules under GPV	27,981,497
Surplus created due to change in valuation method from NPV to GPV	**8,768,155**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 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 2017 LKR'000	2016 LKR'000
Amount of liability recognised in the Consolidated Statement of Financial Position	222,085	188,425
Amounts recognised in the Consolidated Income Statement	46,761	37,476
Amounts recognised in the Consolidated Statement of Other Comprehensive Income	17,068	(36,076)

The movement in the defined benefit obligation is as follows;

	Group / Company LKR'000
Balance as at 1 January 2017	188,425
Current service cost	23,095
Interest cost	23,666
	46,761
Re-measurements;	
Gains from change in financial assumptions	23,744
Experience gains	(6,676)
	17,068
Benefits paid	(30,169)
Balance as at 31 December 2017	**222,085**

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

	2017 % per annum	2016 % per annum
Future salary increase	11.00	11.00
Discount rate	10.29	12.56
Member withdrawal rate	8.00	8.00

Sensitivity analysis of key actuarial assumptions used

	Group / Company 2017					
	Future salary		Discount rate		Member withdrawal rate	
	1% increase LKR'000	1% decrease LKR'000	1% increase LKR'000	1% decrease LKR'000	1% increase LKR'000	1% decrease LKR'000
The effect on;						
- The current service cost	1,660	(1,479)	(1,538)	1,758	(117)	134
- Interest cost	-	-	-	-	-	-

	Group / Company 2016					
	Future salary		Discount rate		Member withdrawal rate	
	1% increase LKR'000	1% decrease LKR'000	1% increase LKR'000	1% decrease LKR'000	1% increase LKR'000	1% decrease LKR'000
The effect on;						
- The current service cost	1,178	(1,062)	(1,090)	1,229	95	(105)
- Interest cost	-	-	-	-	-	-

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

	2017 LKR'000	2016 LKR'000	2015 LKR'000	2014 LKR'000	2013 LKR'000	2012 LKR'000
Defined benefit obligation	222,085	188,425	193,691	248,986	214,627	249,732

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

Defined benefit obligation	Less than 1 year LKR'000	1-5 years LKR'000	Above 5 years LKR'000	Total LKR'000
As at 31 December 2017	35,165	49,657	137,263	222,085
As at 31 December 2016	24,857	46,882	116,686	188,425

18 DEFERRED INCOME TAX LIABILITIES

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

As at 31 December	Group / Company 2017 LKR'000	2016 LKR'000
Deferred income tax assets		
On temporary difference from retirement benefit obligation	-	52,759
On temporary difference from fair value differences	-	30,227
Deferred tax asset off-set against deferred tax liabilities	-	(82,986)
	-	-
Deferred income tax liabilities		
On temporary difference from property, plant and equipment and intangible assets	-	82,986
On temporary difference from fair value differences	6,498	-
Deferred tax liabilities off-set against deferred tax assets	-	(82,986)
	6,498	-
Net deferred income tax assets / (liabilities)	**(6,498)**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 DEFERRED INCOME TAX LIABILITIES (CONTD.)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of LKR 1,959,629,000 (2016 : LKR 1,513,450,203) in respect of tax losses amounting to LKR 6,998,675,000 (2016 : LKR 5,405,179,296) that can be carried forward against future taxable income.

Deferred income tax liabilities of LKR 889,833 (2016 : LKR 487,021) 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.

18.1 The movement in net deferred income tax liability is as follows;

	Group / Company LKR'000
Balance as at 1 January 2017	-
Deferred tax charge / (income) recognised in Income Statement	
On retirement benefit obligations	52,759
On property, plant & equipment and intangible assets	(82,986)
	(30,227)
Deferred tax charge / (income) recognised in the Consolidated Statement of Other Comprehensive Income	
On retirement benefit obligations	-
On temporary difference from fair value differences	36,725
	36,725
Balance as at 31 December 2017	**6,498**

19 OTHER FUND LIABILITIES

A brief description and the movement of the 'Agent Superannuation' fund is given below.

This fund is created for the benefit of the agency force. The fund accumulates contributions from both the Company and agents, based on a qualifying performance criteria which is a fixed percentage linked to their commissions. The fund invests in Government securities and fixed deposits in licensed commercial banks.

	Group / Company LKR'000
Balance as at 1 January 2017	195,713
Capital deposits	80,084
Capital withdrawals	(63,760)
Income/ gains and losses	23,457
Balance as at 31 December 2017	**235,494**

20 ACCRUALS AND OTHER PAYABLES

As at 31 December	Note	Group 2017 LKR'000	Group 2016 LKR'000	Company 2017 LKR'000	Company 2016 LKR'000
Policyholder advance payments		325,809	295,824	325,809	295,824
Agency commission payable		221,179	309,533	221,179	309,533
Franchise fee payable		7,785	77,689	7,785	77,689
Government taxes and levies		18,204	16,688	18,204	16,688
Accrued expenses	20.1	1,783,063	1,199,638	1,782,678	1,198,947
Other creditors		170,665	173,578	170,665	173,578
Total accruals and other payables		**2,526,705**	**2,072,950**	**2,526,320**	**2,072,259**
Accruals and other payables					
Current		2,446,505	2,002,898	2,446,120	2,002,207
Non-current		80,200	70,052	80,200	70,052
Total accruals and other payables		**2,526,705**	**2,072,950**	**2,526,320**	**2,072,259**

20.1 Accrued expenses

As at 31 December	Group 2017 LKR'000	Group 2016 LKR'000	Company 2017 LKR'000	Company 2016 LKR'000
Provisions for accrued expenses	1,766,965	1,196,626	1,766,580	1,195,935
Operating lease payable	16,098	3,012	16,098	3,012
Total accrued expenses	**1,783,063**	**1,199,638**	**1,782,678**	**1,198,947**
Accrued expenses				
Current	1,702,863	1,129,586	1,702,478	1,128,895
Non-current	80,200	70,052	80,200	70,052
Total accrued expenses	**1,783,063**	**1,199,638**	**1,782,678**	**1,198,947**

20.2 Movement in accrued expenses

	Group LKR'000	Company LKR'000
Balance as at 1 January 2017	1,199,638	1,198,947
Provisions during the year	1,090,154	1,089,313
Payments and reversals during the year	(506,729)	(505,582)
Balance as at 31 December 2017	**1,783,063**	**1,782,678**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 CURRENT INCOME TAX LIABILITIES

	Group LKR'000	Company LKR'000
Balance as at 1 January 2017	2,410	2,305
Provision	3,501	3,170
Payments	(50)	-
Income tax payable set-off against tax credits	(2,385)	(2,305)
Balance as at 31 December 2017	**3,476**	**3,170**

22 DEFERRED REVENUE

	Group / Company LKR'000
Balance as at 1 January 2017	14,246
Reinsurance recovered in advance in WOP claims	4
Reinsurance recovered set-off against reinsurance assets	(2,988)
Balance as at 31 December 2017	**11,262**

23 STATED CAPITAL

As at 31 December	2017		2016	
	No. of shares	LKR'000	No. of shares	LKR'000
Fully paid ordinary shares	30,749,370	511,922	30,749,370	511,922

24 CAPITAL RESERVES

Revaluation reserve

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

	Group / Company	
	2017 LKR'000	2016 LKR'000
Balance as at 1 January	72,096	72,096
Revaluation surplus arising during the year	80,080	-
Balance as at 31 December	**152,176**	**72,096**

25 REVENUE RESERVES

25.1 Resilience reserve

A resilience reserve of LKR 65 million was established in 2004 with funds appropriated from profits in order to strengthen the capability of the Company to meet temporary variations in asset values of the business. This reserve has been further strengthened by appropriation from profits.

	Group / Company	
	2017	2016
	LKR'000	LKR'000
Balance as at 1 January	289,000	289,000
Appropriation from profits	-	-
Balance as at 31 December	**289,000**	**289,000**

25.2 Available for sale reserve

	Group / Company	
	2017	2016
	LKR'000	LKR'000
Balance as at 1 January	(15,603)	17
Movement during the year	32,312	(15,620)
Balance as at 31 December	**16,709**	**(15,603)**

25.3 Retained earnings

	Group		Company	
As at 31 December	2017	2016	2017	2016
	LKR'000	LKR'000	LKR'000	LKR'000
AIA Insurance Lanka PLC	10,308,262	4,503,569	10,308,262	4,503,569
Rainbow Trust Management Limited	6,356	4,870	-	-
Balance as at 31 December	**10,314,618**	**4,508,439**	**10,308,262**	**4,503,569**
Total revenue reserves	**10,620,327**	**4,781,836**	**10,613,971**	**4,776,966**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 NET WRITTEN PREMIUM

(a) Gross written premium

For the financial year ended 31 December	Group / Company 2017 LKR'000	Group / Company 2016 LKR'000
Conventional	10,444,606	9,190,066
Unit-linked	1,065,975	913,849
Total gross written premium	**11,510,581**	**10,103,915**

(b) Gross reinsurance premium

For the financial year ended 31 December	Group / Company 2017 LKR'000	Group / Company 2016 LKR'000
Conventional	(262,178)	(241,111)
Unit-linked	(39,945)	(18,954)
Total gross reinsurance premium	**(302,123)**	**(260,065)**

27 INVESTMENT INCOME

For the financial year ended 31 December	Group / Company 2017 LKR'000	Group / Company 2016 LKR'000
Dividend income		
Financial assets at fair value through profit or loss	78,125	76,230
Available for sale financial assets	-	579
	78,125	76,809
Interest income		
Available for sale financial assets	2,355,120	2,574,105
Loans and receivables	2,795,084	2,108,659
	5,150,204	4,682,764
Total investment income	**5,228,329**	**4,759,573**

28 FEE INCOME

For the financial year ended 31 December	Group 2017 LKR'000	Group 2016 LKR'000	Company 2017 LKR'000	Company 2016 LKR'000
Policy administration charges	94,502	95,590	94,502	95,590
Other contract fees	398,916	312,496	398,916	312,497
Trust management fees	1,511	1,345	-	-
Total fee income	**494,929**	**409,431**	**493,418**	**408,087**

29 REALISED GAINS

For the financial year ended 31 December	Group 2017 LKR'000	Group 2016 LKR'000	Company 2017 LKR'000	Company 2016 LKR'000
Property, plant and equipment				
Realised gains	13,254	6,760	13,254	6,760
Financial assets				
Available for sale financial assets				
Debt securities	-	62,102	-	62,102
Fair value through profit or loss				
Equity instruments	58,363	(19,751)	58,363	(19,751)
Total realised gain from financial assets	**58,363**	**42,351**	**58,363**	**42,351**
Total realised gains	**71,617**	**49,111**	**71,617**	**49,111**

30 FAIR VALUE LOSSES

For the financial year ended 31 December	Group 2017 LKR'000	Group 2016 LKR'000	Company 2017 LKR'000	Company 2016 LKR'000
Fair value losses on financial assets at fair value through profit or loss	(30,147)	(201,557)	(30,147)	(201,557)
Total fair value gains and losses	**(30,147)**	**(201,557)**	**(30,147)**	**(201,557)**

31 OTHER OPERATING REVENUE

For the financial year ended 31 December	Group 2017 LKR'000	Group 2016 LKR'000	Company 2017 LKR'000	Company 2016 LKR'000
Interest income on policy loans	220,426	176,138	220,425	176,138
Interest income on other loans	15,376	12,586	15,376	12,586
Interest income on cash and cash equivalents	13,705	17,483	13,037	17,061
Other miscellaneous income	(1,834)	12,787	(1,867)	12,787
Total other operating revenue	**247,673**	**218,994**	**246,971**	**218,572**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 NET CLAIMS AND BENEFITS

For the financial year ended 31 December	Group / Company 2017 LKR'000	2016 LKR'000
Gross claims and benefits	(5,225,181)	(4,834,457)
Claims ceded to reinsurers	87,916	74,843
Net claims and benefits	**(5,137,265)**	**(4,759,614)**

33 NET ACQUISITION EXPENSES

For the financial year ended 31 December	Group / Company 2017 LKR'000	2016 LKR'000
Gross acquisition expenses		
Commission & Franchise fees	(1,850,835)	(1,524,499)
Reinsurance commission	65,325	221,255
Net acquisition expenses	**(1,785,510)**	**(1,303,244)**

34 OPERATING AND ADMINISTRATIVE EXPENSES

For the financial year ended 31 December	Note	Group 2017 LKR'000	Group 2016 LKR'000	Company 2017 LKR'000	Company 2016 LKR'000
Employee benefit expenses	34.1	(1,924,005)	(1,688,729)	(1,924,005)	(1,688,729)
Administrative and establishment expenses		(1,871,694)	(1,556,866)	(1,871,303)	(1,556,280)
Selling expenses		(1,088,443)	(1,137,454)	(1,088,469)	(1,137,291)
Amortisation of intangible assets		(113,479)	(64,636)	(113,479)	(64,636)
Depreciation		(128,111)	(101,676)	(128,111)	(101,676)
Other expenses	34.3	(171,492)	(186,132)	(171,460)	(186,132)
Operating and administrative expenses		**(5,297,224)**	**(4,735,493)**	**(5,296,827)**	**(4,734,744)**

34.1 Employee benefit expenses

For the financial year ended 31 December	Group / Company 2017 LKR'000	2016 LKR'000
Salaries and bonus	(871,982)	(798,006)
Contribution to defined contribution plans	(89,728)	(86,637)
Contribution to defined benefit plans	(46,761)	(37,476)
Staff welfare	(87,690)	(77,825)
Staff training	(47,184)	(48,956)
Others	(780,660)	(639,829)
Employee benefit expenses	**(1,924,005)**	**(1,688,729)**

34.2 Share based payments

During the year, the AIA Group made grants of Restricted Share Units (RSUs) and restricted share purchase units to certain employees, directors and officers of the Group under the RSU Scheme and the ESPP.

RSU scheme

Under the RSU scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the AIA Group during the respective vesting periods. RSU grants are vested either entirely after a specified period of time or in tranches over the vesting period. If the RSU grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the employees at the end of vesting period depending on the actual achievement of the performance conditions. During the vesting period, the eligible participants are not entitled to dividends of the underlying shares.

Employee Share Purchase Plan (ESPP)

Under the plan, eligible employees of the Group can purchase ordinary shares of AIAGL with qualified employee contributions and 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 2017 is LKR 107,949,080 (2016: LKR 54,386,240).

34.3 Other expenses

	Group		Company	
For the financial year ended 31 December	2017 LKR'000	2016 LKR'000	2017 LKR'000	2016 LKR'000
Increase in provision for bad and doubtful debts	(2,629)	(1,084)	(2,629)	(1,084)
Other technical expenses	(52,722)	(66,734)	(52,722)	(66,734)
Investment expenses	(115,946)	(114,849)	(115,946)	(114,849)
Other non-technical expenses	(195)	(3,465)	(163)	(3,465)
Total other expenses	**(171,492)**	**(186,132)**	**(171,460)**	**(186,132)**

35 PROFIT BEFORE TAX

Profit before tax for the year is stated after charging all expenses including the following;

	Group		Company	
For the financial year ended 31 December	2017 LKR'000	2016 LKR'000	2017 LKR'000	2016 LKR'000
Auditors' remuneration				
- Audit	4,157	4,136	4,017	3,996
- Non-audit	1,413	1,199	1,413	1,199
Directors'/ Chief Executive Officer's emoluments	162,232	168,479	162,232	168,479
Directors' fees	8,400	5,950	8,400	5,950
Legal fees	4,838	8,180	4,838	8,180
Donations	5,472	6,584	5,472	6,584
Provision for bad and doubtful debts	2,629	1,084	2,629	1,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36 INCOME TAX EXPENSES

For the financial year ended 31 December	Group 2017 LKR'000	Group 2016 LKR'000	Company 2017 LKR'000	Company 2016 LKR'000
Current income tax				
Current income tax expense	(3,501)	(2,490)	(3,170)	(2,305)
Adjustments of prior periods recognised in the period	-	(7)	-	-
Notional tax unutilised during the year	(264,924)	(255,105)	(264,925)	(255,105)
	(268,425)	(257,602)	(268,095)	(257,410)
Deferred income tax				
Deferred tax income / (expenses)	30,227	(25,988)	30,227	(25,988)
Total income tax expense	**(238,198)**	**(283,590)**	**(237,868)**	**(283,398)**

The applicable tax rate - 28% (2016 : 28%)

36.1 Reconciliation of tax charge

For the financial year ended 31 December	Group 2017 LKR'000	Group 2016 LKR'000	Company 2017 LKR'000	Company 2016 LKR'000
Profit before tax	7,598,914	794,266	7,597,098	793,249
Applicable tax rate	28%	28%	28%	28%
Tax at applicable rate	2,127,696	222,394	2,127,187	222,110
Add / (less) tax effect of the following items:				
Insurance premiums & income not subject to tax	(3,675,012)	(2,745,682)	(3,675,012)	(2,745,682)
Insurance claims not deductible for taxes	1,042,732	2,211,000	1,042,732	2,211,000
Tax free investment income	(462,322)	(334,697)	(462,322)	(334,697)
Other non-deductible expenses	20,996	24,974	20,996	24,963
Tax loss on which deferred tax asset is not recognised	919,184	650,496	919,363	650,599
Unutilised notional tax for the year	264,924	255,105	264,924	255,105
Tax charge for the year	**238,198**	**283,590**	**237,868**	**283,398**

Notional tax credit for withholding tax on Government securities

The Inland Revenue Act No. 10 of 2006 as amended by subsequent legislation provides that a company which derives interest income from secondary market transactions in Government securities (on or after 1 April 2002 would be entitled to a notional tax credit being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company.

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

Financial year	Notional tax credit available LKR'000
2003	123,980
2004	68,027
2005	74,741
2006	100,114
2007	122,511
2008	171,156
2009	238,462
2010	269,058
2011	289,244
2012	350,201
2013	330,427
2014	232,243
2015	215,965
2016	257,411
2017	268,211
	3,111,751
Set-off against tax liability up to Y/A 2016 / 2017	(1,073,213)
Balance available to set-off against future tax liability	**2,038,538**

37 PROFIT AFTER TAX

The profit after tax of the Company includes the surplus from its Life insurance business. The surplus from the policyholders' fund for the financial year 2017 stood at LKR 7,081 million (2016 : LKR 315 million) contributing 96.2 per cent (2016 : 61.8 per cent) of the reported profit after tax of the Company.

The increase in surplus during 2017 arises primarily due to the downward shift in market interest rates during the year which resulted in significant movements in assets and liabilities which are measured at fair value under the Risk-Based Capital regime for solvency, as per the regulations issued by the Insurance Regulatory Commission of Sri Lanka. An associated reduction in risk capital charges, owing to the same downward shift in market interest rates, further contributed towards the increase in the surplus.

38 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.

		Group		Company	
For the financial year ended 31 December		2017	2016	2017	2016
Profit attributable to the Company's equity holders	(LKR'000)	7,360,716	510,676	7,359,230	509,851
Weighted average number of ordinary shares in issue	('000)	30,749	30,749	30,749	30,749
Basic earnings per share	(LKR)	239.38	16.61	239.33	16.58

39 DIVIDEND PER SHARE

The dividends paid in 2017 and 2016 were LKR 1,537,468,500 (LKR 50.00 per share) and1,522,093,815 (LKR 49.50 per share) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40 RELATED PARTY DISCLOSURES

40.1 Transactions with related entities

Details of significant related party disclosures are as follows;

Nature of transaction	AIA Holdings Lanka (Private) Limited		AIA Company Limited		AIA Group Limited		AIA Shared Services (Hong Kong) Limited		AIA Shared Services Sdn. Bhd.		AIAIT (Guangzhou) Company Limited		AIA Information Technology (Beijing) Company Limited	
	Immediate parent		Parent		Ultimate parent		Fellow subsidiary		Fellow subsidiary		Fellow subsidiary		Fellow subsidiary	
For the year ended 31 December	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Group recharges (LKR'000)	-	-	(383,621)	(140,000)	(72,486)	(79,933)	(138,176)	(101,290)	(38,641)	(791)	(10,520)	(828)	(6,782)	-
Dividend paid (LKR'000)	(1,341,836)	(1,215,586)	(151,911)	(137,618)	-	-	-	-	-	-	-	-	-	-

40.2 Transactions with Key Management Personnel of the Company or Parent and their close family members

The Key Management Personnel of the Company are the members of its Executive Committee including 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	2017 LKR'000	2016 LKR'000
Directors' / CEO's remuneration	55,630	56,635
Short-term employee benefits	106,602	105,228
Contribution to defined contribution plans	-	6,616
Premiums paid for Directors and Officers Liability policy *	3,197	-
Directors' fees	8,400	5,950
	173,829	**174,429**

* 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

	2017 LKR'000	2016 LKR'000
Advance granted to Directors/ CEO	10,850	10,890
Outstanding balance as at 31 December	10,850	10,890
Consideration* recognised in the Financial Statements	1,116	-

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

c) Other transactions
Business transactions of Key Management Personnel

For the financial year ended 31 December	2017 LKR'000	2016 LKR'000
Premium paid on insurance policies taken by Directors in their individual capacity	105	105
	105	**105**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40 RELATED PARTY DISCLOSURES (CONTD.)

40.3 Transactions with other related parties

Transactions by Key Management Personnel with other companies

(Directors of the Company who were also Directors / Key Management Personnel of the following entities which have had transactions with the Company).

Company	Name of the Director	Position	Relationship	Details of financial dealings
AIA Company Limited	William Lisle	Director	AIA Company Limited is the parent of AIA Insurance Lanka PLC	This company has Intra-Group master services agreement & SOW relating to Group Distribution organised events with AIA Insurance Lanka PLC
AIA Group Limited	William Lisle	Regional Chief Executive	AIA Group Limited is the parent of AIA Company Limited	This company has Intra-Group master services agreement & SOW relating to long term incentive awards of employees of AIA Insurance Lanka PLC
Singer Sri Lanka PLC	Deepal Sooriyaarachchi	Director	No relationship with AIA Insurance Lanka PLC	AIA Insurance Lanka PLC has transactions in the ordinary course of business with Singer Sri Lanka PLC
Sampath Bank PLC	Deepal Sooriyaarachchi	Director	No relationship with AIA Insurance Lanka PLC	AIA Insurance Lanka PLC has transactions in the ordinary course of business with Sampath Bank PLC
National Development Bank PLC	Sarath Wikramanayake	Director	No relationship with AIA Insurance Lanka PLC	AIA Insurance Lanka PLC has transactions in the ordinary course of business with National Development Bank PLC
NDB Wealth Management Limited	Sarath Wikramanayake	Director	No relationship with AIA Insurance Lanka PLC	AIA Insurance Lanka PLC has transactions in the ordinary course of business with NDB Wealth Management Limited

41 CONTINGENT LIABILITIES

41.1 Outstanding tax assessments

The Department of Inland Revenue (DIR) has issued an assessment in relation to the year ending 31 December 2003, mainly imposing VAT on reinsurance commissions and claim recoveries. The Company has made an appeal against the assessment and the matter at present is before the Court of Appeal. As per the opinion of the legal / tax experts, the matter would be concluded in 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 date of the Statement of Financial Position.

The Company has also received assessments relating to income taxes for the assessment periods from 2010/11 to 2014/15. DIR has disallowed management expenses relating to the Life insurance business including capital allowance. The Company disagreed with this assessment and an appeal has been filed following due process. Based on the information available and expert advice received, the Directors are confident that the ultimate resolution of the above contingency is unlikely to have a material adverse effect on the financial position of the Company. Hence no provision has been made in the financial statements.

Additionally the Company has received VAT assessments to the value of LKR 1.6 million from the DIR, in relation to which appeals have been filed.

41.2 Bank guarantees

The company has provided bank guarantees to third parties amounting to LKR 245 million as at 31 December 2017. None of these guarantees were in relation to any facilities obtained by the Group. The expiration date of these guarantees are based on those legal and contractual requirements of each instance where the Group was required to provide such guarantees. The directors do not expect any claim on these guarantees. Accordingly, no provisions has been made in the financial statements as at 31 December 2017.

41.3 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.

42 Events after the reporting period

The Board of Directors approved the distribution of a first and final dividend of LKR 91.00 per share on 14 February 2018, 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. 7 of 2007, the Board of Directors confirmed that the Company satisfies the solvency test in accordance with Section 57 of the Companies Act No. 7 of 2007, and has obtained a certificate from the auditors, prior to approving the first and final dividend of LKR 91.00 per share.

In accordance with LKAS 10, 'Events After the Reporting Period', the first and final dividend that has been approved by the Board of Directors has not been recognised as a liability in these financial statements as at 31 December 2017. No events have occurred since the date of the Statement of Financial Position that necessitates adjustments to / or disclosure in the financial statements.

OTHER INFORMATION

QUARTERLY ANALYSIS 2017

INCOME STATEMENT - GROUP

	1st quarter Jan - Mar 17 LKR'000	2nd quarter Apr - Jun 17 LKR'000	3rd quarter Jul - Sep 17 LKR'000	4th quarter Oct - Dec 17 LKR'000	Total Jan - Dec 17 LKR'000
Gross written premium	2,631,257	2,900,745	2,882,511	3,096,068	11,510,581
Gross reinsurance premium	(66,687)	(68,665)	(80,656)	(86,115)	(302,123)
Net written premium	**2,564,570**	**2,832,080**	**2,801,855**	**3,009,953**	**11,208,458**
Other revenue					
Investment income	1,273,048	1,362,675	1,239,056	1,353,550	5,228,329
Fee income	119,446	116,558	118,513	140,412	494,929
Realised gains	4,856	24,844	7,179	34,738	71,617
Fair value gains / (losses)	(50,612)	133,124	(80,339)	(32,320)	(30,147)
Other operating revenue	50,373	94,419	52,713	50,168	247,673
	1,397,111	**1,731,620**	**1,337,122**	**1,546,548**	**6,012,401**
Total revenue	**3,961,681**	**4,563,700**	**4,138,977**	**4,556,501**	**17,220,859**
Net claims and benefits	(1,418,198)	(1,093,817)	(1,419,914)	(1,205,336)	(5,137,265)
Change in contractual liability	(828,744)	(1,583,626)	(805,294)	5,815,718	2,598,054
Net acquisition expenses	(407,239)	(503,401)	(411,738)	(463,132)	(1,785,510)
Operating and administrative expenses	(1,171,301)	(1,279,953)	(1,352,661)	(1,493,309)	(5,297,224)
Profit before tax	**136,199**	**102,903**	**149,370**	**7,210,442**	**7,598,914**
Income tax expense	(64,998)	(39,115)	(95,594)	(38,491)	(238,198)
Profit for the period	**71,201**	**63,788**	**53,776**	**7,171,951**	**7,360,716**

INCOME STATEMENT - COMPANY

	1st quarter Jan - Mar 17 LKR'000	2nd quarter Apr - Jun 17 LKR'000	3rd quarter Jul - Sep 17 LKR'000	4th quarter Oct - Dec 17 LKR'000	Total Jan - Dec 17 LKR'000
Gross written premium	2,631,257	2,900,745	2,882,511	3,096,068	11,510,581
Gross reinsurance premium	(66,687)	(68,665)	(80,656)	(86,115)	(302,123)
Net written premium	**2,564,570**	**2,832,080**	**2,801,855**	**3,009,953**	**11,208,458**
Other revenue					
Investment income	1,273,048	1,362,675	1,239,056	1,353,550	5,228,329
Fee income	119,096	116,421	117,886	140,015	493,418
Realised gains	4,856	24,844	7,179	34,738	71,617
Fair value gains / (losses)	(50,612)	133,124	(80,339)	(32,320)	(30,147)
Other operating revenue	50,219	94,203	52,544	50,005	246,971
	1,396,607	**1,731,267**	**1,336,326**	**1,545,988**	**6,010,188**
Total revenue	**3,961,177**	**4,563,347**	**4,138,181**	**4,555,941**	**17,218,646**
Net claims and benefits	(1,418,198)	(1,093,817)	(1,419,914)	(1,205,336)	(5,137,265)
Change in contractual liability	(828,744)	(1,583,626)	(805,294)	5,815,718	2,598,054
Net acquisition expenses	(407,239)	(503,401)	(411,738)	(463,132)	(1,785,510)
Operating and administrative expenses	(1,170,979)	(1,280,056)	(1,352,362)	(1,493,430)	(5,296,827)
Profit before tax	**136,017**	**102,447**	**148,873**	**7,209,761**	**7,597,098**
Income tax expense	(64,970)	(38,987)	(95,544)	(38,367)	(237,868)
Profit for the period	**71,047**	**63,460**	**53,329**	**7,171,394**	**7,359,230**

QUARTERLY ANALYSIS 2016

INCOME STATEMENT - GROUP

	1st quarter Jan - Mar 16 LKR'000	2nd quarter Apr - Jun 16 LKR'000	3rd quarter Jul - Sep 16 LKR'000	4th quarter Oct - Dec 16 LKR'000	Total Jan - Dec 16 LKR'000
Gross written premium	2,372,194	2,485,684	2,567,033	2,679,004	10,103,915
Gross reinsurance premium	(59,247)	(68,869)	(68,375)	(63,574)	(260,065)
Net written premium	**2,312,947**	**2,416,815**	**2,498,658**	**2,615,430**	**9,843,850**
Other revenue					
Investment income	1,107,082	1,189,869	1,215,615	1,247,007	4,759,573
Fee income	102,263	96,016	102,486	108,666	409,431
Realised gains / (losses)	26,418	(14,949)	40,111	(2,469)	49,111
Fair value gains / (losses)	(337,212)	41,850	151,652	(57,847)	(201,557)
Other operating revenue	68,746	50,753	45,234	54,261	218,994
	967,297	**1,363,539**	**1,555,098**	**1,349,618**	**5,235,552**
Total revenue	**3,280,244**	**3,780,354**	**4,053,756**	**3,965,048**	**15,079,402**
Net claims and benefits	(1,217,625)	(1,117,138)	(1,131,654)	(1,293,197)	(4,759,614)
Change in contractual liability	(606,221)	(1,123,811)	(1,280,062)	(476,691)	(3,486,785)
Net acquisition expenses	(228,474)	(294,917)	(355,274)	(424,579)	(1,303,244)
Operating and administrative expenses	(1,085,422)	(1,144,534)	(1,134,298)	(1,371,239)	(4,735,493)
Profit before tax	**142,502**	**99,954**	**152,468**	**399,342**	**794,266**
Income tax expense	(55,976)	(66,968)	(73,295)	(87,351)	(283,590)
Profit for the period	**86,526**	**32,986**	**79,173**	**311,991**	**510,676**

INCOME STATEMENT - COMPANY

	1st quarter Jan - Mar 16 LKR'000	2nd quarter Apr - Jun 16 LKR'000	3rd quarter Jul - Sep 16 LKR'000	4th quarter Oct - Dec 16 LKR'000	Total Jan - Dec 16 LKR'000
Gross written premium	2,372,194	2,485,684	2,567,033	2,679,004	10,103,915
Gross reinsurance premium	(59,247)	(68,869)	(68,375)	(63,574)	(260,065)
Net written premium	**2,312,947**	**2,416,815**	**2,498,658**	**2,615,430**	**9,843,850**
Other revenue					
Investment income	1,107,082	1,189,869	1,215,615	1,247,007	4,759,573
Fee income	101,933	95,699	102,141	108,314	408,087
Realised gains / (losses)	26,418	(14,949)	40,111	(2,469)	49,111
Fair value gains / (losses)	(337,212)	41,850	151,652	(57,847)	(201,557)
Other operating revenue	68,667	50,653	45,124	54,128	218,572
	966,888	**1,363,122**	**1,554,643**	**1,349,133**	**5,233,786**
Total revenue	**3,279,835**	**3,779,937**	**4,053,301**	**3,964,563**	**15,077,636**
Net claims and benefits	(1,217,625)	(1,117,138)	(1,131,654)	(1,293,197)	(4,759,614)
Change in contractual liability	(606,221)	(1,123,811)	(1,280,062)	(476,691)	(3,486,785)
Net acquisition expenses	(228,474)	(294,917)	(355,274)	(424,579)	(1,303,244)
Operating and administrative expenses	(1,085,299)	(1,144,346)	(1,134,197)	(1,370,902)	(4,734,744)
Profit before tax	**142,216**	**99,725**	**152,114**	**399,194**	**793,249**
Income tax expense	(55,920)	(66,924)	(73,237)	(87,317)	(283,398)
Profit for the period	**86,296**	**32,801**	**78,877**	**311,877**	**509,851**

FIVE YEAR SUMMARY

As at 31 December	2017 LKR '000	2016 LKR '000 Restated	2015 LKR '000 Restated	2014 LKR '000 Restated	2013 LKR '000 Restated
Consolidated Statement of Financial Position					
Group					
Assets					
Investments	40,722,460	34,829,199	35,664,879	33,943,900	30,398,645
Investments - Unit-linked	5,013,288	5,258,443	5,565,077	6,499,893	7,476,508
Property, plant and equipment	746,542	229,169	300,079	358,634	303,473
Other assets	6,101,705	5,767,405	4,287,776	6,696,267	5,875,154
Total assets	**52,583,995**	**46,084,216**	**45,817,811**	**47,498,694**	**44,053,780**
Equity and liabilities					
Equity					
Stated capital	511,922	511,922	511,922	300,000	300,000
Revaluation reserve	152,176	72,096	72,096	72,096	72,096
Resilience reserve	289,000	289,000	289,000	289,000	289,000
Retained earnings	10,331,327	4,492,836	5,493,899	4,225,573	3,924,237
Total equity	**11,284,425**	**5,365,854**	**6,366,917**	**4,886,669**	**4,585,333**
Liabilities					
Insurance provision - Conventional	33,183,852	32,929,907	31,228,082	29,466,134	26,022,627
Insurance provision - Unit-linked	5,013,288	5,258,443	5,565,077	6,499,893	7,476,508
Insurance provision - General	-	-	-	2,956,174	2,755,899
Other liabilities	3,102,430	2,530,012	2,657,735	3,689,824	3,213,413
Total liabilities	**41,299,570**	**40,718,362**	**39,450,894**	**42,612,025**	**39,468,447**
Total equity and liabilities	**52,583,995**	**46,084,216**	**45,817,811**	**47,498,694**	**44,053,780**
Long term - supplemental					
Assets					
Investments	31,612,884	31,010,754	30,075,237	28,664,494	25,431,589
Investments - Unit-linked	5,013,288	5,258,443	5,565,077	6,499,893	7,476,508
Other assets	4,058,519	3,976,927	3,256,546	3,062,939	2,382,722
Total assets	**40,684,691**	**40,246,124**	**38,896,860**	**38,227,326**	**35,290,819**
Liabilities					
Insurance provision - Long term	33,183,852	32,929,907	31,228,082	29,466,134	26,022,627
Insurance provision - Unit-linked	5,013,288	5,258,443	5,565,077	6,499,893	7,476,508
Other liabilities	2,487,551	2,057,774	2,103,701	2,261,299	1,791,684
Total liabilities	**40,684,691**	**40,246,124**	**38,896,860**	**38,227,326**	**35,290,819**

For the financial year ended 31 December	2017 LKR '000	2016 LKR '000 Restated	2015 LKR '000 Restated	2014 LKR '000 Restated	2013 LKR '000 Restated
Consolidated Income Statement					
Total business (Group)					
Annualised new premium	4,488,403	4,351,560	3,894,229	3,460,035	2,976,393
Gross written premium	11,510,581	10,103,915	8,433,333	7,266,573	6,863,047
Gross reinsurance premium	(302,123)	(260,065)	(232,041)	(204,627)	(253,493)
Net written premium	11,208,458	9,843,850	8,201,292	7,061,946	6,609,554
Other revenue	6,012,401	5,235,552	4,413,413	5,028,429	4,382,419
Total revenue	17,220,859	15,079,402	12,614,705	12,090,375	10,991,973
Net claims and benefits	(5,137,265)	(4,759,614)	(4,870,695)	(6,747,851)	(5,652,349)
Change in contractual liability	2,598,054	(3,486,785)	(2,486,281)	(770,140)	(1,050,408)
Net acquisition expenses	(1,785,510)	(1,303,244)	(1,245,925)	(941,563)	(815,996)
Operating and administrative expenses	(5,297,224)	(4,735,493)	(3,493,276)	(3,157,737)	(2,996,996)
Profit before tax	**7,598,914**	**794,266**	**518,528**	**473,084**	**476,224**
Income tax expense	(238,198)	(283,590)	(215,365)	(210,218)	(293,067)
Surplus transfer to shareholders' fund	7,080,769	314,760	100,000	100,000	200,000
Profit for the period from continuing operations	7,360,716	510,676	303,163	262,866	183,157
Profit for the period of discontinued operations (net of tax)	-	-	1,187,450	89,573	316,136
Profit for the period	**7,360,716**	**510,676**	**1,490,613**	**352,439**	**499,293**

Investor Information						
Financial year		**2017**	**2016**	**2015**	**2014**	**2013**
Return on net assets	%	88.42	8.71	5.38	7.44	11.54
Net assets per share	LKR	366.98	174.50	207.06	158.92	149.12
Market price per share - 31 December	LKR	327.5	280.10	292.00	302.00	250.70
Basic earnings per share	LKR	239.38	16.61	9.86	8.55	5.96
Price earnings ratio	times	1.37	16.87	29.62	35.33*	42.09*
Market capitalisation	LKR Mn	10,070	8,613	8,979	9,060	7,521
Dividend per share	LKR	50.00	49.50	7.07	2.00*	2.50*
Dividend payout ratio ***	%	20.89	298.05	71.71	23.40*	41.97*
Earnings yield	%	73.09	5.93	3.38	2.83	2.38
Dividend yield	%	15.27	17.67	2.42	0.66*	1.00*
Employee Information						
Revenue per employee **	LKR Mn	21.88	18.50	15.63	15.87	16.02
Net profit per employee **	LKR' 000	9,353	627	376	345	267
Number of permanent employees **	nos.	787	815	807	762	686

* Adjusted to reflect the issue of 749,370 new ordinary shares as a scrip dividend on 6 February 2015.

** Continuing operations only.

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

SHARE INFORMATION

SHAREHOLDING

As at 31 December 2017 there were 1,857 registered shareholders.

DISTRIBUTION OF ORDINARY SHARES

	Resident			Non-resident			Total		
Shareholding	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
1 - 1,000	1,675	329,004	1.07	8	950	0	1,683	329,954	1.07
1001 - 10,000	163	412,287	1.34	1	1,828	0.01	164	414,115	1.35
10,001 - 100,000	8	130,366	0.42	0	0	0	8	130,366	0.42
100,001 - 1,000,000	0	0	0	0	0	0	0	0	0
Over 1,000,000	1	26,836,716	87.28	1	3,038,219	9.88	2	29,874,935	97.16
Total	**1,847**	**27,708,373**	**90.11**	**10**	**3,040,997**	**9.89**	**1,857**	**30,749,370**	**100**

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

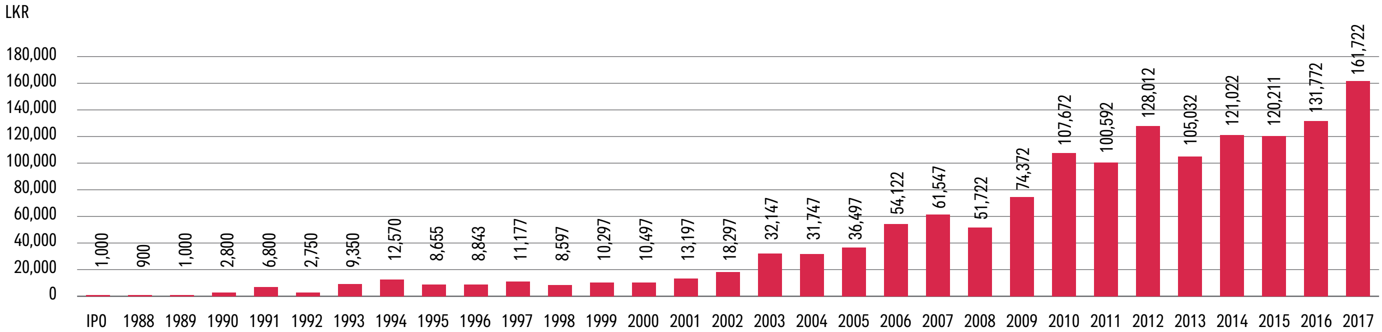
CATEGORIES OF SHAREHOLDERS

	Resident			Non-resident			Total		
Categories	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Individual	1,787	751,452	2.44	9	2,778	0.01	1,796	754,230	2.45
Institutional	60	26,956,921	87.67	1	3,038,219	9.88	61	29,995,140	97.55
Total	**1,847**	**27,708,373**	**90.11**	**10**	**3,040,997**	**9.89**	**1,857**	**30,749,370**	**100**

SUBSTANTIAL SHAREHOLDING

Name of the shareholder	No. of shares	%
AIA Holdings Lanka (Private) Limited	26,836,716	87.28
AIA Company Limited	3,038,219	9.88

Value of LKR. 1,000 invested at the IPO



20 LARGEST SHAREHOLDERS

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

Name of the shareholder	31 December 2017 No. of shares	%
AIA Holdings Lanka (Private) Limited	26,836,716	87.28
AIA Company Limited	3,038,219	9.88
Mr. Srikantha Rasaratnam	38,435	0.12
Bansei Securities Capital (Pvt) LTD / Dawi Investment Trust (Pvt) LTD	15,463	0.05
Miss. A S Gunaratne	15,375	0.05
Mr. N W H D Gunaratne	15,375	0.05
Mr. Chandra Jayaratne	13,220	0.04
People's Leasing & Finance PLC / Dr. H S D Soysa & Mrs. G Soysa	11,819	0.04
People's Leasing & Finance PLC / Mr. C D Kohombanwickramage	10,530	0.03
People's Leasing & Finance PLC / M V D Ranasinghe	10,149	0.03
Mr. Aravinthan Sivarajah	9,891	0.03
Mr. Varatharajah Selvaratnam	7,685	0.02
Mr. S K Kader / Mrs. N M Kader	7,685	0.02
Mrs. Thevarajah Sithamparam	7,684	0.02
People's Leasing & Finance PLC / L H L M P Haradasa	7,595	0.02
Mr. S P K Chamara Perera	7,436	0.02
Mr. H Janak Bhagwandas	7,224	0.02
Forbes & Walker Limited	7,000	0.02
Mr. P Manjula Pathiraja / Mrs. D A O Kandamudali	6,656	0.02
Mr. R T Manatunga / Mrs. C N C Manatunga	6,150	0.02
	30,080,307	**97.78**
Others	669,063	2.22
Total	**30,749,370**	**100**

The 20 largest shareholders as at 31 December 2016 are given below.

Name of the shareholder	31 December 2016 No. of shares	%
AIA Holdings Lanka (Private) Limited	26,836,716	87.28
AIA Company Limited	3,038,219	9.88
Mr. Srikantha Rasaratnam	38,435	0.12
People's Leasing and Finance PLC / Mr. C D Kohombanwickramage	24,787	0.08
Bansei Securities Capital (Pvt) LTD / Dawi Investment Trust (Pvt) LTD	15,463	0.05
Miss. A S Gunaratne	15,375	0.05
Mr. N W H D Gunaratne	15,375	0.05
Mr. Chandra Jayaratne	13,220	0.04
People's Leasing & Finance PLC / M V D Ranasinghe	11,649	0.04
Mr. Aravinthan Sivarajah	9,891	0.03
People's Leasing & Finance PLC / L P Hapangama	9,763	0.03
Waldock Mackenzie LTD / Dr. H S D Soysa	8,244	0.03
Mr. Varatharajah Selvaratnam	7,685	0.02
Mr. S K Kader / Mrs. N M Kader	7,685	0.02
People's Leasing & Finance PLC / L H L M P Haradasa	7,595	0.02
Mr. S P K Chamara Perera	7,436	0.02
Mr. H Janak Bhagwandas	7,224	0.02
Mrs. Thevarajah Sithamparam	7,184	0.02
Mr. Sivagnanam Sathasivam	6,387	0.02
Mr. R T Manatunga / Mrs. C N C Manatunga	6,150	0.02
	30,094,483	**97.84**
Others	654,887	2.16
Total	**30,749,370**	**100**

SHARE INFORMATION

SHARE VALUATION

The market value of the Company's ordinary shares as at 31 December 2017 was LKR 327.50 (31 December 2016 : LKR 280.10).

RECORD OF SCRIPT ISSUES

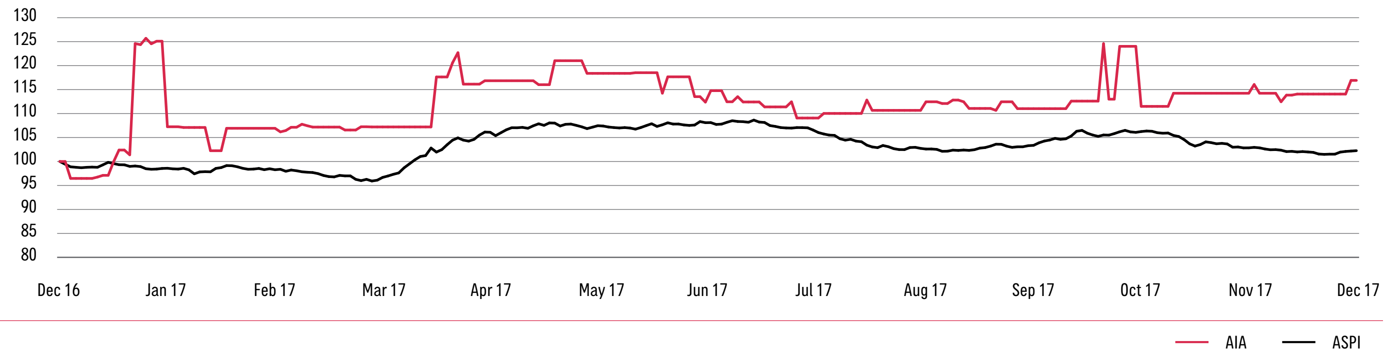
Year of Issue	Type of Issue	Ratio
1994	Bonus	1:05
1995	Bonus	1:04
1996	Bonus	1:04
1997	Bonus	1:15
2005	Bonus	1:02
2015	Bonus	1:40

SHARE PERFORMANCE

	2017	2016
No. of transactions	831	817
No. of shares traded	49,358	47,455
Total value of shares traded (LKR)	15,984,999	14,057,905
CSE Turnover (LKR mn)	220,591	178,255
CSE market cap. (LKR mn)	2,899,291	2,745,406
AIA market cap. (LKR mn)	10,070	8,613
Float adjusted market cap. (LKR mn)	286	245
All Share Price Index - 31 December	6,369.26	6,228.26
AIA Share Price - 31 December (LKR)	327.50	280.10
AIA Share Price - High (LKR)	358.00	345.00
AIA Share Price - Low (LKR)	270.00	230.00
Earnings per share (LKR)	239.38	16.61
P/E Ratio (times)	1.37	16.87
Net assets per share (LKR)	366.98	174.50
Return on net assets (%)	88.42	8.71

CSE ASPI Index Vs AIA Share Price

Indexed to 31 December 2016

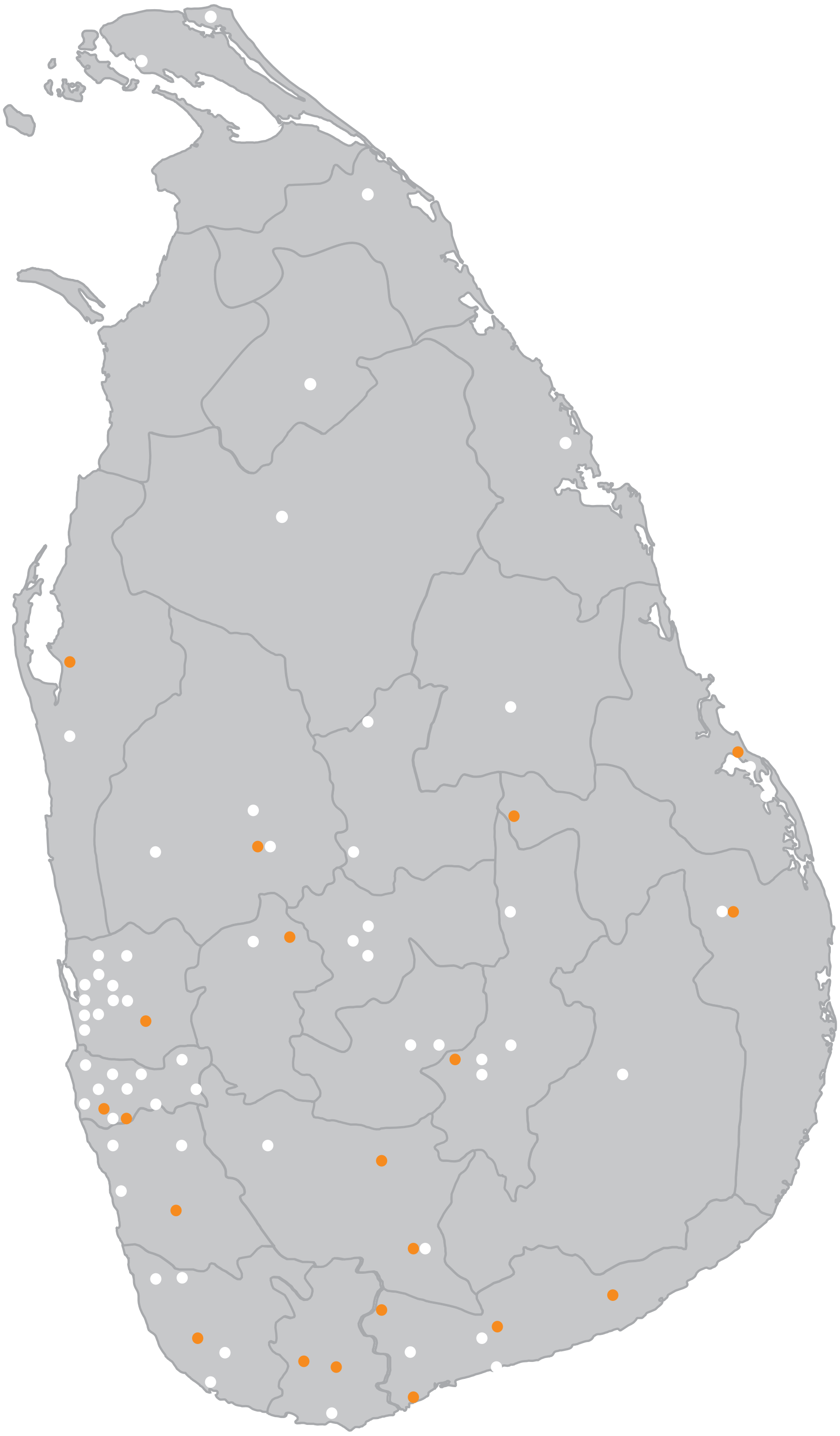


OUR LOCAL REACH

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

AREA DEVELOPMENT OFFICE NETWORK

Akuressa
Ampara
Angunakolapelessa
Baddegama
Balangoda
Bandaragama
Dehiattakandiya
Embilipitiya
Hali Ela
Kurunegala
Kamburupitiya
Mathugama
Mawanella
Middeniya
Moratuwa
Piliyanadala
Puttalam
Tangalle
Thissamaharama
Weliweriya



Area Development Office Network

DISTRIBUTION NETWORK

HEAD OFFICE

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

BRANCH OFFICE NETWORK

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

Ambalantota Region 1
143 Main Street, Ambalantota
Tel : 047 222 3359 / 437 9672
Fax : 047 222 5022

Ambalantota Region 2
143 Main Street, Ambalantota
Tel : 047 222 3359 / 437 9672
Fax : 047 222 5022

Ambalantota City
143 Main Street, Ambalantota
Tel : 047 222 3099 / 100/102
Fax : 047-222 3099

Ampara
149 Nidahas Mawatha, Ampara
Tel : 063 222 3664 / 222 3663
Fax : 063 222 2554

Anuradhapura
523/7 Maithripala Senanayake Mawatha, Anuradhapura
Tel : 025 222 0858 / 223 4150
Fax : 025 222 3102

Anuradhapura City
523/7 Maithripala Senanayake Mawatha, Anuradhapura
Tel : 025 222 7300 / 222 7301
Fax : 025 222 7301

Anuradhapura Region 1
523/7 Maithripala Senanayake Mawatha, Anuradhapura
Tel : 025 205 4022
Fax : 025 222 3102

Avissawella
93/1/1 Rathnapura Road, Avissawella
Tel : 036 223 2597
Fax : 036 223 3550

Avissawella Region 1
93/1/1 Rathnapura Road, Avissawella
Tel : 036 223 2597 / 223 3550
Fax : 036 223 3550

Badulla
King City 18/1/2, Dharmadutha Road, Badulla
Tel : 055 222 2848 / 223 0772
Fax : 055 222 5780

Badulla Region 1
King City 18/1/2, Dharmadutha Road, Badulla
Tel : 055 222 2848 / 223 0772
Fax : 055 222 5780

Badulla Region 2
King City 18/1/2, Dharmadutha Road, Badulla
Tel : 055 222 2848 / 223 0772
Fax : 055 222 5780

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

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

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

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

Beliatta
14 First Floor, Dickwella Road, Beliatta
Tel : 047 225 1126 / 27
Fax : 047 225 1127

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

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

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

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

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

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

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

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

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

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

Dambulla Region 2
734/1 Anuradhapura Road, Dambulla
Tel : 066 228 3335 / 334
Fax : 066 228 3465

Embilipitiya Region 1
First Floor, Lakmini Supermarket Building
51 Main Street, Embilipitiya
Tel : 047 223 0417

Embilipitiya Main
First Floor, Lakmini Supermarket Building
51 Main Street, Embilipitiya
Tel : 047 223 0416
Fax : 047 226 1919

Galle
32 Old Matara Road, Pettigala Watta, Galle
Tel : 091 224 6733 / 223 2261
Fax : 091 223 2261

Galle Region 1
32 Old Matara Road, Pettigala Watta, Galle
Tel : 091 224 6733 / 223 2261
Fax : 091 223 2261

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

Gampaha Region 1
85 Bauddhaloka Mawatha, Gampaha
Tel : 033 222 7393
Fax : 033 223 4700

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

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

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

Horana
135 Panadura Road, Horana
Tel/ Fax : 034 226 2359

Ja-Ela
112/C Negombo Road, Ja-Ela
Tel/ Fax : 011 224 8222 / 224 8223 / 224 8224

Jaffna
62/6 Stanley Road, Jaffna
Tel/Fax : 021 222 1215 / 222 1216

Jaffna Metro
62/6 Stanley Road, Jaffna
Tel/Fax : 021 222 1215 / 222 1216

Kaduwela
296/A/1 New Kandy Road, Kothalawala, Kaduwela
Tel : 011 253 8856
Fax : 011 253 8859

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 Region 2
Commercial Bank Building, Sixth Floor, 90 - 92, Kotugodella Veediya, Kandy
Tel : 081 220 0100/ 220 0101 / 222 2322 / 222 2321
Fax : 081 223 2668

Karapitiya
461 Hirimbura Road, Karapitiya, Galle
Tel : 091 222 6830
Fax : 091 224 6627

Karapitiya Region 1
183/1 Hirimbura Cross Road, Karapitiya, Galle
Tel : 091 223 1614 / 613
Fax : 091 223 1613

Kegalle
447/8 Main Street, Kegalle
Tel : 035 2222171 / 222 2835
Fax : 035 223 1780

Kegalle Region 1
447/8 Main Street, Kegalle
Tel :035 222 2835 / 2222117
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 / 222 9998

Kurunegala Region 1
110/1 Noel Seneviratne Mawatha, Colombo Road, Kurunegala
Tel : 037 222 1217
Fax : 037 222 7707

Kurunegala Region 2
110/1 Noel Seneviratne Mawatha, Colombo Road, Kurunegala
Tel 037 222 3990
Fax : 037 222 7707

Kurunegala Region 3
110/1 Noel Seneviratne Mawatha, Colombo Road, Kurunegala
Tel/ Fax : 037 222 3990 / 222 7707
Fax : 037 222 7707 / 222 9998

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

Matale Region 1
181 Nimali Building, Trincomalee Street, Matale
Tel/ Fax : 066 223 2401-2-3

Matara
24 E H Cooray Building, Third Floor, Anagarika Dharmapala Mawatha, Matara
Tel : 041 222 2844 / 222 0674 / 222 6344
Fax : 041 222 7344

Matara Region 1
24 E H Cooray Building, Third Floor, Anagarika Dharmapala Mawatha, Matara
Tel : 041 222 0674 / 222 6344 /
Fax : 041 222 7344

Mirigama
19, Negombo Road, Mirigama
Tel : 033 227 3328 / 73 329
Fax : 033 227 3328

Minuwangoda
63, Second floor, Sanasa Super Complex, Veyangoda Road, Minuwangoda
Tel : 011 229 9364 / 229 9374
Fax : 011 229 9374

Moneragala
308A Kachcheri Junction, 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

DISTRIBUTION NETWORK

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

Nikaweratiya
78/2, Wanninayake Building, Nikaweratiya
Tel : 037 226 0774 / 226 0776
Fax : 037 226 0774

Nittambuwa
195/2/3 Colombo Road, Nittambuwa
Tel : 033 229 8279 / 229 8271
Fax : 033 229 8271

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

Pilimathalawa
169/A Colombo Road, Pilimathalawa
Tel : 081 205 6352 / 54

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

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

Ragama City
141/1 Kadawatha Road, Ragama
Tel : 011 295 1078

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

Trincomalee
5A, Main Street, Trincomalee
Tel/ Fax : 026 222 7949/ 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

Welimada
232, First Floor, Nuwaraeliya Road, Welimada
Tel : 057 224 6878 / 224 5177
Fax : 057 224 5177

Wennappuwa
"Chamrith" Tile Factory, Halmilla Kele Chilaw Road, Wennappuwa
Tel/ Fax : 031 225 5510 / 225 5600

AREA DEVELOPMENT OFFICE NETWORK

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

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

Angunakolapelessa
Near the Roundabout, Angunakolapelessa
Tel : 047 222 9130

Baddegama
Hikkaduwa Road, Baddegama
Tel : 091 229 2150

Balangoda
51-1/1 Kaltota Road, Balangoda
Tel : 045 228 9516
Fax : 045 228 9517

Bandaragama
45/1, First floor, Horana Road, Bandaragama
Tel : 038 228 9277

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

Embilipitiya
70 New Town Road, Pallegama, Embilipitiya
Tel : 047 226 2044

Hali Ela
65 Badulla Road, Hali Ela
Tel : 055 229 5576 / 229 5575

Kurunegala
Rajapihilla Road, Colombo Road, Kurunegala
Tel 037-2222668 / 2222868
Fax 037-2222668

Kamburupitiya
Pathirana Building, Second Floor, Kirinda Road, Kamburupitiya
Tel : 041 229 4477 / 229 4818

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

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

Middeniya
First Floor, Liyanage building, Weeraketiya Road, Middeniya
Tel : 047 224 8095

Moratuwa
529/1 Galle Road, Rawathawatte, Moratuwa
Tel : 011 264 5805 / 264 5806

Piliyanadala
130/5 Second floor, Horana Road, Kesbewa
Tel : 011 270 3644

Puttalam
171/1 Kurunegala Road, Puttalam
Tel : 032 226 6955 / 226 7112

Tangalle
8A Medaketiya Road, Tangalle
Tel : 047 224 0166

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

Weliweriya
342/1/C New Kandy Road, Weliweriya
Tel : 033 225 7747

GLOSSARY

Actuary
A person who provides solutions to insurance-related problems using applied mathematics (in particular, probability). Actuarial techniques are used to design new insurance products and to assess the profitability of a new and existing insurance business.

Acquisition Expenses
Expenses that are directly related to the acquisition of new insurance contracts and the renewal of existing insurance contracts. Acquisition expenses generally include commissions and franchise fees.

Agent
An individual who is an independent contractor authorised to carry out transactions on behalf of another, such as the sale of insurance policies. Insurance agents usually earn commission or a fee on the sale of a policy. In Sri Lanka, they are tied to a particular insurance company.

Amortisation - Intangible assets
Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

Annualised New Premium (ANP)
A method for calculating levels of life, pensions and investment new business, to smooth out the effect of large, one-off payments.

Annuity
Another word for "pension". An annuity is a regular payment from an insurance company designed to give the policyholder an income for life after retirement. It is paid for by a lump sum saved during the policyholders' working lifetime. Annuity rates are based on yields on gilt-edged securities at the time of purchase. On death, any remaining investments usually become the property of the annuity provider.

Asset
An asset is a resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Assurance
A term sometimes used instead of "insurance", generally in connection with life business, since assurance implies the certainty of an event (such as death) and insurance only the probability.

Available for sale financial assets (AFS)
Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as being at fair value through profit or loss. Available for sale financial assets are measured at fair value, with movements in fair value being recorded in other comprehensive income.

Bancassurance
An arrangement whereby banks allow selling of insurance and investment products to their customers by insurers.

Benchmark
A market index or rate against which an investment fund compares its performance and the mix of assets.

Blue chip
A description applied to the biggest and most highly regarded companies quoted on the stock market. Shares in such companies are usually considered a reliable and profitable investment.

Board of Directors
Decision-making body legally responsible for overseeing the management of a company. In a listed company the Directors are elected by the shareholders. Executive Directors are usually employee directors responsible for managing the day-to-day business of the company.

Bond
A bond is technically a certificate of debt issued by a government or company in return for a loan from an investor. Bonds are sometimes known as fixed interest securities, as they often have a fixed rate of interest and a predetermined repayment date. Examples include gilt-edged securities issued by the government of Sri Lanka, and corporate bonds issued by companies as investment products.

Broker
An individual or firm that acts as an intermediary between a buyer and seller, usually charging commission or a fee. Insurance brokers arrange cover on behalf of their clients and represent the interests of the policyholder.

Capital
Any form of wealth capable of being employed in the production of more wealth.

Central bank
The major regulatory bank in a country, usually controlled by the government. Its role can include setting interest rates, issuing currency, supervisory commercial banks, manage exchange reserves and the national currency's value, as well as acting as the government's banker.

CEO
Abbreviation for Chief Executive Officer. The CEO is the head of a company and oversees strategic planning and operational activities.

Claim
Notification to an insurance company of a call by a policyholder to the benefits due under the terms of an insurance policy or scheme.

Claims incurred
The total of all claims sustained during an accounting period, whether paid or not. Also known as losses incurred.

Commission paid
Payment made to an agent or another intermediary, normally in return for selling an insurance or investment policy.

Compliance
The requirement to operate in accordance with statutory or regulatory guidelines.

Contract
A legally binding document between two parties. In the case of insurance, a common name for a scheme or policy.

Credit rating
A measure of the ability of an individual, organisation or country to repay debt. The highest rating is usually AAA, and the lowest is D. These are usually issued by a credit rating agency or credit bureau.

Credit spread
The difference in yield between a corporate bond and a reference yield (e.g. a risk

GLOSSARY

free interest rate such as a sovereign bond yield) of equal or comparable tenure.

Debenture
A fixed interest security issued by a company or government agency, usually secured on its assets, with a long-term redemption (repayment) date typically between 5 and 10 years ahead. If a company files for bankruptcy, debenture stockholders are first in line to be repaid before the other stockholders and shareholders.

Depreciation
Reduction in the worth of an asset in a company's accounts to reflect its loss of value through age and use.

Discontinued operation
Discontinued operation is a segment of the Group that is a separate major line of business and has been disposed or wound up.

Dividend
An amount based on a company's profits paid out to shareholders for each share they hold based on the profits of a company. Usually paid as cash, but they can also take the form of non-cash benefits.

Earnings
Another word for profit. Broadly calculated as revenues minus costs, operating expenses and taxes, minority interests, extraordinary items and dividends on preference stock.

Earnings Per Share (EPS)
Net profit attributable to shareholders holding ordinary shares divided by the number of shares issued, and is a guide to how well a company is performing. Companies often use a weighted average of shares outstanding over the reporting period as the denominator.

Economic value
A financial performance measure used to evaluate a company's true profit and the creation of wealth to shareholders.

Effective Interest Rate (EIR) method
A method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or expense over the relevant period.

Equity
Another word for "share". Shareholders' equity is the book value of the shares they hold.

Exchange rate
The rate at which one currency may be converted into another. Often quoted as an indicator of the relative strength of a currency or the attractiveness of the market in which it is used.

Expense ratio
Expenses associated with running an insurance business, such as commission, professional fees and other administrative costs, expressed as a percentage of premiums. Also, the annual operating costs of an investment fund that is expressed as a percentage of the assets.

Fair value
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value through profit or loss (FVTPL)
A financial asset or financial liability that is measured at fair value in the Consolidated Statement of Financial Position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.

Final dividend
The dividend paid by a company to shareholders at the end of the financial year.

Gross Domestic Product (GDP)
The total value of all goods and services produced domestically by a country each year. This can be calculated as gross national product minus income from abroad, and is a key measure of national economic health.

Gross Premium Valuation (GPV)
An actuarial methodology used to value policyholder liabilities using the "gross" or "office" premium. The gross premium liability is the present value of future outflows (claims, commissions, expenses etc.) minus the present value of future gross premiums. A full set of assumptions (claim rates, lapse rates, interest rates, expense loadings etc.) are required under this methodology.

Gross Written Premium (GWP)
The total revenue generated by sales of insurance products, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a future period.

Health insurance
This provides cover against loss from illness or bodily injury. The policy can cover expenses for medicine, visits to the doctor, hospital stays, other medical expenses and loss of earnings, depending on the conditions covered and the benefits and choices of treatment available on the policy.

In-force
An insurance policy is "in-force" from its start date until the date it is terminated provided that premiums due have been received by the insurer.

Index
An index is the weighted value of a group of securities used to measure the ups and downs of a market, market sector or asset class, and to provide a performance benchmark against which other investments in that category can be measured.

Inflation
An increase in the general level of prices of goods and services over a specified period.

Insurance
A contract which is taken out with an insurer to protect against loss from a perceived risk. The person taking out the insurance is called the insured. Payments for the policy are called premiums.

Insurance contract
A contract under which the insurer accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if specified uncertain future events adversely affect the policyholder.

Insurance risk
The potential loss resulting from inappropriate underwriting, mispricing, adverse expense, lapse, mortality and morbidity experiences. Under SLFRS / LKAS, insurance risk means risk, other than financial risk, transferred from the holder of a contract to the issuer.

Intangible assets
An intangible asset is an identifiable non-monetary asset without a physical substance.

Interest
The fee charged by a lender for the use of borrowed money, or the return earned on an investment, such as savings in a deposit account. It can also mean part or total ownership of an asset.

Interest rate
Percentage rate at which money is added to savings or borrowings. The cost of borrowing or lending money.

Interim results
Figures issued during the financial year to indicate business performance since the last full-year accounts were published. This is usually announced quarterly or half-yearly.

Intermediary
An individual or organisation who introduces business to an insurance company on behalf of a customer and represents them in dealings with the company. Types of intermediaries include financial advisers, agents, brokers, dealers and traders.

Investment
Buying and holding assets, such as shares, bonds, property and commodities, to earn income or to make capital gains.

Investment contract
An investment contract is an insurance policy that, whilst structured and regulated as a contract of insurance, does not meet the accounting definition of an insurance contract because it does not transfer significant insurance risk.

Investment income
Earnings or revenue (such as share dividends and interest payments) arising from the ownership of assets.

Liabilities
A company's debts and obligations, shown on the Balance Sheet as claims on its assets.

Liability adequacy testing
An assessment of whether the carrying amount of an insurance liability needs to be increased or the carrying amount of related deferred acquisition and origination costs or related intangible assets needs to be decreased based on a review of future cash flows.

Life insurance
Promises the payment of an agreed sum of money upon the death of the insured within a specified period, also known as life assurance.

Liquidity
Ease with which an asset can be bought or sold without significantly affecting its price. A liquid asset is one easily convertible into cash.

Liquidity risk
The risk of having insufficient cash available to meet payment obligations to counterparties when they fall due.

Listed
A company whose shares are traded on a stock exchange is said to be listed. It means the same as quoted.

Long-term savings
Collective term for life insurance, pensions, savings, investments and related business.

Market
The place where transactions take place in a particular type of commodity, such as a stock exchange.

Market capitalisation
The value of a company calculated by multiplying the number of shares issued by the company and the market price of those shares.

Maturity
The date that an insurance policy or other financial contract finishes or "matures", and the proceeds, sometimes known as the maturity value, become payable.

Million Dollar Round Table (MDRT)
MDRT is a global professional trade association of life insurance and financial services professionals that recognises significant sales achievements and high service standards.

Money supply
The total amount of money in circulation in an economy. There are several ways this can be measured such as M0, M1, M2, M2b. Financial authorities use these measures to set targets for monetary growth.

Net Asset Value (NAV)
The value of a company calculated by subtracting its liabilities from its assets. The difference is the capital, that is, the funds that would be available to ordinary shareholders if the company were to be wound up.

Net earned premium
The proportion of net written premiums recognised for accounting purposes as income in a given period.

Net Premium Valuation (NPV)
An actuarial methodology used to value policyholder liabilities using the "net" premium; this is the portion of the office premium corresponding only to future claims. The net premium liability is the present value of future claims minus the present value of future net premiums. Assumptions for claim rates and interest rates are required under this methodology.

Net Written Premium (NWP)
Total gross written premium for a given period, minus premiums paid or "ceded" to reinsurers.

Net profit
The amount left over after deducting tax, interest, depreciation, fees, minority interests and extraordinary charges from sales revenue. This is also known as net earnings, or net income.

New business
A term used to describe the value of long-term savings policies sold to new and existing customers, which includes premium increases on existing business.

GLOSSARY

Ordinary share
The ownership of a company divided into a number of equal parts or "shares". Ordinary shareholders are entitled to a distribution of the profits (known as dividends) and have the right to vote at company meetings. If the company is wound up, ordinary shareholders are entitled to any assets left over after all other obligations have been met. These residual assets are known as the equity of the company, hence the term "equities" sometimes used to describe ordinary shares. Ordinary shares rank after debentures and preference shares.

Portfolio
A collection of financial assets - investments in shares, fixed interest stocks, cash and property held by an investor.

Premium
The monetary amount paid for an insurance policy. The payment a policyholder makes in return for insurance cover. Usually paid monthly, annually or as a single lump sum. Also, if the market price of a new share is higher than its issue price, it is said to be trading at a premium.

Price to Earnings ratio (P / E ratio)
The share price divided by earnings per share of the latest twelve month period. The result offers investors a way of comparing companies' prospects. For example, a high P/E ratio might suggest a company has strong growth potential, and investors will pay more for a share if they think that the company's earnings will rise rapidly.

Profit
Excess of income over expenses for a particular period. Figures may be given as gross profit, net profit before tax, net profit after tax, and earnings.

Profit Before Tax (PBT)
All profits earned in a period, including investment gains.

Proxy
A method by which a shareholder may vote without attending a meeting by appointing someone else to vote on their behalf.

Quoted
If a company has a quote (or is "quoted"), its shares can be traded on the stock exchange. It means the same as listed.

Rate of return
The change in value of an investment over a period, taking into account income from it and any change in its market value. Normally expressed as an equivalent annual percentage of the total amount invested. It is also the yield from a fixed income security.

Recession
A period of general economic decline. Specifically, a decline in Gross Domestic Product (GDP) for two or more consecutive quarters.

Regulatory body
An organisation with statutory powers to lay down a framework within which member companies must operate.

Reinsurance
A form of insurance bought by insurance companies to protect themselves from the risk of large losses. One insurer pays to place part of an insured risk or an entire book of business with one or more other insurance companies, known as the reinsurers.

Return
For savings, the difference between the original sum invested and the final value of income or capital growth, given as a percentage. For shares, the overall investment performance based on the movement in the price of the shares (gain or loss) and the dividend income from the shares.

Return on Net Assets (RONA)
Usually calculated as post-tax profit divided by average equity (total assets minus total liabilities), expressed as a percentage.

Rights issue
An invitation from a company to their existing shareholders to buy new shares, usually for less than the prevailing share price, to raise additional capital.

Risk
It is the measurable probability of loss or less-than-expected returns from an investment, asset or business activity.

Risk-Based Capital (RBC)
RBC represents an amount of capital based on an assessment of risks that a company should hold to protect customers against adverse developments. Sri Lanka adopted the RBC framework for solvency effective 1 Jan 2016 in line with legislation.

Sector
Part of a market or industry whose components share similar characteristics. Stocks are often grouped into sectors.

Securities
General term for financial instruments traded on a stock exchange, such as stocks and shares, and the notes, certificates and bearer warrants that signify ownership of them.

Securities and Exchange Commission of Sri Lanka (SEC)
The official Sri Lankan regulatory body responsible for investor protection and regulation of the securities industry and companies quoted on the Colombo Stock Exchanges.

Share
Common term for equity. Specifically, a certificate conferring ownership rights in a company. Ordinary shares (or common stock) provide voting rights at company meetings and entitle the holder to a proportional share of the profits.

Shareholder
Someone who owns shares or stock in a company or mutual fund. Shareholders also have the right to declared dividends and the right to vote on company matters, including the appointment of the Board of Directors.

Shareholders' Funds
Shareholders' Funds represent the assets that remain once all of a company's liabilities have been accounted for. This also equates to the capital of the company, plus any profits that have been retained by the business.

Stakeholder
Any individual or organisation with an interest in a company.

Consolidated Statement of Financial Position / Balance Sheet
A statement showing the financial position of a business on a specific date by listing its assets (what it owns) and its liabilities (the claims on its assets, or what it owes).

Stock
Often used as an alternative word for share, especially in the US. However, it can refer specifically to fixed-interest investments, such as bonds and gilt-edged stocks, which represent a loan to the issuer, rather than shares, which signify part ownership of a company.

Stock exchange
A marketplace where stocks and shares and other financial instruments can be traded.

Surrender
The act of cancelling or cashing in the proceeds of an insurance contract for a surrender value before it becomes payable or reaches its maturity date.

Technical provisions
Amounts set aside on the basis of actuarial calculations to meet obligations to policyholders.

Treasury bill/Treasury bond
Loan or debt securities issued by a government to help pay for its financial needs. Investors receive a guaranteed return over a fixed period. In Sri Lanka, treasury bills (also known as T-bills) are short-term securities issued for up to one year. They are sold at a discount, the difference between the purchase price and the face value representing the holder's profit at the end of the term. Treasury bonds (T-bonds) also pay a fixed rate of interest and are long-term securities issued with a term of more than one year. Treasury bills and Treasury bonds are usually known as gilt-edged securities.

Trust
A legal arrangement where one or more people are appointed to look after property or investments on behalf of someone else (the beneficiary). The Trustees are legally responsible for how the assets are managed.

Trustee
Someone appointed to hold or administer assets for the benefit of other people.

Underwriting
The process of selecting which risks an insurance company can cover, and deciding the premiums and terms of acceptance. On the stock exchange, an arrangement by which a company is guaranteed that an issue of shares will raise a given amount of money, because the underwriters promise to buy any part of the issue not taken up by the public.

Unit trust
Fund comprising stocks and shares held by a manager for the benefit of investors. Individuals buy units in the fund, which then invests in a wide range of stocks and shares. This approach offers small investors the opportunity to pool their money with others and benefit from a greater spread of risk and investment opportunities. The British equivalent of an American mutual fund.

Unitised
Investment policy under which contributions are used to buy units in a chosen investment fund.

Unit-linked
A type of long-term savings plan where premiums are used to buy units in an investment fund, such as a unit trust. The assets in the fund can be a mix of stocks, shares, bonds, property or other securities. The value of the units and the return from them can fluctuate in line with the investment performance of the assets in the fund, and there is no guarantee on the amount of capital that will be returned.

Unrealised
A notional profit or loss that has not yet been achieved through a transaction. The profit or loss is "realised" when the investor sells the security or asset in question. Unrealised gains are usually not taxable.

Volatility
The variable amount by which a share price or market value rises and falls during a period. If it moves up and down rapidly or unpredictably, it is said to have high volatility; if it is more stable or rarely changes, it is said to have low volatility.

Warrant
A tradable security that gives the holder the right to buy a share or bond at a fixed price at a future date.

Withholding tax (WHT)
Withholding tax is an amount withheld by the party making payment to another (payee) and paid to the taxation authorities.

Write off
To cancel a debt, or to acknowledge the loss or worthlessness of an asset. Also to remove an asset or holding entirely from a Balance Sheet. The reduction in value, or loss, is said to be "written off".

Yield
The rate of return on an investment in percentage terms, taking into account annual income and any change in capital value. Also, the dividend payable on a share expressed as a percentage of the market price.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the thirty second Annual General Meeting of AIA Insurance Lanka PLC will be held on Tuesday, 27 March 2018 at 10.00 a.m. at Kings Court, Cinnamon Lakeside Hotel, No. 115, Sir Chittampalam A Gardiner Mawatha, Colombo 2, for the following purposes:

ORDINARY BUSINESS:

1. To receive and consider the audited financial statements for the year ended 31 December 2017 together with the Annual Report of the Board of Directors and the Report of the Auditors thereon.

2. To ratify the total donations of LKR 5.5 million which had been made by the Company during the year ended 31 December 2017 which amount is within the aggregate thereof amounting to 1 per cent of the average profits after tax for the preceding three years.

3. To authorise the Directors, to make on behalf of the Company, in pursuance of the provisions of the Companies (Donations) Act No. 26 of 1951, donations during the year 2018 not exceeding 1 per cent of the average profits after tax of the Company for the preceding three years.

4. To re-elect Mr. Robert Alexander Hartnett as a Director who retires by rotation in terms of Article 30 of the Articles of Association of the Company.

5. To re-elect Mr. Manoj Ramachandran as a Director who retires by rotation in terms of Article 30 of the Articles of Association of the Company.

6. To re-appoint Messrs. PricewaterhouseCoopers, Chartered Accountants as Company's External Auditors and to authorise the Directors to determine their remuneration.

BY ORDER OF THE BOARD

Chathuri Munaweera
Company Secretary

Colombo
14 February 2018

Notes

1) A member entitled to attend and to vote at the meeting is entitled to appoint a proxy to attend and to vote in his / her stead.

2) A proxy need not be a member of the Company.

3) A form of proxy accompanies this Notice.

4) The completed form of proxy should be deposited at the registered office of the Company not later than 48 hours before the time appointed for the holding of the meeting.

5) Shareholders are requested to bring with them their National Identity Cards or any other form of valid identification and present same at the time of registration.

FORM OF PROXY

I / We .... (Please indicate the full name)

bearing NIC / Passport / Com. Reg. No. .... of .... being a

member / members of AIA Insurance Lanka PLC do hereby appoint Mr / Ms ....

.... (Please indicate the full name of the proxy) bearing NIC No. / Passport No. ....

of .... whom failing:

Mr. William Lisle	or failing him
Mr. Manoj Ramachandran	or failing him
Mr. Robert Alexander Hartnett	or failing him
Mr. Sarath Wikramanayake	or failing him
Mr. Stuart Spencer	

as my / our proxy to represent me / us and to vote on my / our behalf at the thirty second Annual General Meeting of the Company to be held on Tuesday, 27 March 2018 at 10.00 a.m. at Kings Court, Cinnamon Lakeside Hotel, No. 115, Sir Chittampalam A Gardiner Mawatha, Colombo 2, and at any adjournment thereof, and at every poll which may be taken in consequence of the aforesaid meeting.

I / We the undersigned, hereby direct my / our proxy to vote for me / us and on my / our behalf on the specified resolution as indicated by the letter "X" in the appropriate cage;

ORDINARY BUSINESS

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

* please indicate your preference with "X" marked in the appropriate cage.

Signed on this .... day of .... two thousand and eighteen.

....

Signature(s) of shareholder(s)

Please provide the details:

Shareholder's NIC No. / Company Registration No.	
Folio No. / Number of shares held	
Proxy holder's NIC No. (if not a Director)	

NOTES:

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

FORM OF PROXY

INSTRUCTIONS AS TO COMPLETION OF FORM OF PROXY

1. Kindly perfect the form of proxy after filling in legibly your full name and address signing in the space provided and filling in the date of signature.
2. The persons mentioned on the reverse hereof, are Directors of the Company and they are willing to represent any shareholder(s) as proxy, and vote as directed by the shareholder. They will not, however be willing to speak or move or second any amendments to the resolutions or make any statement in regard thereto on behalf of any shareholder.
3. If another proxy is preferred, delete the names printed, add the name of the proxy preferred and initial the alteration.
4. Please indicate your preference with "X" in the appropriate cages provided in the form of proxy, as to how your proxy is to vote on the resolutions. If no indication is given the proxy in his / her discretion may vote as he / she thinks fit.
5. In the case of a corporate member the proxy form 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 relative Power of Attorney should also accompany the completed form of proxy, if it has not already been registered with the Company.
6. The completed form of proxy should be deposited at the registered office of the Company at AIA Tower, 92, Dharmapala Mawatha, Colombo 7 not less than 48 hours before the time appointed for the holding of the meeting.

CORPORATE INFORMATION

NAME OF THE COMPANY
AIA Insurance Lanka PLC
Company Registration No – PQ 18

LEGAL FORM
- Public Company with limited liability.
- Incorporated in Sri Lanka on 12 December 1986 under the Companies Act No. 17 of 1982.
- Re-registered under the Companies Act No. 7 of 2007.
- Insurance Company licensed by the Insurance Regulatory Commission of Sri Lanka.
- The shares of the Company are listed on the Colombo Stock Exchange.

TAX PAYER IDENTIFICATION NUMBER (TIN)
134001356

VAT REGISTRATION NUMBER
134001356 – 7000

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

CHIEF EXECUTIVE OFFICER
Pankaj Banerjee

DEPUTY CHIEF EXECUTIVE OFFICER
Upul Wijesinghe

COMPANY SECRETARY
Chathuri Munaweera

ASSISTANT COMPANY SECRETARY
Saraswathie Poulraj

ACCOUNTING YEAR
31 December

SUBSIDIARY

Name of the Company	Holding	Principal Activity
Rainbow Trust Management Limited	100%	Trust Management

REGISTERED OFFICE/ HEAD OFFICE
AIA Tower, 92, Dharmapala Mawatha,
Colombo 7, Sri Lanka
Telephone : 0094-11-2310000
Fax : 0094-11-2447620 / 2310076
E-mail : lk.info@aia.com
Web : www.aialife.com.lk

COMPANY REGISTRARS
SSP Corporate Services (Private) Limited
101, Inner Flower Road, Colombo 3, Sri Lanka
Telephone : 0094-11-2573894 / 2576871

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

APPOINTED ACTUARY
Frank Munro
AIA Insurance Lanka PLC
AIA Tower, 92, Dharmapala Mawatha, Colombo 7, Sri Lanka

LAWYERS
Julius & Creasy
Attorneys-at-Law & Solicitors
41, Janadhipathi Mawatha, Colombo 1, Sri Lanka

REINSURANCE PANEL
Munich Re
RGA International Reinsurance Company Limited

BANKERS
- Standard Chartered Bank
- Bank of Ceylon
- Commercial Bank of Ceylon PLC
- Hatton National Bank PLC
- The Hongkong & Shanghai Banking Corporation Limited
- People's Bank
- Sampath Bank PLC
- National Development Bank PLC
- Nations Trust Bank PLC
- National Savings Bank
- Deutsche Bank
- Union Bank of Colombo PLC
- Pan Asia Banking Corporation PLC
- Seylan Bank PLC
- DFCC Bank PLC

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