Annual Report 2014

Covering all walks of life

AIA Insurance Lanka PLC

THE REAL LIFE COMPANY

Our Purpose

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

Our Vision

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

Our History

In December 2012, AIA Company Limited, Hong Kong acquired the entirety of the shareholding in AIA Holdings Lanka (Private) Limited, the majority shareholder of AIA Insurance Lanka PLC. AIA also acquired a direct 5% of the shareholding and through a voluntary offer, acquired a further 4.88% direct holding in May 2013.

AIA now owns an effective shareholding of 97.15% in AIA Insurance Lanka PLC.

Access this report online

Covering all walks of life

At AIA Insurance, our greatest strength lies in the trust and confidence of the thousands of people we serve across the island. They come from all walks of life and their hopes, dreams and aspirations are what drive our desire to perform, our passion for excellence, our will to succeed.

Our vision of corporate success goes far beyond the positive financial results shown here. For us, real value lies in making a difference to people's lives; lives that are protected, empowered and secured by the work we do each day.

AIA Insurance. The Real Life Company.

Contents

Financial highlights

A quick overview of our performance in 2014

Total Revenue LKR Billion	Net Assets LKR Billion	Market Capitalisation LKR Billion
14.2	4.9	9.1
2013-LKR 13.0 Bn	2013-LKR 4.6 Bn	2013-LKR 7.5 Bn

Financial Highlights - Group		2014	2013	2012	2011	2010
Total Revenue	(LKR Mn)	14,187	12,994	12,630	12,933	15,187
Profit before tax	(LKR Mn)	586	823	1,204	1,049	894
GWP - general insurance	(LKR Mn)	2,946	2,673	2,400	2,692	2,847
GWP - life insurance	(LKR Mn)	7,267	6,863	6,496	7,846	7,784
Net assets	(LKR Mn)	4,887	4,585	4,064	3,585	3,267
Life Fund	(LKR Mn)	36,238	33,812	32,017	28,864	25,955
Return on net assets	(%)	7.21	10.89	20.87	19.31	18.37
Basic earnings per share	(LKR)	11.46*	16.24*	28.26	23.08	20.01
Market Capitalisation	(LKR Mn)	9,060	7,521	9,894	7,422	8,400

* Adjusted to reflect the issue of 749,370 new ordinary shares as a scrip dividend on 27 January 2015.

Taking our Real Life promise to greater heights

For over 90 years, AIA has helped generations of families all over Asia. It is a remarkable history that comes to life with a wealth of customer insights gained along the brand journey.

As the leading insurer in Asia, AIA is one of the most recognised and trusted brands in the industry. Our aim is to lead in the evolving market for protection and regular long-term savings products through our unrivalled depth of understanding gained from extensive customer experience in all of Asia. This allows us to help, inform and educate customers of the importance of planning for the future and tailor products to meet their evolving needs.

Reflecting our aspiration to provide all our stakeholders with a better understanding of what AIA stands for, in 2013, the Group repositioned the brand across its markets in the Asia Pacific region as the Real Life Company. This was the most comprehensive branding programme in AIA's history and was the culmination of extensive analysis and research with customers, agents and employees across the region. The new brand positioning reflects the wealth of customer insights gleaned from AIA's long and remarkable history supporting millions of people in the Asia-Pacific region. It permeates all things we do, and is not just a tagline. In the coming years, the Company will continue to re-look at how best it can understand and serve real life needs.

In Sri Lanka the brand was successfully rolled out as the Real Life Company in 2014. This firmly established our promise to our customers from all walks of life and enriched what we do – protecting what matters most, preparing for the unexpected and helping customers to plan for a better, brighter future.

For over 90 years, AIA has helped generations of families all over Asia. It is an exceptional history that comes to life with a wealth of customer insights gained along the brand journey. Our experience has allowed us to help millions of people to achieve their aims and be there for them during times of need.

The essence of the Real Life Company is deeply rooted in our operating philosophy of 'doing the right thing, in the right way, with the right people.' This has helped the Company to genuinely engage with our customers, providing the right financial solutions for them and their families in a constantly changing world.

We have focused, with renewed commitment on customer engagement initiatives that inspire loyalty, while responding to customer needs and wants more creatively. Our initiatives range from high speed complaints management to customer promotions that encourage greater participation and enthusiasm.

A vital aspect in establishing brand presence and building corporate image has been our expansion drive across the nation, via the opening of new branches and increase in our Wealth Planner cadre. Our concentrated focus on convenience for customers encompasses many aspects including simpler, more user-friendly customer communications, greater focus on understanding customers and meaningful, nationally relevant corporate responsibility initiatives. This is reflected in all our diverse initiatives to enrich the life of policyholders.

Milestones – 2014

February

AIA & SCB swap jerseys

Standard Chartered Bank and AIA Insurance signed a new exclusive long-term bancassurance partnership, bringing the bank's customers a wider range of needs-based insurance solutions. The two financial service providers are sponsors of leading English Premier League football clubs Liverpool and Tottenham Hotspurs. So it was fitting that they sealed their new partnership agreement by swapping jerseys, a long held tradition in football after important and prestigious matches.

International recognition for Area Development Manager

Demonstrating the high calibre of AIA Sri Lanka's Wealth Planners' Managers, Dileepa Ameendra, Area Development Manager of Tissamaharama was able to earn global recognition at the inaugural LAMP Asia conference of GAMA International in Kuala Lumpur by winning the Bronze award under 2013 Premier Agency Leader Category. The prestigious GAMA membership is the insurance team managers' equivalent to the Million Dollar Round Table (MDRT) qualification and Dileepa was the only Sri Lankan to receive this honour at the high-status event.

March

Among South Asia's best for Social Empowerment

AIA Insurance won the Social Empowerment award at the prestigious international Asia Responsible Entrepreneurship Awards 2014 – South Asia. AIA Insurance received the honour for the Company's extensive safety initiative held for 21 consecutive years to safeguard the million or more pilgrims who throng the Sacred City of Anuradhapura during the Poson season. Our programme included facilitating the presence of over 600 lifesavers from the Sri Lanka Police, the Navy and the Life Saving Association of Sri Lanka.

May

Partnership with DFCC & DFCC Vardhana Bank

AIA Insurance entered into a bancassurance agreement with DFCC Bank and DFCC Vardhana Bank. The partnership is exclusive at selected branches. The new partnership with AIA Insurance will enable customers of both banks to obtain tailor-made life insurance solutions.

June

AIA Wealth Planners recognised for outstanding performance

Outstanding performance of AIA Wealth Planners was recognised at the Company's spectacular annual Graduation and Sales Convention held at the BMICH for 1,250 Sales Professionals. Top performers were recognised for their accomplishments at the gala event. There were 13 MDRT members for 2013 and 15 IQA winners for 2014. Among them were 4 MDRT Life Members – Mrs. D.G. A. Swarna, Ajith Fernando, Anuranga Perera and Priyantha Hapuarachchi.

AIA is the best multi-national to work for in Sri Lanka

AIA Insurance, was adjudged as one of the best 15 companies to work for in Sri Lanka in the globally renowned Great Place To Work® study. The Company was also recognised as the best multi-national company to work for in Sri Lanka and also the best in the medium enterprise category (200-1000 employees). AIA Insurance further received the honour of being presented with a special category award for best practices in involving employees in Corporate Social Responsibility (CSR) – for wholeheartedly believing in contributing to society through CSR activities and employee volunteerism.

9 lives saved from drowning

AIA Insurance ensured the presence of 600 trained lifeguards this year saving 9 precious lives including 2 children. The Sri Lanka Police, the Navy and The Life Saving Association of Sri Lanka joined hands to keep an eye on the Poson pilgrims as they bathed in the reservoirs in and around the sacred cities in Anuradhapura, Polonnaruwa and Dambulla. Another important aspect of AIA's Poson campaign is providing a shuttle train service between Anuradhapura and Mihintale for the convenience of devotees. This is the 5th year this facility has been provided by AIA Insurance.

July

Diploma Course at Wayamba University launched for AIA Wealth Planners

Taking another giant stride towards developing a team who are above the industry standards in professionalism and expertise, AIA Insurance launched a Diploma course for AIA Wealth Planners for the first time in Sri Lanka. The inauguration took place when 61 Wealth Planners passed out from Wayamba University of Sri Lanka with a Certificate in insurance. These Wealth Planners at AIA Insurance completed the certificate course in Personal Financial Management at the Faculty of Business Studies & Finance at the Wayamba University.

Milestones – 2014

Annual Report scoops Silver, Gold, Platinum Awards at LACP

The 2013 Annual Report of AIA Insurance won the highly coveted Platinum Award from League of American Communications Professionals (LACP). AIA Sri Lanka was among the top 100 worldwide coming 27th and among the top 80 in the Asia Pacific region securing the 13th position. The Company also won the Gold award for the Most Creative Annual Report in the Asia Pacific Region as well as the Silver Award for the Most Creative Annual Report – Worldwide.

August

AIA lends a hand to children in Mullaitivu

The 30 year war in Sri Lanka affected many schools in the Northern Province. Although the war ended in 2009 rebuilding the schools is still in progress. One school that was seriously damaged was Mullivaikkal West Government Tamil Medium School (GTMS) in Mullaitivu. The school has more than 250 students. AIA provided a school building with five class rooms and donated a mini computer training centre to revitalise the education of the students.

September

AIA unites to wipe-out Dengue

An estimated 500 cases of Dengue are reported a week in Sri Lanka. In an effort to minimise the danger, AIA Insurance staff conducted 'Wipeout' at one such potential mosquito breeding ground. Over one hundred staff members volunteered and gathered at Narahenpita railway station and its vicinity to clean up the area, especially by picking up containers strewn about causing breeding grounds for mosquitoes. They distributed educational leaflets to create awareness and motivate the public to keep the environment clean. The initiative was conducted with approval from National Dengue Control Unit of the Health Ministry with assistance from Public Health Inspectors and other officials.

AIA ties up with Mobitel mCash to enhance premium paying options for customers

AIA Insurance offers its policyholders the convenience of thousands of premium payment points making it easy to deposit their premiums regularly. Adding to its extensive list of banks, branch offices, supermarkets and other locations, AIA partnered with Mobitel mCash. This special facility allows AIA Insurance policyholders with Mobitel mobile connections to pay regular premiums through a mobile phone with ease and efficiency in a cashless transaction.

October

First ever AIA Real Rewards Grand Prize winner gets Rs.250,000

The very first policyholder to win the Grand Prize of Rs.250,000 in the AIA Real Rewards is a young housewife Disna Malkanthi Silva. She is among the 50 lucky monthly winners in the competition designed to reward customers.

November

Inspires academic excellence for two decades

The Chief Guest at the AIA Higher Education Scholarship Awards presentation was Emeritus Professor Kusuma Karunaratne. She addressed the students who topped the batch in each of the 25 districts in the 2007 Year 5 government scholarship examination. The Year 5 students who emerged first in each district receive a monthly bursary when they enter Advanced Level right up to the completion of their university degree. AIA Insurance has been granting Higher Education Scholarships since 1994 to encourage academic excellence among the nation's most promising children.

December

Poson Safety among top 5 Best Sustainability Projects in the country

The Poson Safety Programme, conducted consecutively for 21 years in Anuradhapura by AIA Insurance was among the top 5 Best Sustainability Projects recognised by The Ceylon Chamber of Commerce at the Best Corporate Citizen Sustainability Awards. AIA has been conducting the extensive safety programme since 1993 to reduce the number of deaths among Poson pilgrims to near zero.

Poson TV commercial wins Commercial of the Year Award

The creative TV commercial promoting safety awareness during Poson was adjudged the Best TV Commercial of the Year - 2013 at Sumathi Awards held annually to recognise quality programmes produced for broadcast on TV.

Making a real difference

Chairman's Review

2014 was characterised by our successful ongoing expansion in agency network and we surpassed a key milestone for the company with 5,000 Wealth Planners.

I am delighted to report AIA Sri Lanka has delivered a solid performance in 2014 with a profit after tax of LKR 352 million. Since AIA Sri Lanka became part of the AIA family in 2012, we have significantly increased our investment to build the foundations for long-term and sustainable growth. We focused on increasing the awareness of the AIA brand in 2013 and expanding our distribution network in 2014. I believe these efforts will place us in a strong position to capture the market growth in Sri Lanka in 2015 and beyond.

I am particularly proud that AIA Sri Lanka has been at the forefront in implementing local regulatory developments such as risk-based capital metrics, segregation of composite insurance businesses and an increased stated capital position.

2014 was characterised by our successful ongoing expansion in agency network and we surpassed a key milestone for the company with 5,000 Wealth Planners. We have also expanded AIA Sri Lanka's branch network by 23 branches to cover all provinces in the country, catering to all walks of life across the island.

AIA continues to reinforce The Real Life Company brand positioning across Sri Lanka. Our brand reflects our genuine engagement in the real life of our customers by providing the right solutions to protect the financial health of our customers and their families during the ups and downs of life. In doing so, we are contributing to the country's social and economic development.

In 2015, AIA Sri Lanka will continue to strengthen the foundation by focusing on our growth strategy for agency, bancassurance and corporate channels. This will enable AIA Sri Lanka to capture the enormous growth opportunities in the country with enhanced quality and scale of the distribution platform as well as the unmatched financial strength and capabilities of the AIA Group.

I would like to acknowledge the hard work and commitment of our leadership team, Wealth Planners, financial planning consultants, business partners and employees for their contribution to AIA Sri Lanka's success over the year.

I look forward to continuing our journey together to become the pre-eminent insurer in Sri Lanka.

Gordon Timmins Watson
Chairman

Making a real difference

CEO's Review

This business year has yet again seen a combined robust performance of our life and general insurance businesses, with robust investment in the agency expansion combined with managing the lower interest rate environment shaping the performance profile.

I am pleased to report another year of solid and persistent performance at AIA Sri Lanka. We concentrated on execution of identified strategic imperatives, which involved driving sustainable and profitable business growth through geographic expansion, strategic distribution partnerships, life insurance product value enhancements, corporate business penetration through group and employee benefits and a focus on profitable general insurance in a perennial soft market.

Sri Lanka delivered a healthy GDP growth of 7.8% for 2014 amidst global economic growth, which was aided by the recovery of mature economies but tempered by low growth in Europe, China and Japan, and impacted by domestic politics in other regions.

Agency growth was a priority in 2014 and we continued to invest in our main distribution channel. Agency distribution was restructured into 4 divisions, for more effective, quality-driven management. Surpassing the 5,000 mark in the total number of Wealth Planners in the agency force was a testimony to the expansion drive of the Company. AIA Sri Lanka's branch network expanded to 123 by the end of 2014, a 23% growth over the previous year. Agency success is also evident via 24 Million Dollar Round Table (MDRT) qualifiers compared with 13 in the previous year. Our investment in agency expansion has positively impacted top line growth and will contribute more to the bottom-line as new recruit profiles mature. Our bancassurance channel continues to deliver a solid performance with our refined operating model now embedded with existing and new partner banks.

This business year has yet again seen a combined robust performance of our life and general insurance businesses, with robust investment in the agency expansion combined with managing the lower interest rate environment shaping the performance profile.

The Company's profit after tax (PAT) decreased to LKR 348 million from LKR 499 million in the prior year mainly due to investment on branch expansions. Combined composite gross written premium (GWP) performance increased to LKR 10,213 million versus LKR 9,536 million in the previous year. Investment income improved to LKR 4,704 million over the previous year's performance of LKR 4,407 million.

Life insurance, the larger component of our composite segments, achieved new business premium of LKR 2,294 million and GWP of LKR 7,267 million. Through our expert long term investment strategy and continued focus on expense control we have created value for our life funds to the benefit of both shareholders and policyholders. Retaining a buffer to protect the fund against short-term fluctuations, we declared a life surplus of LKR 100 million, in comparison to LKR 200 million in the previous year.

Our general insurance performance in 2014 was commendable, delivering in a soft market a positive PAT of LKR 89 million compared to LKR 316 million in the previous year. Our general insurance claims ratio has marginally increased from 58% to 62% and our net combined ratio (NCR) from 103% to 111%. Our focus over the last couple of years has been and remains on quality underwriting and right pricing.

At AIA we believe that if we do the Right Thing, in the Right Way with the Right People, the results will follow. Thus our greatest asset is our people. During 2014 we continued to invest in our employees in the form of training, professional and personal development, ensuring our staff have the necessary set of skills and competency. AIA Sri

Lanka, was adjudged to be one of the best 15 companies to work for in Sri Lanka in the globally renowned Great Place To Work® study. The Company was also recognised as the best multi-national company to work for in Sri Lanka and it was also the best in the medium enterprise category (200-1000 employees). AIA Sri Lanka further received the honour of being recognised with a special category award for best practices involving employees in corporate social responsibility (CSR) – for wholeheartedly believing in contributing to society through CSR activities and employee volunteerism.

The successful activation of our new life policy administration system is a crucial factor in supporting the expanded agency distribution and branch network. The life product suite was realigned to even better meet the needs of customers, from all walks of life. In line with adopting the latest technology, the availability of interactive point-of-sale (iPoS) technology has enabled our Wealth Planners to seamlessly integrate with our operations, whilst providing excellent presentations to customers.

Several regulatory requirements such as risk-based capital, segregation of composite insurance businesses and increase of stated capital dominated 2014 activities. AIA Sri Lanka welcomes the risk-based capital initiative of the Insurance Board of Sri Lanka (IBSL) and is a strong advocate, as we believe this will inculcate an even larger degree of financial stability within the industry. Moreover, it will provide a level playing field and introduce greater fairness by reducing the risk capital requirement of the companies that manage their risks better. AIA Sri Lanka became the first insurer in Sri Lanka to announce on taking the progressive step in responding to the guidelines issued by the IBSL to separate life insurance and general insurance business operations. Further, the stated capital of both life and general business of AIA Sri Lanka were increased exceeding the minimum regulatory capital requirement of LKR 500 million for each class of business.

Reinforcing continuity and momentum, we have defined and set ourselves key strategic priorities for 2015 which will continue to focus on our growth strategy for agency, bancassurance and corporate channels. Furthermore, we will drive for targeted protection and savings products, as well as developing corporate solutions which we see becoming more significant as the Sri Lankan economy matures. The newly separated and formed AIA General Insurance will strive for scale whilst maintaining prudent underwriting standards.

Being true to our brand promise; 'The Real Life Company' speaks to our long and remarkable history, to the wealth of customer insights we have gained along our journey and to the help we have provided to millions of people around the Asia Pacific Region in good times and in challenging times. This encapsulates the kind of Company we want our colleagues and Wealth Planners to help bring to life and how we want to be perceived by our customers.

I would like to express my sincere appreciation and gratitude to the Board of Directors and all my AIA Sri Lanka colleagues for their untiring efforts and dedication during 2014. I would also like to acknowledge and applaud our Wealth Planners and financial planning consultants for their contribution towards our new business success. A special thank you to all our business partners including our broker and bank partners for their support and commitment. Most significantly, my utmost gratitude to our customers for their confidence and the continued trust placed in us.

Continued success!

Shah Rouf
Chief Executive Officer

Real value for real lives

Management Discussion & Analysis

2014 witnessed a gradual recovery in the global economy but with geo-political tensions in some regions, the end of the US Federal Reserve's quantitative easing together with the strengthening of the US dollar against most currencies, there was a significant impact on global trade and uncertainty. There was also a marked decline in global oil and commodity prices over the period. In this context of relatively low international demand, loose monetary policy and low inflation, Sri Lanka is seeking to increase private sector credit growth to stimulate economic activity.

Over 2014, AIA focused on continuing to develop its distribution platform for long term and sustainable growth. Although Sri Lanka's low private credit growth and consumption levels continued to hamper the growth of the insurance sector in the short term, AIA has positioned itself for the expected improvements in economic growth.

THE WORLD ECONOMY

ECONOMIC UPDATE

Global economic growth in 2014 was aided by recovery of mature economies but tempered by low growth in Europe, China and Japan, and impacted by domestic politics in other regions. The lower output in China in particular had a ripple effect across most Asian countries leading to lower economic output in the Asia Pacific rim, lower commodity prices and depreciating currencies.

2014 also marked the end of the United States Federal Reserve's quantitative easing or asset purchase programme with the US economy showing early signs of an improved economic performance. Reflecting investors' positive outlook, the US Treasuries attracted capital with US interest rates rising and US equity market returning a high performance. Further, expectation that the US Federal Reserve will increase benchmark rates in 2015 have been a major factor in the strengthening of the US dollar vis-a-vis most currencies, particularly Asian currencies which have caused concern to Asian economies.

Portugal, Ireland, Greece and Spain, which underwent a rescue by the European Union, are showing some growth, with further reforms still needed in Greece to tide over the crisis. Many oil importing economies are enjoying the respite from the sharp decline in oil prices since mid 2014, mainly driven by growth in US energy production, OPEC's unwillingness to cut prices and lower demand from China.

Economic implications from geo political tensions in Russia, Europe gripped by low growth, low investment, and deflation, recession in Japan and lower growth in China were some of the dampeners to global economic growth in 2014.

FUTURE

Europe still faces challenges, and 2015 may see a continuation of the gloomy outlook for the continent with discontent on austerity measures, upcoming elections in countries such as Portugal, Spain and UK , and the questions over the effectiveness of its quantitative easing programme. Rising debt levels, higher interest payments and lower investor confidence could lead to higher global interest rates, with the Bank of England and US Federal Reserve expected to increase benchmark rates in 2015. Although falling oil prices are expected to boost economic growth across the globe, it is likely to negatively impact energy companies and oil exporting countries such as Russia, Venezuela and Iran. The world economy in 2015 is expected to show improved growth, despite these challenges.

While lower commodity and oil prices in international markets will be favourable for Sri Lanka's economic growth, the full benefit may be tempered by the strengthening US dollar.

THE SRI LANKAN ECONOMY

Economic Highlights	2010	2011	2012	2013	2014
GDP Growth	8.0%	8.2%	6.3%	7.3%	7.7% (3Q 2014)
364-day Treasury bill	7.55%	9.31%	11.69%	8.29%	6.00%
Equity Return	96.0%	-8.5%	-7.1%	4.8%	23.4%
Exchange Rate (USD)	111.11	113.95	127.05	130.75	131.79
Inflation	6.9%	4.9%	9.2%	4.7%	2.1%

Figure 1 – Source: CBSL & CSE

GDP GROWTH

Sri Lanka's Gross Domestic Product showed growth in 2014 as evidenced by the improvement in the quarterly growth rates, as shown in figure 2. Growth was sustained by the industry and services sectors which continued to show improvements. The Agricultural sector was impacted over the year by unfavourable weather conditions. The services sector which accounts for 58.7% of Sri Lanka's economy was supported by satisfactory performances in retail and trade. Historical annual GDP growth rates are depicted in figure 3. The Central Bank has forecast a growth rate of 7.8% for 2014, which compares favourably against the growth of 7.3% in 2013.

GDP - Quarterly Growth

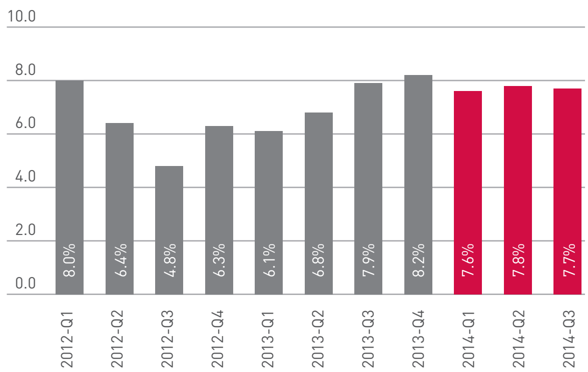


Figure 2

GDP - Annual Growth

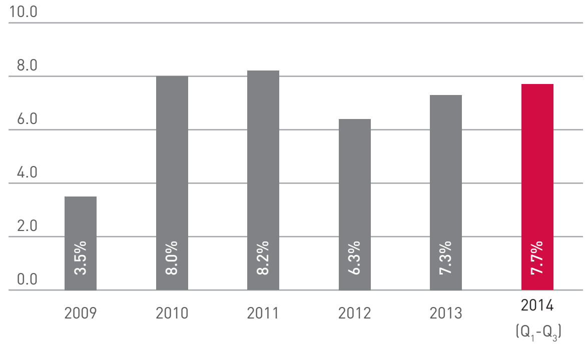


Figure 3

INFLATION

Inflation continued its declining trend over 2014 as reflected in figure 4, declining from 4.7% at end 2013 to 2.1% at end 2014.

Monetary policy decisions over the last few years created an enabling environment for lower and stable inflation, which continued into 2014 with the relatively stable exchange rate, the moderation of commodity prices in the global market and downward revisions in administered prices of electricity and water tariffs, LP Gas and fuel.

Inflation levels are expected to remain at single digit levels over the foreseeable future, notwithstanding supply side factors including adverse weather conditions.

Inflation

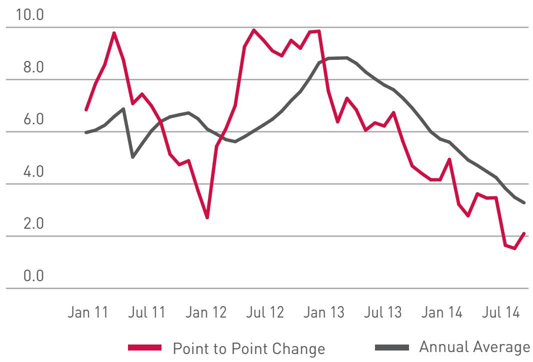


Figure 4

Management Discussion & Analysis

MONETARY POLICY CHANGES

As a result of the tight monetary policy stance in 2012, private sector credit growth witnessed a sharp decline and is now at mid single digit levels, as shown in figure 5. Money supply has stabilised over the same period.

Net credit growth to the Private Sector

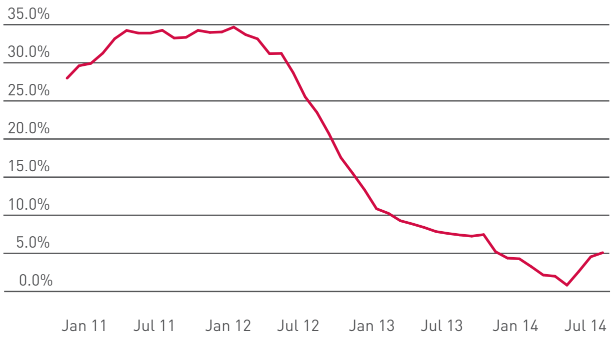


Figure 5

M2b-growth

Figure 6

Having achieved its stabilisation objectives, the Central Bank now attempts to stimulate the economy to return to a higher growth path whilst maintaining inflation around the targeted levels.

Borrowing by the private sector in 2014 was lower than anticipated and the Central Bank continues its policies to encourage private sector borrowing and spur economic growth, given the low inflationary environment.

INTEREST RATES

The benchmark 364-day T-bill rate stabilised to 6.00% at December 2014, a decline of 229 basis points (bps) from 8.29% at December 2013. This follows a total decrease of 340 bps in 2013. The movement in the 364-day Treasury bill yields is shown in figure 7. The 5 year bond has declined by 250 bps over 2014. Interest rates are expected to remain low in the medium term.

Activity in the listed debenture market continued in 2014 but to a lesser degree vis-a-vis 2013 with mainly second tier companies' debentures being listed.

Interest Rate-364-day-T-bill

Figure 7

EXTERNAL RESERVES

Sri Lanka's gross official reserves were USD 8.8 billion in October 2014 which is sufficient to finance the equivalent of 5.5 months of imports. The favourable external reserves were supported by increased worker remittances and earnings from tourism and inflow to the financial account. 2014 witnessed a decline in the cumulative trade account deficit with an increase in imports in the latter part of 2014 with significant imports of fuel as well as imports of personal vehicles.

During 2014, NSB raised USD 250 million by issuing a long-term bond in the international market while the Government issued a USD 1 billion sovereign bond in January 2014. This helped ease pressure on the current account and the balance of payments. As a result of the combination of favourable factors, there is now an estimated balance of payments surplus of USD 1,400 million in 2014 compared to USD 985 million in 2013.

The LKR has depreciated by 0.8% during 2014 to LKR 131.79 as shown in figure 8 due to higher import demand but appreciated significantly against many other currencies.

USD Exchange Rate

Figure 8

FISCAL DISCIPLINE

The fiscal position improved in 2014 with the overall fiscal deficit estimated to be 5.2% of GDP compared against a budget deficit of 5.9% in 2013. Debt to GDP is estimated to decrease to 75.0% in 2014 from 78.3% reported in 2013.

EQUITY MARKETS

The equity market improved in performance in 2014, recording a growth of 23.4% for 2014 with the index reaching 7,298.95. Market Capitalisation stood at LKR 3,104.9 billion at end December 2014 with the Price to Earnings Ratio for the market at 19.7x.

CSE - ASPI

Figure 9

Daily Average Turnover of the CSE

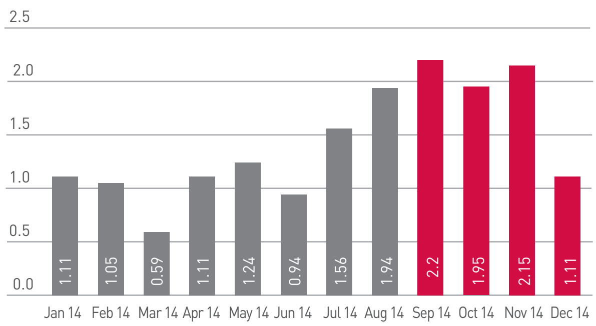


Figure 10

The long-term equity outlook remains positive on the back of the infrastructure development and improving economic conditions.

FUTURE OUTLOOK 2015

The Sri Lankan economy has a track record of resilience and this is reflected by an improvement in economic growth from 7.3% in 2013 to 7.8% in 2014, as estimated by the Central Bank. The economic improvement is underpinned by loose monetary policy as well as slow recovery of the global economy, with the current focus of the Central Bank being to increase private sector credit to target levels to stimulate economic growth. Inflation is expected to continue to remain at single digit levels in 2015.

Management Discussion & Analysis

INDUSTRY REVIEW

OVERVIEW

Transition of Rule Based Capital regime to a Risk Based Capital (RBC) regime, and the segregation of insurance companies were the symbolic changes witnessed in the industry during 2014. It is understood that the majority of the composite insurance companies are ready to implement segregation by the year end.

Insurance Industry recorded a growth in Gross Written Premium (GWP) of 8.39% in 2013 compared to 11.06% recorded in 2012. Insurance penetration (Total insurance premium as a % of GDP) was at 1.09% in 2013. Penetration for life insurance recorded a slight decline in 2013 from 0.49% to 0.48%. Attitude of the people towards insurance, lack of knowledge and awareness, inefficiencies in policy management were driving the lower penetration in life insurance. General insurance too witnessed a decline in penetration from 0.66% in 2012 to 0.61% in 2013.

21 insurance companies were in operation in 2013, including National Insurance Trust Fund (NITF). Total GWP generated by these insurance companies accounted for LKR 94.5 billion in 2013 compared to LKR 87.2 billion in previous year. Life insurance share of premium stood at 43.7% and 56.3% was on general insurance.

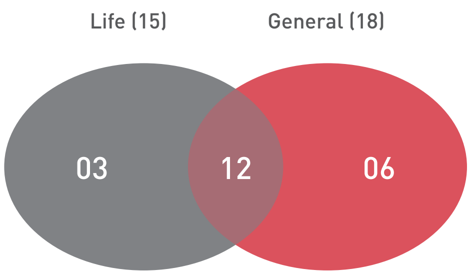


Figure 11

Despite the sluggish increase in GWP for both life and general insurance businesses, profits have declined in 2013 due to high operational costs and lower investment income due to declining interest rates.

Life Insurance industry

Industry performance

Life insurance industry recorded a premium income of LKR 41.3 billion as at end 2013, an increase of 10.2% from LKR 37.5 billion in 2012. Despite the lower penetration, premium income has increased by 72.07% in a five year horizon between 2009 and 2013. New companies have recorded a commendable GWP growth in 2013. Top five companies continues to enjoy more than 80% share of the total life insurance market in 2013.

Industry Vs Company performance

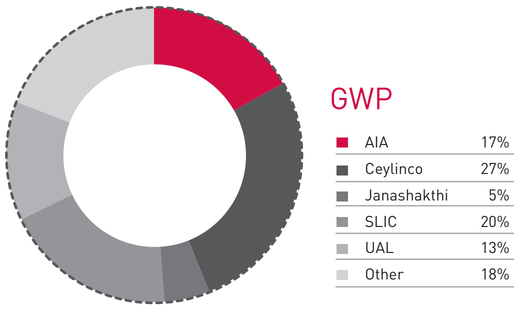


Figure 12
Source: IBSL Annual Report 2013

Premium Income and Penetration

	2009	2010	2011	2012(a)	2013 (b)
Life Insurance (LKR million)	24,005	31,152	35,162	37,477	41,306
General insurance (LKR million)	33,548	35,101	43,329	49,694	53,177
Total Premium Income (LKR million)	57,553	66,253	78,491	87,171	94,483
Growth Rate in Total Premium (%)	-1.06	15.12	18.47	11.06	8.39
Gross Domestic Product (LKR billion)	4,835	5,604	6,544	7,579	8,674
GDP Growth Rate (%)	3.5	8	8.2	6.3	7.3
Penetration % (Total Industry Premium as % of GDP)	1.19	1.18	1.2	1.15	1.09

Source: IBSL Annual Report - 2013
(a) Reinstated audited figures
(b) Provisional figures

Following table depicts the Company's life insurance performance in comparison to the industry.

LKR '000	2009	2010	2011	2012 (a)	2013 (b)
Market size [GWP]	24,005	31,152	35,162	37,477	41,306
Market Growth rate %	1.70	29.80	12.90	6.60	10.20
AIA's market share [GWP] LKR	4,632	7,784	7,846	6,496	6,863
AIA's market share [GWP] %	19.3	24.99	22.32	17.33	16.62

Source: IBSL Annual Report - 2013
(a) Reinstated audited figures
(b) Provisional figures

General Insurance industry

Industry performance

GWP of the general insurance sector (excluding SRCC & TC) was LKR 53.2 billion as at end 2013. This was an increase of 7.0% from LKR 49.7 billion in 2012.

The market shares of the top five companies were declined and it stood at 71% in 2013. Other 13 companies shared 29% of the market. Captive motor portfolios enabled some of the new players to increase their market share.

Industry vs Company performance

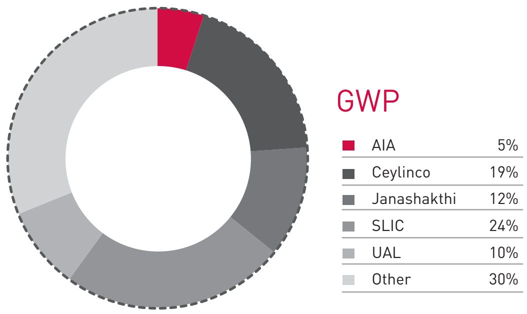


Figure 13
Source: IBSL Annual Report 2013

Following table depicts the Company's general insurance performance in comparison to the industry.

LKR '000	2009	2010	2011	2012 (a)	2013 (b)
Market size [GWP] *	33,548	35,101	43,329	49,694	53,177
Market Growth rate %	-2.92	4.63	23.44	14.69	7.01
AIA's market share [GWP] LKR *	2,504	2,491	2,456	2,143	2,429
AIA's market share [GWP] %	7.46	7.1	5.67	4.31	4.57

Source: IBSL Annual Report - 2013
(a) Reinstated audited figures
(b) Provisional figures
* Strike, Riot, Civil Commotion and Terrorism (SRCC & T) premium income of NITF was not considered for insurance companies' general insurance GWP for the years 2010 to 2013.

Management Discussion & Analysis

Financial Review

Group results

Group crossed LKR 14 billion in total revenue with overall profit after tax of LKR 352 million in 2014. Company completed the second year under the flagship of the AIA brand in 2014. Revenue increase of 9.2% to LKR 14.2 billion in 2014 (2013; LKR 13.0 billion) was driven by the earned premium performance for the year under review.

Operating expenditure was recorded at LKR 4.1 billion for 2014 with a growth of 7.6% over 2013, mainly attributable to the branch expansion initiatives carryout during the year.

Group Results	2010	2011	2012	2013	2014
Revenue (LKR Mn)	15,187	12,933	12,630	12,994	14,187
Growth	57%	-15%	-2%	3%	9%
Operating expenditure (LKR Mn)	2,729	2,674	2,682	3,836	4,126
Growth	42%	-2%	0%	43%	8%
Net profit after tax (LKR Mn)	600	692	848	499	352
Growth	-18%	15%	23%	-41%	-29%

Figure 14

Company results

Gross written premium

The total Gross Written Premium (GWP) increased to LKR 10.2 billion in 2014 recording a growth rate of 7.1% over LKR 9.5 billion in 2013. Life and general insurance businesses recorded positive premium growths in 2014 at 5.9% and 10.2% respectively.

Agency force growth and the branch expansion in life insurance business to mark the 5,000 agents in 2014 and realignment of life product suite have contributed to the premium performance in life insurance business.

Demand increase in motor vehicles due to price reductions have strengthened the general insurance business performance in 2014

Net claims and benefits

Net claims and benefits of the Company increased by 18.5% to LKR 8.0 billion in 2014 compared to LKR 6.7 billion in 2013 excluding change in contractual liability. Life and general insurance claims and benefits stood at LKR 6.7 billion and LKR 1.2 billion respectively in 2014.

In 2014, the Company transferred LKR 483 million (2013 - LKR 754 million) to the Long-term Insurance fund which belongs to the life policyholders. Reduction in transfer to the Long-term Insurance fund during the year was mainly contributed by increase in life benefits and claims.

Operating Expenses

The Company's operating and administrative expenses grew by 7.5% during the year under review due to branch expansion and general increase in price levels.

Profit after tax

After tax profit of the Company recorded at LKR 348 million for year 2014 in comparison with LKR 499 million in 2013.

Life insurance business surplus contribution for the year is LKR 100 million compared to LKR 200 million in 2013, backed by the admissible assets after having adequately met the required solvency margins and supported by prudent reserving. After tax profit of the general business accounted for LKR 89 million in 2014 compared to LKR 316 million in 2013.

Company Results	2010	2011	2012	2013	2014
Revenue (LKR Mn)	15,186	12,933	12,629	12,995	14,182
Growth	57%	-15%	-2%	3%	9%
Operating expenditure (LKR Mn)	2,726	2,672	2,682	3,836	4,125
Growth	42%	-2%	0%	43%	8%
Net profit after tax (LKR Mn)	602	694	840	499	348
Growth	-24%	15%	21%	-41%	-30%

Figure 15

Analysis of Statement of Financial Position

During the year under review AIA's financial position became stronger and it surpassed the LKR 47.6 billion milestone (2013 - LKR 44.2 billion) with total assets growing by 7.9% over the previous year. The total asset base of life insurance business accounted for LKR 41.9 billion in 2014 compared to LKR 38.6 billion in 2013. The general business asset base was LKR 5.9 billion in 2014 compared to LKR 5.6 billion in year 2013.

Intangible Assets

Net book value of intangible assets as at 31st December 2014 was LKR 576.4 million compared to the LKR 602.7 million in the previous year resulting mainly through amortisation charge of the new state of the art software/ hardware solution for life insurance business.

Financial Assets

Financial Assets accounted for 82% of the total asset base which was LKR 39.1 billion (2013 – LKR 36.4 billion). The details of investments and the performance are set out in the investment review on pages 17 and 18.

Property, Plant & Equipment (PPE)

Net book value of property, plant and equipment as at 31st December 2014 was LKR 358.6 million compared with the LKR 303.5 million in previous year. The accounting policies and detailed notes to property, plant and equipment are presented in Notes 3.5 and 8 of the financial statements.

Reinsurance assets

Reinsurance assets comprise of LKR 835.4 million as reinsurers' share of outstanding claims and LKR 347.6 million as reinsurers' share of policy liabilities as at 31st December 2014. The accounting policies and detailed notes to reinsurance receivables are presented in Notes 3.10 and 13 of the financial statements.

Life Insurance Fund

The life insurance fund includes the reserves created to satisfy future claim obligations and maturity value payables to life insurance policyholders. Gross life insurance fund as at the 31st December 2014 was LKR 36.2 billion in comparison with LKR 33.8 billion in previous year.

The Company has appointed Mr. Frank Munro as the independent appointed actuary for the life insurance to conduct the valuation of the life fund and his report appears on page 78. 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 consultant actuary.

General Insurance Fund

The General insurance Fund mainly consists of premium reserves and claims reserves relating to the general insurance business. Those are categorised as the Unearned Premium Reserves, Reserves for Claims Outstanding, Incurred But Not Reported (IBNR) Claims Reserves and Incurred But Not Enough Reported (IBNER) Claims Reserves.

The Gross general insurance fund was LKR 3.0 billion as at 31st December 2014 in comparison with LKR 2.8 billion over previous year recorded a growth of 7.3%. AIA ensures that adequate provisioning for claims outstanding including IBNR are maintained. AIA has appointed M/s NMG Financial Services Consulting Pte Limited as the independent actuary for general business. Their report appears on page 79.

Shareholders' Equity

Shareholders' equity of the Company has increased from LKR 4,538.5 million to LKR 4,835.3 million in 2014 recording a growth of 6.5%. The stated capital of AIA remained at LKR 300.0 million during the year and growth of revenue reserves were LKR 297 million which was a 7.1% growth over the previous year.

Solvency Margins

As a regulatory requirement of the Insurance Board of Sri Lanka (IBSL) all insurance companies are supposed to maintain the stipulated solvency margins. AIA maintained the required solvency margin throughout the year in both life as well as general insurance businesses. A healthy solvency margin is an indicator of the financial stability of the Company.

Life Insurance Solvency Margin

AIA recorded a solvency margin ratio of 4.32 times in life insurance (2013- 2.89 Times) as at 31st December 2014, by having an available solvency margin of LKR 5,427 million compared to the required solvency margin of LKR 1,256 million. The total admissible assets of life insurance business were LKR 33,046 million (2013- LKR 28,970 million) and the total liabilities amounted to LKR 27,619 million (2013- LKR 25,548 million)

General Insurance Solvency Margin

As at 31st December 2014, the admissible assets in general insurance business amounted to LKR 4,052 million (2013 - LKR 4,019 million). While the total liabilities amounted to LKR 2,681 million (2013 - LKR 2,431 million), resulting an available solvency margin of LKR 1,371 million (2013 - LKR 1,588 million). Since the required solvency margin (RSM) in general insurance amounted to LKR 438 million, the Company was able to surpass the RSM by 3.13 times (2013 - 4.01 times).

INVESTMENT PERFORMANCE

INVESTMENT STRATEGY

The Company maintains a prudent investment strategy for its investments in line with its investment philosophy and investment policy. These are designed with the primary objective of providing peace of mind and prosperity to its policyholders, shareholders and other stakeholders. The Company therefore focuses on a long term investment strategy. The fixed income investment strategy focuses on duration strategy with investments made into high grade

Management Discussion & Analysis

financial instruments. The equity investment strategy focuses on sound fundamentals with investments being made into listed liquid blue chip counters.

The Company does not maintain exposure to quoted equity in its conventional Life Policyholders fund, general insurance Technical fund and Shareholder funds in line with the risk appetites of the respective portfolios. 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, and prudent investment management has ensured that these funds beat their dynamic benchmark over 2014.

The Company anticipated the continued decline in interest rates during 2014; notably a decline in the benchmark 364-day Treasury bill yield by 229 bps to stand at 6.00% by year-end and the decline in the 5 year bond by 250 bps, following a similar decline over the previous year. The Life Policyholders' fund therefore continued to deploy funds into longer tenure listed corporate debt instruments. The Company was selective in its exposure to listed corporate debt instruments choosing high grade investments issued by licensed commercial banks and sound non-bank financial institutions.

Prudent investment strategy and timely execution prior to the decline in interest rates has ensured satisfactory returns for the portfolios over 2014 with the Life Policyholders' fund securing the foundation for sustained stable income over the medium term. The Company is able to thereby declare attractive policyholder dividends for 2014.

The asset allocations of the Company's investments for the life and general businesses as at 31 December 2014 are given in figures 16 and 17.

Life Investment Portfolio - 2014 Asset Allocation

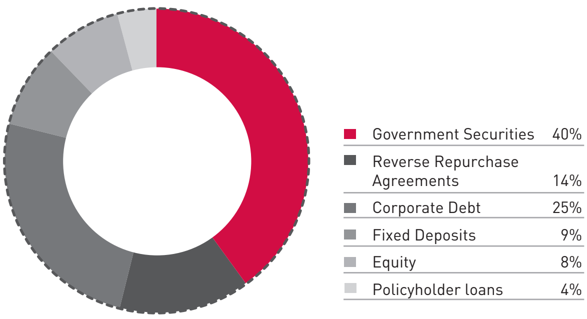


Figure 16

General Investment Portfolio - 2014 Asset Allocation

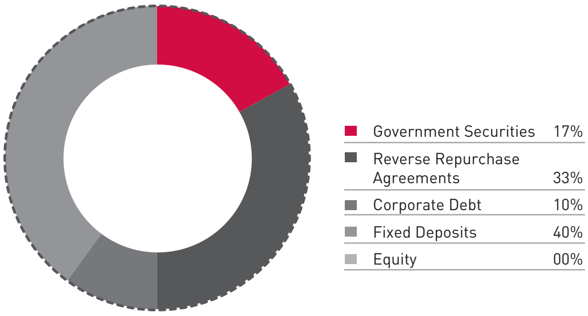


Figure 17

To ensure that the investment funds are managed within a sound governance framework on par with international best practice, the Company has a detailed investment policy and individual investment mandates by which its investment funds are managed.

Detailed processes are in place to ensure adequate oversight at Board of Directors and its sub-committee level as well as at management level for good governance.

INVESTMENT PERFORMANCE

The investment performance is a result of the timely execution of investment strategy against the backdrop of continued decline in interest rates.

A combination of the lock-in of attractive interest rates despite the steep decline in market interest rates coupled with the increase in the portfolio size resulted in the growth in investment income.

Volatility of the equity market continued into 2014 but timely equity market investment decisions safe guarded and also ensured that the unit-linked policyholders benefited by the positive equity market returns.

Life Insurance

GWP

The total GWP achievement for the year under review is LKR 7.3 billion compared to LKR 6.9 billion in previous year. Agency expansion and realignment of product suite have been the key contributing factors for the performance in 2014.

Life GWP
(LKR Mn)

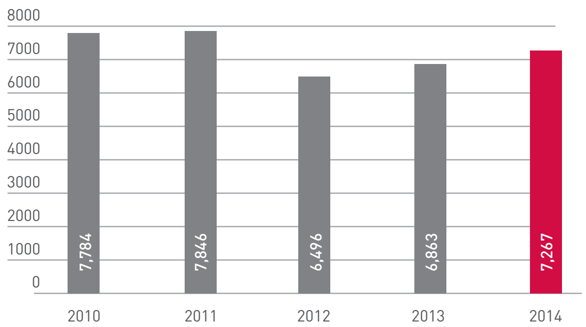


Figure 18

Product mix
The Conventional products accounted for 81% of life insurance GWP on 2014, recording a growth of 17% compared to the last year. Unit link products on the other hand recorded a negative growth of 25% owing to slower performance in equity market.

Channel mix
Agency continues to dominate the overall life insurance performance for in 2014 with a percentage share of 92% of the total GWP achievement. Newly incorporated Corporate solution channel is gaining the phase with a share of 3% while Bancassurance channel secured 4% on total share of GWP for 2014.

General Insurance
GWP
General insurance GWP recorded a growth of 10.2% in 2014. This is commendable due to the soft market conditions that prevailed in 2014. GWP of LKR 2.9 billion was achieved in 2014 compared to LKR 2.7 billion in 2013.

General GWP
(LKR Mn)

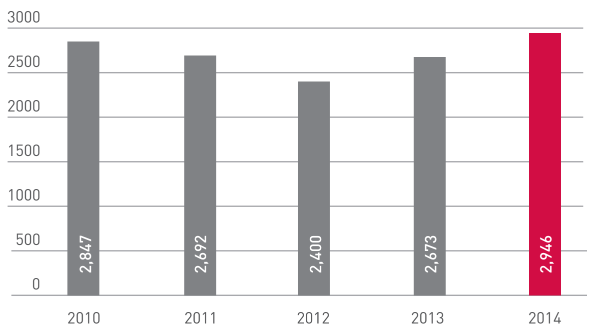


Figure 19

Class mix
The largest contributor to the general insurance GWP was the Motor business which accounted for 59% of the total GWP for 2014 (2013;56%). Fire class, been the second largest revenue generator accounts for 19% share on total GWP for 2014. Capitalising on retail products mainly through agency distribution have strengthen the motor class of business.

Channel mix
Tied Agents in general insurance business is the key selling arm among the other two channels namely Broker and Bancassurance. Active agency force of more than 350 agents spread across the island contributes to the Agency channel performance which stood at 49% of total GWP.

Ratios
Higher contribution in motor class of business has dampened the loss ratio recorded for the year under review. Loss ratio of 61.5% in 2014 compared to 58.4% in 2013 was mainly driven by the claims recorded under motor class.

Motor loss ratio increased to 61.3% in 2014 compared to 58.9% in 2013. Reduction in vehicle prices has resulted in mix benefits for the company.

Combined Operating Ratio (COR)	2013	2014
Claims Ratio	58.40%	61.50%
Expense Ratio	44.90%	49.00%
Combined Operating Ratio (COR)	103.30%	110.50%

Figure 20

Segregating Life & General Insurance Operations
The dawn of the New Year in 2015 coincided with an important milestone in the history of AIA in Sri Lanka with the segregation of life and general insurance operations. The launching of AIA General Insurance Lanka Limited was a pivotal step in the Company's 25 year history.

The new Company was able to focus on the specific needs of general customers, especially when it came to motor, home, fire and marine insurance. The portfolio of comprehensive general insurance solutions included title, travel and health insurance tailored to suit the needs of individual and corporate customers. The launch complied with the regulations of the Insurance Board of Sri Lanka that made it mandatory for insurers to segregate life and general operations.

The segregation was a decisive step in our brand journey as the real life company, as we continue to do the right thing, in the right way with the right people.

Management Discussion & Analysis

Focusing on 'our people' and their development is imperative to us. It is what will drive us towards our vision of becoming the pre-eminent life insurance provider in Sri Lanka whilst achieving profitable growth in general insurance.

Social

Our People at a Glance

2014 has been a year of strengthening and solidifying the best of class people practices and processes introduced in 2013 following the transition as a Company within AIA Group.

Focusing on 'our people' and their development is imperative to us. It is what will drive us towards our vision of becoming the pre-eminent life insurance provider in Sri Lanka whilst achieving profitable growth in general insurance.

Measures of Success – linking Company success to employee engagement

A Great Place to Work – 2014

The Company was adjudged as one of the best 15 companies to work for in Sri Lanka by the globally renowned Great Place to Work® study.

That is not all ; The Company won awards for the best Multinational Company to work for, the best in the Medium Enterprise category (200 – 1000 employees) and received the honour of being recognised with a special category award for best practices in Corporate Social Responsibility (CSR).

Employee Engagement Survey

Our people took part in the annual Employee Engagement Survey conducted across all entities within AIA Group by Gallup, a world renowned research agency. The main focus of the survey was to identify the level of employee engagement within the organisation and work towards improving workgroup and organisational performance.

Based on a response rate of 99%, the engagement levels of the Company improved further in 2014 increasing the proportion of engaged employees from 53% in 2013 to 66% in 2014. The engagement Grand Mean increased meaningfully by 0.21 to 4.35, placing AIA Sri Lanka at the 90th percentile on the Finance and Insurance database. Internally, AIA Sri Lanka now occupies the 3rd position compared to other entities across AIA Group.

Building ownership by engaging employees in our business

The Company keeps its people up to date and involved with business information and corporate activities as a way of engaging them and encouraging communication at all levels.

The first working day of the year began with the lighting of the traditional oil lamp and by sharing important messages from all four religions to invoke blessings to commit and achieve challenges of 2014. The senior management addressed the employees and outlined the strategic path for the year. A traditional breakfast was laid out with an exciting spread to start the year in good spirits.

Annual Company Conference is the focal gathering held each year hosted by the Chief Executive Officer to share the previous year's financial performance highlights, upcoming activities and celebrate successes.

During the year under review, a number of Town Hall meetings were also conducted with the presence of AIA Group's senior management members, during their visits to AIA Sri Lanka. This facilitated close communication between employees and the top management and established a shared understanding of the business priorities and its alignment to AIA Group's expectations.

Talent Attraction and Retention

During the year 2014 we had a total strength of 1,032 employees in the permanent cadre compared to 935 in 2013. The growth was mainly due to the business expansions carried out in the Direct Sales agency operations and in Bancassurance.

The Company delivers its brand promise of being a Real Life Company not just to the customers, but also very much to the employees – The efforts to empower and retain the female workforce is only one such example. It is no secret that women in the country's labour force face many challenges in being employed and climbing the career ladder when balancing family commitments with that of work. Recognising this and lending a hand to extend flexible work facilities for our women workforce during critical times of family and motherhood, the Company introduced "Empower Women" a comprehensive maternity benefit scheme which includes among others, a 100 days of maternity leave period – We are the 1st member of the Employer's Federation of Ceylon to present such a facility to the women workforce. As a result of these and many other conscious and active efforts to maintain a healthy gender mix, the female population of the Company was increased up to 30% compared to 24% in 2013.

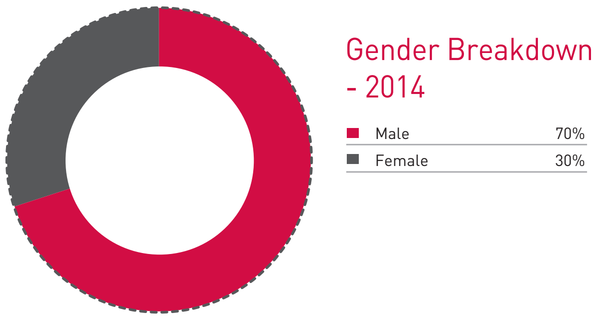


Figure 21

Total Employee Category Breakdown

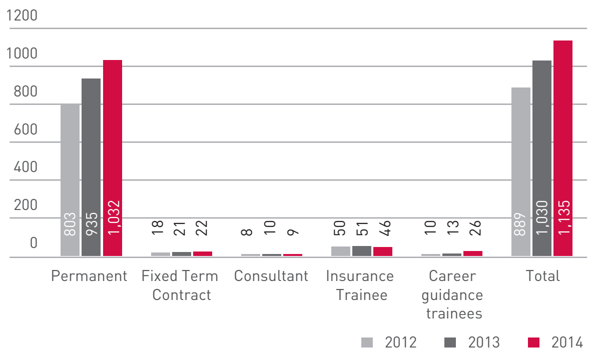


Figure 22

Another unique feature of the Company's workforce is its age and experience mix; As the analysis depicts overleaf, 55% of our people are aged below 30 years. This variety forms the foundation of the many employee engagement, reward, recognition and learning interactions that the Company crafts to attract, retain and motivate these diverse mix of people for higher levels of performance. The 'new blood' that continues to flow in to the organisation year on year, mixed with those experienced create a perfect balance of knowledge and expertise to face day to day challenges and to win.

Management Discussion & Analysis

Age Analysis

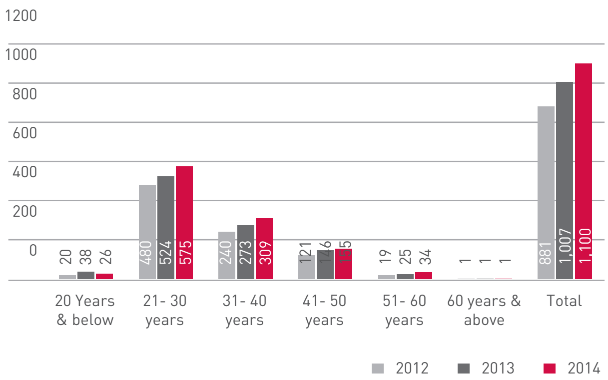


Figure 23

Service Period Analysis

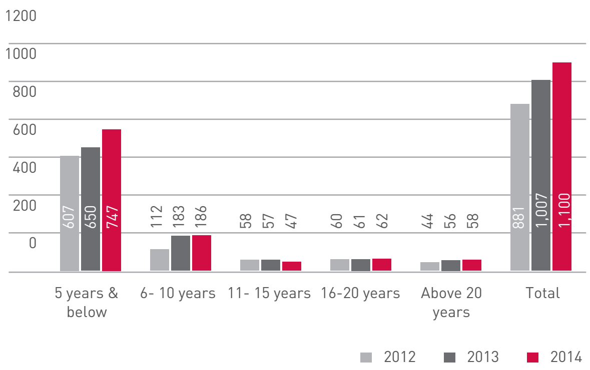


Figure 24

Measuring Performance & Growing leaders within

Performance Development Dialogue (PDD) is the mechanism the Company deploys to emphasise the importance of having an open honest conversation on how our people achieve results and how our managers can help them to grow and develop through coaching and feedback.

This process measures performance expectations in terms of 'What' which are the goals and 'How' which are the behaviours linked to critical capabilities. Goal setting, mid-year review and year-end review are the three formal milestones in this process.

During the year under review 842 employees in the permanent cadre underwent the PDD process through the automated performance management system.

Organisation and People Review (OPR) is our talent management process which enables the assessment of capability requirements across the business in order to identify Company's current and future leadership needs and ability / readiness to meet them. The review encourages a proactive approach to resource, develop and ensure leadership continuity for the future.

During the year, we have identified 'Ready Now' & 'Ready Later' successors for the senior management team, who will be groomed within 1 – 3 years to take over higher responsibilities ensuring a solid bench strength.

Reward & Recognise Performance

The Company endeavours to have in place a total rewards framework consisting of financial and non-financial rewards and recognitions in order to attract and retain best of talent. Whilst adhering to AIA Group's rewards guidelines, we also consider local statutory & regulatory framework and the company's capacity to pay.

During the year under review the Company re-evaluated and standardised its variable pay schemes including its short term bonuses. The purpose of this exercise was to reiterate the Company's commitment to recognise achievers. Through variable pay we emphasise a 'pay for performance' culture within the Company.

A unique introduction in this area was the study support scheme for the Actuarial team in order to encourage them to complete their professional qualifications and to take over enhanced responsibilities.

In addition many 'function specific' employee recognitions were introduced to the Company's array of recognition schemes – all towards encouraging employees to perform and excel exceeding expectations. The new 'Synergy card' introduced as a team recognition tool for Agency sales force in both life and general insurance is one such example.

Developing our People

'Doing the right thing; the Right way; with the Right people' is our operating philosophy in order to ensure that the right results will come.

As an organisation we believe we have the right people and we develop them to do the right thing in the right way through Learning and Development (L&D). We follow 70:20:10 model, a globally accepted methodology in people development.

Following are some key highlights from our L&D calendar

The Best of Me Programme

At AIA, we believe that every individual is a leader. The essence of this programme is to make sure that individual contributors understand what is expected of them in our journey towards being pre-eminent in our areas of focus. During the year under review 304 participants attended this programme where they got the opportunity to identify their personality types through Myers Briggs Type Indicator (MBTI).

The AIA Manager II Programme

Continuing the Company's management learning journey, AIA Manager Series, which we inherited from AIA Group, was developed for managers who lead teams to achieve overall organisational objectives. Refreshing the learnings from AIA Manager I which focused on management awareness, the content of AIA Manager II emphasised on the Company's strategic priorities, Tripod of working relationships, delegation and empowerment; key facets in leading high performing teams at AIA.

AIA Manager as Coach (MAC)

At AIA we adopt coaching as our preferred leadership style. Hence MAC is a programme designed and developed in world class style by AIA Group, is aimed at introducing a coaching culture among leaders. 26 senior management members including the Executive Committee attended this workshop which was co-facilitated by Chan Amos, Regional HR Business Partner at Group office and Lisa Wandl - founder of Coach Global Institute, Australia.

Residential Workshop for Regional Managers

The massive expansion initiatives during the year saw many new 'sales managers' joining our fold – Orienting them to AIA way was hence paramount. A 3 day residential workshop was conducted for this purpose, for these newly joined sales managers where the main focus was to introduce AIA strategic framework, Operating principles and its world class sales processes. The panel discussion with the leaders of the distribution channel helped them to get important insights to be successful in their current job role and focus their contribution to drive the Company towards its vision.

The Connection Beyond Just Work

The Company recognises that the quality output of our people also depends very much on their ability to contribute outside work and how their families are

L&D Programmes	No. of Training Programmes	No. of Participants	Total Training Hours	Investment LKR
Internal	49	1,286	11,481	16,202,398.20
External	67	279	2,696	3,511,076.40
Foreign	57	106	2,224	27,338,017.59

Management Discussion & Analysis

involved in this process. The many initiatives facilitated by the HR function and the Company's recreational Sports Club caters to just this – as some highlighted below.

'AIA's got Talent – Sri Lankan Extravaganza'
During 2014 too 'AIA's got Talent – Sri Lankan Extravaganza – Season 2' went in search of hidden talents of employees. The highlight of the event was that it was not just open for employees but was also to their family members.

After a tight and thrilling competition among around 40 participants, team Rhythem Squad was selected by the professional panel of judges to represent AIA Sri Lanka in AIA Group's competition on AIA's Got Talent .

The 'Rhythem Squad' team reached the top 10 acts after a close competition with 25 teams and achieved the 'Most Creative Performance Award' in AIA Group's semi-finals round.

AIA Master Minds – Quiz Competition
AIA Master Minds – quiz competition was organised with a twist which included general and industry specific questions challenges linked to the Company's Operating Principles through Real Life stories.

After a tough competition between 15 teams, team Absortio became the champions of the quiz whist team Phoenix secured the runner-up position and Mind-Crawlers marked the finalist team position in the quiz. An employee from Life Operations received the 'Master Mind' title in the quiz and took wings to Malaysia to enjoy a Company sponsored first prize holiday. It was indeed an event with excitement, challenge and new learning.

Looking Ahead......

2014 has been a year of accomplishments for the Company with its people playing a pivotal role for success....yet we strive to give and to receive more from our people in this mutually beneficial and optimal working relationship to achieve greater heights....for AIA Sri Lanka, the best is yet to come.

Chathuri Munaweera
Director Human Resources

Developing of Wealth Planners in knowledge, skills and attitudes was the first priority of the sales training and development function. All the training programmes were designed and developed to cultivate a winning culture among our Wealth Planners.

Agency Force

Training and development

Investing in human capital competencies was one of the major areas that contributed towards the immense growth of sales during the year 2014.

Developing of Wealth Planners in knowledge, skills and attitudes was the first priority of the sales training and development function. All the training programmes were designed and developed to cultivate a winning culture among our Wealth Planners.

Road to MDRT

A special series of training programmes for MDRT aspirants of AIA was launched to enhance their skills to accelerate their target achievement to be qualified for the MDRT conference which will take place In USA. In 2014, 24 MDRT qualified agents have been produced through this programme. A tremendous achievement compared to year 2013 where it was 13 MDRT winners.

Certificate in personal financial management (CPFM)

CPFM is offered by the department of insurance and valuation of the faculty of Business studies and Finance of Wayamba University of Sri Lanka. It has provided the Wealth Planners an opportunity to acquire technical knowledge in insurance and increase their performance towards achieving progress in the sales success.

Diploma in personal financial management

It is the next level of the CPFM programme. The diploma in personal financial management was launched to enhance the sales force knowledge in insurance.

AIA Master Wealth Planner Faculty

A training faculty within the sales force. Master Wealth Planner Faculty consists of 52 regional trainers who have gone through a series of training programmes and qualified to assist the sales training function in essential regional trainings such as Product Training for new recruits and induction training. In the year 2014 they have contributed 103 training programmes in total.

Induction for newly recruited Wealth Planners and Wealth Planners' Managers

In the year 2014 approximately 2900 new recruits were inducted regionally. According to AIA group standards, in 2014 a new programme was initiated for newly recruited Wealth Planners prior to the induction, to provide them a better comprehension on work place and the job role. Inductions were structured in 3 different stages.

Newly appointed Wealth Planners' Managers were taken through a series of familiarisation programmes continuously for 3 months in order to be competent enough to manage their teams.

Supporting agency expansion with more training programs

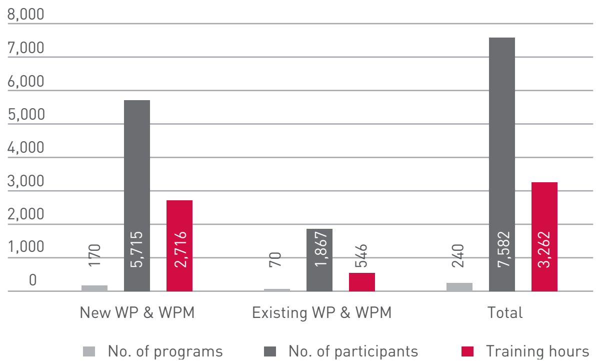


Figure 25

Management Discussion & Analysis

GAMA training programme for Wealth planner managers

A programme designed and developed by GAMA International USA, which has been localised according to AIA Sri Lanka sales force requirements. Under this, Finding Right People (FRP) programme has increased their ability to find and recruit quality individuals as Wealth Planners for their sales teams.

New initiatives

Coffee with legends - To grab the best from the best of MDRT qualified Wealth Planners for the benefit of average performers.

Sales idea workshop - To increase the activity ratio of a newly recruited Wealth Planner.
Reactivation programme – To enhance the retention ratio of the active agency sales force.
Product refresher – to refresh the product knowledge of the sales force from time to time.
i-PoS Training – to increase the i-pad usage in sales of Wealth Planners and to manifest a technology driven culture within the sales force.

Creating a unique customer experience

We, at AIA Insurance place great emphasis on going beyond customer expectations. Our state-of-the art technology and continuous process re-engineering combined with a trained and competent team ensures our customers receive an unmatched service every time they come in contact with AIA Insurance. This is delivered through a well-established framework in place which involves and engages all key stakeholders to deliver a unique and satisfying customer experience. The carefully crafted 4-pronged strategy combines customer engagement, customer-friendly processes, 'voice-of-customer' feedback and research to identify need-based product solutions.

Engaging customers

Our customer engagement strategy is carefully formulated to bring not only the customer but also their loved ones into focus. Our strategy is designed to add value to the lives of our customers and make them feel appreciated and rewarded. The screening of family movies to which selected customers are invited along with their loved ones has proved to be popular and much appreciated. Another key activity that is gaining ground is the staging of popular dramas. Also, Motor clinics for our life customers advices them on how best to look after their vehicles. In addition, we hold special interest workshops, exhibitions and other activities that engage and enhance our close relationship with customers.

Real Rewards, our newest customer engagement initiative offers prizes worth one million rupees to 50 policyholders every month. The initiative was designed to encourage the continuance of the policies which in turn ensures that our customers get the protection benefits for their loved ones. The lucky winners are picked out using a specially developed electronic system. This initiative has inspired more policyholders to opt for a standing order for premium payments to ensure their policies do not lapse.

Convenience to customers

We continuously enhance customer convenience by expanding our premium payment network. The avenues open to customers vary from banks, supermarket chains, electrical and home appliance stores, mobile banking networks to a SmartPay machine at our Life-Link office to allow customers to pay their premiums at any time. Our customers now have over 2000 premium payment points for their convenience.

We constantly review key customer interaction points and related processes. The feedback we receive is used to improve our existing process and to create a better and more pleasing customer experience.

Listening and responding to customers

Our centralized complaints management system pivots around collating customer feedback from various sources and empowering all employees to act on behalf of customers in resolving the complaints received. Customer Feedback Review Forums comprising all key customer unit heads and complaints resolving champions meet regularly to take corrective measures and proactively implement initiatives to keep our customers consistently in the forefront. Our streamlined process of resolving customer complaints helps the Company to identify and prioritize emerging issues, finding timely, lasting solutions.

Regular surveys conducted over the phone, at focus group discussions and via letters on special occasions such as the completion of the first policy year help to build and enhance the rapport we have with our customers.

Research and insights of customers

Invaluable insights through research plays an important role in identifying process improvements, develop need-based products and customer engagement platforms. Research studies are conducted to identify emerging customer needs and help to track changing dynamics.

Our evaluation of communications, both before and after mass media campaigns, serves to identify its effectiveness on the different customer segments it reaches. Research is conducted in wide ranging areas of customer need identification, market understanding, brand strength and equity, concept testing and campaign testing whenever a need arises.

We constantly monitor the perceptions of our current and potential customers via research. The state of our brand health is vital to the progress of our business and we place great importance to it and track it carefully and consistently. Monthly tracking of brand

Management Discussion & Analysis

health findings are reviewed and necessary actions are taken at functional levels. Major concerns are escalated to top management.

Net Promoter Score (NPS) is a process which measures AIA and industry's key competitors' customer satisfaction cum recommendations via direct customer feedback. This is an annual exercise and results are evaluated against pre-set targets. Transactional Net Promoter Score (T-NPS) evaluates and measures customer recommendation levels at relevant customer touch-points and necessary steps are initiated to improve, if necessary. Relationship Net Promoter Score (R-NPS) – measures customer loyalty levels and benchmarks against key competitors in the market.

Our customer-friendly portfolio of products

In 2014 we launched two products that have been revitalised to meet emerging needs of customers. These products augmented our current portfolio encompassing a range of solutions including education plans for parents anxious to ensure a sound higher education for their children in the face of rising costs and savings solutions.

Products in a nutshell

Name of product	Target market	Special Features
Launched in 2014 Savings Plus Gold	Individuals who seek both insurance and financial solutions in one package	• In-built Life Cover that could be customised to suit your needs • Ability to top up your existing savings fund • A loyalty reward of 150% initial annual basic premium at 10th policy anniversary • The fund increases based on an annual guaranteed rate of return • A tax free maturity value maximising savings returns • Ability to withdraw funds in an emergency
Launched in 2014 Pensions Premier	Executives, businessmen, entrepreneurs who are not eligible for a state funded retirement income	• A monthly pension up to a period of 10-30 years upon reaching the retirement age • A monthly pension for the spouse or child should the unforeseen occur • The retirement fund increases based on an annually guaranteed rate of return • An in-built life cover of up to 5-165 times the annual basic premium • A loyalty reward of 100% initial annual basic premium on the 10th policy anniversary • Ability to withdraw funds in an emergency
AIA PensionsPlus	Executives, businessmen, entrepreneurs who are not eligible for a state funded retirement income	• A monthly pension up to a period of 10-30 years upon reaching the retirement age • A monthly pension for the spouse or child should the unforeseen occur • The retirement fund increases based on an annually guaranteed rate of return • An in-built life cover of up to two times the annual basic premium • Ability to withdraw funds in an emergency

Name of product	Target market	Special Features
AIA Pensions	Individuals who seek to build a substantial retirement fund and have a higher risk return appetite	• All features offered by AIA PensionsPlus with additional Investment choice to invest the Pension Fund in investment options ranging from Treasury Bills to the Stock Market
AIA Education Plan	Individuals who have children and have the need for a guaranteed education fund	• In-built Life Cover that can be customised to suit your needs • A loyalty reward of 200% initial annual basic premium at the 10th policy anniversary • The education fund increases based on an annually guaranteed rate of return • A guaranteed education fund at maturity even if the main life has ceased
AIA Protected Savings	Individuals who are married and have children and have the need for a guaranteed savings fund	• In-built Life Cover that can be customised to suit your needs • A loyalty reward of 200% initial annual basic premium at the 10th policy anniversary • The savings fund increases based on an annually guaranteed rate of return • A guaranteed savings fund at maturity even if the main life has ceased
AIA SavingsPlus	Individuals who seek both insurance and financial solutions under one package	• An in-built Life Cover that's worth up to 15 times the annual basic premium • Ability to 'Top-up' your existing savings fund • The fund increases based on an annually guaranteed rate of return • A tax free maturity value maximising your savings returns • Ability to withdraw funds in an emergency
AIA SavingsPlan	Individuals who seek both insurance and financial solutions under one package and have a higher risk return appetite to build a Savings Fund	• All features offered by AIA SavingsPlus with additional Investment choices to build your fund • Opportunity to invest your Savings Fund in investment options ranging from Treasury Bills to the Stock Market
AIA InvestmentPlan	Individuals who wish to build a Savings Fund in a short term	• A single premium unit linked product with flexibility to switch between funds to maximise your returns • A Life Cover of 110% of one-off investment • Ability to top-up the existing investment • A tax free maturity value
AIA Fund Builder 10	Individuals who seek both fund building and protection needs	• Simple product structure • 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 125% initial annual basic premium at the policy maturity • The savings fund increases based on an annually guaranteed rate of return

Management Discussion & Analysis

Additional benefits

Additional Benefits	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 or Singapore
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 spouse
Child Health Care Benefit	• Financial Support for 250 listed surgeries performed in Sri Lanka, India or Singapore. 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
Hospital Expense Cover	• Provides a healthcare solution for the insured and the policyholder's family reimbursing medical expenditure in Sri Lanka

Our initiatives contribute significantly to the well-being of the nation, helping to create an emotional bond with people from all walks of life.

Our nationally relevant endeavours

Our Corporate Social Responsibility (CSR) endeavours, as Sri Lanka's pre-eminent life insurer, is closely linked to our business purpose of safeguarding and protecting individuals. Our initiatives contribute significantly to the well-being of the nation, helping to create an emotional bond with people from all walks of life. Our focus is on community development including Education, Safety and Healthy Living and our endeavours are aligned to our purpose in contributing to social and economic development.

Saving lives during Poson

Our signature CSR endeavour is the Poson Safety Programme which was conducted for the 21st consecutive year in 2014. Over a million pilgrims visit Anuradhapura to commemorate the introduction of Buddhism to Sri Lanka on a Poson full-moon day centuries ago. AIA Insurance ensured the presence of 600 trained lifeguards this year saving 9 precious lives including 2 children. The Sri Lanka Police, the Navy and The Life Saving Association of Sri Lanka joined hands to keep an eye on the Poson pilgrims as they bathed in the reservoirs in and around the sacred cities in Anuradhapura, Polonnaruwa and Dambulla. The nationally relevant initiative has helped to save hundreds of lives over the two decades. Its significance has been recognised both locally and internationally.

AIA Insurance launched the Poson safety initiative in 1993 when incidence of pilgrims drowning was high and the Company realised the national importance of having in place a mechanism to rescue unwary pilgrims. The Company's very comprehensive Poson safety campaign includes, effective mass media communications in addition to warning boards, leaflets, hoardings and public address announcements to create adequate safety awareness among Poson pilgrims to keep them cautious of the danger of bathing in reservoirs in Anuradhapura and surrounding areas.

Another important aspect of the Company's Poson campaign is providing a shuttle train service between Anuradhapura and Mihintale for the convenience of devotees. This was the 5th year this facility has been provided by AIA Insurance. Our safety campaign during Poson helps to inculcate safety as a way of life in Sri Lanka and our project has not only won the hearts of our customers and the general public, the project was adjudged to be among the top 5 best sustainability projects by the Ceylon Chamber of Commerce at the Best Corporate Citizen Award Presentation. It was also awarded the prestigious Asia Responsible Entrepreneurship Award 2014 for South Asia. Our TV commercial created to draw attention to the danger of bathing in reservoirs was adjudged the Best TV Commercial of the year - 2013 at Sumathi Awards.

Inspiring academic excellence for 2 decades

Chief Guest Emeritus Professor Kusuma Karunaratne, a Sinhala literary icon, was the Chief Guest at the presentation of the 14th AIA Higher Education Scholarship Awards presentation held in 2014. The students who topped the batch in each of the 25 districts in the Year 5 government scholarship examination in 2007 entered Advanced Level class in 2014 and became eligible to benefit from the Higher Education Scholarships granted by AIA Insurance. The students receive a monthly bursary from Advanced Level right up to the completion of their university degree. If they opt not to enter university, the Company gives them a lump sum of Rs.50,000 to kick start their life.

Management Discussion & Analysis

AIA Insurance has been granting Higher Education Scholarships since 1994 to encourage academic excellence among the nation's most promising children. This Higher Education Scholarship is unique because the Company's unconditionally recognises academic excellence on merit alone without requiring to meet any other criteria. The number of scholarships offered has grown to 500 over the span of 20 years. Those who have received the scholarship benefits number 350. The fund of Rs.10 million set aside for this purpose in 1994 has now grown six-fold through prudent investment.

AIA empowers insurance students

AIA Insurance granted a scholarship for excellence in insurance studies to the most outstanding final year student in the Department of Insurance and Valuation at the Wayamba University of Sri Lanka, for the 5th consecutive year. This year the scholarship was awarded to Suneetha Padmini who received a six month internship opportunity and a monthly allowance during her internship.

Diploma Course at Wayamba University launched for AIA Wealth Planners

Taking another giant stride towards developing a team who are above the industry standards in professionalism and expertise, AIA Insurance launched a Diploma course for AIA Wealth Planners for the first time in Sri Lanka. The inauguration took place when 61 Wealth Planners passed out from Wayamba University of Sri Lanka with a Certificate in insurance. These Wealth Planners at AIA Insurance completed the certificate course in Personal Financial Management at the Faculty of Business Studies & Finance at the Wayamba University and received their certificates from the Vice-Chancellor, Prof. S J B A Jayasekera at a special awarding ceremony. The specially designed Diploma helps the AIA Wealth Planners to improve their knowledge and professionalism and more importantly, to help provide a superior standard of service to their customers. The module was included in the University's curriculum in response to AIA's desire to enhance the competencies of the Company's Wealth Planners.

Our 'People led' endeavours

We are a responsible business with a strong belief in adding value to the community and the environment we live in. Our 'people led' CSR initiatives contribute to build our people's pride and emotional bond towards the Company.

Our employee voluntary leave scheme encourages people to give back to the community by engaging in charity based activities. All employees are granted up to 2 days paid leave per annum to volunteer in the Company's charity programmes. During the year we have collectively completed over 500 hours of voluntary service.

Total staff voluntary hours	540
Total investment	LKR 5,899,974
No. of children impacted by our 'Lend a Hand' Initiatives	250
No of employees volunteered	247

AIA lends a hand to children in Mullaitivu

The 30 year war in Sri Lanka affected many schools in the Northern Province. Although the war ended in 2009, rebuilding the schools are still in progress. One school that was seriously damaged was Mullivaikkal West Government Tamil Medium School (GTMS).

The Company selected this school to benefit from its CR initiative since it shelters over 250 students and renovated its damaged infrastructure facilities providing a school building with five class rooms. In addition, the Company donated a mini computer training centre to revitalise the education of the students contributing to improve the quality of education in the region.

Our CEO Shah Rouf and Deputy CEO Upul Wijesinghe, together with Director HR, Chathuri Munaweera participated in the ceremony to hand over the newly built school building to the students.

Real Ambition Brought to Life, Leadership Development Workshop for Undergraduates

'Real Ambition Brought to Life' is our latest Employer Branding initiative aimed at helping undergraduates realise their real ambitions. This was a two day leadership development workshop focused on empowering the undergraduate community of Sri Lanka. In our journey in playing a leadership role in driving economic and social development of the country.

We gave the opportunity to Kelaniya, Wayamba, Jayawardenepura and Sabaragamuwa universities for nominations and selected 25 students over 60 nominations. The workshop was held for 2 days and was based on team building activities and discussion based interactive sessions. Leadership in action, making ambition a reality, leading self and leading others were the main discussion points of the workshop.

AIA Foster Parenting

The Company organised this initiative to provide financial assistance through foster parenting for deserving children to support their education, in collaboration with the Department of Probation and Child Care Services Sri Lanka. Under this initiative, 41 students were financially supported on a monthly basis for a period of one year with contributions from 41 employees.

Taking Healthy Living to our Employees

'Healthy Living' concept is nurtured among our employees via many initiatives. Some of the key events were the Health Walk, the Health Talk, and the medical checkups for all employees and their families over the age of 30 years.

Management Discussion & Analysis

Environment

Our day-to-day eco-friendly stance

Our concern and care for the environment is reflected in our commitment to eco-friendly activities that help to manage and preserve the earth's precious resources for the future.

- New recruits are made aware of the Company's Environmental Policy
- All windows are tinted for energy conservation
- Central air conditioners are switched off at 5 pm
- Energy saving bulbs are used in all AIA offices
- LCD monitors are used for energy conservation
- Most of the staff are equipped with laptops
- Inter-building 3-wheeler shuttle service minimises fuel consumption
- Sending reminders to customers to pay premium by SMS
- 'Think before you print' campaign, rationalised paper usage and double sided printing to reduce paper consumption
- Call conferencing to reduce air travel
- Replacing point of sale material with digital presentations to customers to save paper usage
- Eco-friendly disposal of electronic items
- Regular maintenance and service of the Company's fleet to reduce emission

AIA unites to wipe-out Dengue

Over 100 employees volunteered and gathered at Narahenpita railway station and its vicinity to clean up the area, especially by picking up containers thrown about creating breeding grounds for mosquitoes. They went one step further and distributed educational leaflets to create awareness and motivate the public to keep the environment clean. They were accompanied by animators dressed up as mosquitoes to draw attention to the menace.

The initiative was conducted with approval from National Dengue Control Unit of the Health Ministry with assistance from Public Health Inspectors and other officials.

Educating new recruits & staff

New recruits are made aware of the Company's Environmental Policy at the induction stage. Eco-friendly practices have been introduced as an important induction module.

Employees are regularly exposed to messages that motivate them to reduce the use of electricity and paper.

Staff members are encouraged

-	not to take printouts and e-mail instead;
-	print on both sides of the paper whenever possible;
-	use tele-conferencing rather than fly;
-	use of e-communications wherever possible from receipts to customer communications.

AIA Group's eco-friendly activities

2013 saw the opening of the AIA Financial Centre, the first commercial building in Foshan, China to be certified a 'green building' by the official authority, Leadership in Energy and Environmental Design (LEED). AIA continues to invest in environmentally friendly construction with two new commercial buildings in Bangkok, the AIA Capital Centre and the AIA Sathorn Tower. Both designed to meet the standards required for 'green building' certification by LEED.

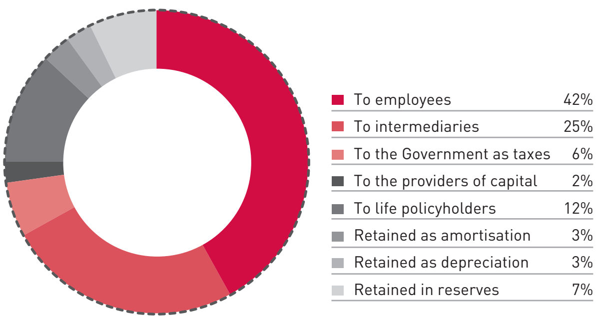
Across the region, energy-saving devices have been installed in many AIA offices. In Hong Kong, continuing the momentum of a survey on electronic waste (e-waste) commissioned jointly by AIA and the Chinese University of Hong Kong (CUHK) in 2012, a series of electronic device (e-device) collection days were held at AIA and at CUHK to promote proper disposal and recycling habits. Over 600 old e-devices ranging from computers, laptops, mobile phones to cameras were collected.

AIA's pension unit in Hong Kong also showed its care for the environment by joining the stationary bicycle challenge to generate electricity for the Konica Minolta Green Concert 2013. The event raised money for local charities and a new Guinness World Record was set for the most participants in a static cycling relay in 12 hours. The AIA team won first runner-up prize for its efforts.

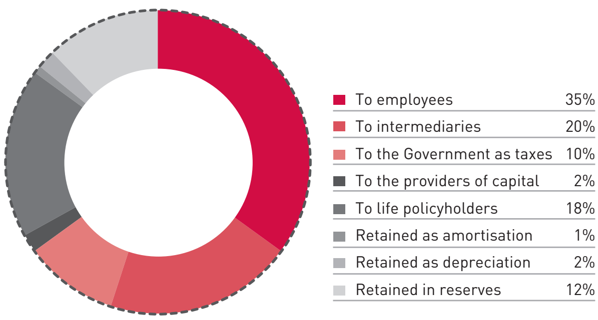
Wealth creation for Stakeholders

	2014 LKR '000		2013 LKR '000 Restated	
Net earned premium	8,806,236		8,193,760	
Investment income and other income	5,380,458		4,799,828	
	14,186,694		12,993,588	
Net claims and benefits	(7,997,684)		(6,750,179)	
Cost of external services	(2,140,385)		(2,077,142)	
Value added	4,048,625		4,166,267	
		%		%
1 To employees	1,718,177	42.4	1,463,951	35.1
2 To intermediaries	996,453	24.6	832,127	20.0
3 To the Government as taxes, cess and levies	260,063	6.5	401,694	9.6
4 To the providers of capital	60,000	1.5	75,000	1.8
5 To the life policyholders as long term fund	483,027	11.9	753,963	18.1
6 Retained within the business				
- as amortisation of intangible assets	107,945	2.7	41,391	1.0
- as depreciation	121,624	3.0	76,361	1.8
- in reserves	301,336	7.4	521,780	12.6
	4,048,625	100.0	4,166,267	100.0

Distribution of value added - 2014



Distribution of value added - 2013



We understand real life

Board of Directors

Gordon Timmins Watson
Chairman - Non Executive Director

Mitchell David New
Non Executive Director

Ms. Sally Yuen Wai Wan
Non Executive Director

Manoj Ramachandran
Non Executive Director

Heerak Basu
Non Executive Independent Director

Deepal Sooriyaarachchi
Non Executive Independent Director

Board of Directors

Gordon Timmins Watson

Chairman - Non Executive Director

Appointed to the Board of Directors of the Company on 28 June 2013. Mr. Gordon Timmins Watson is the Regional Chief Executive responsible for AIA Group's businesses operating in Hong Kong, Macau, Korea, Philippines, Australia, New Zealand, India, Indonesia, Vietnam and Sri Lanka as well as the Group Corporate Solutions business, the Group's partnership distribution and the Vitality initiative.

Mr. Watson held various leadership positions within the American International Group for over 29 years, including in New York, London, Africa, the Middle East, Japan, Korea and Hong Kong.

Prior to rejoining AIA Group in January 2011, he was Global Vice Chairman and Regional CEO of ALICO Japan and Asia. In addition to overseeing the Japan operation – ALICO's largest region – Mr. Watson also had responsibility for global marketing, distribution, strategy, corporate solutions across 54 countries. Prior to this role, he was ALICO's Global Chief Operating Officer. Mr. Watson has also played a key role in the completion of the sale of ALICO to MetLife.

Before joining ALICO, Mr. Watson was the Deputy President of AIA with responsibilities for Hong Kong, Singapore, Thailand, Malaysia, Indonesia and Vietnam. Prior to this role, he was President and CEO of AIG Life Korea. Under his leadership, AIG Korea delivered strong results with market share surpassing a number of foreign insurers.

Mr. Watson holds an MBA from University of Hull in the UK and is a Fellow of the Chartered Insurance Institute and a Fellow of the Chartered Institute of Marketing.

Mitchell David New

Non Executive Director

Appointed to the Board of Directors of the Company on 28 June 2013. Mr. Mitchell David New is the Group General Counsel for Hong Kong listed AIA Group Limited. He has held various senior management positions in the operations of leading multinational life insurers in Asia and North America during over 20 years in the insurance business. Prior to joining the insurance industry, Mr. New practiced law at the Canadian law firm Fasken Martineau where his clients included a number of domestic and international banks, trust and insurance companies.

He is a graduate of the Faculty of Law at the University of Western Ontario and holds a Masters Degree in Business Administration and a Bachelor of Commerce Degree from McMaster University.

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

Ms. Sally Yuen Wai Wan

Non Executive Director

Appointed to the Board of Directors of the Company on 6 February 2013. Ms. Sally Yuen Wai Wan, is the Regional Business Development Director of the AIA Group. She has held various senior management positions in the insurance operations in Asia during her 18 years of experience in finance and accounting profession. She was the Head of Group Financial Reporting and Analysis of the AIA Group since 2008. Before joining AIA, she was the Chief Financial Officer in Allianz Fire and Marine Insurance Japan Limited. Ms. Wan started her career in KPMG Hong Kong where her clients included a number of international banks and insurance companies.

Ms. Wan received a Bachelor of Commerce in accounting and finance in 1996 from University of New South Wales Australia and qualified as Certified Practicing Accountant in 2000.

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 the markets of operation of the AIA Group along with various 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 18 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.

Heerak Basu

Independent, Non Executive Director

Appointed to the Board of Directors of the Company on 5 December 2012. Mr. Heerak Basu serves as the Appointed Actuary for Tata AIA Life Insurance Company Ltd, India. Prior to joining Tata AIA Mr. Basu worked as a Consulting Actuary with Watson Wyatt (now part of Towers Watson) in Singapore consulting to countries in South East Asia. He has also worked as an Actuary with a multinational bank in India and also with a life insurer in the United Kingdom where he started his career. Mr. Basu is a Fellow of the Institute and Faculty of Actuaries of the United Kingdom and a Fellow of the Institute of Actuaries of India. He also holds a MA degree in Mathematics from the University of Cambridge and a MBA from the University of Strathclyde.

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 the Chairman of the Sri Lanka Inventors Commission and is also a Director of Sampath Bank, Panasian Power PLC and Hemas Manufacturing (Pvt) Ltd. He is a member of the National Administrative Reforms Commission (NARC). Presently he works as a Management Consultant. He is a Fellow of the Chartered Institute of Marketing, UK, Chartered Marketer and has a Masters in Business Administration from the University of Sri Jayawardenepura.

Senior Management Team

Shah Rouf
Chief Executive Officer

Upul Wijesinghe
Deputy Chief Executive Officer/ Chief Agency Officer

Chandana Jayasooriya
Director Information Technology / Chief Information Officer

Indika Prematunga
Chief Financial Officer

Chathuri Munaweera
Director Human Resources & Company Secretary

Kelum Senanayake
Director Operations

Amal Perera
Director Partnerships

Gavin D' Rosairo
Chief Strategy & Investment Officer

Shah Rouf
Chief Executive Officer
Mr. Shah Rouf serves as the Chief Executive Officer of the Company, having functioned as the Managing Director of the Company from March 2010 to June 2013. He counts over 21 years of experience in the industry. He has held senior management positions in both life and general insurance in the UK, Middle East, India and continental Europe. Prior to his appointment in the Company, he was the CEO of Aviva Romania and Chief Distribution Officer, Central and Eastern Europe for Aviva. He concluded his academic studies at the London School of Economics and has BA (Hons) and a M.Sc. degrees in Economics and Development Economics. He is an Associate of the Chartered Insurance Institute, UK.

Upul Wijesinghe
Deputy Chief Executive Officer/ Chief Agency Officer
He heads the Direct Sales Distribution Division of the Company for life insurance business. He also functions as the Deputy Chief Executive Officer and Principal Officer. He holds a Bachelor of Science degree with honours from the University of Colombo and is an Associate of the Chartered Insurance Institute, UK. He also 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 25 years of management experience in insurance.

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

Indika Prematunga
Chief Financial Officer
He heads the Finance Division of the Company as Chief Financial Officer and is a Director of AIA General Insurance Lanka Limited. He holds a BSc special degree in Accountancy and Finance with a First Class honours and a Masters in Business Administration from the Postgraduate Institute of Management of the University of Sri Jayawardenepura. He is a Fellow member of the Chartered Institute of Management Accountants, UK (FCMA /CGMA) and a finalist in the Chartered Institute of Marketing, UK. He is currently reading for his Masters in Actuarial at University of Colombo. He is the current Chairman of the Finance Technical Sub Committee (FTSC) of Insurance Association of Sri Lanka (IASL). He is a Director of Serendib Land PLC. He counts over 14 years of management experience in many fields including insurance, finance, shipping and telecommunication sectors.

Chathuri Munaweera
Director Human Resources & Company Secretary
She heads the Human Resource function, is the Company Secretary and has been leading key corporate projects encompassing all areas of business. She is a Board member of AIA General Insurance Lanka Limited. A Chartered Member of Charted Institute of Personnel Management UK, she also holds a Bachelor and a Master of Laws of the University of Colombo and is an Attorney-at-Law. She has successfully completed the International Diploma in Compliance of the International Compliance Association, UK. She was the Chairperson of the HR Sub Committee of the Insurance Association of Sri Lanka for the years 2011 and 2012. She counts over 18 years management experience in many senior management roles.

Kelum Senanayake
Director Operations
He is responsible for Operational functions of the Company covering life insurance from underwriting, servicing to claims management. He also oversees the logistics management function. He holds a Diploma in Business Management from World View Institute and a Masters Degree in Business Administration from the University of Western Sydney. He counts over 32 years of management experience in life and general insurance business management, infrastructure and operations.

Senior Management Team

Amal Perera
Director Partnerships
As Director Partnerships, he is responsible for the development and implementation of the Company's bancassurance and partnership distribution function.

He holds a Masters in Business Administration from the Postgraduate Institute of Management (PIM) of the University of Sri Jayawardenepura. He is a Chartered Marketer and a member of the Chartered Institute of Marketing, UK. He counts over 18 years of management experience in the Company and has wide exposure in the fields of product, marketing, strategy development, corporate planning and sales.

Gavin D' Rosairo
Chief Strategy & Investment Officer
He leads the Strategy and Investment functions of the Company. He counts 13 years experience as a fund manager managing both fixed income and equity investment portfolios, and over 5 years experience in the insurance industry in the areas of investments, strategy, risk and finance. His academic and professional exposure encompasses economics, investments, capital markets and finance. He is an Associate member of the Chartered Institute of Management Accountants (UK) and has a Bachelors degree in Commerce from the University of Sri Jayawardenepura with honours, specialising in international trade.

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 in respect of the financial year ended 31 December 2014 together with the audited financial statements for the year ended 31 December 2014 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 87 to 153 of the Annual Report.

Vision

A statement of the Corporate Vision is given on the inner back 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 Subsidiaries

The principal activity of the Company which is insurance, remained unchanged during the financial year under review. Rainbow Trust Management Limited, which remains a fully owned subsidiary of the Company, continued to provide trustee services during the year under review.

The purpose and activities of the newly formed subsidiary, AIA General Insurance Lanka Limited is explained below.

To the best of the knowledge of the Board, neither the Company nor its aforementioned subsidiaries Rainbow Trust Management Limited and AIA General Insurance Lanka Limited are engaged in any activities which contravened relevant local laws and regulations.

Segregation of the Composite Insurance Business and Forming a New Fully Owned Subsidiary

The Company which was a composite insurer was required in pursuance of section 53 of the Regulation of Insurance Industry (Amendment) Act No 03 of 2011, to segregate the life and general insurance businesses so that each may, post segregation be carried out by two legal entities.

The new subsidiary, AIA General Insurance Lanka Limited was incorporated under the Companies Act No 07 of 2007 on 24 March 2014 to facilitate the execution of the segregation of insurance business of the Company in compliance with the insurance regulations. The new subsidiary prepared itself during the year to obtain licence from the Insurance Board of Sri Lanka to operate as an insurer. The licence to carry out the general insurance business for the said subsidiary was granted on 1 January 2015 and the operations of the subsidiary were hence effective from the said date.

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 2014 and of future developments is contained in the Chairman's Review and the Chief Executive Officer's Review with a detailed review being provided in the Management Discussion and Analysis segment on pages 10 to 35 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 2014.

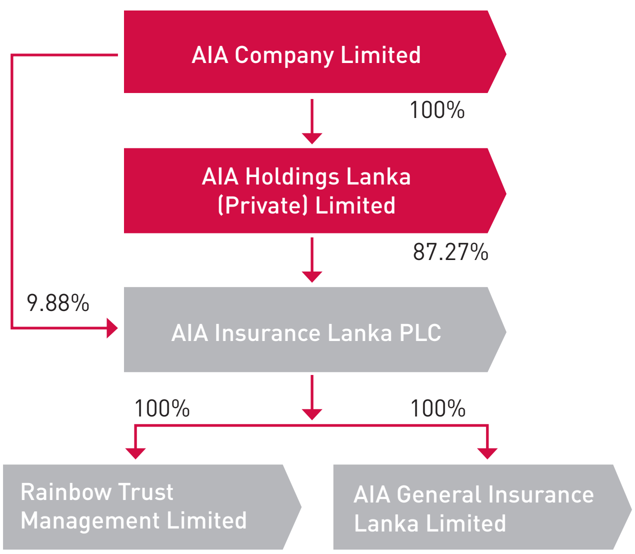
Shareholding Structure

As at 1 January 2014 AIA Company Limited (AIA) based in Hong Kong, effectively held (directly and indirectly together with AIA Holdings Lanka (Private) Limited) 97.15% of the issued and fully paid up shares of the Company. The said shareholding of AIA in the Company remained unchanged as at 31 December 2014.

AIA is part of the AIA Group of companies. AIA Group comprises of the largest independent publicly listed pan-Asian life insurance group in the world. It has presence in 17 markets in Asia-Pacific.

The public holding of the Company is 2.85%. This is distributed among the minority shareholders of the Company as at 31 December 2014 and remained unchanged during the year under review.

The Company's shareholding structure as at 31 December 2014 is as follows:



The Annual Report of the Board of Directors

on the Affairs of the Company

Stated Capital & Reserves
The Company's stated capital as at 31 December 2014, was LKR 300,000,000 (Sri Lankan Rupees Three Hundred Million) represented by 30,000,000 (Thirty Million) Ordinary Shares.

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

The total capital and reserves for the Group stood at LKR 4,887 million as at 31 December 2014 (LKR 4,585 million as at 31 December 2013), details of which are provided in Notes 26 to 28 of the financial statements.

Shareholding
The Company had 1758 registered shareholders, as at 31 December 2014. The distribution of shareholding, the public holding percentage and the details of the 20 largest shareholders, are given on pages 158 and 159 of the Annual Report.

Share Information
Information relating to share valuation and share performance is given on page 160 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 88 to 153 and the External Auditors Report thereon is provided on page 87 of the Annual Report.

Financial Results
The results of the Group for the year ended 31 December 2014 and the state of Group's affairs at that date are set out in the financial statements on pages 88 to 153 of the Annual Report.

Revenue
The revenue of LKR 14.19 billion comprises of income generated from life and general insurance businesses, and trustee services.

Accounting Policies
The significant accounting policies applied by the Group in preparing its consolidated financial statements are disclosed in pages 96 to 109 of this Annual Report. These policies have been consistently applied.

Life Surplus and Policyholders' Dividends
The Board of Directors received and adopted the Report of the Company's Chief Actuary Mr. Frank Munro, for life insurance recommending the dividends that are payable to policyholders and of the transfer of the surplus thereof to the Income Statement. This is set out on page 78 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 358.6 million.

During the financial year the capital expenditure on property, plant and equipment for the Company and the Group amounted to LKR 177.2 million.

The details of the Company's property, plant and equipment and the movement in their values during the year are given in Note 8 of the financial statements on pages 125 and 126 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 126 of the Annual Report.

The Company owns 13.40 perches of freehold land at No.76, Kew Road, Colombo 2 and 12.09 perches of freehold land at No. 80, Kew Road, Colombo 2. These properties were subject to a valuation during the year 2007 and the revaluation surplus of LKR 39.9 million has been included in the accounts in that year. The Company's policy is to revalue properties once in every five years. The properties were subject to a revaluation in 2012 in accordance with the Company policy and the revaluation surplus of LKR 32.2 million was included in the financial statements of 2012. As per the Valuer's report for 2014 there is an increase in the market value of the property of LKR 12.82 million. However this increase has not been accounted for, based on prudence as the Company's policy is to revalue properties once in every five years. The purpose of obtaining a letter confirming the value at the end of every financial year is to ensure that there is no decline in value that needs to be accounted for.

The details of the extents, locations, valuations of the Company's land holdings are given in Note 8.1 of the financial statements on page 126 of the Annual Report.

Investments
A detailed description of the investments held as at the date of Statement of Financial Position is given in Note 9 to 11 of the financial statements on pages 128 to 130.

Donations
The Board of Directors having duly considered the best interests of the Company as a good corporate citizen, resolved to ratify a total sum of LKR 5.2 million which was utilised as charitable donations for the year 2014. This amount is within 1% 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 taken all reasonable steps to ensure adequate provisioning for unearned premiums, unexpired risks and claims, including for claims incurred but not reported.

The Board of Directors has also arranged for a Consultant Actuary to value the general insurance claims and premium liabilities and for the Chief Actuary to review the life fund valuations. (Please refer pages 78 to 79 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 amounts provided for in the financial statements.

Reserves
The total reserves of the Group as at 31 December 2014, amounted to LKR 4,587 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 91 and 92 of the Annual Report.

Provision for Taxation
Provisions for Taxation for the Company and its subsidiaries have been computed at the rates given in Note 38 of the financial statements and are set out on page 148 of the Annual Report.

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

Employees
During the year under review, the Company excelled and was amply recognized for its best of class people practices. The Company was selected as a "Great Place to Work" in the globally renowned Great Place to Work® study and recorded one of the highest engagement scores at 66% over the 53% in 2013, in the Employee Engagement Survey conducted across AIA, by Gallup a world renowned research agency. The details of the unique array of people practices that supported the Company in its successful endeavours during the year are described further in the Management Discussion & Analysis in pages 10 to 35 in the Annual Report.

Events After the Balance Sheet Date
The following are material events that took place subsequent to the Balance Sheet date which have material effect on the Company or the Group disclosures in the Financial Statements:

a) Increase of Paid Up Share Capital of the Company

   The Insurance Board of Sri Lanka has by Rule No. 01 of 2013 (published in the Gazette Extraordinary bearing number 1809/7 dated May 07, 2013) required registered insurers to increase on or before 11 February 2015, their paid up share capital to not less than LKR. 500,000,000/- for each class of insurance business.

   In pursuance of the above, the Board of Directors of the Company proposed to increase the Company's stated capital from LKR 300,000,000/- to an amount not less than LKR 500,000,000/- by way of a distribution of an interim dividend for 2014 to shareholders.

   Through the issuance of new shares under afore mentioned dividend scheme, the Company's stated capital was increased up to LKR 511,921,836/- represented by a total number of ordinary (voting) shares of 30,749,370.

b) Interim Dividend for 2014

   As also explained in a) above, in order to give effect to the regulatory requirement to increase the paid up share capital of the Company, an interim dividend of LKR 7.07 was approved by the Board of Directors of the Company on 31 December 2014 and the same was declared by the shareholders of the Company at an Extraordinary General Meeting held on 27 January 2015.

The Annual Report of the Board of Directors

on the Affairs of the Company

The said dividend distribution was satisfied by the issuance of new ordinary (voting) shares (scrip dividend) based on a ratio of 1:40. Where there were shareholders whose shareholding did not qualify for the scrip dividend or where there are residual fractions of shares arising out of the scrip dividend, such shareholders received a proportionate payment in cash where necessary in satisfaction of their dividend entitlement.

A total number of 749,370 new ordinary (voting) shares were issued to those shareholders who were entitled to receive new shares per the applicable ratio of 1:40. For shareholders whose shareholding either did not qualify for the scrip dividend or who had residual fractions of shares arising out of the scrip dividend, a cash payment totalling to a sum of LKR 178,164 (inclusive of withholding tax) within applicable regulatory time lines, was paid out.

The Board of Directors ensured that the Solvency Test in terms of section 57 of the Companies Act No 07 of 2007 was satisfied, immediately after the distribution of the interim dividend for 2014.

c) Segregation and Transfer of the General Insurance portfolio

In pursuance of section 53 of the Regulation of Insurance Industry (Amendment) Act No 03 of 2011, the Company was required to segregate the life and general insurance businesses, so that each line of business may, post segregation be carried out by two legal entities. Accordingly the general insurance business was transferred to AIA General Insurance Lanka Limited effective 1 January, in consideration for which AIA General Insurance Lanka Limited issued shares corresponding to the value of the transferred assets. Upon completion of this transaction, the stated capital of AIA General Insurance Lanka Limited is LKR 1,878,016,700, thereby meeting the requirement of the Insurance Board of Sri Lanka on increasing of stated capital of an insurer to be not less than LKR 500,000,000.

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 86 of the Annual Report.

Interests Register

In compliance with the requirements of the Companies Act No. 07 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' interests in transactions with the Company

Directors' interests in transactions of the Company, both direct and indirect, during the year under review are included in Note 42 in the related party disclosures to the financial statements, set out on pages 150 to 152 of the Annual Report. These interests have been duly disclosed in compliance with the section 192(2) of the Companies Act No 07 of 2007 and further declared at Board meetings and captured herein as appropriate.

b) Directors' dealings with the shares of the Company

I. Disclosures in respect of shares held during the year ended 31 December 2014:

The Directors 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:

None of the Directors who held Directorships of the Company as at 31 December 2014 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:

None of the Directors who held Directorships of the Company as at 31 December 2014 have disposed their shares in the Company during the year under review.

c) Use of Company information by the Directors

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 (CEO)
The remuneration and fees of the Director/s / the CEO are duly determined by the Company's Remuneration Committee and approved by the Board of Directors. Efforts are made to secure 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 Directors are made in accordance with the specified scales of payments as may be determined by the Remuneration Committee and approved by the Board from time to time.

Details of the Directors' and the CEO's fees and emoluments paid during the financial year 2014, which have been duly approved by the Board of Directors, are stated below.

	Consolidated Fees	
	2014 LKR '000	2013 LKR '000
* Directors' Emoluments	114,980	95,449
Directors' fees	1,625	1,410

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

e) Loans to the Directors
No loans have been granted to any Director of the Company or of any related entity, during the year under review.

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

f) Insurance and Indemnity coverage provided to Directors and/or Officers of the Company and of its subsidiaries
The Directors' and Officers' Liability Insurance Policy (D & O) effected for its past and present Directors and Officers of the Company and of its subsidiaries via Insurance Policy bearing number 06-HO-DOL-1194337 was effective since 01 December 2011 upto 30 November 2012. An Extended Risk Policy (ERP) was further granted to cover the respective Directors and Officers of said entities till 31 December 2014.

In addition to the afore mentioned ERP in force till December 2014, AIA Group wide D & O cover has also been in effect to cover the Directors and Officers of the Company, its holding Company and the subsidiaries respectively. AIA Group Limited maintains a D & O cover worth of USD 300 million, the coverage of which extends to all Directors and Officers at Group office as well as subsidiary companies' level.

Disclosure of Interests of the other Key Management Personnel Representing the Senior Management Team of the Company

The Senior Management Team of the Company (the other key management personnel) consists of the Chief Executive Officer, Deputy Chief Executive Officer / Chief Agency Officer, Director Information Technology / Chief Information Officer, Director Human Resources / Company Secretary, Director Operations, Chief Financial Officer, Director Partnerships and the Chief Strategy and Investment Officer.

Disclosures recorded in the Interests Register of the Company of the other key management personnel are those on whom the Board of Directors via the Chief Executive Officer, has entrusted senior managerial responsibilities in the day-to-day business operations of the Company. Such records in the interests register are as following :

a) Interests in transactions with the Company.
The other key management personnel have made requisite disclosures in interests in transactions both direct and indirect, to the Board of Directors of the Company and details arising from such disclosures are stated under relevant related party disclosures of the Annual Report.

b) Dealings with the shares of the Company or interests in shares of the Company.
There have been no dealings in the shares of the Company by other key management personnel during the period under review.

C) Details of the Emoluments paid to the other Key Management Personnel
Details of the remuneration paid to the other key management personnel are as follows:

	Consolidated Fees	
	2014 LKR '000	2013 LKR '000
Emoluments paid	133,700	120,400

The Annual Report of the Board of Directors

on the Affairs of the Company

Related party dealings of the other key management personnel are further disclosed in notes to financial statements as set out on pages 150 to 152 of the Annual Report.

Directors during the Year/Changes

Name of Director	Date of Appointment	Date of Resignation/ Date of ceasing to be a Director
Deepal Sooriyaarachchi	17-May-05	-
Manoj Ramachandran	04-Dec-12	-
Heerak Basu	05-Dec-12	-
Sally Yuen Wai Wan	06-Feb-13	-
Gordon Timmins Watson*	28-Jun-13	-
Mitchell David New	28-Jun-13	-

* Mr. Gordon Timmins Watson was appointed as the Chairman/ Director of the Company effective 28 June 2013.

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

Directors' Meetings

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

In addition to the attendance at physical meetings recorded herein the Board attended to its duties and took decisions pertaining to matters relating to the Company via duly recorded Circular Resolutions in 05 (five) occasions during the year. The unanimous approval of the Chairman and the Board were received in all such occasions for matters thus considered.

Related Party Transactions

The Directors also declare that in terms of the Rule 7.6(xvi) and item 29 of Appendix 8A of the Listing Rules of the Colombo Stock Exchange that there were no related party transactions which exceeded the lower of 10% of equity or 5% of the total assets of the Company as at 31 December 2014 to be disclosed hereof.

Compliance with the adoption of Code of Best Practices on Related Party Transactions (the Code)

The Company has not voluntarily adopted the Code introduced by the Securities & Exchange Commission of Sri Lanka (SEC) effective from 1 January 2014. However the Company shall continue to comply with Rule 7.6 (xvi) and item 29 of Appendix 8A of the Listing Rules of the Colombo Stock Exchange in respect of disclosures pertaining to related party transactions until the requirement to comply with the Code is made mandatory.

Compliance in regard to the SEC Directive Issued on the Requirement for the Listed Entities to Maintain a Continuous Minimum Public Float

The Company has made due disclosures as required on the above for the year under review.

Director	Directors' Meetings		Audit & Compliance Committee Meetings		Investment Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B	A	B
Shah Rouf*	3	3	-	-	4	4	-	-
Deepal Sooriyaarachchi	3	3	4	4	-	-	2	2
Manoj Ramachandran	3	3	-	-	-	-	-	-
Heerak Basu	3	3	4	4	-	-	2	2
Sally Yuen Wai Wan	2	3	4	4	-	-	-	-
Gordon Timmins Watson	1	3	-	-	-	-	-	-
Mitchell David New	3	3	-	-	-	-	2	2
Gavin D' Rosairo*	-	-	-	-	4	4	-	-
Benjamin Deng*	-	-	-	-	4	4	-	-

A = Number of meetings attended
B = Number of meetings held during the time the Director held office during the period
* Not a Director on the main Board

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 applicable in 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 operations are conducted in a manner which will secure equitable treatment to all stakeholders of the Company.

Re-appointment of External Auditors

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

External Auditor's 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	
	2014 LKR '000	2013 LKR '000
Audit and related services	5,831	5,127
Non-Audit services	1,055	1,835

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

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 audited financial statements of the Company and the Group together with the Reviews and other Reports which form part of the Annual Report dated 10 February 2015. An appropriate number of copies of the Annual Report will be submitted to the Colombo Stock Exchange, the Insurance Board of Sri Lanka, the Sri Lanka Accounting and Auditing Standards Monitoring Board and the Registrar General of Companies, within applicable time frames.

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

Annual General Meeting

The Annual General Meeting will be held on Friday, 27 March 2015, at 10.00 a.m, at "Kings Court", Cinnamon Lakeside Hotel,No. 115, Sir Chittampalam A Gardiner Mawatha, Colombo 2.

The Notice of the Annual General Meeting, setting out the business which will be transacted thereat appears on page 171 of the Annual Report.

By order of the Board

Gordon Timmins Watson	Heerak Basu	Chathuri Munaweera
Chairman/Director	Director	Company Secretary

Colombo
10 February 2015

Corporate Governance

AIA Insurance Lanka PLC (the Company) is an insurance company licensed by the Insurance Board of Sri Lanka listed in the Colombo Stock Exchange. The Company incorporated AIA General Insurance Lanka Limited as a fully owned subsidiary during the year 2014 and transferred its general insurance function to the said subsidiary with effect from 1 January 2015 in compliance with the Sec. 53 of the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011. As a result the Company now owns two subsidiaries, namely, AIA General Insurance Lanka Limited engaged in general insurance business and Rainbow Trust Management Limited engaged in trust management business. The Company and its subsidiaries are subject to various statutory and regulatory requirements in relation to its governance and operations. As such it is required to abide by following statutes primarily but the list is not exhaustive.

1. The Companies Act No. 7 of 2007
2. Regulation of Insurance Industry Act No. 43 of 2000 (as amended)
3. National Insurance Trust Fund Act No. 28 of 2006 (as amended)
4. Securities and Exchange Commission of Sri Lanka Act
5. Inland Revenue Act No. 10 of 2006 (as amended)
6. Shop and Office Employees Act
7. Employee Provident Fund Act (as amended)
8. Employees Trust Fund Act (as amended)
9. Payment of Gratuity Act (as amended)
10. Various other laws that govern the tax regime for companies and individuals in Sri Lanka
11. Financial Transactions Reporting Act (as amended)
12. Prevention of Money Laundering Act
13. Exchange Control Act (as amended)
It is also required inter alia to comply with the following rules, regulations and guidelines.
1. Circulars issued by the Insurance Board of Sri Lanka (IBSL)
2. Directives issued by the IBSL
3. Guidelines issued by the IBSL
4. Listing Rules of the CSE
5. Rules, regulations and guidelines issued by the Securities and Exchange Commission of Sri Lanka

Statement of Compliance

AIA Insurance Lanka PLC (the Company) has always been recognised for its high standards of corporate governance. The Company believes that the transparency of business operations achieved through the application and execution of sound corporate governance principles is a must for any stakeholder to reach their respective decisions prudently.

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

The year 2014 has been a year of change for the Company due to many changes in the legal and regulatory landscape promulgated by the Regulation of Insurance Industry Act No. 03 of 2011. Sec. 53 of the said Act required composite insurance companies to segregate their general and long term insurance businesses into two separate companies. The IBSL issued its guidelines to be followed by composite insurance companies in segregating composite insurance entities and required the completion of the process by 1 January 2015. The Company incorporated AIA General Insurance Lanka Limited as a fully owned subsidiary to transfer its general insurance business and secured legal and regulatory approvals as required. The segregation amounted to a major transaction as per the Companies Act and required the approval of the shareholders to carry out the proposed transfer of general insurance business to its subsidiary. The Company secured the said shareholder approval at the Extraordinary General Meeting held on 27 March 2014. After securing the required approvals including from the competent Courts of law the general insurance business of the Company was successfully transferred to AIA General Insurance Lanka Limited within the regulatory deadline. The Company was the first in the industry to announce the completion of the segregation. As a result, the Company since 1 January 2015 is engaged only in long term insurance business.

The Company being a member of AIA Group, is subject to various group standards on corporate governance as well as other aspects of business operations. During the year 2014, the Company was required to implement new processes and controls to ensure that its operations are fully compliant with the Foreign Account Tax Compliance Act of the United States. The Compliance function conducted various trainings and awareness sessions to employees as well as members of the sales force on anti-money laundering and prevention of terrorist financing procedures and on internal controls practiced within the Company.

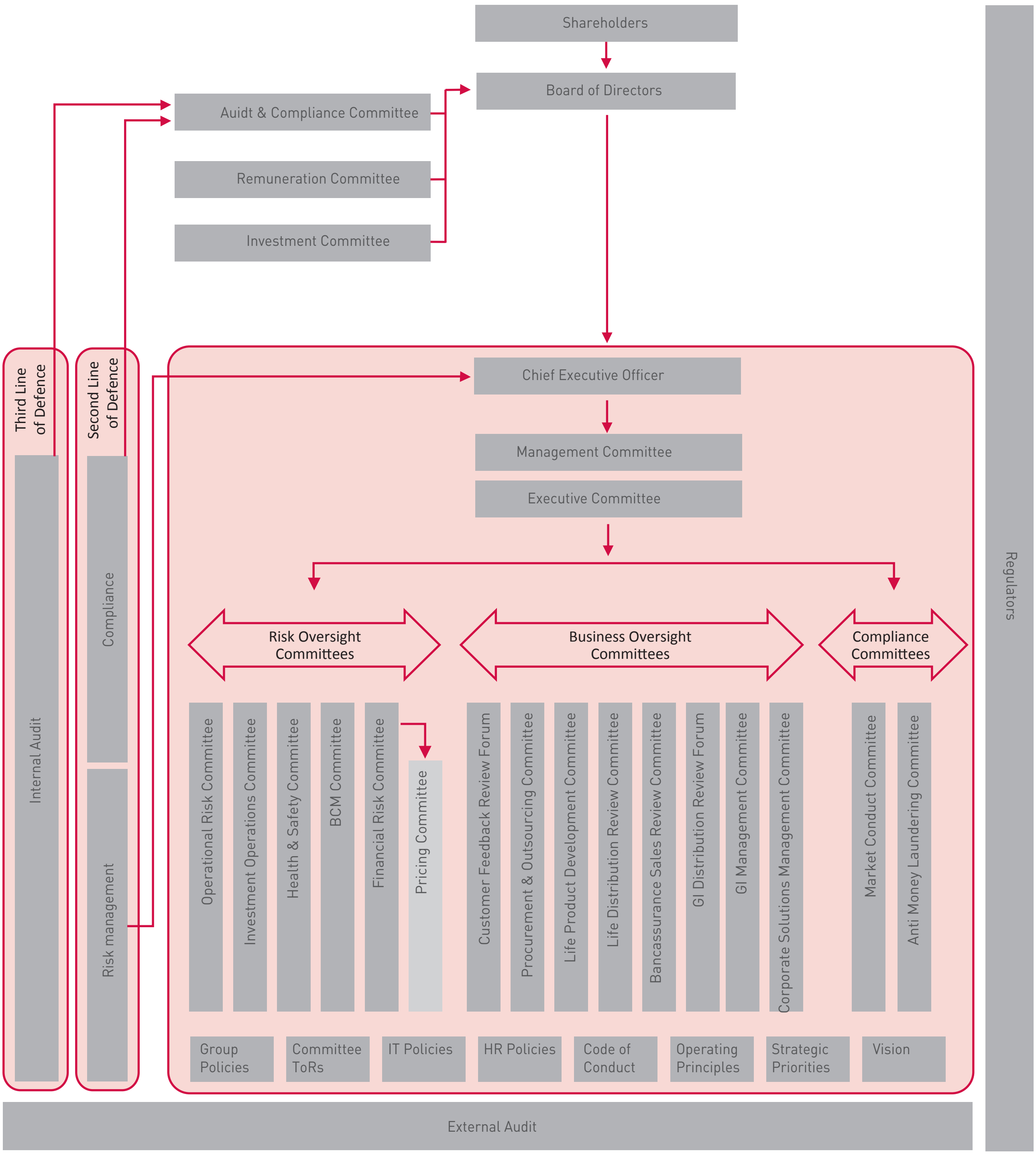
The Company is committed to steadfastly ensure that its operations are embedded with a sound corporate governance culture and practices which provide substantial assurance to all stakeholders of ethical, transparent and professional corporate performance.

AIA Insurance Lanka PLC

Governance Structure

The Company has maintained a sound and effective governance structure which oversees the full sphere of operations of the Company.

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



Governance report

The Board of Directors

The Board of Directors has the overall responsibility of the direction of the Company and are accountable to the shareholders. The Board has delegated its authorities to a number of primary and or Sub Board Committees to support the Board in the discharge of its governance and oversight responsibilities. The governance and oversight of audit and compliance and remuneration are thus supported by the function of the Board's Audit & Compliance Committee and Remuneration Committee respectively. The Investment Committee and the Financial Risk Committee are the other Committees appointed by the Board. The Committees are required to report their activities to the Board on a quarterly basis and to maintain communications with the Board as and when required. Reporting by the Board Committees covers update of activities of regular meetings held on delegated authorities and decisions taken or recommendations made. 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 References and where applicable, rules, regulations and legislations in force. Further information about the Board of Directors are given in the pages 36 to 39.

The Chief Executive Officer (CEO)

The Articles of Association of the Company and the Board Terms of Reference recognise the role and position of the CEO of the Company and the duties and obligations of the role. They entrust responsibilities on the CEO as the senior most executive officer of the Company. The CEO reports to the Chairman on all matters pertaining to the 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 comes within the purview of 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 Plan.

Permanent members of the Executive Committee are;

1. Chief Executive Officer
2. Deputy Chief Executive Officer / Chief Agency Officer
3. Director HR / Company Secretary
4. Director IT
5. Director Operations
6. Director Partnerships
7. Chief Financial Officer
8. Chief Strategy and Investments 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, Head of Marketing, Deputy CEO of AIA General Insurance Lanka Limited and a number of other key senior management members such as Head of Internal Audit, Compliance, Risk and Legal 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 Plan.

The Management Committee meets every other week with a structured agenda and reviews the performance of the Company against the detailed Company Plan.

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

Governance Committees

	Committee	Responsibility	Membership	ToR/ Charter
1	Operational Risk Committee	Responsible for reviewing, monitoring and providing oversight to the key risks of the business. Key forum for the identification and escalation of current and emerging key risks of the business.	CEO (Chair) Members of the Management Committee The Risk function	✓
2	Pricing Committee	Responsible for providing oversight to management decisions and activities that may impact the Company's revenue stream, operating expense base or capital base or result in a significant operating expense or capital investment commitment leading to a potential liability. Responsibilities include reviewing, evaluating, recommending and approving margins, incentive schemes, marketing expenses; evaluating and recommending the pricing policy, underwriting policy and claims policy.	Chief Financial Officer (Chair) CEO Nominated members of management and functional experts representing actuarial, risk, legal functions; the budget owner/ initiator of incentive/ benefit/ expense.	✓
3	Investment Operations Committee	Responsible for reviewing, monitoring and providing oversight to the investment portfolios, especially on investment strategy, investment exposures and investment performance.	Chief Strategy & Investment Officer (Chair) Nominated members of management and functional experts representing finance, actuarial, risk and compliance based on scope of the committee Invitees - representatives from NDB Wealth Management Ltd [External AMC]	✓
4	Health & Safety Committee	Responsible for providing oversight to physical safety and security within 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 geographical locations.	✓
5	Customer 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.	Head of Marketing (Chair) Director Operations Deputy CEO Nominated members of management and functional experts representing distribution, marketing and customer management and operations.	✓

Governance report

	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 Actuary (Chair) Nominated members of management and functional experts representing marketing and customer management, actuarial, life operations, distribution, sales training, risk, compliance, legal, IT and finance.	✓
7	Procurement & Outsourcing Committee	Responsible for oversight to the procurement and outsourcing activities of the Company. Responsibilities include setting out procurement guidelines for the Company, selecting and approving of Company procurements within threshold limits, evaluating contractual terms and conditions vis-à-vis impact on capital resources.	Chief Financial Officer (Chair) CEO Nominated members of management and functional experts representing actuarial, risk, legal; the budget owner, beneficiary department, and technical support divisions.	✓
8	Life 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 the stipulated key performance indicators and defined performance metrics.	Deputy CEO (Chair) Senior management of the direct sales force distribution channel.	✓
9	Bancassurance Sales 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 the stipulated key performance indicators and defined performance metrics.	Director Partnerships (Chair) Senior management of bancassurance channel and selected members of sales team.	✓
10	GI Distribution Review Forum	Responsible for providing oversight of the sales and performance of the general insurance distribution. Responsibilities include the setting of goals of the general insurance distribution with the stipulated key performance indicators and defined performance metrics.	GM General Insurance Distribution (Chair) Channel heads and Unit managers of general insurance distribution Channel. Invitees - Nominated members of management and functional experts representing operations, actuarial, finance and distribution based on scope of the committee.	✓

	Committee	Responsibility	Membership	ToR/ Charter
11	Business Continuity Management Committee	Responsible for ensuring the BCM program of the business is complete and effective. The committee monitors risks pertaining to business continuity and identify/ recommend procedure and controls for mitigating the risks.	CEO (Chair) Director HR Director IT Director Operations CFO Chief Strategy & Investment Officer Head Risk Management & Engineering Claims Head of Marketing	✓
12	General Insurance Management Committee	Responsible for implementing the business plan for the general insurance business ensuring decision making with regard to general insurance business remains consistent with the overall objective of top line and profitability of the business. Responsibilities include monitoring the distribution performance, monitoring key risks and agreeing on action plan.	CEO (Chair) Deputy CEO (AIA GI) Senior management of GI business	✓
13	Corporate Solutions Management Committee	Responsible for implementing the business plan for the Corporate Solutions business, developing and growing the Corporate Solutions channel and business line. Responsibilities include monitoring the distribution performance, monitoring key risks and agreeing on action plan.	CEO (Chair) Senior management of CS and nominated members of management and functional experts representing finance, actuarial, marketing, risk and strategy.	✓
14	Market Conduct Committee	Responsible for implementing the penalty table and actions to be effected in substantiated intermediary mis-conduct incidents.	Chief Strategy & Investment Officer (Chair) Director Operations General Counsel	✓
15	Anti-Money Laundering Committee	Responsible for reviewing and approving high risk transactions as per anti-money laundering practices of the group.	Director Operations (Chair) Head of Investment Operations Chief Compliance Officer MLRO	✓

Governance report

Status of Compliance with Section 7 of Listing Rules of the Colombo Stock Exchange

At a glance

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

Complied		Not Applicable		Not Complied	

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

A detailed commentary on the requirements to be complied under Section 7 of the Listing Rules of the Colombo Stock Exchange 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	The announcement (with required information) was made in respect to the dividend payment for the year 2013, on 11 February 2014. Details of the scrip dividend announced in January 2015 are provided under disclosures relating to scrip dividends within this report.
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	Shareholder approval for the dividend distribution for the year 2013 was obtained by way of an ordinary resolution at the Annual General Meeting held on 27 March 2014 as required by the Articles of Association of the Company. Details of the scrip dividend announced in January 2015 are provided under disclosures relating to scrip dividends in this Annual Report.

	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 dividend payment for the year 2013 was made on 7 April 2014 which was within the specified time period and the CSE was notified of the date of dispatch on 8 April 2014. Details of the scrip dividend announced in January 2015 are provided under disclosures relating to scrip dividends in this Annual Report.
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	This requirement is not applicable to the Company as shareholder approval is required for dividend distribution as per the Articles of Association.
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 is 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 has forwarded a certified copy of the Solvency Certificate issued by the External Auditors of the Company to the CSE on 5 March 2014 with respect to the dividend payment for the year 2013. Details of the scrip dividend announced in January 2015 are provided under disclosures relating to scrip dividends in this Annual Report.
7.1.g	Dividend distribution by way of a scrip dividend		
	i) Specified documents to be submitted to the CSE within seven market days from the date of announcement	Complied	Following documents were submitted to the CSE within the specified time period. 1. Listing Application 2. Circular to Shareholders 3. Notice of Extraordinary General Meeting 4. Certified copy of the Board Resolution 5. Certified Extract of the relevant Article 6. Fee payable to CSE
	ii) The entity shall allot the shares issued on the date on which the relevant resolution was passed. The XD date shall be the market day immediately following the date on which the related resolution is passed by shareholders.	Complied	Share allotment was completed on the day on which the resolution was passed which was 27 January 2015. The XD date was 28 January 2015.
	iii) Entity shall not alter details of scrip dividend without consulting CSE after the announcement.	Not Applicable	The Company did not alter the details of the scrip dividend after the announcement.
	iv) Certified copy of the certificate of solvency issued by the auditors to be submitted to CSE	Complied	Certificate of solvency was submitted to the CSE on 26 January 2015.

Governance report

	Requirement	Status of Compliance	Comment
	v) Declaration as specified to be submitted to the CSE on the market day immediately following the day on which the direct deposit of shares is completed.	Complied	This declaration was submitted to the CSE on 6 February 2015.
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	CSE was notified on Board 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.	Complied	CSE was submitted with required number of copies of circulars to shareholders at the same time as they were dispatched to shareholders during the year.
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 has submitted the Quarterly Financial Statements to the CSE in line with the requirements specified in terms of the formats, number of copies and within the specified time limits.
7.4.b	A Listed Entity shall ensure that the Financial Statements fulfill 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.
7.5	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.	Complied	The financial year of the company closes on 31 December and the Annual Report for the year 2013 was issued to the shareholders within the stipulated time lines and required copies were submitted to the CSE. The Audited Financial Statements published within the Annual Report were prepared in accordance with the Sri Lanka Accounting Standards.
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 2013 was issued in a CD-ROM. The Company has complied with the specified requirements applicable for such issuance as follows.

Requirement			Status of Compliance	Comment
7.5.b				1. Provided printed copies to shareholders upon written requests. 2. A designated person was made available to attend to requests for printed copies of the Annual Report. 3. Printed copies of the Annual Report forwarded to shareholders who have requested for same within 8 market days from the date of receipt of such request. 4. A note with required statements/information sent to the shareholders along with the CD-ROM.
7.5.c	The Entity shall give to the Exchange thirty five (35) copies of the annual report in printed form and one (1) copy in a CD-ROM.		Complied	The Company has submitted the required number of copies of the Annual Report of year 2013 to the Colombo Stock Exchange in the required formats.
7.5.d	If an Entity prior to circulating the annual report, files copies of financial statements with the Registrar General of Companies in compliance with Section 170 (1) of the Companies Act, the Entity shall also simultaneously submit such financial statements to the Exchange.		Complied	The Company has submitted its financial statements with the Registrar General of Companies and the Colombo Stock Exchange 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 48 of this report.
	ii	Principal activities of the Entity and its subsidiaries during the year and any changes therein.	Complied	The principal activities of the Company have been to engage in general and long term insurance business as per the license issued by the IBSL. There was no change to the activities during the year under review. Further details of the activities of the Company are highlighted in the CEO's review and Management Discussion and Analysis in pages 8 and 10 respectively. The Company segregated its general insurance business and long term insurance business as required by the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011 with effect from 1 January 2015 after having secured necessary legal, regulatory and shareholder approvals.
	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 159 of this report.

Governance report

		Requirement	Status of Compliance	Comment
	iv	The Public Holding percentage.	Complied	This information is provided on page 158 of this report.
	v	A statement of each director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year.	Complied	This information is provided on page 46 of this report.
	vi	Information pertaining to material foreseeable risk factors of the Entity.	Complied	This information is captured in Management Discussion and Analysis in page 10 in this Annual Report.
	vii	Details of material issues pertaining to employees and industrial relations of the Entity.	Complied	The Company did not have any material issues pertaining to employees and industrial relations during the year under review. Further information on HR practices of the Company is provided on page 20 in this Annual 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 125 in this Annual Report.
	ix	Number of shares representing the Entity's stated capital.	Complied	This information is provided on page 158 in this Annual Report.
	x	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in specified categories.	Complied	This information is provided on page 158 in this Annual Report.
	xi	Specified ratios and market price information.	Complied	Following information are provided on page 160 in this Annual 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 was no significant changes in the Company's or its subsidiaries' fixed assets as at 31 December 2015. The Company transferred the assets attached to its general insurance business to its fully owned subsidiary AIA General Insurance Lanka Limited in order to fulfil its legal obligations as stipulated in the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011 after having secured the required legal, regulatory and shareholder approvals. Further information on this is provided on page 125 in this Annual Report.

Requirement			Status of Compliance	Comment
	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	Employee Share Option Schemes.	Not Applicable	The Company did not operate any Employee Share Option Schemes in relation to shares of the Company.
		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 in pages 63 and 64 of this report respectively.
	xvi	Specified information on Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower. Specified details of investments in a Related Party and/or amounts due from a Related Party to be set out separately.	Complied	This information is provided on page 150 of this report.
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 ensure immediate disclosures in same. However, there were no such disclosures made during the year 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 such notifications as and when required.

Governance report

	Requirement	Status of Compliance	Comment
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. The statement is published in page 50 in this Annual 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 in compliance with the Corporate Governance Rules and respective affirmative statements and the statement of compliance is provided in this Annual Report.
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.	Not Applicable	The Company has not requested for any exemption nor did the CSE grant any exemptions for the Company with respect to the Corporate Governance Rules in full or in part.
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 in 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 2013, there were six members in the Board. Therefore, the requirement under rule 7.10.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 review.
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 in the Board of Directors and two are classified as Independent Non-Executive Directors. Details of Independent, Non-Executive Directors as at 31 December 2014 are given in page 38 in this Annual Report.

Requirement		Status of Compliance	Comment
7.10.2.b	The board shall require each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	Complied	The Board has obtained signed and dated declarations from each Non-Executive Director on their independence or non-independence against the said criteria upon their appointment to the Board and also on an annual basis in terms of declaration specified in Appendix 7A of the CSE Listing Rules.
7.10.3	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	The Board of Directors determined the independence or non-independence of each Non-Executive Director. The names of such Independent Non-Executive Directors served on the Board during the financial year under review are given below with their tenure as a member of the Board. During the year Messrs. Deepal Sooriyaarachchi and Heerak Basu were declared as Independent Non-Executive Directors. Mr. Heerak Basu is an employee of a company within the AIA Group but the Board is of the view that this is not a disqualification to be classified as an Independent Non-Executive Director on the Board of the Company within the criteria defined for independence in terms of the Listing Rules and the written clarifications of the CSE. Mr. Heerak Basu functioned as an Independent Non-Executive Director of the Company with effect from 05 December 2012 and Mr. Deepal Sooriyaarachchi was declared as an Independent Director with effect from 15 August 2012. Both these Directors continue to function in the same capacity to date.
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	No such determination has been made by the Board during the year under review.
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 page 38 in this Annual Report.

Governance report

	Requirement	Status of Compliance	Comment
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 did not have any new appointments to the Board during the year under review.
7.10.4	Criteria for defining 'Independence'	Complied	The two Directors who are classified as 'Independent' fulfill the criteria specified in determining their independence.
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 Company has a separate Remuneration Committee. The Remuneration Committee consists of three Non-Executive Directors two of whom are independent Non-Executive Directors. Mr. Mitchell New functions as the Chairman of the Committee from August 2013. Mr. New 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, the market standard applicable to foreign and local Chief Executive Officers and the value of the role to 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 68 in this Annual Report. A statement of the remuneration policy is given under the Remuneration Committee report on page 76. Disclosure of remuneration paid to Directors is given on page 47 in this Annual Report. Additional information on Remuneration Committee is provided on page 68 in this Annual 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);	Complied	The Audit Committee of the Company is named as Audit & Compliance Committee and consists of three Non-Executive Directors two of whom are Independent Non-Executive Directors.

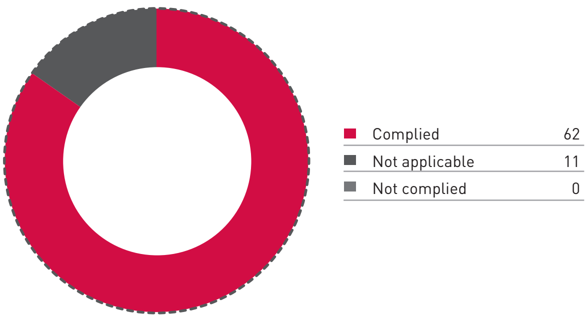
Requirement		Status of Compliance	Comment
	or of non-executive directors a majority of whom shall be independent, whichever shall be higher. One non-executive director shall be appointed as Chairman of the committee by the board of directors. The Chief Executive Officer and the Chief Financial Officer 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.		The Company has a separate Audit & Compliance Committee. The Chairman, Mr. Heerak Basu is an Independent Non-Executive Director. The Chief Executive Officer and the Chief Financial Officer are considered as permanent invitees for the meetings of the Committee. Ms. Sally Wan is a member of the Australian Society of Certified Practicing Accountancy.
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 captures 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 67 in this Annual Report.

Governance report

Requirement		Status of Compliance	Comment
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 & Compliance Committee are given on page 67 in this Annual Report. The Committee determined the independence of the External Auditors and the basis of such determination is referred in the Audit & Compliance Committee Report on page 74 in this Annual Report. Audit & Compliance Committee Report is given on page 74 in this Annual Report.
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 its own shares or redemptions of shares or minority buyouts. Therefore, this requirement was not applicable for 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 in a Stock Exchange; hence this requirement is not applicable.

Status of Compliance with Section 7 of Listing Rules of the Colombo Stock Exchange

No of requirements	62
Complied	51
Not complied	0
Not Applicable	11



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

Board Sub-Committees

Audit and Compliance Committee

Chairman	Heerak Basu (Independent Non-Executive Director)
Members	Deepal Sooriyaarachchi (Independent Non-Executive Director) Sally Wan (Non-Executive Director)
Secretary	Thusara Ranasinghe
Agenda	Available
Invitees	CEO Chief Financial Officer Chief Actuary Internal Auditor External Auditors
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 co-ordination 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

Governance report

Remuneration Committee

Chairman	Mitchell New (Non-Executive Director)
Members	Heerak Basu (Independent Non-Executive Director) Deepal Sooriyaarachchi (Independent Non-Executive Director)
Secretary	Chathuri Munaweera
Agenda	Available
Invitees	CEO Director HR
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

Investment Committee (Comprising non-Board members)

Chairman	Shah Rouf (CEO)
Members	Benjamin Deng (Head of Derivatives & Analytics from AIA Group investment function) Gavin D'Rosairo (Chief Strategy & Investment Officer)
Secretary	Zarah Juriansz
Agenda	Available
Invitees	Chief Financial Officer Chief Actuary Independent Consultant Actuary Other Officials as required
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	- To set policy guidelines for the management of investment portfolios - To monitor investment performance and recommend appropriate investment strategies - To ensure that portfolios are managed to achieve their investment objectives whilst adhering to the regulatory requirements - To review the Company's Investment Policy and place the same before the Board for its approval thereof - To implement the investment policy as approved by the Board - To apprise the Board periodically on the committee's activities - To liaise with the Insurance Regulator in connection with regulations pertaining to investments and to provide information to define the framework for the management of insurance portfolios

Board Appointed Management Committee

Financial Risk Committee

Chairman	Indika Prematunga Chief Financial Officer
Members	Shah Rouf (CEO) Frank Munro (Chief Actuary) Gavin D'Rosairo (Chief Strategy & Investment Officer)
Secretary	Tharaka Abeynanda
Agenda	Available
Invitees	Manager Investments Senior Manager - Enterprise Risk Management
Frequency of Meetings	Quarterly
Professional Advice	Available
Terms of Reference	Available
Objectives	- To oversee the aggregate financial risk exposure of the business - To manage the optimisation of capital and the risk and return profile of the business

Risk Management Review

During 2014 AIA Sri Lanka took another step in aligning with the group risk management framework and the key accomplishment during the year was adopting the Group's risk management process for financial risk management.

The core business of any insurer is to accept, pool and effectively manage risks to the benefit of policyholders and shareholders. Thus, effective risk management is at the heart of an insurer's business and operation, and is the key driver in creating value to all stakeholders.

This is recognised and appreciated at AIA Sri Lanka and as such, effective risk management is woven into the fabric of the Company as an integral part of the culture facilitating financial stability and long-term sustainability of the business.

During 2014 AIA Sri Lanka took another step in aligning with the group risk management framework and the key accomplishment during the year was adopting the Group's risk management process for financial risk management. Also keeping in line with group's concept of "combined effort" to ensure more effective risk management, risk function teamed up with Compliance function in various tasks.

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

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

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

Risk Management Framework

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

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

1. Three lines of defence

   The three lines of defence model is a structured framework for risk management providing clear ownership of roles of risk management. Each outer line of defence ramparts the inner line of defence, to provide assurance to management that the framework is effective and is free from material weaknesses.

   First line of defence – is line management who are directly involved in the day-to-day decision making and running of the business. Within the three lines of defence model the first line is responsible for identifying, measuring, managing, monitoring and reporting risks within the business, and especially for their respective functional units.

   Second line of defence – comprises the independent Risk Function and independent Compliance Function. The Risk Function is responsible for reviewing and challenging first line's activity being a "critical friend" to the first line. The Risk Function is part of the management team, and maintains a degree of independence from first line activity for the effective review, challenge and support role of the second 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.

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

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

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

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

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

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

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

AIA Sri Lanka reviewed the governance committee structure during 2014 segregating the governance committees i.e. committees in place for demonstrating good governance from steering committees that are established to accomplish a defined task or complete a project.

Details of the Company's governance Committees are described in the Corporate Governance report on page 50 of this Annual Report.

4. Risk appetite statements
The risk appetite statements communicate the parameters and boundaries within which the business unit has opted to operate in relation to the identified risks.

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 required technical expertise 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 of review.

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

During 2014, AIA Sri Lanka adopted AIA group's anti-fraud guidelines as the risk function jointly with compliance and internal audit is jointly held responsible for implementing guidelines within the business.

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

Risk Management Review

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

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

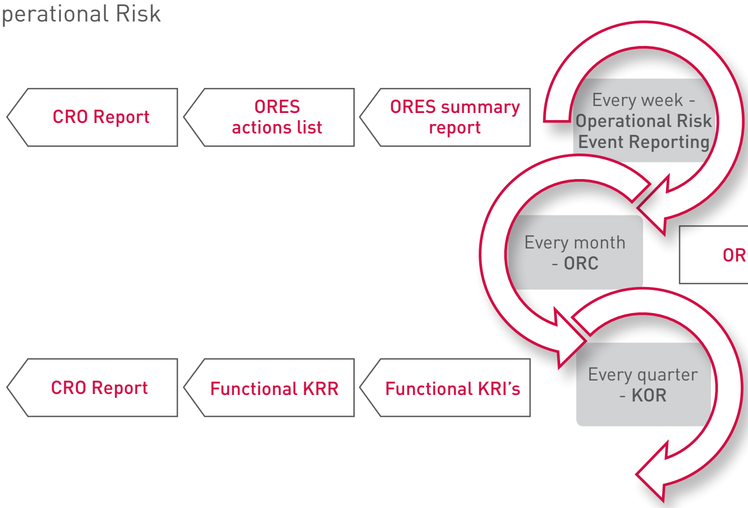
7. Risk governance and risk reporting
   The risk governance and risk reporting within the Company is crucial to ensure that the process of risk escalation is both effective and independent.

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

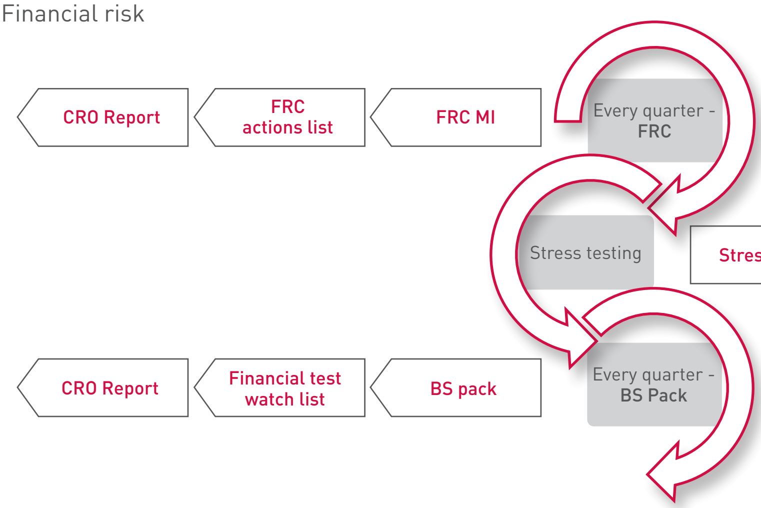
Risk Management Process

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

Operational Risk



Financial risk



to mitigate or manage these risks. These processes are cascaded across the organisation encompassing all levels of management, and different components of the risk framework.

Operational Risk Event Reporting

Operational risk event reporting process feeds information pertaining to operational risk events into the business unit's decision making process and is elementary in identifying the Company's status in terms of the controls that prevent operational risk events and their effectiveness. The robustness of the process lies in the simplicity of reporting which takes place every week, the outcome of which is reviewed and followed up by the Risk Function and reported to the Executive Committee. During the year we further extended the coverage of the operational risk event reporting to strengthen the depth and breadth of operational risk event reporting.

Monthly Operational Risk Committee Meeting

Operational Risk Committee is the primary management level forum dedicated solely for the review and discussion on the risks faced by the business unit. The ORC convenes every month, is chaired by the Chief Executive Officer and comprises Executive Committee members.

The Risk Function coordinates and maintains minutes of the Operational Risk Committee, with the business unit's Chief Risk Officer functioning as the secretary to the committee.

The Risk Function compiles the standard defined Operational Risk Committee management information deck to support an effective review and discussion. The committee allocates adequate time and focus to monitor progress of actions to mitigate and manage the key risks of the business unit. The ORC met in nine occasions during the year under review and following the concept of "combined effort" compliance was made a member of the ORC during the year.

Quarterly Key Operational Risk (KOR) Assessment

The Company assesses identified key operational risks 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 risk. AIA Sri Lanka's first line actively engage with the risk function in assessing the key risks and the basement provides an alert to the business and the risk function of any emerging risks/ areas that need special attention or management action.

Quarterly Financial Risk Committee Meeting

Whilst the overall task of managing risks rests with the ORC and FRC. ORC focus on operational risks while FRC looks in to financial risks.

Quarterly Balance Sheet Pack and Stress Tests

The Company commenced preparing and submitting the Balance Sheet pack for life and general businesses in the year under review. The BS pack provides a comprehensive picture of financial risks of the business covering capital, liquidity, market and credit risks.

During the year AIA Sri Lanka commenced various stress tests with the support of Group risk including solvency stress test and earnings stress test.

Outlook for 2015

AIA is witnessing transformation in many aspects of its business and operations led by ambition, changes in environment and regulatory requirements. The business continues with its growth plans in terms of size and quality with focus customer and ethics centric concepts such as business quality and ease of doing business.

Risk management would be as challenging as the previous year, as regards risk management, challenges in 2015 will be no less than those in 2014.

Key areas of focus would be adopting group's Risk and Controls Self Assessment (RCSA) process and product risk assessment process from operational risk front, risk appetites and further expansion of scope stress testing from financial risk scope. The business has already embraced "combined effort" concept, and 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 & Compliance Committee of AIA Insurance Lanka PLC (the Committee) is appointed by the Board of Directors and comprises of the following members.

1. Mr. Heerak Basu – Chairman (Independent Non-Executive Director)
2. Mr. Deepal Sooriyaarachchi – Member (Independent Non-Executive Director)
3. Ms. Wan Sally YW – Member (Non-Executive Director)

Mr. Heerak Basu and Mr. Deepal Sooriyaarachchi represent the Committee in their capacity of Independent Non-executive Directors. Ms. Wan Sally YW is a member of the Australian Society of Certified Practicing Accountants. 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 on 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 due. It focuses on a fair presentation and disclosure, reasonability of estimates and judgemental factors and appropriateness of significant accounting policies adopted in preparation of financial statements.

2. Internal Audit

   The Committee reviews and approves the annual internal audit plan presented by the Internal Auditors of the Company and receives constant updates on matters relating to progress of the plan during the year. Internal Auditor of the Company had unfettered access to the Committee and had the opportunity to have private meetings with the Committee ensuring independence of the internal audit function. The Committee received quarterly reports from the Internal Auditor detailing the outcome of audits carried out during the quarter and the progress of recommendations. The Committee is satisfied with the independence of Internal Auditor.

3. Risk, Governance and Internal Control

   The Committee reviewed the governance framework of the Company through the Chief Risk Officer's Reports which are submitted quarterly to the Committee. 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. 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 action in place to control any issues identified in these reports.

4. External Audit

   External Audit was another important area which was reviewed by the Committee. The Committee received the External Audit Plan and approved the same after having discussed with the management. External Auditors were granted meetings at different levels including routine quarterly 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 2013 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 approved the regulatory monitoring plan for the year 2014 and received quarterly updates of regulatory liaisons. The Committee was continuously updated about the progress of the segregation of general insurance business and life insurance business as stipulated to be completed by

31 December 2014 by relevant statutory and regulatory requirements. The Committee received reports on monitoring the status of regulatory compliance of the Company, the effectiveness of compliance monitoring programs and successful implementation of new regulatory requirements.

6. Any other significant matters

   During the year under review, the Committee paid attention to the results of the new life policy administration system implementation and in order to ensure the new system caters to the business requirements adequately and seamlessly delivers the required functionalities. The Committee is satisfied with the results achieved through the new system and the benefits that can be perceived by the policyholders.

   In addition, the Committee reviewed the matters relating to tax assessments received by the Company during the year under consideration and received constant updates on how those matters progressed during the said period.

Meetings

The Committee held four formal meetings during the year under review and the CEO, the Deputy CEO, the CFO, the Director IT, the Chief Risk Officer attended these meetings as permanent invitees. The Internal and External Auditors attended the four meetings and the Committee had private meetings with internal and external auditors without the presence of any management staff. Other members of the senior management including the Chief Actuary 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 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 continued 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 31st December 2015, subject to approval by the shareholders at the forthcoming Annual General Meeting. The Committee will approve the terms of engagement of the auditors for 2015 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 2015.

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

Heerak Basu

Heerak Basu
Chairman, Audit and Compliance Committee

9 February 2015

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 of 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 2014, the Committee comprised of the following Directors.

1. Mitchell David New (Non-Executive Director / Chairman of the Committee)
2. Deepal Sooriyaarachchi (Independent/ Non-Executive Director/ Committee Member)
3. Heerak Basu (Independent/ Non-Executive Director/ Committee Member

Scope and Objectives

The overall Objectives and Functions of the Remuneration Committee are:

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

Remuneration Policy of the Company

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

Proceedings & Reporting

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

The Remuneration Committee meets not less than two times a year. The Committee reports on its deliberations, activities, matters reviewed, recommendations and decisions reached to the Board of Directors of the Company for advice, approval and or ratification. In 2014, 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.

Mitchell David New
Chairman, Remuneration Committee

10 February 2015

Investment Committee Report

The Investment Committee of AIA Insurance Lanka PLC is appointed by the Board of Directors of the Company and comprises 03 members. The functions of the Investment Committee are defined in the Terms of Reference for the Investment Committee.

Scope and Objectives

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

The objectives of the Investment Committee include:

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

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

Members

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

Member	Period	
	From	To
Shah Rouf (Chairman from 5 December 2012)	05 December 2012	To date
Gavin D' Rosairo (Chairman from 14 August 2012 to 4 December 2012)	14 August 2012	To date
Benjamin Deng	05 December 2012	To date
Zarah Juriansz (Secretary from 5 May 2011)	05 May 2011	To date

Meetings and Attendance

The Investment Committee meets at least 4 times during the year and the Chief Financial Officer, Chief Actuary and the Fund Manager attends the meeting on invitation by the Committee.

The Investment Committee convened on 04 occasions during 2014 and given below is the members' attendance at the meetings.

Member	07-Feb 2014	07-May 2014	06-Aug 2014	07-Nov 2014
Shah Rouf	✓	✓	✓	✓
Gavin D'Rosairo	✓	✓	✓	✓
Benjamin Deng	✓	✓	✓	✓

Reporting

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

Shah Rouf
Chairman, Investment Committee

09 February 2015

Actuary's Report – Life Insurance

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AIALIFE.COM.LK

Actuary's Report - Life Insurance

To the shareholder of AIA Insurance Lanka PLC

Actuarial valuation and solvency of AIA Insurance Lanka PLC as at 31st December 2014

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 1st May, 2007, and IBSL circular #22 dated 14th February, 2006.

I have satisfied myself as to the accuracy and completeness of the valuation data furnished to me by implementing a wide range of data validations and results checks, and going through the books of the company.

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

Adequate and proper reserves have been provided for all current and contingent liabilities in respect of the long term life business as of 31st December 2014, 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 11.86%/10.54%/9.88% for policies with dividend rates of 90%/80%/75% respectively for the financial year ending 31st December 2014.

F.MUNRO
Fellow, Institute and Faculty of Actuaries UK

05th February 2015

Actuary's Report – General Insurance

23rd January 2015

To the shareholders of AIA Insurance Lanka PLC

Actuarial investigation of AIA Insurance Lanka PLC's Policy Liabilities as at 31 December 2014

In accordance with the engagement letter dated 21 October 2014, NMG Financial Services Consulting ("NMG", "we", "us") has conducted an investigation into the valuation of the General Insurance Policy Liabilities as required under paragraph 3 of the Solvency Margin (General Insurance) Rules 2004, and confirms that the valuation is in accordance with the requirements stipulated in the Insurance Regulations. We have examined the actuarial assumptions used in determining the loss reserves for AIA Insurance Lanka PLC (AIA). We have based our analysis on both gross and net of reinsurance bases in Sri Lanka Rupee currency.

We have also been asked by AIA to calculate a level of prudential margin for the Claim Liabilities. There are no established requirements in Sri Lanka to calculate these items as at 31 December 2014. However, AIA guidelines dictate that the margin, together with the Central Estimate of Claim Liabilities, should produce a 75% probability of adequacy of the Claim Liabilities and we have estimated the margin as such. This is also in line with the incoming RBC requirements in Sri Lanka.

In our opinion, the policy liabilities as at 31 December 2014 based on the data provided by AIA:

- are computed in accordance with generally accepted loss reserving standards and principles; and
- make a reasonable provision for all unpaid insurance losses and external claim management expenses of the Company. In particular, we have assumed that Unallocated Loss Adjustment Expenses ("ULAE") represent 5% of the net Central Estimate of the Claim Liability. In making these assumptions, we have assumed that the Company would continue as a going concern over this period.

We have calculated the Unexpired Risk Reserve at both the Central Estimate and at the 75% probability of adequacy. The 75% Unexpired Risk Reserve on a net of reinsurance basis is less than the net Unearned Premium Reserve amount. Therefore the Company is holding the Unearned Premium Reserve as the Premium Liability as at 31 December 2014.

We have not been advised of AIA's reinsurance arrangements as of 1 January 2015 onwards. Our calculation of the Premium Liability assumes that a similar programme will be adopted with high quality reinsurers, and we therefore have not considered the non-recoverability from reinsurers.

Yours sincerely,

Matthew Maguire
Partner, NMG Consulting

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www.NMG-Group.com
65 Chulia Street #37-07/08, OCBC Centre, Singapore 049513

Statement of Solvency

The statement of solvency for life insurance and general insurance has been prepared in accordance with the solvency margin (general insurance) rules - 2004 and solvency margin (long term insurance) rules - 2002 as amended from 1 April 2011 and is in line with the formats stipulated by the Insurance Board of Sri Lanka. Accordingly Government securities have been marked to market.

Life insurance*

As at 31 December	**2014 LKR Mn**	**2013 LKR Mn**
1. Value of admissible assets	33,046	28,970
2. Value of liabilities		
2.1 Policy liabilities	25,120	23,645
2.2 Other liabilities	2,499	1,903
3. ASM (value of admissible assets minus amount of liabilities)	5,427	3,422
4. Factor	5%	5%
5. RSM (required solvency margin)	1,256	1,182
6. Solvency ratio (ASM/RSM)	4.32	2.89

* Includes conventional, Life share holder,non-unit and guaranteed unit-fund.

General insurance

As at 31 December	**2014 LKR Mn**	**2013 LKR Mn**
1. Value of admissible assets	4,052	4,019
2. Amount of total liabilities		
(i) Technical reserves (gross minus reinsurance)	1,834	1,702
(ii) Other liabilities	847	729
3. Available solvency margin (Line 01 minus Line 02)	1,371	1,588
4. Required solvency margin	438	396
5. Solvency ratio (Line 03 divided by Line 04)	3.13	4.01

Statement of Approved Assets

Determined as per section 25(1) of regulation of Insurance Industry Act of No 43 of 2000 and the determination made by the Insurance Board of Sri Lanka in terms of the said Act as amended in March and October 2011, stipulates that Government Securities be marked to market. Accordingly the requirements as per the amendments made to the Act have been complied with.

Life insurance*

As at 31 December		2014 LKR Mn	2013 LKR Mn
1.	Approved assets maintained in long term insurance business	31,012	27,098
2	Long term insurance fund	29,631	26,428
3	Excess in approved assets over long term insurance fund	1,381	670
4	Approved assets as a % of long term insurance fund	104.7%	102.5%
5	Ratio required	100%	100%

* Includes conventional, non-unit and guaranteed unit-fund.

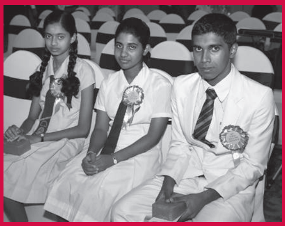
General insurance

As at 31 December		2014 LKR Mn	2013 LKR Mn
1.	Approved assets maintained in general insurance business	3,591	3,625
2	Technical reserve (gross minus reinsurance)	1,834	1,702
3	Excess in approved assets over technical reserve	1,757	1,923
4	Approved assets as a % of technical reserve	195.8%	213.0%
5	Ratio required	100%	100%

Note: The statement of solvency and approved assets have been certified by the External Auditors of the Company.

Financial statements

Financial Information

Bringing real value to people's lives

Financial statements

Financial Calendar

Interim Results for 2014

First Quarter	08 May 2014
Second Quarter	15 August 2014
Third Quarter	10 November 2014
Fourth Quarter	10 February 2015

Audited Financial Statements

2013	10 February 2014
2014	10 February 2015

Dividends

2013 - First and Final Dividend	27 March 2014
2014 - Interim Dividend	27 January 2015

Annual General Meetings

2013, 28th AGM	27 March 2014
2014, 29th AGM	27 March 2015

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 Regulation of Insurance Industry Act No 43 of 2000 (as amended). They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

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

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

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

The form and substance of transactions, reasonably represent the Company's state of affairs. To ensure this, the Company has taken proper and sufficient care in maintaining systems and designing and ensuring the effectiveness of key controls as specified in AIA Finance Controls Self Assessment together with all other internal controls and maintenance of accounting records, for safeguarding the assets and for preventing and detecting frauds as well as other irregularities, which are reviewed, evaluated and updated on an ongoing basis. The Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system, processes and internal controls and accounting.

The financial statements were audited by M/s PricewaterhouseCoopers Chartered Accountants, the External Auditors of the Company. The audit opinion issued by the External Auditors is provided on page 87.

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 in performing their duties and to discuss audit findings, and any deficiencies in internal controls that may impact the accuracy and completeness of the financial reporting process.

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

To ensure independence, the independent 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.

Shah Rouf
Chief Executive Officer

Indika Prematunga
Chief Financial Officer

10 February 2015

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 subsidiaries 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 87 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. 07 of 2007 (the Act) requires the Directors to prepare financial statements of the Company and of its subsidiaries complying with the requirements of the Act for each financial year comprising of:

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

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

The Directors, having reviewed the business plan for the period 2015-2017, are of the considered view that the Company and its subsidiaries 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 methodology and assumptions recommended by the Chief Actuary.

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

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

The Directors are satisfied that all statutory and regulatory payments in relation to all relevant statutory and regulatory authorities which were due and payable by the Company and its subsidiaries 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 subsidiaries 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 2014 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 headed "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 subsidiaries.

By Order of the Board

Chathuri Munaweera
Company Secretary

Colombo
10 February 2015

Independent Auditor's Report

To the shareholders of AIA Insurance Lanka PLC

Report on the financial statements

We have audited the accompanying financial statements of AIA Insurance Lanka PLC ("the Company"), the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statements of financial position as at 31 December 2014, and the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out in pages 88 to 153.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of the Company and the consolidated financial statements of the Group give a true and fair view of the financial positions of the Company and the Group as at 31 December 2014, and of their financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

Report on other Legal and Regulatory Requirements

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

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

Chartered Accountants
Colombo

10 February 2015

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T: +94 (11) 771 9838, 471 9838, F: +94 (11) 230 3197, www.pwc.com/lk

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

Statement of Financial Position

As at 31 December	Note	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Assets					
Intangible assets	7	576,440	602,716	576,440	602,716
Property, plant and equipment	8	358,634	303,473	358,634	303,473
Investments in subsidiaries	9	-	-	101,000	1,000
Investment in associate	10	64,503	63,814	19,384	19,384
Financial assets	11	39,133,491	36,426,146	39,033,134	36,426,146
Policyholder and other loans	12	1,535,544	1,718,374	1,535,544	1,718,374
Reinsurance receivables	13	1,236,698	1,130,624	1,236,698	1,130,624
Trade receivables	14	916,414	839,581	916,087	839,496
Other assets	15	2,489,779	1,989,940	2,489,523	1,989,695
Other fund assets	16	189,200	181,806	189,200	181,806
Deferred expenses	17	202,026	151,612	202,026	151,612
Deferred income tax assets	18	9,440	-	9,440	-
Cash and cash equivalents	19	988,551	797,306	981,340	793,810
Total assets		47,700,720	44,205,392	47,648,450	44,158,136
Liabilities					
Insurance liabilities	20	39,194,133	36,568,193	39,194,133	36,568,193
Retirement benefit obligations	21	248,986	214,627	248,986	214,627
Deferred income tax liabilities	18	831,665	104,068	831,665	104,068
Other fund liabilities	22	189,200	181,806	189,200	181,806
Reinsurance payables		358,016	210,259	358,016	210,259
Accruals and other payables	23	1,863,320	2,019,647	1,862,899	2,019,212
Current income tax liabilities	24	37,300	185,512	36,862	185,574
Deferred revenue	25	85,534	80,493	85,534	80,493
Bank overdraft	19	5,897	55,454	5,897	55,454
Total liabilities		42,814,051	39,620,059	42,813,192	39,619,686
Equity					
Stated capital	26	300,000	300,000	300,000	300,000
Capital reserves	27	72,096	72,096	72,096	72,096
Revenue reserves	28	4,514,573	4,213,237	4,463,162	4,166,354
Total equity		4,886,669	4,585,333	4,835,258	4,538,450
Total equity and liabilities		47,700,720	44,205,392	47,648,450	44,158,136

The notes on the pages 96 to 153 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.

Indika Prematunga
Chief Financial Officer

The financial statements on page 88 to 153 were authorised for issue by the Board of Directors on 10 February 2015 and were signed on its behalf.

Gordon Timmins Watson
Chairman/Director

Heerak Basu
Director

Income Statement

For the financial year ended 31 December	Note	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Gross written premium	29 (a)	10,212,857	9,536,056	10,212,857	9,536,056
Premiums ceded to reinsurers		(631,191)	(643,632)	(631,191)	(643,632)
Compulsory cession to NITF		(331,677)	(304,325)	(331,677)	(304,325)
Gross reinsurance premium	29 (b)	(962,868)	(947,957)	(962,868)	(947,957)
Net change in reserves for unearned premium	29 (c)	(443,753)	(394,339)	(443,753)	(394,339)
Net earned premium	29	8,806,236	8,193,760	8,806,236	8,193,760
Other revenue					
Investment income	30	4,024,537	4,268,872	4,021,497	4,270,689
Fees and commission income	31	280,410	19,729	279,131	19,359
Realised gains	32	206,454	113,293	206,445	113,293
Fair value gains and losses	33	477,909	25,067	477,909	25,067
Other operating revenue	34	391,148	372,867	390,582	372,536
		5,380,458	4,799,828	5,375,564	4,800,944
Total revenue		14,186,694	12,993,588	14,181,800	12,994,704
Gross claims and benefits paid	35(a)	(8,213,423)	(6,945,611)	(8,213,423)	(6,945,611)
Claims ceded to reinsurers	35(b)	260,316	212,670	260,316	212,670
Gross change in contract liabilities	35(c)	(61,785)	(284,840)	(61,785)	(284,840)
Change in contract liabilities ceded to reinsurers	35(d)	17,208	267,602	17,208	267,602
Change in contractual liability	35(e)	(483,027)	(753,963)	(483,027)	(753,963)
Net claims and benefits	35	(8,480,711)	(7,504,142)	(8,480,711)	(7,504,142)
Net acquisition expenses	36	(996,453)	(832,127)	(996,453)	(832,127)
Operating and administrative expenses	37	(4,126,498)	(3,836,333)	(4,125,219)	(3,835,940)
Share of profit of an associate		3,010	2,395	-	-
Profit before tax	38	586,042	823,381	579,417	822,495
Income tax expense	39	(233,603)	(324,088)	(231,506)	(323,994)
Profit for the period		352,439	499,293	347,911	498,501
Profit attributable to;					
Owners of the parent		352,439	499,293	347,911	498,501
Non-controlling interest		-	-	-	-
		352,439	499,293	347,911	498,501
Basic / diluted earnings per share (in LKR)	40	11.46	16.24	11.31	16.21
Dividend per share (in LKR)	41	2.00	2.50	2.00	2.50

The notes on the pages 96 to 153 are an integral part of these financial statements.

Statement of Comprehensive Income

For the financial year ended 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Profit for the period	352,439	499,293	347,911	498,501
Other comprehensive income				
Items that may be subsequently reclassified to profit or loss				
Changes in fair value of available for sale financial assets	1,842,757	846,115	1,842,757	846,115
Transfer to long term insurance fund	(1,839,692)	(802,854)	(1,839,692)	(802,854)
Items that will not be reclassified to profit or loss				
Remeasurement of retirement benefit obligations	5,832	54,226	5,832	54,226
Total other comprehensive income for the year net of tax	8,897	97,487	8,897	97,487
Total comprehensive income for the year	361,336	596,780	356,808	595,988
Comprehensive income attributable to;				
- Owners of the parent	361,336	596,780	356,808	595,988
- Non-controlling interest	-	-	-	-
Total comprehensive income for the year net of tax	361,336	596,780	356,808	595,988

Items disclosed in the statement above are net of tax.
The notes on the pages 96 to 153 are an integral part of these financial statements.

Statement of Changes in Equity - Group

	Note		Capital reserve	Revenue reserves			
		Stated capital LKR'000	Revaluation reserve LKR'000	Resilience reserve LKR'000	Available for sale LKR'000	Retained earnings LKR'000	Total equity LKR'000
Balance as at 1 January 2013		300,000	72,096	289,000	(27,759)	3,430,216	4,063,553
Profit for the period		-	-	-	-	499,293	499,293
Other comprehensive income							
Changes in fair value of available for sale financial assets		-	-	-	846,115	-	846,115
Changes in fair value of available for sale financial assets transferred to the long term fund		-	-	-	(802,854)	-	(802,854)
Remeasurement of retirement benefit obligations		-	-	-	-	54,226	54,226
Transactions with owners:							-
Final dividend paid for 2012	41	-	-	-	-	(75,000)	(75,000)
Balance as at 31 December 2013		300,000	72,096	289,000	15,502	3,908,735	4,585,333
Profit for the period		-	-	-	-	352,439	352,439
Other comprehensive income							
Changes in fair value of available for sale financial assets		-	-	-	1,842,757	-	1,842,757
Changes in fair value of available for sale financial assets transferred to the long term fund		-	-	-	(1,839,692)	-	(1,839,692)
Remeasurement of retirement benefit obligations		-	-	-	-	5,832	5,832
Transactions with owners:							
Final dividend paid for 2013	41	-	-	-	-	(60,000)	(60,000)
Balance as at 31 December 2014		300,000	72,096	289,000	18,567	4,207,006	4,886,669

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 96 to 153 are an integral part of these financial statements.

Statement of Changes in Equity- Company

	Note		Capital reserve	Revenue reserves			
		Stated capital LKR'000	Revaluation reserve LKR'000	Resilience reserve LKR'000	Available for sale LKR'000	Retained earnings LKR'000	Total equity LKR'000
Balance as at 1 January 2013		300,000	72,096	289,000	(27,759)	3,384,125	4,017,462
Profit for the period		-	-	-	-	498,501	498,501
Other comprehensive income							
Changes in fair value of available for sale financial assets		-	-	-	846,115	-	846,115
Changes in fair value of available for sale financial assets transferred to the long term fund		-	-	-	(802,854)	-	(802,854)
Remeasurement of retirement benefit obligations		-	-	-	-	54,226	54,226
Transactions with owners:							
Final dividend paid for 2012	41	-	-	-	-	(75,000)	(75,000)
Balance as at 31 December 2013		300,000	72,096	289,000	15,502	3,861,852	4,538,450
Profit for the period		-	-	-	-	347,911	347,911
Other comprehensive income							
Changes in fair value of available for sale financial assets		-	-	-	1,842,757	-	1,842,757
Changes in fair value of available for sale financial assets transferred to the long term fund		-	-	-	(1,839,692)	-	(1,839,692)
Remeasurement of retirement benefit obligations					-	5,832	5,832
Transactions with owners:							
Final dividend paid for 2013	41	-	-	-	-	(60,000)	(60,000)
Balance as at 31 December 2014		300,000	72,096	289,000	18,567	4,155,595	4,835,258

The notes on the pages 96 to 153 are an integral part of these financial statements.

Statement of Cash Flows

For the financial year ended 31 December	Note	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Cash flows from operating activities					
Premiums / fees received from customers		10,414,850	9,643,479	10,413,813	9,643,001
Reinsurance premium (net of commission) paid		(684,032)	(586,762)	(684,032)	(586,762)
Claims and benefits paid	35 (a)	(8,213,423)	(6,945,611)	(8,213,423)	(6,945,611)
Reinsurance receipts in respect of claims and benefits		249,868	224,614	249,868	224,614
Cash paid to and on behalf of employees		(1,638,287)	(1,340,994)	(1,638,287)	(1,340,994)
Interest received		305,957	264,565	305,413	264,233
Payments to agents and intermediaries		(1,170,564)	(1,055,497)	(1,170,564)	(1,055,497)
Other operating cash payments		(2,462,645)	(1,864,861)	(2,461,329)	(1,864,496)
Brand change expenses		-	(174,250)	-	(174,250)
Cash flow from operating activities		(3,198,276)	(1,835,317)	(3,198,541)	(1,835,762)
Taxes paid	24	(1,060)	(310)	-	-
Policy loans granted		(591,576)	(591,724)	(591,576)	(591,724)
Policy loan repayments		730,220	541,365	730,220	541,365
Net cash used in operating activities		(3,060,692)	(1,885,986)	(3,059,897)	(1,886,121)
Cash flows from investing activities					
Purchase of liquid investments		(2,623,731)	(1,870,095)	(2,444,631)	(1,870,095)
Purchase of other investments		(12,584,523)	(54,834,692)	(12,584,523)	(54,834,692)
Proceeds from sale of liquid investments		2,772,325	2,691,877	2,593,225	2,691,877
Proceeds from sale of other investments		13,066,069	53,066,738	13,166,425	53,066,738
Investment in subsidiary		-	-	(100,000)	-
Investment expenses		(103,814)	(104,516)	(103,814)	(104,516)
Interest received		2,981,677	3,437,270	2,976,821	3,437,270
Dividend received		110,506	137,307	110,506	137,307
Purchase of intangible assets	7	(81,669)	(327,208)	(81,669)	(327,208)
Purchase of property, plant and equipment	8	(177,172)	(176,623)	(177,172)	(176,623)
Proceeds from sale of property, plant and equipment		1,826	1,295	1,816	1,295
Net cash flow from investing activities		3,361,494	2,021,353	3,356,984	2,021,353
Cash flows from financing activities					
Final dividend paid for the previous year	41	(60,000)	(75,000)	(60,000)	(75,000)
Net cash used in financing activities		(60,000)	(75,000)	(60,000)	(75,000)
Increase in cash and cash equivalents		240,802	60,367	237,087	60,232
Cash and cash equivalents and bank overdraft at beginning of the year	19	741,852	681,485	738,356	678,124
Cash and cash equivalents and bank overdraft at the end of the year	19	982,654	741,852	975,443	738,356

The notes on the pages 96 to 153 are an integral part of these financial statements.

Long Term Insurance
Statement of Financial Position - Supplemental

As at 31 December	2014 LKR '000	2013 LKR '000
Assets		
Investment in associate	6,171	6,171
Financial assets	33,854,085	31,459,090
Policyholder and other loans	1,320,834	1,449,008
Reinsurance receivables	107,728	90,530
Premium receivables	331,041	324,998
Other assets	2,162,674	1,551,894
Deferred expenses	79,632	39,223
Cash and cash equivalents	567,187	521,517
Total assets	38,429,352	35,442,431
Liabilities		
Insurance liabilities	36,237,959	33,812,294
Deferred income tax liabilities	840,192	124,756
Reinsurance payables	155,832	114,909
Accruals and other payables	1,183,512	1,256,366
Current income tax liabilities	-	76,320
Deferred revenue	10,108	6,298
Bank overdraft	1,749	51,488
Total liabilities	38,429,352	35,442,431

Insurance Revenue Accounts

For the financial year ended 31 December	2014 LKR '000	2013 LKR '000
General insurance		
Gross written premium	2,946,284	2,673,009
Net earned premium	2,031,403	1,880,651
Net claims	(1,249,832)	(1,097,830)
Net acquisition expenses	(54,890)	(16,131)
Operating and administrative expenses excluding non technical expenses	(949,869)	(829,977)
Other technical income	9,340	2,152
Net underwriting result	(213,848)	(61,135)
Investment income and other income excluding other technical income	344,506	417,074
Non technical expenses	(18,893)	(9,360)
Profit before tax	111,765	346,579
Key ratios - general insurance		
Net loss ratio	61.5%	58.4%
Net expense ratio	49.0%	44.9%
Net combined ratio	110.5%	103.3%
Long term insurance business		
Gross written premium	7,266,573	6,863,047
Net earned premium (net of premium ceded to reinsurers)	6,774,833	6,313,109
Investment income and other income	4,837,263	4,163,355
Net claims and benefits	(6,747,852)	(5,652,349)
Change in contractual liability	(483,027)	(753,963)
Net acquisition expenses	(941,563)	(815,996)
Operating and administrative expenses	(3,137,341)	(2,717,691)
Income tax expense	(202,313)	(336,465)
Surplus transfer to shareholders' fund	100,000	200,000

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. 07 of 2007 which came to effect from 3 May 2007. The address of its registered office is No.75, Kumaran Rathnam Road, Colombo 02, Sri Lanka under the Company registration number PQ 18.

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

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

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

Group consolidated financial statements for the year ending 31 December 2014 have been authorised for issue by the Board of Directors on 10 February 2015.

2. Basis of preparation

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

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

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

3. Summary of significant accounting policies

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

3.1 Changes in accounting policies and disclosures

a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the Group:

Amendment to LKAS 1, 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other Comprehensive Income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

SLFRS 12, 'Disclosures of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

SLFRS 13, 'Fair Value Measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across SLFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within SLFRSs.

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

SLFRS 9, 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of LKAS 39 that relate to the classification and measurement of financial instruments. SLFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the LKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in OCI rather than in

Income Statement, unless this creates an accounting mismatch. The Group is yet to assess SLFRS 9's full impact. The Group will also consider the impact of the remaining phases of SLFRS 9 when issued by the ICASL.

3.2 Consolidation

3.2.1 Subsidiaries

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. i.e. as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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

3.2.2 Associates

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

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

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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.

3.3 Foreign currency translation

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

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

3.4 Financial instruments

3.4.1 Financial assets

3.4.1.1 Initial recognition and measurement

The Group classifies its financial assets into the following categories;

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

b) Loans and receivables (LR),

c) Held to maturity (HTM) and

d) Available for sale (AFS).

The classification is determined by 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 the investments in equity securities and unit trusts in the general insurance fund, life shareholders fund and unit-linked funds as financial assets at fair value through profit or loss hence those financial assets are managed and performance is evaluated on the fair value basis.

Loans and receivables (LR)

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

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

Held to maturity investments (HTM)

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The losses arising from impairment are recognised in the Income Statement. The Group did not have any held to maturity investments during the years ended 31 December 2013 and 2014.

Available for sale financial assets (AFS)

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

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

3.4.1.3 Derecognition of financial assets

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

3.4.1.4 Impairment of financial assets

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

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

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

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original EIR. The carrying amount of the asset is reduced and the loss is recorded in the 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

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

Available for sale financial assets

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

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

3.4.2 Financial liabilities

3.4.2.1 Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, bank overdrafts.

3.4.2.2 Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

3.4.2.3 Derecognition of financial liabilities

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

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

3.4.3 Offsetting of financial assets

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

3.5 Property plant and equipment

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

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

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

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

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

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

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

3.6 Intangible assets

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

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

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

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

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

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

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 an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

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3.7 Cash and cash equivalents

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

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

3.8 Stated capital

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

3.9 Insurance contracts

3.9.1 Life insurance contract liabilities

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the Net Premium method. 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 adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A discounted cash flow valuation method is applied. The interest rate applied is based on current market interest rates. Any inadequacy is recorded in the Income Statement, initially by impairing PVIF, subsequently, by establishing a technical reserve for the remaining loss. The assumptions do not include a margin for adverse deviation. Impairment losses resulting from liability adequacy testing can be reversed in future years if the impairment no longer exists, as allowed under Gross Premium Valuation method.

3.9.2 General insurance contract liabilities

General insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the Unearned Premium Reserve (UPR), Unexpired Risk Reserve (URR) and outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the Balance Sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the Balance Sheet date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, discharged or cancelled. The provision for unearned premiums represents premiums received for risks that have not yet expired.

Generally the reserve is released over the term of the contract and recognised as premium income. At each reporting date the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and Deferred Acquisition Costs (DAC) over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking into account of the investment return expected to arise on assets relating to the relevant general insurance technical provisions. If the assessments show that the carrying amount of the unearned premiums (less related DAC) is inadequate, the deficiency is recognised in the Income Statement by setting up a provision for liability adequacy.

3.9.3 Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Group may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

3.9.4 Insurance receivables

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

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

3.9.5 Deferred acquisition costs

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

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

DAC are derecognised when the related contracts are derecognised.

3.10 Reinsurance contracts

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

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

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

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

Premiums and claims are presented in the financial statements on a 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

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an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

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

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

3.12 Employee benefits

The Group has both defined benefit and defined contribution plans.

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

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

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

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

Past service costs are recognised immediately in income, unless the changes to the defined benefit plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

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

3.13 Provisions

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

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 in finance costs in the Income Statement. As at the Balance Sheet date, the Group does not have any finance lease contracts.

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

3.15 Revenue recognition

3.15.1 Insurance-related revenue

The premium income is recognised on accrual basis and net of reinsurance premium.

General insurance gross written premiums comprise the total premiums received or receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognised on the date on which the policy is issued. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods.

Gross general reinsurance premiums written, comprise the total premiums payable for the whole period of cover provided by contracts entered into the period and are recognised on the policy inception date. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Life gross written insurance premiums are recognised either where the policy is issued or the instalment falls due.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the Balance Sheet date. Unearned premiums are calculated on a monthly pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

3.15.2 Fee income

Trust management fees and service charges 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 securities.

Unrealised gains

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

Unrealised gains on financial assets at FVTPL, are recognised in the Income Statement.

Realised gains

Realised gains and losses recorded in the Income Statement on investments include gains and losses on financial assets.

Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost 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 life 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.

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General insurance and health claims include all claims occurred during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

3.16.2 Reinsurance claims

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

3.17 Taxes

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

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

3.18 Share-based compensation plans

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

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

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

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

Valuation methodology

The Group utilises a Monte-Carlo simulation model and/or discounted cash flow technique to calculate the fair value of the RSU and ESPP awards, taking into account the terms and conditions upon which the awards were granted. The price volatility is estimated on the basis of implied volatility of the 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 insurance contracts using a Net Level Premium Valuation method, whereby the liability represents the present value of estimated future policy benefits to be paid, less the present value of estimated future net premiums to be collected from policyholders. This method uses conservative assumptions for mortality, morbidity and investment yields. Interest rate assumptions can vary by product and are prescribed by regulation. Mortality and morbidity assumptions are based on actual experience, modified to allow for variations in policy form and for mortality, are subject to a regulatory minimum level. Expenses are implicit with this implicit allowance being tested against the best-estimate expense assumptions for prudence. The Company exercises significant judgment in making appropriate assumptions.

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

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

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

4.1.3 General insurance liability

For general insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the Balance Sheet date and for the expected ultimate cost of claims Incurred But Not yet Reported (IBNR) at the Balance Sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years as well as by significant business lines. No explicit assumptions are made regarding future rates of claims inflation. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

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In addition to the allocated loss adjustment expenses which form a part of the claim provision, a provision is added to allow for the Company's overhead costs of the claim settlements to arrive at the central estimate of claims reserves. Then a provision of risk margin for adverse deviation is projected on top of the central estimate of claim reserves to secure an overall level of sufficiency of not less than 75% statistical confidence.

Central estimate of premium liability, which is equivalent to the URR on central estimate basis is calculated using a trended ultimate loss ratio for each significant business line and the UPR that the Company currently holds. A provision is added on top of the central estimate of URR to account for claim handling expenses and other management expenses. Then a provision of risk margin for adverse deviation is added to secure an overall level of sufficiency of not less than 75% statistical confidence as the final URR. Company reserves for the higher amount of UPR or the URR.

4.1.4 Acquisition expenses

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

4.1.5 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. The Group performs liability adequacy testing separately for each lines of business.

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

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

4.2 Fair value estimation

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

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

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

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

The information regarding fair value hierarchy is given in the note 11.5 to the financial statements.

a) Financial instruments in level I

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

b) Financial instruments in level II

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level II.

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

Specific valuation techniques used to value financial instruments include:

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

4.3 Valuation of retirement benefit obligations

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

5. Risk management

5.1 Financial risk management

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

Risk appetite statements communicate the parameters and boundaries within which the business unit has opted to operate in relation to the identified financial risks. In the Company, the risk appetite framework has expressed the business unit's appetite as regards capital risk, liquidity risk, credit risk and market risk. The exposures and management information pertaining to these four risk aspects are within 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 approves the risk appetites and monitors the overall exposure of the Company to financial risks.

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

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

As at 31 December 2014

	Life		General		Total	
Investment exposures	LKR'000	%	LKR'000	%	LKR'000	%
Government securities	15,588,303	41.86	572,218	17.61	16,160,521	39.91
Repurchase agreements	5,356,338	14.38	1,069,599	32.93	6,425,937	15.87
Corporate debt	9,653,563	25.92	320,029	9.85	9,973,592	24.63
Fixed deposits	3,459,078	9.29	1,286,983	39.61	4,746,061	11.72
Equity	3,185,132	8.55	-	-	3,185,132	7.87
Total	37,242,414	100.00	3,248,829	100.00	40,491,243	100.00

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

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

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

5.1.1 Liquidity risk

Liquidity risk is the uncertainty, emanating from business operations, investments or financing activities, whether a company will have the ability to meet payment obligations in a full and timely manner in current or stressed environments. Liquidity adequacy is a measure or assessment of the ability of a company to meet payment obligations in a full and timely manner within a defined time horizon. It is a function of its sources of liquidity relative to its liquidity needs. Liquidity sources can be internal and external, available immediately or within the defined time horizon, and includes all funds, assets and arrangements that allow an insurer to meet its liquidity needs. Liquidity needs include all current and expected payment obligations within the defined time horizon.

Although the liquidity risk over any time period is fundamentally the same, there are differences in how the risk is managed over short and long time horizons. In practice, liquidity risk is considered in two components: short-term or cash management liquidity and long-term liquidity.

Liquidity risk over the various time horizons can be defined as follows:

- Short-term liquidity risk

  The risk of an adverse financial outcome arising from having insufficient liquid resources to meet day-to-day cash requirements over the ensuing months. The adverse outcome may include financial losses caused by having to realise assets at sub-optimal prices, or the cost of drawing on emergency bank facilities. The adverse outcomes may also be reputational or business related, such as poor customer service from delayed payments and/or negative perceptions around drawing on emergency lines.

- Long-term liquidity risk

  The risk of unexpected and potentially adverse business conditions, which may affect the ability to meet future liabilities when they fall due. Typically, the longer term assessment should consider a period of up to three years. However, this will be dependent on the nature of the assets and liabilities within the business.

Controls in place to mitigate liquidity risk

- Management of liquidity risk is governed by the Liquidity Risk Management Policy which is a component of the Company's risk management framework and are incorporated in the Investment Mandates of the business. The Company defines liquidity risk appetite in terms of Liquidity Coverage Ratio which is defined for each core portfolio of the business. The actual exposure against appetite is reported to and monitored by the Financial Risk Committee.

- The Company maintains a cash flow maturity profile within the investment portfolios of the Company in tandem with risk appetite of each portfolio and cash flow needs.

- Minimum liquidity levels are defined for each investment portfolio based on past experience with stresses for scenarios and based on business plan projections. The management performs a bi-annual review of the minimum liquidity levels for each investment portfolio.

- The 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 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 2014

Life	< 1Yr LKR '000	1Yr - 5 Yrs LKR '000	5Yrs - 10 Yrs LKR '000	> 10Yrs LKR '000	No stated maturity LKR '000	Total LKR '000
Debt securities						
Available for sale						
Government securities	251,565	2,323,706	1,497,349	11,127,417	-	15,200,037
Loans and receivables						
Repurchase agreements	5,356,338	-	-	-	-	5,356,338
Corporate debt	-	3,800,094	3,766,621	1,200,000	-	8,766,715
Fixed deposits	3,348,478	-	-	-	-	3,348,478
Equity securities						
At fair value through profit or loss	-	-	-	-	3,185,132	3,185,132
Other loans and receivables						
Premium receivables	331,041	-	-	-	-	331,041
Reinsurance assets	-	-	-	-	107,727	107,727
Policy loans	-	-	-	-	1,310,302	1,310,302
Other receivables	109,372	79,871	13,844	-	-	203,087
Cash and cash equivalents	571,082	-	-	-	-	571,082
	9,967,876	6,203,671	5,277,814	12,327,417	4,603,161	38,379,939

As at 31 December 2013

Life	< 1Yr LKR '000	1Yr - 5 Yrs LKR '000	5Yrs - 10 Yrs LKR '000	> 10Yrs LKR '000	No stated maturity LKR '000	Total LKR '000
Debt securities						
Available for sale						
Government securities	201,285	3,263,852	2,279,779	7,794,130	-	13,539,046
Loans and receivables						
Repurchase agreements	4,825,615	-	-	-	-	4,825,615
Corporate debt	-	3,523,657	3,749,678	1,200,000	-	8,473,335
Fixed deposits	2,756,689	25,000	-	-	-	2,781,689
Equity securities						
At fair value through profit or loss	-	-	-	-	3,569,011	3,569,011
Other loans and receivables						
Premium receivables	324,998	-	-	-	-	324,998
Reinsurance assets	-	-	-	-	90,530	90,530
Policy loans	-	-	-	-	1,449,008	1,449,008
Other receivables	110,416	112,401	21,404	-	-	244,221
Cash and cash equivalents	497,806	-	-	-	-	497,806
	8,716,809	6,924,910	6,050,861	8,994,130	5,108,549	35,795,259

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General	< 1Yr LKR '000	1Yr - 5 Yrs LKR '000	5Yrs - 10 Yrs LKR '000	> 10Yrs LKR '000	No stated maturity LKR '000	Total LKR '000
Debt securities						
Available for sale						
Government securities	404,234	151,523	-	-	-	555,757
Loans and receivables						
Repurchase agreements	1,069,599	-	-	-	-	1,069,599
Corporate debt	-	294,591	-	-	-	294,591
Fixed deposits	1,256,487	-	-	-	-	1,256,487
Other loans and receivables						
Premium receivables	585,046	-	-	-	-	585,046
Reinsurance assets	401,313	-	-	-	727,658	1,128,971
Other receivables	8,131	11,096	2,928	-	-	22,155
Cash and cash equivalents	404,360	-	-	-	-	404,360
	4,129,170	457,210	2,928	-	727,658	5,316,966

As at 31 December 2013

General	< 1Yr LKR '000	1Yr - 5 Yrs LKR '000	5Yrs - 10 Yrs LKR '000	> 10Yrs LKR '000	No stated maturity LKR '000	Total LKR '000
Debt securities						
Available for sale						
Government securities	150,826	541,651	-	-	-	692,477
Loans and receivables						
Repurchase agreements	1,256,672	-	-	-	-	1,256,672
Corporate debt	-	-	-	-	-	-
Fixed deposits	1,288,301	-	-	-	-	1,288,301
Other loans and receivables						
Premium receivables	514,498	-	-	-	-	514,498
Reinsurance assets	311,162	-	-	-	728,932	1,040,094
Other receivables	8,186	13,710	3,250	-	-	25,146
Cash and cash equivalents	240,549	-	-	-	-	240,549
	3,770,194	555,361	3,250	-	728,932	5,057,737

5.1.2 Credit risk

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

- Spread risk

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

- Default risk

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

- Rating migration risk

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

Controls in place to mitigate credit risk

- The management of credit risk is governed by the Credit Risk Management Policy which is embedded within the Investment Policy and incorporated in the Investment Mandates of the business.
- Single counterparty exposures are monitored based on the counterparty exposure in comparison to the net assets of the counterparty.
- All investments are denominated in LKR and the Company does not maintain any investment exposures to assets held overseas.
- Minimum investment grade rating criteria been implemented for determining investment decisions.
- The Company maintains a predominant exposure to Government securities and high grade corporate debt thus prudently managing credit default risk from these investments.
- The following proportions were held by the respective portfolios in Government securities and corporate debt as at 31 December 2014:

	Government securities	Corporate debt and fixed deposits
Life conventional fund	62%	38%
Life, excluding conventional fund and linked funds	61%	39%
General insurance fund	51%	49%

- The exposure to asset classes with high risk such as equity is maintained at a minimum level in portfolios with management discretion. There were no exposures to equity in life conventional fund and general insurance fund as at the Balance Sheet date.
- 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 Investments Operations 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% on investments in reverse repurchase agreements. (Refer the table; collateral adequacy on page 115 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 2014

Life	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	15,200,037	-	-	-	-	-	-	15,200,037
Loans and receivables								
Repurchase agreements	5,356,338	-	-	-	-	-	-	5,356,338
Corporate debt	-	-	2,061,777	6,704,938	-	-	-	8,766,715
Fixed deposits	-	-	2,988,478	360,000	-	-	-	3,348,478
Premium receivables	-	-	-	-	-	-	331,041	331,041
Reinsurance assets	-	-	-	-	-	-	107,727	107,727
Policy loans	-	-	-	-	-	-	1,310,302	1,310,302
Other receivables	-	-	-	-	-	-	203,087	203,087
Cash and cash equivalents	-	65,028	456,109	39,031	4,389	2,180	4,345	571,082
	20,556,375	65,028	5,506,364	7,103,969	4,389	2,180	1,956,502	35,194,807

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Life	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	13,539,046	-	-	-	-	-	-	13,539,046
Loans and receivables								
Repurchase agreements	4,825,615	-	-	-	-	-	-	4,825,615
Corporate debt	-	-	5,075,320	3,398,015	-	-	-	8,473,335
Fixed deposits	-	554,038	2,227,651	-	-	-	-	2,781,689
Premium receivables	-	-	-	-	-	-	324,998	324,998
Reinsurance assets	-	-	-	-	-	-	90,530	90,530
Policy loans	-	-	-	-	-	-	1,449,008	1,449,008
Other receivables	-	-	-	-	-	-	244,221	244,221
Cash and cash equivalents	-	5,580	425,204	63,358	-	211	3,453	497,806
	18,364,661	559,618	7,728,175	3,461,373	-	211	2,112,210	32,226,248

As at 31 December 2014

General	Risk-free LKR '000	AAA LKR '000	AA LKR '000	A LKR '000	Non rated LKR '000	Total LKR '000
Available for sale						
Government securities	555,757	-	-	-	-	555,757
Loans and receivables						
Repurchase agreements	1,069,599	-	-	-	-	1,069,599
Corporate debt	-	-	197,318	97,273	-	294,591
Fixed deposits	-	-	1,156,487	100,000	-	1,256,487
Premium receivables	-	-	-	-	585,046	585,046
Reinsurance assets	-	-	-	-	1,128,971	1,128,971
Other receivables	-	-	-	-	22,155	22,155
Cash and cash equivalents	-	4,429	381,117	18,005	809	404,360
	1,625,356	4,429	1,734,922	215,278	1,736,981	5,316,966

As at 31 December 2013

General	Risk-free LKR '000	AAA LKR '000	AA LKR '000	A LKR '000	Non rated LKR '000	Total LKR '000
Available for sale						
Government securities	692,477	-	-	-	-	692,477
Loans and receivables						
Repurchase agreements	1,256,672	-	-	-	-	1,256,672
Corporate debt	-	-	-	-	-	-
Fixed deposits	-	404,428	883,873	-	-	1,288,301
Premium receivables	-	-	-	-	514,498	514,498
Reinsurance assets	-	-	-	-	1,040,094	1,040,094
Other receivables	-	-	-	-	25,146	25,146
Cash and cash equivalents	-	3,729	208,000	28,010	810	240,549
	1,949,149	408,157	1,091,873	28,010	1,580,548	5,057,737

Collateral adequacy	Life		General	
	2014	2013	2014	2013
	LKR '000	LKR '000	LKR '000	LKR '000
Carrying value of investments in repurchase agreements	5,356,338	4,825,615	1,069,599	1,256,672
Fair value of collaterals *	6,085,803	5,741,030	1,205,419	1,591,534
Excess value of collaterals	729,465	915,415	135,820	334,862
Margin	14%	19%	13%	27%

* 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 sources 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, credit and liquidity risks (for example, market losses caused by illiquidity issues, sovereign default or a default of a systemically important counterparty) and also the capital risk arising from market risk.

5.1.3.1 Interest rate risk

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

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

As at 31 December 2014

Life	Fixed interest	Variable interest	Non interest bearing	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and deposits	1,380,849	-	132,539	1,513,388
Debt securities	32,591,568	80,000	-	32,671,568
Trade receivable	-	-	331,041	331,041
Reinsurance assets	-	-	107,727	107,727
Cash and cash equivalents	-	413,078	158,004	571,082
	33,972,417	493,078	729,311	35,194,806

As at 31 December 2014

General	Fixed interest	Variable interest	Non interest bearing	Total
	LKR '000	LKR '000	LKR '000	LKR '000
Loans and deposits	13,280	-	8,875	22,155
Debt securities	3,176,434	-	-	3,176,434
Trade receivable	-	-	585,046	585,046
Reinsurance assets	-	-	1,128,971	1,128,971
Cash and cash equivalents	-	178,919	225,441	404,360
	3,189,714	178,919	1,948,333	5,316,966

5.1.3.2 Equity risk

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

5.1.3.3 Foreign exchange risk

The risk of adverse financial impact due to changes in the spot/forward price levels, volatility and correlations of currency exchange rates.

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

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

5.1.3.4 Risk oversight

Evaluating the impact of market risk, credit risk and liquidity risk are inbuilt into the investment decision making process. The market risk, credit risk and liquidity risk of the investment portfolios

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

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

5.1.3.5 Sensitivity analysis on market, equity and interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument at the reporting date will fluctuate in response to assumed movements in market interest rates. 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 for equity risk illustrates how changes in the fair value of equity securities at the reporting date will fluctuate in response to assumed changes in equity market prices. The management monitors movements in the fair value of equity securities on a regular basis by assessing the projected changes in the fair value of equity securities held by the portfolios in response to assumed equity price movements of +/- 10%.

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.

Life	2014		2013	
	Net asset value	Profit before tax	Net asset value	Profit before tax
Impact to;	LKR '000	LKR '000	LKR '000	LKR '000
Interest rate risk				
+ 100 basis points - Government securities	(2,518)	-	(5,326)	-
- 100 basis points - Government securities	2,558	-	5,445	-

General	2014		2013	
	Net asset value	Profit before tax	Net asset value	Profit before tax
Impact to;	LKR '000	LKR '000	LKR '000	LKR '000
Interest rate risk				
+ 100 basis points - Government securities	(3,775)	-	(8,690)	-
- 100 basis points - Government securities	3,825	-	8,873	-

For life business only life shareholders fund assets are considered in line with the accounting treatment as movement in asset values of life policyholders fund and unit-linked funds are charged to their respective policy liability and does not impact the profit before tax and net asset value of the Company.

Controls in place to mitigate market risk

- The management of market risk is governed by the Market Risk Management Policy which is embedded within the Investment Policy and incorporated in the Investment Mandates of the business.
- The Company has defined the appetite for interest rate risk in terms of its impact on the Risk Based Capital solvency which is reviewed on a monthly basis and is rebased and approved at Financial Risk Committee every quarter.
- Also the Company sets itself a target asset duration based on the liability profile of the Company, in order to minimise the adverse impact from varying interest rates.
- Monitoring of the equity exposures against the risk limits and benchmarks that are defined and refreshed on a periodic basis, depending on the risk appetite and the market conditions. Review of interest rate risk exposure against the risk appetites is included in the investment approval process of the Company.

- All investments are denominated in LKR and the Company does not maintain any investment exposure to assets held overseas.

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

The proportion of investments in Government securities, corporate debt and fixed deposits by the respective portfolios are given in the table on page 113.

The exposure to asset classes with high levels of volatility such as equity is maintained at minimum levels in portfolios except in the case of unit-linked portfolios of growth fund and balanced fund where equity investments are maintained in line with policyholder expectations and risk appetite.

Life conventional fund, life shareholders' fund, general insurance fund and non-unit fund all held zero exposure as at 31 December 2014 to dealing equity investments in line with investment strategy and risk appetite.

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

5.2 Insurance risk

5.2.1 Life insurance

Frequency and severity of claims

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

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

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

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

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

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

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

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Process used to decide on assumptions

a) Mortality / Morbidity

Internal investigations covering five year periods are conducted by claim type, subdivided by age. From these investigations crude incidence rates are derived. Next, Actual over Expected (A/E) 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 claims and expense levels. A sensitivity analysis was conducted in 2014 with 2 stresses, 110% claims experience and 110% expense levels. In both cases the impact to the policyholder liabilities of assuming such a change was reflective of future conditions was considered.

Increasing claim rates by 10% would lead to an increase in policy liabilities of LKR 168,913,245, 0.672% of the policy liability. Increasing expense rates by 10% would lead to an increase in policy liabilities of LKR 867,012, 0.003% of the policy liability. The increase due to expenses is lower because the net premium policyholder liability already allows for very prudent expense levels.

5.2.2 General insurance

Claim liability

In estimating the Central Estimate of Claim Liabilities (CE-CL), the Chain Ladder and Bornheutter-Ferguson on paid and reported methods is applied for each class of business. This involves taking a view and making assumptions on the future development of settlement and reporting trends for each policy year. Hence, the major assumption to be tested is an increase or decrease of future development trends.

The central estimate of the claim reserves are then projected to secure an overall level of sufficiency of not less than 75% confidence. In assessing the claim liability at the 75% confidence level, we have derived a new set of Provision of Risk margin for Adverse Deviation (PRAD), which was based on a Stochastic Chain Ladder approach.

The variables tested were Claims Handling Expenses (CHE), PRAD loadings and Loss Development Factors (LDF) and the impact of those on the 75% IBNR is given below.

It was found that a +10% change in the LDF has a +6.8% impact on the 75% IBNR while a -10% change in the LDF has a -10.1% impact on the 75% IBNR.

And it was found that a 200% increase in the PRAD loading increases the 75% IBNR by 36.1% and a 50% decrease in the PRAD loading reduces the 75% IBNR by 18%.

A 5% provision has been added to allow for the claims handling expenses such as annual salary and related overhead costs of the claims department. Sensitivity of this assumption is given below.

A +/-10% change in the claims handling expenses has a +/-1.5% impact on the 75% IBNR.

Premium liability

Trended Ultimate Loss Ratio (ULR) for each class has been applied to the UPR to determine the central estimate of the URR. A 5% provision for claims handling expenses and a 15% provision of UPR for management expenses have been added on top of the central estimate of the URR.

Hence, claim handling expenses, the management expenses and PRAD loadings are important assumptions for the calculation of the provision for unexpired risks and premium liability.

There is no impact to the premium liability in stressing the expense variables since the UPR is higher than the stressed URR and Company holds the UPR. However, we observe that the premium liability is affected by a two-fold increase in the PRAD loadings and it is a 1.7% increase.

5.3 Capital management

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

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

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

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

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

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

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

The primary source of capital used by the Company is equity shareholders' funds. The capital requirements are routinely forecasted on a periodic basis by the management and the Board. The solvency margins are calculated on a monthly basis and shared with the Board on a quarterly basis. The Company maintains its capital base well above the minimum regulatory requirements of IBSL (Company has a stated capital of LKR 300,000,000 where as the current minimum capital requirement is only LKR 200,000,000. i.e. LKR 100,000,000 per class of business, life and general insurance).

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

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6 Segment information

Operating segments are reported in a manner consistent with the internal reports provided to the chief operating decision maker. The chief operating decision maker who is responsible for the allocation of resources and assessing performance of the operating segments, has been identified as the Executive Committee that makes strategic decisions.

The Executive Committee considers the business from products and services perspective. Accordingly the Group is organised into three operating segments as follows :

a) The life insurance segment offers a range of protection, Unit-linked and Universal Life products.
b) The general insurance segment comprises both general insurance and healthcare. General insurance products offered include motor, household, commercial and business interruption insurance. General insurance healthcare contracts provide medical cover to policyholders
c) The trust management services are provided by a fully owned subsidiary, Rainbow Trust Management Limited

The Executive Committee assesses the performance of the operating segments based on the measure of profit or loss.

6.1 Segmental Income Statement

For the financial year ending 31 December 2014

	Long term* insurance LKR'000	General insurance LKR'000	Trust management services LKR'000	Consolidation adjustments LKR'000	Group LKR'000
Gross written premium	7,266,573	2,946,284	-	-	10,212,857
Premium ceded to reinsurers	(204,627)	(426,564)	-	-	(631,191)
Compulsory cession to NITF	-	(331,677)	-	-	(331,677)
Gross reinsurance premium	(204,627)	(758,241)	-	-	(962,868)
Net change in reserves on unearned premium	(287,113)	(156,640)	-	-	(443,753)
Net earned premium	6,774,833	2,031,403	-	-	8,806,236
Other revenue					
Investment income	3,701,102	325,252	-	(1,817)	4,024,537
Fees and commission income	279,131	-	1,279	-	280,410
Realised gains	205,365	1,080	9	-	206,454
Fair value gains and losses	477,909	-	-	-	477,909
Other operating revenue	363,387	27,514	247	-	391,148
	5,026,894	353,846	1,535	(1,817)	5,380,458
Total revenue	11,801,727	2,385,249	1,535	(1,817)	14,186,694
Gross claims and benefits paid	(6,775,563)	(1,437,860)	-	-	(8,213,423)
Claims ceded to reinsurers	88,463	171,853	-	-	260,316
Gross change in contract liabilities	(79,241)	17,456	-	-	(61,785)
Change in contract liabilities ceded to reinsurers	18,489	(1,281)	-	-	17,208
Change in contractual liability	(483,027)	-	-	-	(483,027)
Net claims and benefits	(7,230,879)	(1,249,832)	-	-	(8,480,711)
Net acquisition expenses	(941,563)	(54,890)	-	-	(996,453)
Operating and administrative expenses	(3,157,095)	(968,762)	(641)	-	(4,126,498)
Share of profit of an associate	-	-	-	3,010	3,010
Profit before tax	472,190	111,765	894	1,193	586,042
Income tax expense	(210,057)	(22,880)	(162)	(504)	(233,603)
Profit for the period	262,133	88,885	732	689	352,439

* Including life shareholders' fund.

6.1 Segmental Income Statement (contd.)

For the financial year ending 31 December 2013

	Long term* insurance LKR'000	General insurance LKR'000	Trust management services LKR'000	Consolidation adjustments LKR'000	Group LKR'000
Gross written premium	6,863,047	2,673,009	-	-	9,536,056
Premium ceded to reinsurers	(253,493)	(390,139)	-	-	(643,632)
Compulsory cession to NITF	-	(304,325)	-	-	(304,325)
Gross reinsurance premium	(253,493)	(694,464)	-	-	(947,957)
Net change in reserves for unearned premium	(296,445)	(97,894)	-	-	(394,339)
Net earned premium	6,313,109	1,880,651	-	-	8,193,760
Other revenue					
Investment income	3,869,745	400,944	-	(1,817)	4,268,872
Fees and commission income	19,359	-	370	-	19,729
Realised gains	113,187	106	-	-	113,293
Fair value gains and losses	25,067	-	-	-	25,067
Other operating revenue	354,359	18,176	332	-	372,867
	4,381,717	419,226	702	(1,817)	4,799,828
Total revenue	10,694,826	2,299,877	702	(1,817)	12,993,588
Gross claims and benefits paid	(5,781,886)	(1,163,725)	-	-	(6,945,611)
Claims ceded to reinsurers	110,755	101,915	-	-	212,670
Gross change in contract liabilities	27,921	(312,761)	-	-	(284,840)
Change in contract liabilities ceded to reinsurers	(9,139)	276,741	-	-	267,602
Change in contractual liability	(753,963)	-	-	-	(753,963)
Net claims and benefits	(6,406,312)	(1,097,830)	-	-	(7,504,142)
Net acquisition expenses	(815,996)	(16,131)	-	-	(832,127)
Operating and administrative expenses	(2,996,602)	(839,337)	(394)	-	(3,836,333)
Share of profit of an associate	-	-	-	2,395	2,395
Profit before tax	475,916	346,579	308	578	823,381
Income tax expense	(293,015)	(30,979)	(52)	(42)	(324,088)
Profit for the period	182,901	315,600	256	536	499,293

* Including life shareholders' fund.

Management considers its external customers to be the individual policyholders, as such the Group is not reliant on any individual customer.

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6.2 Segmental Statement of Financial Position

As at 31 December 2014

	Long term* insurance LKR'000	General insurance LKR'000	Trust management services LKR'000	Consolidation adjustments LKR'000	Group LKR'000
Assets					
Intangible assets	568,769	7,671	-	-	576,440
Property, plant & equipment	335,480	23,154	-	-	358,634
Investments in subsidiaries	101,000	-	-	(101,000)	-
Investment in associate	6,171	13,213	-	45,119	64,503
Financial assets	35,856,701	3,276,790	-	-	39,133,491
Policyholder and other loans	1,513,388	22,156	-	-	1,535,544
Reinsurance receivables	107,727	1,128,971	-	-	1,236,698
Trade receivables	331,041	585,046	327	-	916,414
Other assets	2,285,786	213,154	24	(9,185)	2,489,779
Other fund assets	146,974	42,226	-	-	189,200
Deferred expenses	79,633	122,393	-	-	202,026
Deferred income tax assets	8,527	9,440	-	(8,527)	9,440
Cash and cash equivalents	572,832	411,437	4,282	-	988,551
Total assets	41,914,029	5,855,651	4,633	(73,593)	47,700,720
Liabilities					
Insurance liabilities	36,237,959	2,956,174	-	-	39,194,133
Retirement benefit obligations	191,847	57,139	-	-	248,986
Deferred income tax liabilities	840,192	-	-	(8,527)	831,665
Other fund liabilities	146,974	42,226	-	-	189,200
Reinsurance payables	155,832	202,184	-	-	358,016
Accruals and other payables	1,309,169	562,952	383	(9,185)	1,863,319
Current income tax liabilities	3,468	33,766	66	-	37,300
Deferred revenue	10,108	75,426	-	-	85,534
Bank overdraft	1,750	4,147	-	-	5,897
Total liabilities	38,897,299	3,934,014	449	(17,712)	42,814,050
Equity					
Stated capital	200,000	200,000	1,000	(101,000)	300,000
Capital reserves	72,096	-	-	-	72,096
Revenue reserves	2,744,634	1,721,637	3,184	45,119	4,514,574
Total equity	3,016,730	1,921,637	4,184	(55,881)	4,886,670
Total equity and liabilities	41,914,029	5,855,651	4,633	(73,593)	47,700,720

* Including life shareholders' fund.

6.2 Segmental Statement of Financial Position (contd.)

As at 31 December 2013

	Long term* insurance LKR'000	General insurance LKR'000	Trust management services LKR'000	Consolidation adjustments LKR'000	Group LKR'000
Assets					
Intangible assets	590,419	12,297	-	-	602,716
Property, plant & equipment	244,343	59,130	-	-	303,473
Investment in subsidiary	-	1,000	-	(1,000)	-
Investment in associate	6,171	13,213	-	44,430	63,814
Financial assets	33,188,695	3,237,451	-	-	36,426,146
Policyholder and other loans	1,693,228	25,146	-	-	1,718,374
Reinsurance receivables	90,530	1,040,094	-	-	1,130,624
Trade receivables	324,998	514,498	85	-	839,581
Other assets	1,719,684	299,078	250	(29,072)	1,989,940
Other fund assets	145,130	36,676	-	-	181,806
Deferred expenses	39,223	112,389	-	-	151,612
Deferred income tax assets	26,385	-	-	(26,385)	-
Cash and cash equivalents	549,294	244,515	3,497	-	797,306
Total assets	38,618,100	5,595,487	3,832	(12,027)	44,205,392
Liabilities					
Insurance liabilities	33,812,294	2,755,899	-	-	36,568,193
Retirement benefit obligations	214,627	-	-	-	214,627
Deferred income tax liabilities	124,756	5,697	-	(26,385)	104,068
Other fund liabilities	145,130	36,676	-	-	181,806
Reinsurance payables	114,909	95,350	-	-	210,259
Accruals and other payables	1,427,664	620,617	438	(29,072)	2,019,647
Current income tax liabilities	76,320	109,254	(62)	-	185,512
Deferred revenue	6,298	74,195	-	-	80,493
Bank overdraft	51,488	3,966	-	-	55,454
Total liabilities	35,973,486	3,701,654	376	(55,457)	39,620,059
Equity					
Stated capital	200,000	100,000	1,000	(1,000)	300,000
Capital reserves	31,061	41,035	-	-	72,096
Revenue reserves	2,413,553	1,752,798	2,456	44,430	4,213,237
Total equity	2,644,614	1,893,833	3,456	43,430	4,585,333
Total equity and liabilities	38,618,100	5,595,487	3,832	(12,027)	44,205,392

* Including life shareholders' fund.

All the Group's business segments operate in one main geographical area, hence they do not qualify for secondary reporting.

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7 Intangible assets

	Group / Company		
	Contractual relationships LKR'000	Computer software LKR'000	Total LKR'000
Cost	307,866	696,840	1,004,706
(Less) Accumulated amortisation	(13,124)	(388,866)	(401,990)
Net book value as at 1 January 2014	294,742	307,974	602,716
Additions	-	81,669	81,669
(Less) Amortisation charge	(22,201)	(85,744)	(107,945)
Net book value as at 31 December 2014	272,541	303,899	576,440
Cost	307,866	778,509	1,086,375
(Less) Accumulated amortisation	(35,325)	(474,610)	(509,935)
Net book value as at 31 December 2014	272,541	303,899	576,440

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

Intangible assets includes fully amortised assets still in use, the gross carrying value of which amounted to LKR 350,952,536 (2013 LKR 323,218,269) as at the date of Statement of Financial Position.

7.1 Disclosure on reporting of amortisation of intangible assets

The amortisation charge of the intangible items is shown under operating and administrative expenses in the Income Statement.

7.2 Capital commitments - intangible assets

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

	Group/Company	
As at 31 December	**2014 LKR'000**	**2013 LKR'000**
Approved and contracted for intangible assets	19,186	46,642

8 Property, plant and equipment

Group

	Freehold land LKR'000	Plant and machinery LKR'000	Computer equipment LKR'000	Furniture and fittings LKR'000	Motor vehicles LKR'000	Total LKR'000
Cost/revaluation	89,180	29,082	477,154	272,699	129,219	997,334
(Less) Accumulated depreciation	-	(28,243)	(334,567)	(206,850)	(124,201)	(693,861)
Net book value as at 1 January 2014	89,180	839	142,587	65,849	5,018	303,473
Additions	-	-	100,844	76,328	-	177,172
Depreciation charge	-	(123)	(84,715)	(32,540)	(4,246)	(121,624)
Disposals	-	(397)	(29,926)	(20,093)	(119)	(50,535)
Accumulated depreciation in disposals	-	20	29,925	20,084	119	50,148
Net book value as at 31 December 2014	89,180	339	158,715	109,628	772	358,634
Cost/revaluation	89,180	28,685	548,072	328,934	129,100	1,123,971
(Less) Accumulated depreciation	-	(28,346)	(389,357)	(219,306)	(128,328)	(765,337)
Net book value as at 31 December 2014	89,180	339	158,715	109,628	772	358,634

Company

	Freehold land LKR'000	Plant and machinery LKR'000	Computer equipment LKR'000	Furniture and fittings LKR'000	Motor vehicles LKR'000	Total LKR'000
Cost/revaluation	89,180	29,082	476,894	272,478	129,219	996,853
(Less) Accumulated depreciation	-	(28,243)	(334,307)	(206,629)	(124,201)	(693,380)
Net book value as at 1 January 2014	89,180	839	142,587	65,849	5,018	303,473
Additions	-	-	100,844	76,328	-	177,172
Depreciation charge	-	(123)	(84,715)	(32,540)	(4,246)	(121,624)
Disposals	-	(397)	(29,849)	(19,944)	(119)	(50,309)
Accumulated depreciation in disposals	-	20	29,848	19,935	119	49,922
Net book value as at 31 December 2014	89,180	339	158,715	109,628	772	358,634
Cost/revaluation	89,180	28,685	547,889	328,862	129,100	1,123,716
(Less) Accumulated depreciation	-	(28,346)	(389,174)	(219,234)	(128,328)	(765,082)
Net book value as at 31 December 2014	89,180	339	158,715	109,628	772	358,634

Property, plant and equipment includes fully depreciated assets still in use, the gross carrying value of which amounted to LKR 566,029,374 (2013- LKR 547,795,346) as at the date of Statement of Financial Position.

Notes to the Financial Statements

8.1 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 at 30 November 2014 and 2013. The revaluation surplus net of applicable deferred income taxes was not credited to other comprehensive income as the Group policy is to recognise revaluation gain in every 5 years (note 3.5). The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

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

	Significant other observable inputs (Level II) LKR'000	Significant unobservable inputs (Level III) LKR'000	Total LKR'000
Fair value measurements at 31 December 2014	102,000	-	102,000
Fair value measurements at 31 December 2013	95,550	-	95,550

Valuation techniques used to derive level II fair values

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

Valuation processes of the Group

On an annual basis, the Group engages external, independent and qualified valuers to determine the fair value of the Group's land. As at 31 December 2014, the fair values of the land and buildings have been determined by independent valuer, Mr. B. L. Ariyatillake - Chartered Valuer approved by IBSL. Valuation was made on the basis of open market value.

If stated on historical cost basis, the value of the land would be LKR 17,084,105 (2013 - LKR 17,084,105)

8.2 Capital commitments - Property, plant and equipment

Capital expenditure on property , plant and equipment approved by the Board of Directors is as follows.

	Group/Company	
As at 31 December	2014 LKR'000	2013 LKR'000
Approved and contracted for property, plant and equipment	25,756	78,234

9 Investments in subsidiaries

					Company	
As at 31 December	Country of incorporation and place of business	Nature of business	Number of Shares	% holding	2014 LKR'000	2013 LKR'000
Rainbow Trust Management Limited	Sri Lanka	Provision of trust & ancillary services	100,000	100	1,000	1,000
AIA General Insurance Lanka Limited	Sri Lanka	General insurance	1,000,000	100	100,000	-
			1,100,000		101,000	1,000

10 Investment in associate

The Group has a 22.43% interest in Serendib Land PLC, a company incorporated in Sri Lanka, which is involved in renting of office premises for commercial purposes. Serendib Land PLC is a public quoted company whose shares are traded on the Main Board of the Colombo Stock Exchange. It provides office premises to the Group on operating leasing arrangements on an arms length basis.

Summarised financial information for associate

Set out below are the summarised financial information for Serendib Land PLC which is accounted for using the Equity method.

As at 31 December	**Group 2014 LKR'000**	**Group 2013 LKR'000**
Summarised Statement of Financial Position		
Current assets	10,640	7,716
Non-current assets	251,160	251,160
Current liabilities	(1,551)	(1,432)
Non-current liabilities	(23,184)	(23,184)
Net assets	237,065	234,260
Group's share of net assets	53,226	52,537
Goodwill on acquisition	11,277	11,277
Carrying amount of investment in associate	64,503	63,814
Associate's revenue and profit		
Revenue	15,240	13,140
Profit	12,070	9,766

10.1 Reconciliation of carrying value of the investment in associate is as follows,

	Group LKR'000	**Company LKR'000**
Opening carrying value as at 1 January 2014	63,814	19,384
Share of profit for the year	3,010	-
Share of income taxes	(302)	-
Dividends received during the year (gross of withholding taxes)	(2,019)	-
Carrying value as at 31 December 2014	64,503	19,384

The fair value of the investment in associate is LKR 81,575,680 (2013: LKR 88,844,800) which is based on the quoted market price prevailed at the date of the Statement of Financial Position.

There are no contingent liabilities relating to the Group's interest in the associate.

Notes to the Financial Statements

11 Financial assets

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

As at 31 December	Note	Group 2014 Carrying value LKR'000	Group 2014 Fair value LKR'000	Group 2013 Carrying value LKR'000	Group 2013 Fair value LKR'000	Company 2014 Carrying value LKR'000	Company 2014 Fair value LKR'000	Company 2013 Carrying value LKR'000	Company 2013 Fair value LKR'000
Loans and receivables	11.1	20,192,565	21,765,115	18,625,612	19,210,135	20,092,208	21,664,559	18,625,612	19,210,135
Available for sale financial assets	11.2	15,755,794	15,755,794	14,231,523	14,231,523	15,755,794	15,755,794	14,231,523	14,231,523
Financial assets at fair value through profit or loss	11.3	3,185,132	3,185,132	3,569,011	3,569,011	3,185,132	3,185,132	3,569,011	3,569,011
Total Financial assets		39,133,491	40,706,041	36,426,146	37,010,669	39,033,134	40,605,485	36,426,146	37,010,669

11.1 Loans and receivables

As at 31 December	Group 2014 Amortised cost LKR'000	Group 2014 Fair value LKR'000	Group 2013 Amortised cost LKR'000	Group 2013 Fair value LKR'000	Company 2014 Amortised cost LKR'000	Company 2014 Fair value LKR'000	Company 2013 Amortised cost LKR'000	Company 2013 Fair value LKR'000
Amortised cost								
Corporate debt - listed	8,981,306	10,547,605	8,393,335	8,976,597	8,981,306	10,547,605	8,393,335	8,976,597
Corporate debt - unlisted	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Reverse repurchase agreements	6,526,294	6,528,960	6,082,287	6,109,545	6,425,937	6,428,404	6,082,287	6,109,545
Bank deposits	4,604,965	4,608,550	4,069,990	4,043,993	4,604,965	4,608,550	4,069,990	4,043,993
	20,192,565	21,765,115	18,625,612	19,210,135	20,092,208	21,664,559	18,625,612	19,210,135

As at 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Loans and receivables at amortised cost				
Current	11,131,259	10,127,277	11,030,902	10,127,277
Non-current	9,061,306	8,498,335	9,061,306	8,498,335
	20,192,565	18,625,612	20,092,208	18,625,612

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

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

11 Financial assets (contd.)
11.1 Loans and receivables

The fair value of those collaterals held are as follows;

As at 31 December		Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Financial asset	**Nature of the collateral**				
Repurchase agreements	- Government treasury bills	5,100,288	1,040,378	4,982,023	1,040,378
	- Government treasury bonds	2,309,199	6,292,185	2,309,199	6,292,185
		7,409,487	7,332,563	7,291,222	7,332,563

11.2 Available for sale financial assets

As at 31 December	Group/Company 2014 LKR'000	Group/Company 2013 LKR'000
Government securities	15,755,794	14,231,523
	15,755,794	14,231,523
Available for sale financial assets		
Current	655,799	352,111
Non-current	15,099,995	13,879,412
	15,755,794	14,231,523

The Group transferred net profits of LKR 93,307,185 (2013- LKR 13,313,333) from Statement of Other Comprehensive Income to the Income Statement.

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

11.3 Financial assets at fair value through profit or loss

As at 31 December	Group/Company 2014 LKR'000	Group/Company 2013 LKR'000
Equity securities - listed	3,185,132	3,569,011
	3,185,132	3,569,011
Financial assets at fair value through profit or loss		
Current	3,185,132	3,569,011
Non-current	-	-
	3,185,132	3,569,011

Equity securities 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 securities is based on their last traded prices at the Colombo Stock Exchange as at the date of Financial Position. Changes in fair values of financial assets at fair value through profit or loss are recorded in "fair value gains and losses" in the Income Statement.

Notes to the Financial Statements

11.4 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	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 2014	18,625,612	14,231,523	3,569,011	36,426,146	18,625,612	14,231,523	3,569,011	36,426,146
Purchases	11,892,917	1,785,471	1,529,866	15,208,254	11,713,817	1,785,471	1,529,866	15,029,154
(Sales)/ (maturities)	(10,853,416)	(3,093,499)	(2,485,909)	(16,432,824)	(10,769,816)	(3,093,499)	(2,485,909)	(16,349,224)
Realised gains/(losses)	474	93,439	107,910	201,823	474	93,439	107,910	201,823
Amortisation of discount /(premiums)	526,978	179,477	-	706,455	522,121	179,477	-	701,598
Fair value gains/ (losses) recorded in the Income Statement	-	4,255	464,254	468,509	-	4,255	464,254	468,509
Fair value gains/ (losses) recorded in the Statement of Other Comprehensive Income	-	2,555,128	-	2,555,128	-	2,555,128	-	2,555,128
Balance as at 31 December 2014	20,192,565	15,755,794	3,185,132	39,133,491	20,092,208	15,755,794	3,185,132	39,033,134

11.5 Determination of fair value and fair values hierarchy

	Group/Company	
As at 31 December	**2014 LKR'000**	**2013 LKR'000**
Level I		
Financial assets at fair value through profit or loss		
Equity instruments - quoted	3,185,132	3,569,011
Level II		
Available for sale financial assets		
Government securities	15,755,794	14,231,523
	18,940,926	17,800,534

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

12 Policyholder and other loans

As at 31 December	Group/Company 2014 LKR'000	Group/Company 2013 LKR'000
Policy loans	1,310,302	1,449,008
Agent loans	167,041	189,315
Staff loans	68,873	84,981
	1,546,216	1,723,304
(Less) Provision for impairment		
- Agent loans	(10,672)	(4,930)
	1,535,544	1,718,374
Policyholder and other loans		
Current	117,502	118,601
Non-current	1,418,042	1,599,773
	1,535,544	1,718,374

The Group holds the collaterals against the agent loans and staff loans amounting LKR 130,025,000 and 49,800,000 respectively as at 31 December 2014 (2013 - LKR 109,600,000 and LKR 52,950,000).

12.1 Movement in policyholder and other loans:

	Group/Company LKR'000
Balance as at 1 January 2014	1,723,304
Loans granted during the period	782,888
Loan repayments during the period	(967,496)
Amortisation of discount	7,520
Balance as at 31 December 2014	1,546,216

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

	Group/Company LKR'000
Balance as at 1 January 2014	4,930
Additional provision for impairment during the period	5,742
Balance as at 31 December 2014	10,672

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

Notes to the Financial Statements

13 Reinsurance receivables

As at 31 December	Group/Company 2014 LKR'000	Group/Company 2013 LKR'000
Reinsurers' share of outstanding claims and expenses	835,386	818,171
Reinsurers' share of policy liabilities	347,570	286,479
Amounts due from reinsurers in respect of claims already paid	53,742	25,974
Total assets arising from reinsurance contracts	1,236,698	1,130,624
Reinsurance assets		
Current	1,236,698	1,130,624
Non-current	-	-
	1,236,698	1,130,624

As per the contractual arrangements, the reinsurer is committed to reimburse the losses only upon payment of the claims to the clients and hence no reinsurance asset is past due which may lead to a provision for impairment.

The Group does not hold any collateral as security against potential default by reinsurance counterparties.

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

14 Trade receivable

As at 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Trade receivable	920,431	853,177	920,104	853,092
(Less) Provision for impairment	(4,017)	(13,596)	(4,017)	(13,596)
	916,414	839,581	916,087	839,496
Trade receivable				
Current	916,414	839,581	916,087	839,496
Non-current	-	-	-	-
	916,414	839,581	916,087	839,496

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

14.1 Movement in trade receivable:

	Group LKR'000	Company LKR'000
Balance as at 1 January 2014	853,177	853,092
Revenue receivable from customers	3,712,373	3,711,095
Collection of cash from customers	(3,636,932)	(3,635,896)
Foreign exchange revaluation difference	(1,132)	(1,132)
Write off of receivables	(7,055)	(7,055)
Balance as at 31 December 2014	920,431	920,104

14 Trade receivable (contd.)

14.2 The reconciliation of the provision for impairment losses on assets classified as trade receivable is as follows:

	Group/Company LKR'000
Balance as at 1 January 2014	13,596
Reversal of provision for impairment	(2,606)
Foreign exchange revaluation difference	82
Write off of receivables	(7,055)
Balance as at 31 December 2014	4,017

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

15 Other assets

As at 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Inventory	9,907	9,945	9,907	9,945
Investment debtors	-	44,634	-	44,634
Interest & dividend receivable	1,910,968	1,306,964	1,910,968	1,306,964
Advance company tax recoverable	66,397	66,397	66,397	66,397
Withholding tax recoverable	301,058	389,203	301,002	389,169
Deposits	17,906	16,566	17,706	16,566
Prepayments & advances	176,925	151,405	176,925	151,194
Capital work in progress	6,618	4,826	6,618	4,826
	2,489,779	1,989,940	2,489,523	1,989,695

16 Other fund assets

As at 31 December	Group/Company 2014 Carrying value LKR'000	2014 Cost LKR'000	2013 Carrying value LKR'000	2013 Cost LKR'000
Government securities	169,363	166,080	173,389	164,047
Unit trusts				
Eagle Growth Fund	-	-	1,873	1,889
Eagle Gilt Edged Fund	-	-	2,788	2,785
Fixed deposits	19,304	18,500	-	-
Other assets	103	103	59	59
Cash at bank	430	430	3,697	3,697
	189,200	185,113	181,806	172,477

Notes to the Financial Statements

17 Deferred expenses

	Group/Company LKR'000
As at 1 January 2014	151,612
Acquisition cost for the period	883,744
(Less) Amortisation charge	(833,330)
As at 31 December 2014	202,026

Deferred acquisition costs are amortised on the same basis of amortising the unearned premiums.

18 Deferred income tax

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

	Group/Company	
	2014 LKR'000	2013 LKR'000
Deferred income tax assets		
On temporary difference from retirement benefit obligation	69,716	60,096
Deferred tax asset offset against deferred tax liabilities	(60,276)	(60,096)
	9,440	-
Deferred income tax liability		
On temporary difference from property, plant and equipment and intangible assets	44,531	33,379
On temporary difference from fair value differences	847,410	130,785
Deferred tax liabilities offset against deferred tax assets	(60,276)	(60,096)
	831,665	104,068
Net deferred income tax liability	822,225	104,068

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 275,009,868 (2013 - LKR 673,835) in respect of tax losses amounting to LKR 982,178,101 (2013 - LKR 2,406,552) that can be carried forward against future taxable income.

Deferred income tax liabilities of LKR 6,292,019 (2013 - LKR 2,456,396) have not been recognised for the withholding taxes and other taxes that would be payable on the unremitted earnings of the subsidiaries and associate 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 2014	104,068
Deferred tax charge/ (income) recognised in Income Statement	
On retirement benefit obligations	(11,889)
On property plant & equipment and intangible assets	11,152
	(737)
Deferred tax charge/ (income) recognised in the Statement of Other Comprehensive Income	
On retirement benefit obligations	2,268
On temporary difference from fair value differences	716,626
	718,894
Balance as at 31 December 2014	822,225

19 Cash and cash equivalents

As at 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Short term investments	589,490	289,511	589,490	289,511
Cash at bank and in hand	399,061	507,795	391,850	504,299
Cash and cash equivalents (excluding bank overdraft)	988,551	797,306	981,340	793,810

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

	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Cash and cash equivalents	988,551	797,306	981,340	793,810
Bank overdraft	(5,897)	(55,454)	(5,897)	(55,454)
	982,654	741,852	975,443	738,356

20 Insurance liabilities and related reinsurance assets

As at 31 December		2014 Gross LKR'000	2014 Reinsurance LKR'000	2014 Net LKR'000	2013 Gross LKR'000	2013 Reinsurance LKR'000	2013 Net LKR'000
		Group/Company					
Long term policy liability	20.1	35,981,529	-	35,981,529	33,635,105	-	33,635,105
Life claims provision	20.2	256,430	107,728	148,702	177,189	90,530	86,659
Total life insurance contracts		36,237,959	107,728	36,130,231	33,812,294	90,530	33,721,764
Unearned premium reserve	20.3	1,592,838	347,571	1,245,267	1,375,107	286,479	1,088,628
Claims reported and loss adjustment expenses	20.4	920,770	461,445	459,325	1,008,512	538,719	469,793
Claims incurred but not reported	20.4	442,566	266,206	176,360	372,280	188,922	183,358
Total general insurance contracts		2,956,174	1,075,222	1,880,952	2,755,899	1,014,120	1,741,779
Total insurance contract liabilities		39,194,133	1,182,950	38,011,183	36,568,193	1,104,650	35,463,543

Notes to the Financial Statements

20 Insurance liabilities and related reinsurance assets (contd.)

20.1 Long term policy liability

	Group/Company		
	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Balance as at 1 January 2014	33,635,105	-	33,635,105
Expected increase in the policy liability during the year	(2,262,602)	-	(2,262,602)
Actual experience variance	2,703,212	-	2,703,212
Movement in inadmissible assets	(1,628,687)	-	(1,628,687)
Solvency margin & surplus with the market movements	1,694,809	-	1,694,809
Movement in AFS reserve transferred to long term insurance fund	1,839,692	-	1,839,692
Balance as at 31 December 2014	35,981,529	-	35,981,529

20.2 Life claims provision

	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Balance as at 1 January 2014	177,189	90,530	86,659
Provisions for claims registered during the period	330,911	110,389	220,522
Provisions released for claims paid to clients	(251,670)	(93,191)	(158,479)
Balance as at 31 December 2014	256,430	107,728	148,702

20.3 Unearned premium reserve

	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Balance as at 1 January 2014	1,375,107	286,479	1,088,628
Written premiums transferred to unearned premium reserve	2,925,861	656,581	2,269,280
Released to income statement during the period	(2,708,130)	(595,489)	(2,112,641)
Balance as at 31 December 2014	1,592,838	347,571	1,245,267

These provisions represent the liability for short-term insurance contracts for which the Group's obligations are not expired at year end. The unexpired risk provision relates to the casualty insurance contracts for which the Group expects to pay claims in excess of the related unearned premium provision.

20.4 Claims and loss adjustment expenses

	Gross LKR'000	Reinsurance LKR'000	Net LKR'000
Balance as at 1 January 2014			
- Notified claims	1,008,512	538,719	469,763
- Incurred But Not Reported (IBNR)	372,280	188,922	183,358
	1,380,792	726,641	653,151
Provisions for claims intimated during the period	1,350,117	100,598	1,249,519
Liabilities released for benefits paid to clients	(1,437,859)	(177,872)	(1,259,987)
Increase/ (decrease) in provision for IBNR	70,286	77,284	(6,998)
Net movement during the period	(17,456)	10	(17,466)
Balance as at 31 December 2014			
-Notified claims	920,770	461,445	459,325
-Incurred but not reported	442,566	266,206	176,360
	1,363,336	727,651	635,685

20 Insurance liabilities and related reinsurance assets (contd.)

20.5 Development claim tables

In addition to scenario testing, the development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Group's estimate of total claims outstanding for each accident year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the Consolidated Statement of Financial Position. An accident year basis is considered to be most appropriate for the business written by the Group.

Insurance claims — gross

Reporting year	2009 LKR'000	2010 LKR'000	2011 LKR'000	2012 LKR'000	2013 LKR'000	2014 LKR'000
Estimate of ultimate claims costs:						
– At end of reporting year	1,240,745	2,072,298	1,736,109	1,386,105	1,426,920	1,646,242
– One year later	1,165,674	1,876,844	1,569,501	1,294,317	1,285,724	-
– Two year later	1,149,045	1,842,802	1,583,155	1,256,175	-	-
– Three year later	1,137,262	1,841,240	1,561,444	-	-	-
– Four year later	1,135,463	1,831,746	-	-	-	-
– Five year later	1,132,536	-	-	-	-	-
Current estimate of cumulative claims	1,132,536	1,831,746	1,561,444	1,256,175	1,285,724	1,646,242
Cumulative payments to date	1,117,232	1,799,283	1,407,469	1,196,700	1,153,945	1,119,830
Liability recognised in the Statement of Financial Position	15,304	32,463	153,975	59,475	131,779	526,412
Reserve in respect of prior years	443,928	459,231	491,695	645,670	705,145	836,924
Total reserve included in Statement of Financial Position	459,232	491,694	645,670	705,145	836,924	1,363,336

Insurance claims — net

Reporting year	2009 LKR'000	2010 LKR'000	2011 LKR'000	2012 LKR'000	2013 LKR'000	2014 LKR'000
Estimate of ultimate claims costs:						
– At end of reporting year	986,804	1,707,454	1,547,183	1,217,619	1,176,482	1,377,850
– One year later	906,544	1,590,341	1,422,008	1,125,790	1,102,750	-
– Two year later	899,904	1,573,683	1,431,331	1,103,605	-	-
– Three year later	892,657	1,569,366	1,419,408	-	-	-
– Four year later	890,860	1,557,626	-	-	-	-
– Five year later	888,077	-	-	-	-	-
Current estimate of cumulative claims	888,077	1,557,626	1,419,408	1,103,605	1,102,750	1,377,850
Cumulative payments to date	873,257	1,533,631	1,363,847	1,068,880	1,042,672	1,068,942
Liability recognised in the Statement of Financial Position	14,820	23,995	55,561	34,725	60,078	308,908
Reserve in respect of prior years	63,478	78,297	102,293	157,854	192,579	326,777
Total reserve included in Statement of Financial Position	78,298	102,292	157,854	192,579	252,657	635,685

Notes to the Financial Statements

21 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 2014 LKR'000	2013 LKR'000
Amount of liability recognised in the Statement of Financial Position	248,986	214,627
Amounts recognised in the Income Statement	51,939	47,591
Amounts recognised in the Statement of Other Comprehensive Income	(8,100)	(75,314)

The movement in the defined benefit obligation is as follows:

	Group/Company LKR'000
Balance as at 1 January 2014	214,627
Current service cost	21,463
Interest cost	30,476
	51,939
Remeasurements:	
(Gains)/ losses from change in financial assumptions	980
Experience (gains) / losses	(9,080)
	(8,100)
Benefits paid	(9,480)
Balance as at 31 December 2014	248,986

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

	2014 % per annum	2013 % per annum
Future salary increases	11.00	14.00
Discount rate	7.17	10.00
Member withdrawal rate	10.00	10.00

Sensitivity analysis of key actuarial assumptions used

	Future salary increases		Group/Company 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	2,416	(2,141)	(2,290)	2,644	(604)	691
- Interest cost	-	-	-	-	-	-

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

	2014	2013	2012	2011	2010	2009
Defined benefit obligation	248,986	214,627	249,732	152,358	144,561	154,836

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

As at 31 December 2014 (LKR'000)	Less than 1 year	1-5 years	Above 5 years	Total
Defined benefit obligation	6,124	53,994	188,868	248,986

22 Other fund liabilities

A brief description and the movement of each fund is given below.

22.1 Claims Fund - general insurance

This fund consists of amounts received by AIA Insurance Lanka PLC from Zurich Group Reinsurance on portfolio transfer (on a clean-cut basis). These funds are invested in Government securities to be utilised upon settlement of claims.

	Group/Company LKR'000
Balance as at 1 January 2014	19,489
Income/gains and losses	1,566
Balance as at 31 December 2014	21,055

22.2 Scholarship fund

This fund was created to ensure continuity of the payments committed to policyholders' children who have been awarded scholarships under the Company's life policy scholarship schemes. The fund invested 100% in Eagle Mutual funds. All obligations with regard to this fund was discharged in full and wound up the fund as at 31 December 2014 and transferred the residue to AIA Insurance Lanka PLC.

	Group/Company LKR'000
Balance as at 1 January 2014	4,661
Capital withdrawals	(5,383)
Income/ gains and losses	722
Balance as at 31 December 2014	-

22.3 Agents Superannuation Fund

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 100% in Government securities.

	Group/Company LKR'000
Balance as at 1 January 2014	157,656
Capital deposits	36,199
Capital withdrawals	(38,630)
Income/ gains and losses	12,920
Balance as at 31 December 2014	168,145
Total other fund liabilities	
As at 31 December 2014	189,200
As at 1 January 2014	181,806

Notes to the Financial Statements

23 Accruals and other payables

As at 31 December	Note	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Policyholder advance payments		108,484	249,028	108,484	249,028
Agency commission payable		292,615	286,052	292,615	286,052
Franchise fee payable		79,722	79,600	79,722	79,600
Government taxes and levies		47,549	35,221	47,549	35,221
Accrued expenses	23.1	1,209,764	1,258,996	1,209,343	1,258,561
Other creditors		125,186	110,750	125,186	110,750
		1,863,320	2,019,647	1,862,899	2,019,212
Provisions and other payables					
Current		1,788,717	1,992,852	1,788,296	1,992,417
Non-current		74,603	26,795	74,603	26,795
		1,863,320	2,019,647	1,862,899	2,019,212

23.1 Accrued expenses

As at 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Accrued expenses	1,183,883	1,257,279	1,183,462	1,256,844
Operating lease payable	25,881	1,717	25,881	1,717
	1,209,764	1,258,996	1,209,343	1,258,561
Provisions				
Current	1,153,929	1,256,254	1,153,508	1,255,819
Non-current	55,835	2,742	55,835	2,742
	1,209,764	1,258,996	1,209,343	1,258,561

23.2 Movement in accrued expenses

	Group LKR'000	Company LKR'000
Balance as at 1 January 2014	1,258,996	1,258,561
Provisions during the year	1,054,766	1,054,502
Payments during the year	(902,842)	(902,564)
Reversals during the year	(201,156)	(201,156)
Balance as at 31 December 2014	1,209,764	1,209,343

24 Current income tax liabilities

	Group LKR'000	Company LKR'000
Balance as at 1 January 2014	185,512	185,574
Provision	38,422	36,862
Payments	(1,060)	-
Income tax payable set off against tax credits	(144,939)	(144,939)
Adjustments of prior periods recognised in the period	(40,635)	(40,635)
Balance as at 31 December 2014	37,300	36,862

25 Deferred revenue

25.1 The Group defers the commission income from reinsurance and coinsurance arrangements.

As at 31 December	Group/Company 2014 LKR'000	2013 LKR'000
Deferred reinsurance commission	75,426	74,195
Reinsurance recovered in advance on waiver of premium (WOP) claims	10,108	6,298
	85,534	80,493

25.2 Movement in deferred revenue

	Group/Company LKR'000
Balance as at 1 January 2014	80,493
Reinsurance commission deferred during the period	156,924
Reinsurance commission released to Income Statement	(155,693)
Reinsurance recovered in advance in WOP claims	3,810
Balance as at 31 December 2014	85,534
The expected realisation of the deferred revenue is as follows;	
Current	85,534
Non-current	-
	85,534

26 Stated capital

As at 31 December	2014 No. of shares	2014 LKR'000	2013 No. of shares	2013 LKR'000
Fully paid ordinary shares	30,000,000	300,000	30,000,000	300,000

The company announced an scrip dividend of LKR 7.07 per share on 6 January 2015 to its shareholders, resulting an issue of new ordinary [voting] shares credited as fully paid up based on a ratio of one new ordinary [voting] share being issued for every forty existing issued and fully paid ordinary [voting] shares [i.e. a ratio of 1:40] to shareholders registered in the Company's Share Register and also to those shareholders whose names appear on the Central Depositary System (Private) Ltd (CDS) as at the end of trading on 27 January 2015 subject to the changes due to residual fractions. Accordingly, Company issued 749,370 voting shares as fully paid ordinary shares on 6 February 2015.

The new share issue results an increase in stated capital to LKR 511,921,836 which enables the Company to satisfy the regulatory capital requirement of LKR 500,000,000 for life insurance business.

27 Capital reserves

Revaluation reserve

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

	Group/Company 2014 LKR'000	2013 LKR'000
Balance as at 1 January	72,096	72,096
Revaluation surplus arising during the year	-	-
Balance as at 31 December	72,096	72,096

Notes to the Financial Statements

28 Revenue reserves

28.1 Resilience reserve

A resilience reserve of LKR 65,000,000 was established in 2004 with funds appropriated from profits in order to strengthen the capability of the Company to meet temporary variations in asset values of the business. This reserve has been further strengthened by appropriation from profits.

	Group		Company	
	2014 LKR'000	2013 LKR'000	2014 LKR'000	2013 LKR'000
Balance as at 1 January	289,000	289,000	289,000	289,000
Appropriation from profits	-	-	-	-
Balance as at 31 December	289,000	289,000	289,000	289,000

28.2 Available for sale reserve

	Group		Company	
	2014 LKR'000	2013 LKR'000	2014 LKR'000	2013 LKR'000
Balance as at 1 January	15,502	(27,759)	15,502	(27,759)
Movement during the year	3,065	43,261	3,065	43,261
Balance as at 31 December	18,567	15,502	18,567	15,502

28.3 Retained earnings

	Group		Company	
As at 31 December	2014 LKR'000	2013 LKR'000	2014 LKR'000	2013 LKR'000
AIA Insurance Lanka PLC	4,155,595	3,861,852	4,155,595	3,861,852
Rainbow Trust Management Limited	3,184	2,453	-	-
AIA General Insurance Lanka Limited	3,108	-	-	-
Serendib Land PLC	45,119	44,430	-	-
Balance as at 31 December	4,207,006	3,908,735	4,155,595	3,861,852
Total revenue reserves	4,514,573	4,213,237	4,463,162	4,166,354

29 Net earned premium

(a) Gross written premium

For the financial year ended 31 December	Group/Company 2014 LKR'000	2013 LKR'000
Life insurance		
Conventional	5,861,467	4,996,985
Unit-linked	1,405,106	1,866,062
	7,266,573	6,863,047
General insurance		
Fire	570,109	555,625
Motor	1,744,042	1,496,976
Miscellaneous	495,274	483,098
Marine	136,859	137,310
	2,946,284	2,673,009
Total gross written premium	10,212,857	9,536,056

(b) Premium ceded to reinsurers

For the financial year ended 31 December	Group/Company 2014 LKR'000	2013 LKR'000
Life insurance		
Conventional	(187,369)	(233,663)
Unit-linked	(17,258)	(19,830)
	(204,627)	(253,493)
General insurance		
Fire	(542,009)	(445,186)
Motor	(46,703)	(32,155)
Miscellaneous	(100,871)	(148,406)
Marine	(68,658)	(68,717)
	(758,241)	(694,464)
Total premium ceded to reinsurers	(962,868)	(947,957)

(c) Net change in reserve for unearned premium

For the financial year ended 31 December	Group/Company 2014 LKR'000	2013 LKR'000
Change in reserve for unearned premium	(287,113)	(296,445)
Change in reserve for unearned reinsurance premium	(156,640)	(97,894)
Net change in reserve for unearned premium	(443,753)	(394,339)
Net earned premium	8,806,236	8,193,760

Notes to the Financial Statements

30 Investment income

For the financial year ended 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Dividend income				
Financial assets at fair value through profit or loss	105,680	142,764	105,680	142,764
Dividend received from associate	-	-	1,817	1,817
	105,680	142,764	107,497	144,581
Interest income				
Available for sale financial assets	1,753,713	2,158,234	1,753,713	2,158,234
Loans and receivables interest income	2,165,144	1,967,874	2,160,287	1,967,874
	3,918,857	4,126,108	3,914,000	4,126,108
Total investment income	4,024,537	4,268,872	4,021,497	4,270,689

31 Fees and commission income

For the financial year ended 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Policyholder administration charges	55,649	3,876	55,649	3,876
Other contract fees	223,482	15,483	223,482	15,483
Trust management fees	1,279	370	-	-
Total fees and commission income	280,410	19,729	279,131	19,359

32 Realised gains

For the financial year ended 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Property, plant and equipment				
Realised gains	1,441	1,069	1,432	1,069
Financial assets				
Available for sale financial assets				
Debt securities	93,939	13,313	93,939	13,313
Fair value through profit or loss				
Equity securities	111,074	98,911	111,074	98,911
Total realised gain from financial assets	205,013	112,224	205,013	112,224
Total realised gains	206,454	113,293	206,445	113,293

33 Fair value gains and losses

For the financial year ended 31 December	Group/Company 2014 LKR'000	Group/Company 2013 LKR'000
Fair value gains on financial assets at fair value through profit or loss	477,909	25,067
Total fair value gains and losses	477,909	25,067

For the financial year ended 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
34 Other operating revenue				
Interest income on policy loans	296,293	284,099	296,293	284,099
Interest income on other loans	23,967	24,219	23,967	24,219
Interest income on cash and cash equivalents	21,262	19,948	20,696	19,617
Other miscellaneous income	49,626	44,601	49,626	44,601
Total other operating revenue	391,148	372,867	390,582	372,536

35 Net claims and benefits

For the financial year ended 31 December	Group/Company 2014 LKR'000	Group/Company 2013 LKR'000
(a) Gross claims and benefits paid		
Life insurance contracts	(6,775,563)	(5,781,886)
General insurance contracts	(1,437,860)	(1,163,725)
Total gross claims and benefits paid	(8,213,423)	(6,945,611)
(b) Claims ceded to reinsurers		
Life insurance contracts	88,463	110,755
General insurance contracts	171,853	101,915
Total claims ceded to reinsurers	260,316	212,670
(c) Gross change in contract liabilities		
Change in life insurance contract liabilities	(79,241)	27,921
Change in general insurance contract outstanding claims provision	87,742	(185,568)
Change in provision for IBNR	(70,286)	(127,193)
Total gross change in contract liabilities	(61,785)	(284,840)
(d) Change in contract liabilities ceded to reinsurers		
Change in life insurance contract liabilities	17,198	(9,139)
Change in general insurance contract outstanding claims provision	(77,274)	182,750
Change in provision for IBNR	77,284	93,991
Total change in contract liabilities ceded to reinsurers	17,208	267,602
(e) Change in contractual liability - life	(483,027)	(753,963)
Net claims and benefits	(8,480,711)	(7,504,142)

Notes to the Financial Statements

36 Net acquisition expenses

For the financial year ended 31 December	Group/Company 2014 LKR'000	Group/Company 2013 LKR'000
(a) Gross acquisition expenses		
Gross acquisition expenses - life insurance	(934,431)	(886,950)
Franchise fees - life insurance	(42,600)	(38,230)
	(977,031)	(925,180)
Gross acquisition expenses - general insurance	(210,874)	(214,133)
Franchise fees - general insurance	(14,408)	(10,652)
	(225,282)	(224,785)
Total gross acquisition expenses	(1,202,313)	(1,149,965)
(b) Reinsurance commission		
Reinsurance commission - life insurance	3,257	69,778
Reinsurance commission - general insurance	161,618	181,159
Total reinsurance commission	164,875	250,937
(c) Change in deferred acquisition expenses		
Commission - life insurance	51,321	40,431
Franchise fees - life insurance	(19,110)	(1,025)
	32,211	39,406
Commission - general insurance	7,864	35,072
Franchise fees - general insurance	2,141	(7,890)
	10,005	27,182
Reinsurance commission - life insurance	-	-
Reinsurance commission - general insurance	(1,231)	313
	(1,231)	313
Total change in deferred acquisition expenses	40,985	66,901
Net acquisition expenses	(996,453)	(832,127)

37 Operating and administrative expenses

For the financial year ended 31 December	Note	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Employee benefit expenses	37.1	(1,718,177)	(1,463,951)	(1,718,177)	(1,463,951)
Administrative and establishment expenses		(1,109,007)	(836,155)	(1,108,042)	(835,826)
Selling expenses		(904,574)	(1,265,131)	(904,370)	(1,265,131)
Amortisation of intangible assets		(107,945)	(41,391)	(107,945)	(41,391)
Depreciation		(121,624)	(76,361)	(121,624)	(76,361)
Other expenses	37.3	(165,171)	(153,344)	(165,061)	(153,280)
		(4,126,498)	(3,836,333)	(4,125,219)	(3,835,940)

37 Operating and administrative expenses (contd.)

For the financial year ended 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
37.1 Employee benefit expenses				
Salaries and bonus	(828,948)	(712,792)	(828,948)	(712,792)
Contribution to defined contribution plans	(85,259)	(71,598)	(85,259)	(71,598)
Contribution to defined benefit plans	(51,939)	(47,591)	(51,939)	(47,591)
Staff welfare	(90,000)	(42,845)	(90,000)	(42,845)
Staff training	(56,445)	(33,964)	(56,445)	(33,964)
Others	(605,586)	(555,161)	(605,586)	(555,161)
	(1,718,177)	(1,463,951)	(1,718,177)	(1,463,951)

37.2 Share based payments

During the year, the AIA Group made grants of Restricted Share Units (RSUs) and restricted share purchase units to certain employees, directors and officers of the Group under the RSU Scheme and the ESPP.

RSU scheme

Under the RSU scheme, the vesting of the granted RSUs is conditional upon the eligible participants remaining in employment with the AIA Group during the respective vesting periods. RSU grants are vested either entirely after a specific period of time or in tranches over the vesting period. If the RSU grants are vested in tranches, each vesting tranche is accounted for as a separate grant for the purposes of recognising the expense over the vesting period. For certain RSUs, performance conditions are also attached which include both market and non-market conditions. RSUs subject to performance conditions are released to the employees at the end of vesting period depending on the actual achievement of the performance conditions. During the vesting period, the eligible participants are not entitled to dividends of the underlying shares.

Employee Share Purchase Plan (ESPP)

Under the plan, eligible employees of the Group can purchase ordinary shares of AIAGL with qualified employee contributions and the AIA Group will award one matching restricted share purchase unit to them at the end of the vesting period for each two shares purchased through the qualified employee contributions (contribution shares). Contribution shares are purchased from the open market. During the vesting period, the eligible employees must hold the contribution shares purchased during the plan cycle and remain employed by the AIA Group. The level of qualified employee contribution is limited to not more than 5% 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 2014 is LKR 39,287,000 (2013: LKR 16,633,330).

For the financial year ended 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
37.3 Other expenses				
Increase in provision for bad and doubtful debts	(3,136)	(4,981)	(3,136)	(4,981)
Other technical expenses	(27,193)	(24,263)	(27,193)	(24,199)
Investment expenses	(125,145)	(121,588)	(125,145)	(121,588)
Other non technical expenses	(9,697)	(2,512)	(9,587)	(2,512)
	(165,171)	(153,344)	(165,061)	(153,280)

Notes to the Financial Statements

38 Profit before taxation

Profit before taxation for the year is stated after charging all expenses including the following:

For the financial year ended 31 December	Group 2014 LKR'000	Group 2013 LKR'000	Company 2014 LKR'000	Company 2013 LKR'000
Auditors' remuneration				
- Audit	5,831	5,127	5,425	4,940
- Non-audit	1,055	1,835	1,025	1,835
Directors' / Chief Executive Officer's emoluments	114,980	95,449	114,980	95,449
Directors' fees	1,625	1,410	1,625	1,410
Premium paid for Directors and Officers Liability Policy	1,420	1,420	1,420	1,420
Legal fees	2,154	5,185	2,154	5,185
Donations	5,242	6,630	5,242	6,630
Provision for bad and doubtful debts	3,136	4,981	3,136	4,981

39 Income tax expenses

For the financial year ended 31 December	2014 LKR'000	2013 LKR'000	2014 LKR'000	2013 LKR'000
Current income tax				
Current income tax expense	(38,959)	(185,673)	(36,862)	(185,575)
Adjustments of prior periods recognised in the period	40,635	(5,407)	40,635	(5,411)
Notional tax unutilised during the year	(236,016)	(185,762)	(236,016)	(185,762)
	(234,340)	(376,842)	(232,243)	(376,748)
Deferred income tax				
Deferred tax income	737	52,754	737	52,754
Total income tax expense	(233,603)	(324,088)	(231,506)	(323,994)

The applicable tax rate - 28% (2013 -28%)

39.1 Reconciliation of tax charge

For the financial year ended 31 December	2014 LKR'000	2013 LKR'000	2014 LKR'000	2013 LKR'000
Profit before tax	586,037	823,381	579,417	822,495
Applicable tax rate	28%	28%	28%	28%
Tax at applicable rate	164,090	230,547	162,237	230,299
Add / (less) tax effect of the following items:				
Insurance premiums & income not subject to tax	(1,980,530)	(1,767,671)	(1,980,530)	(1,767,671)
Insurance claims not deductible for taxes	2,024,646	1,793,767	2,024,646	1,793,767
Tax free investment income	(495,664)	(121,905)	(496,173)	(122,414)
Other non-deductible expenses	11,048	64,346	10,887	64,346
Withholding tax on inter-company dividends	202	202	-	-
Rate differentials on share of tax from associate	(541)	(830)	-	-
Termination of gratuity policy	-	(60,096)	-	(60,096)
Tax loss on which deferred tax asset is not recognised	274,336	(35)	274,423	-
Unutilised notional tax for the year	236,016	185,763	236,016	185,763
Tax charge for the year	233,603	324,088	231,506	323,994

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
	2,370,164
Set-off against tax liability up to Y/A 2013/2014	(1,031,350)
Balance available to set-off against future tax liability	1,338,814

40 Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

For the financial year ended 31 December		2014	2013	2014	2013
Profit attributable to the Company's equity holders (LKR'000)		352,439	499,293	347,911	498,501
Weighted average number of ordinary shares in issue ('000)	40.1	30,749	30,749	30,749	30,749
Basic earnings per share (LKR)		11.46	16.24	11.31	16.21

40.1 Weighted average number of ordinary shares in issue

Number of shares issued and fully paid as at 31 December 2014	30,000,000
Shares issued on 6 February 2015 on account of scrip dividend	749,370
Total number of shares	30,749,370

41 Dividend per share

The dividends paid in 2014 and 2013 were LKR 60,000,000 (LKR 2.00 per share) and LKR 75,000,000 (LKR 2.50 per share) respectively.

An interim dividend of LKR 7.07 per share which has been declared on 31 December 2014 by the Board of Directors on the 30,000,000 existing issued and fully paid ordinary shares for the year ended 31 December 2014 constituting a total interim dividend of LKR 212,100,000 be satisfied by a distribution of the allotment and issue of new ordinary [voting] shares [scrip dividend] at the ratio of one new ordinary [voting] share being issued for every forty existing issued and fully paid ordinary [voting] shares and where there are shareholders whose shareholding does not qualify for the scrip dividend or where there are residual fractions of shares arising out of the scrip dividend, such shareholders shall receive payment in cash.

Notes to the Financial Statements

42 Related party disclosures

Details of significant related party disclosures are as follows:

Transactions with the parent and related entities

Name of the Company and relationship

Nature of transaction	Serendib Land PLC		AIA Holdings Lanka (Private) Limited		AIA Company Limited		AIA Group Limited		AIA Shared Services (Hong Kong) Limited		AIA Information Technology (Guangzhou) Co.Ltd		TATA AIA Life Insurance Company Limited	
	Associate		Immediate parent		Parent		Ultimate parent		Fellow subsidiary		Fellow subsidiary		Fellow associate	
For the financial year ended 31 December	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000	2014 LKR '000	2013 LKR '000
Rent paid	(13,320)	(13,140)	-	-	-	-	-	-	-	-	-	-	-	-
Group recharges	-	-	-	-	(67,367)	(68,244)	(40,725)	(14,626)	(17,603)	(7,036)	-	(1,218)	-	-
Group agency events	-	-	-	-	(11,953)	(15,749)	-	-	-	-	-	-	-	-
Expense reimbursements	-	-	-	-	-	-	-	-	-	-	-	-	4,486	-
Dividend (paid) / received	2,019	2,019	(52,364)	(65,455)	(5,928)	(3,750)	-	-	-	-	-	-	-	-

42 Related Party Disclosures (contd)
42.1 Transactions with related entities
42.2 Transactions with Key Management Personnel of the Company or Parent and their close family members

The Key Management Personnel of the Company are 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	2014 LKR '000	2013 LKR '000
Directors' / CEO's remuneration	47,857	49,946
Short-term employee benefits	59,944	38,011
Contribution to defined contribution plans	7,179	7,492
Premiums paid for Directors and Officers Liability policy *	1,420	1,420
Directors' fees	1,625	1,410
	118,025	98,279

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

Other Key Management Personnel emoluments

For the financial year ended 31 December	2014 LKR '000	2013 LKR '000
Emoluments	133,700	120,400
	133,700	120,400

Transactions by other Key Management Personnel with related entities

Share ownerships of other Key Management Personnel	No of shares as at 31 December 2014	Name of the related entity
Employee Share Purchase Plan	1,076	AIA Group Limited*

*AIA Group Limited is the parent of AIA Company Limited

b) No loans have been granted to Directors during the year. A sum of LKR 461,348 was granted to other Key Management Personnel excluding Directors and CEO.

Notes to the Financial Statements

c) Other Transactions

Business transactions of Key Management Personnel

For the financial year ended 31 December	2014 LKR '000	2013 LKR '000
Premium paid on insurance policies taken by Directors in their individual capacity	172	181
	172	181

There have been no transactions with close family members of Key Management Personnel and shareholders who have either control, significant influence or joint control over the Company.

42.3 Transactions with other related parties

Transactions by Key Management Personnel with other companies

(Directors of the Company who are also Directors of the following entities which have transactions with the Company).

Company	Details of financial dealings
AIA Company Limited	Gordon Timmins Watson is a Director of AIA Company Limited. This company has intra-group master services agreement & SOW relating to Group distribution organised events with AIA Insurance Lanka PLC.
TATA AIA Life Insurance Company Limited	Gordon Timmins Watson is a Director of TATA AIA Life Insurance Company Limited. Heerak Basu is an employee of TATA AIA Life Insurance Company Limited. This company has a settlement agreement with AIA Insurance Lanka PLC.

43 Contingent liabilities

43.1 Outstanding tax assessments

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

The Company has also received assessments relating to income taxes for the assessment periods of 2009/10, 2010/11 and 2011/12. DIR has disallowed management expenses relating to the life insurance business including capital allowance. Company disagreed with this assessment and an appeal has been filed following due process. Based on the information available and expert advice received, the Directors are confident that the ultimate resolution of the above contingency is unlikely to have a material adverse effect on the financial position of the Company. Hence no provision has been made in the financial statements.

Additionally the Company has received VAT assessments to the value of LKR 1.6 million from the DIR, in relation to which appeals have been filed.

43.2 Pending litigation

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

44 Events after the Balance Sheet date

44.1 Interim distribution - Scrip dividend

The Board of Directors of the Company approved an interim dividend of LKR 7.07 per share on 31 December 2014, for the financial year ended 31 December 2014, which constituted a total interim dividend of LKR 212,100,000 on the existing total paid up shares in issue of 30 million at that time. Said dividend was satisfied, a) by way of a scrip dividend which was satisfied by the allotment and issue of 749,370 new ordinary (voting) shares credited as fully paid up on a ratio of 1:40 (one [1] new ordinary [voting] share being issued for every forty [40] existing issued and fully paid ordinary [voting] shares) and b) by way of a cash payment for each shareholder whose existing shareholding as at the entitlement date was less than 40 (forty) issued and fully paid up ordinary (voting) shares or, for those shareholders who had residual fractions arising out of the application of ratio. The shareholders at the Extraordinary General Meeting held on 27 January 2015 approved said interim dividend for 2014. Accordingly, the Company issued the said 749,370 in total new ordinary [voting] shares as fully paid at a consideration of LKR 282.80 per share.

As required by section 56(2) of the Companies Act No. 07 of 2007, the Board of Directors have confirmed that the Company satisfies the solvency test in accordance with section 57 of the Companies Act No. 07 of 2007, and has obtained a certificate from the auditors, prior to declaring the interim dividend of LKR 7.07 per share.

44.2 Segregation of composite insurance business

The Company which was a composite insurer was required in pursuance of section 53 of the Regulation of Insurance Industry (Amendment) Act No 03 of 2011, to segregate the life and general insurance businesses so that each may, post segregation be carried out by two legal entities.

A new subsidiary company by the name of AIA General Insurance Lanka Limited was incorporated under the Companies Act No. 07 of 2007 on 24 March 2014. The new subsidiary was formed to facilitate the segregation of the composite insurance business of the Company by transferring the general insurance business of the Company to AIA General Insurance Lanka Limited in terms of the approvals of the shareholders, Insurance Board of Sri Lanka and Orders of the District Court of Colombo and High Court of the Western Province exercising Civil Jurisdiction. AIA General Insurance Lanka Limited was issued with the license to engage in general insurance business with effect from 1 January 2015 in line with the segregation of the composite insurance business of the Company. All assets and liabilities relating to the general insurance business were transferred to AIA General Insurance Lanka Limited at a consideration of its adjusted net book value as at 31 December 2014.

In substance, this segregation is only a change in the mode of operation or restructuring the insurance business. Under such restructuring, it should be noted that the Group has not lost control of the assets, and therefore the assets cannot be considered to have been disposed of. Therefore, segregation of insurance business is considered as out of scope for the application of SLFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

The information pertaining to the segregated operations for the periods presented are disclosed below,

Condensed Income Statement of the segregated operations included in financial statements

For the financial year ended 31 December	2014 LKR'000	2013 LKR'000
Total revenue	2,380,074	2,299,877
Net claims	(1,249,832)	(1,097,830)
Acquisition expenses	(54,890)	(16,131)
Operating and administrative expenses	(968,124)	(839,338)
Profit before tax	**107,228**	**346,578**
Income tax expense	(21,450)	(30,978)
Profit for the period	**85,778**	**315,600**
Profit attributable to:		
- Owners of the parent	85,778	315,600
- Non-controlling interest	-	-
	85,778	**315,600**

Condensed Cash Flow Statement of the segregated operations included in financial statements

For the financial year ended 31 December	2014 LKR'000	2013 LKR'000
Cash flow from operating activities	(65,880)	87,367
Cash flow from investing activities	350,692	90,808
Cash flow from financing activities	(121,000)	(36,453)
Increase in cash and cash equivalents	**163,812**	**141,722**
Cash and cash equivalents and bank overdraft at the beginning of the year	240,549	98,827
Cash and cash equivalents and bank overdraft at the end of the year	**404,361**	**240,549**

Net income in the financial statements

For the financial year ended 31 December	Continuing operations		Segregated operations	
	2014 LKR'000	2013 LKR'000	2014 LKR'000	2013 LKR'000
Profit for the period	262,133	182,901	85,778	315,600
Profit attributable to:				
- Owners of the parent	262,133	182,901	85,778	315,600
- Non-controlling interest	-	-	-	-
	262,133	182,901	85,778	315,600

Quarterly Analysis 2014

Income Statement - Group

	1st quarter Jan - Mar 14 LKR '000	2nd quarter Apr - Jun 14 LKR '000	3rd quarter Jul - Sep 14 LKR '000	4th quarter Oct - Dec 14 LKR '000	Total Jan - Dec 14 LKR '000
Gross written premium	2,594,962	2,353,014	2,622,677	2,642,204	10,212,857
Gross reinsurance premium	(277,052)	(175,912)	(267,171)	(242,733)	(962,868)
Net change in reserves for unearned premium	(265,606)	(40,147)	(82,785)	(55,215)	(443,753)
Net earned premium	2,052,304	2,136,955	2,272,721	2,344,256	8,806,236
Other revenue					
Investment income	1,028,162	1,022,598	996,408	977,369	4,024,537
Fees and commission income	64,272	67,670	71,532	76,936	280,410
Realised gains / (losses)	(20,268)	5,218	153,148	68,356	206,454
Fair value gains / (losses)	5,736	209,537	299,007	(36,371)	477,909
Other operating revenue	81,992	114,301	87,180	107,675	391,148
	1,159,894	1,419,324	1,607,275	1,193,965	5,380,458
Total revenue	3,212,198	3,556,279	3,879,996	3,538,221	14,186,694
Net claims and benefits paid	(2,044,282)	(2,073,769)	(2,081,981)	(1,797,652)	(7,997,684)
Change in contractual liability	62,071	(136,583)	(329,418)	(79,097)	(483,027)
Net claims and benefits	(1,982,211)	(2,210,352)	(2,411,399)	(1,876,749)	(8,480,711)
Net acquisition expenses	(170,457)	(277,503)	(279,476)	(269,017)	(996,453)
Operating and administrative expenses	(924,644)	(940,881)	(1,078,772)	(1,182,201)	(4,126,498)
Share of profit of an associate	763	709	506	1,032	3,010
Profit before taxation	135,649	128,252	110,855	211,286	586,042
Income tax expense	(57,230)	(60,735)	(58,107)	(57,531)	(233,603)
Profit for the period	78,419	67,517	52,748	153,755	352,439

Income Statement - Company

	1st quarter Jan - Mar 14 LKR'000	2nd quarter Apr - Jun 14 LKR'000	3rd quarter Jul - Sep 14 LKR'000	4th quarter Oct - Dec 14 LKR'000	Total Jan - Dec 14 LKR'000
Gross written premium	2,594,962	2,353,014	2,622,677	2,642,204	10,212,857
Gross reinsurance premium	(277,052)	(175,912)	(267,171)	(242,733)	(962,868)
Net change in reserves for unearned premium	(265,606)	(40,147)	(82,785)	(55,215)	(443,753)
Net earned premium	2,052,304	2,136,955	2,272,721	2,344,256	8,806,236
Other revenue					
Investment income	1,028,162	1,021,101	996,504	975,730	4,021,497
Fees and commission income	64,177	67,155	71,200	76,599	279,131
Realised gains / (losses)	(20,276)	5,218	153,147	68,356	206,445
Fair value gains / (losses)	5,736	209,537	299,007	(36,371)	477,909
Other operating revenue	81,945	113,958	87,113	107,566	390,582
	1,159,744	1,416,969	1,606,971	1,191,880	5,375,564
Total revenue	3,212,048	3,553,924	3,879,692	3,536,136	14,181,800
Net claims and benefits paid	(2,044,282)	(2,073,769)	(2,081,981)	(1,797,652)	(7,997,684)
Change in contractual liability	62,071	(136,583)	(329,418)	(79,097)	(483,027)
Net claims and benefits	(1,982,211)	(2,210,352)	(2,411,399)	(1,876,749)	(8,480,711)
Net acquisition expenses	(170,457)	(277,503)	(279,476)	(269,017)	(996,453)
Operating and administrative expenses	(924,553)	(940,653)	(1,078,659)	(1,181,354)	(4,125,219)
Profit before taxation	134,827	125,416	110,158	209,016	579,417
Income tax expense	(57,136)	(60,115)	(57,319)	(56,936)	(231,506)
Profit for the period	77,691	65,301	52,839	152,080	347,911

Quarterly Analysis 2013

Income Statement - Group

	1st quarter Jan - Mar 13 LKR '000	2nd quarter Apr - Jun 13 LKR '000	3rd quarter Jul - Sep 13 LKR '000	4th quarter Oct - Dec 13 LKR '000	Total Jan - Dec 13 LKR '000
Gross written premium	2,457,655	2,264,901	2,317,405	2,496,095	9,536,056
Gross reinsurance premium	(321,305)	(201,615)	(176,446)	(248,591)	(947,957)
Net change in reserves for unearned premium	(98,829)	42,427	(51,112)	(286,825)	(394,339)
Net earned premium	2,037,521	2,105,713	2,089,847	1,960,679	8,193,760
Other revenue					
Investment income	1,020,190	1,123,233	1,061,777	1,063,672	4,268,872
Fees and commission income	73	66	117	19,473	19,729
Realised gains / (losses)	(28,908)	38,150	39,555	64,496	113,293
Fair value gains / (losses)	163,706	197,962	(368,648)	32,047	25,067
Other operating revenue	93,106	85,430	87,065	107,266	372,867
	1,248,167	1,444,841	819,866	1,286,954	4,799,828
Total revenue	3,285,688	3,550,554	2,909,713	3,247,633	12,993,588
Net claims and benefits paid	(1,329,155)	(1,330,983)	(1,997,169)	(2,092,872)	(6,750,179)
Change in contractual liability	(687,951)	(979,984)	415,824	498,148	(753,963)
Net claims and benefits	(2,017,106)	(2,310,967)	(1,581,345)	(1,594,724)	(7,504,142)
Net acquisition expenses	(230,795)	(205,505)	(212,686)	(183,141)	(832,127)
Operating and administrative expenses	(872,887)	(951,969)	(919,717)	(1,091,760)	(3,836,333)
Share of profit of an associate	612	620	(152)	1,315	2,395
Profit before taxation	165,512	82,733	195,813	379,323	823,381
Income tax expense	(133,476)	(91,996)	(83,993)	(14,623)	(324,088)
Profit for the period	32,036	(9,263)	111,820	364,700	499,293

Income Statement - Company

	1st quarter Jan - Mar 13 LKR'000	2nd quarter Apr - Jun 13 LKR'000	3rd quarter Jul - Sep 13 LKR'000	4th quarter Oct - Dec 13 LKR'000	Total Jan - Dec 13 LKR'000
Gross written premium	2,457,655	2,264,901	2,317,405	2,496,095	9,536,056
Gross reinsurance premium	(321,305)	(201,615)	(176,446)	(248,591)	(947,957)
Net change in reserves for unearned premium	(98,829)	42,427	(51,112)	(286,825)	(394,339)
Net earned premium	2,037,521	2,105,713	2,089,847	1,960,679	8,193,760
Other revenue					
Investment income	1,020,190	1,123,231	1,063,594	1,063,674	4,270,689
Fees and commission income	-	-	-	19,359	19,359
Realised gains / (losses)	(28,908)	38,151	39,555	64,495	113,293
Fair value gains / (losses)	163,706	197,962	(368,648)	32,047	25,067
Other operating revenue	93,024	85,342	86,979	107,191	372,536
	1,248,012	1,444,686	821,480	1,286,766	4,800,944
Total revenue	3,285,533	3,550,399	2,911,327	3,247,445	12,994,704
Net claims and benefits paid	(1,329,155)	(1,330,983)	(1,997,169)	(2,092,872)	(6,750,179)
Change in contractual liability	(687,951)	(979,984)	415,824	498,148	(753,963)
Net claims and benefits	(2,017,106)	(2,310,967)	(1,581,345)	(1,594,724)	(7,504,142)
Net acquisition expenses	(230,795)	(205,505)	(212,686)	(183,141)	(832,127)
Operating and administrative expenses	(872,840)	(951,891)	(919,664)	(1,091,545)	(3,835,940)
Profit before taxation	164,792	82,036	197,632	378,035	822,495
Income tax expense	(133,918)	(91,857)	(83,719)	(14,500)	(323,994)
Profit for the period	30,874	(9,821)	113,913	363,535	498,501

Decade at a Glance

For the financial year ended 31 December	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Income Statement (Values are in LKR thousands)										
General insurance including life shareholders' fund										
Insurance premium revenue	2,728,552	2,555,482	2,495,036	2,768,002	2,875,293	2,097,232	2,012,145	1,651,978	1,273,874	1,115,238
Reinsurance premium ceded	(697,150)	(674,831)	(527,245)	(522,272)	(829,396)	(825,280)	(878,831)	(838,644)	(684,575)	(649,459)
Net earned premium	2,031,403	1,880,651	1,967,791	2,245,730	2,045,897	1,271,952	1,133,314	813,334	589,299	465,779
Investment income and other income	538,301	637,589	627,047	586,458	987,601	621,252	331,981	230,996	222,713	184,125
Net claims	(1,249,832)	(1,097,830)	(1,020,360)	(1,454,983)	(1,619,182)	(902,653)	(938,076)	(581,669)	(430,829)	(252,243)
Net acquisition expenses	(54,890)	(16,131)	(137,875)	(149,720)	(101,011)	13,423	14,347	38,223	27,299	42,301
Operating and administrative expenses	(987,878)	(1,118,249)	(756,109)	(801,357)	(1,015,769)	(472,438)	(402,238)	(376,987)	(323,431)	(304,952)
Profit before tax	277,104	286,030	680,494	426,128	297,536	531,536	139,328	123,897	85,051	135,010
Long term insurance fund										
Annualised new premium (ANP)	3,460,035	2,976,393	2,611,006	2,888,782	3,094,196	1,680,094	1,695,791	1,635,644	1,248,905	1,009,258
Insurance premium revenue	6,983,554	6,566,650	6,495,863	7,846,447	7,783,925	4,632,490	4,342,218	3,788,103	3,150,042	2,832,541
Reinsurance premium ceded	(208,721)	(253,541)	(219,497)	(260,263)	(235,913)	(219,738)	(216,400)	(214,786)	(177,449)	(152,449)
Net earned premium	6,774,833	6,313,109	6,276,366	7,586,184	7,548,012	4,412,752	4,125,818	3,573,317	2,972,593	2,680,092
Investment income and other income	4,837,263	4,163,355	3,758,004	2,514,477	4,604,047	3,396,840	1,633,746	1,222,411	999,717	920,132
Net claims and benefits	(6,747,852)	(5,652,349)	(3,163,294)	(2,468,068)	(2,504,366)	(1,758,839)	(1,435,078)	(1,105,713)	(1,058,236)	(917,336)
Net acquisition expenses	(941,563)	(815,996)	(757,551)	(943,840)	(939,902)	(567,052)	(558,772)	(471,145)	(375,530)	(349,501)
Change in contractual liability	(483,027)	(753,963)	(3,672,697)	(4,195,094)	(6,399,723)	(3,563,284)	(2,178,018)	(1,798,355)	(1,269,864)	(1,252,803)
Operating and administrative expenses	(3,137,341)	(2,717,691)	(1,925,678)	(1,870,474)	(1,710,006)	(1,445,233)	(1,157,021)	(1,020,515)	(833,680)	(705,584)
Income tax expense	(202,313)	(336,465)	(320,150)	(268,185)	(270,269)	(155,184)	(150,675)	-	-	-
Surplus transfer to shareholders' fund	100,000	200,000	195,000	355,000	327,793	320,000	280,000	400,000	435,000	375,000
Total business (Group)										
Insurance premium revenue	9,712,107	9,122,132	8,990,899	10,614,449	10,659,218	6,729,722	6,354,363	5,440,081	4,423,916	3,947,779
Reinsurance premium ceded	(905,871)	(928,372)	(746,742)	(782,535)	(1,065,309)	(1,045,018)	(1,095,231)	(1,053,430)	(862,024)	(801,908)
Net earned premium	8,806,236	8,193,760	8,244,157	9,831,914	9,593,909	5,684,704	5,259,132	4,386,651	3,561,892	3,145,871
Investment income and other income	5,380,458	4,799,828	4,385,577	3,100,643	5,593,015	3,970,095	2,006,186	1,488,191	1,251,534	1,130,653
Net claims, benefits and acquisition expenses	(9,477,164)	(8,336,269)	(8,751,777)	(9,211,705)	(11,564,185)	(6,778,405)	(5,095,597)	(3,918,659)	(3,107,160)	(2,729,582)
Operating and administrative expenses	(4,126,498)	(3,836,333)	(2,682,251)	(2,673,751)	(2,728,980)	(1,918,854)	(1,564,900)	(1,410,067)	(1,167,303)	(1,018,972)
Share of profit of an associate	3,010	2,395	8,358	2,163	-	-	-	-	-	-
Profit before tax	586,042	823,381	1,204,064	1,049,264	893,759	957,540	604,821	546,116	538,963	527,970
Income tax expense	(233,603)	(324,088)	(356,157)	(356,812)	(293,591)	(227,015)	(141,101)	(19,035)	(15,495)	(12,593)
Profit for the period	352,439	499,293	847,907	692,452	600,168	730,525	463,720	527,081	523,468	515,377

The numbers for the period 2014 -2011 are based on the Sri Lanka Financial reporting standards (SLFRS) effective from 1 January 2012 and 2010 -2005 are based on SLAS.

As at 31 December	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Statement of Financial Position (Values are in LKR thousands)										
Group										
Assets										
Investments	33,943,900	30,398,645	26,222,740	24,835,175	22,861,118	17,760,977	14,834,964	12,753,342	11,467,119	9,970,620
Investments - Unit linked	6,499,893	7,476,508	8,090,885	6,632,277	5,151,489	1,346,150	473,706	241,130	48,436	-
Property, plant and equipment	358,637	303,474	203,439	209,786	240,562	237,772	376,872	403,431	386,671	296,332
Other assets	6,898,290	6,026,765	6,476,046	5,473,419	5,570,890	5,096,277	4,105,475	3,570,828	3,028,835	2,391,279
Total assets	47,700,720	44,205,392	40,993,110	37,150,657	33,824,059	24,441,176	19,791,017	16,968,731	14,931,061	12,658,231
Equity and liabilities										
Equity										
Stated capital	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Revaluation reserve	72,096	72,096	72,096	39,916	39,916	39,916	39,916	39,916	-	-
Special reserve fund	-	-	-	-	-	-	-	315,510	279,820	268,036
Resilience reserve	289,000	289,000	289,000	289,000	289,000	289,000	289,000	237,000	161,500	135,000
General reserve	-	-	-	-	-	-	-	955,000	720,000	541,000
Retained earnings	4,225,573	3,924,237	3,402,457	2,956,502	2,638,079	1,950,561	1,595,036	177,806	281,915	223,231
Total equity	4,886,669	4,585,333	4,063,553	3,585,418	3,266,995	2,579,477	2,223,952	2,025,232	1,743,235	1,467,267
Liabilities										
Insurance liabilities - long term	29,668,160	26,174,239	23,892,127	22,195,937	20,824,542	16,686,639	13,989,661	12,063,506	10,453,542	9,238,184
Insurance liabilities - Unit linked	6,569,799	7,638,055	8,125,091	6,668,504	5,130,753	1,361,066	494,760	242,897	54,507	-
Provision for life fund solvency	-	-	-	-	-	175,000	175,000	-	-	-
Insurance provision - General	2,956,174	2,755,899	2,325,611	2,486,262	2,526,085	1,865,820	1,447,620	1,088,994	1,122,631	858,759
Other liabilities	3,619,918	3,051,866	2,586,728	2,214,536	2,075,684	1,773,174	1,460,024	1,548,102	1,557,146	1,094,021
Total liabilities	42,814,051	39,620,059	36,929,557	33,565,239	30,557,064	21,861,699	17,567,065	14,943,499	13,187,826	11,190,964
Total equity and liabilities	47,700,720	44,205,392	40,993,110	37,150,657	33,824,059	24,441,176	19,791,017	16,968,731	14,931,061	12,658,231
Long term - supplemental										
Assets										
Investments	28,664,494	25,431,589	23,223,489	20,385,777	19,062,239	14,886,512	12,555,930	11,000,554	9,992,944	8,713,775
Investments - Unit linked	6,499,893	7,476,508	8,090,885	6,632,277	5,151,489	1,346,150	473,704	241,130	48,436	-
Other assets	3,264,965	2,534,334	1,936,635	3,019,814	2,859,079	2,741,474	2,028,136	1,794,460	1,229,112	965,998
Total assets	38,429,352	35,442,431	33,251,009	30,037,868	27,072,807	18,974,136	15,057,770	13,036,144	11,270,492	9,679,773
Liabilities										
Insurance liabilities - Long term	29,668,160	26,174,239	23,892,127	22,195,938	20,634,162	16,686,639	13,989,661	12,063,506	10,453,542	9,238,184
Insurance liabilities - Unit linked	6,569,799	7,638,055	8,125,091	6,668,504	5,130,753	1,361,066	494,760	242,897	54,507	-
Other liabilities	2,191,393	1,630,137	1,233,791	1,173,426	1,307,892	926,431	573,349	729,741	762,443	441,589
Total liabilities	38,429,352	35,442,431	33,251,009	30,037,868	27,072,807	18,974,136	15,057,770	13,036,144	11,270,492	9,679,773

The numbers for the period 2014 -2010 are based on the Sri Lanka Financial reporting standards (SLFRS) effective from 1 January 2012 and 2009-2005 are based on SLAS.

Financial year		2014	2013	2012	2,011	2010	2009	2008	2007	2006	2005
Investor information											
Return on net assets	%	7.21	10.89	20.87	19.31	18.37	28.32	20.85	26.03	30.03	35.12
Net assets per share	LKR	158.92**	149.12**	135.45	119.51	108.90	85.98	74.13	67.51	58.11	48.91*
Market price per share - 31 December	LKR	302.00	250.70	329.80	247.40	280.00	178.00	115.00	150.75	135.50	85.00
Basic earnings per share	LKR	11.46**	16.24**	28.26	23.08	20.01	24.35	15.46	17.57	17.45	17.18*
Price earnings ratio	times	26.35	15.44	11.67	10.72	14.00	7.31	7.44	8.58	7.77	4.95*
Market capitalisation	LKR Mn	9,060	7,521	9,894	7,422	8,400	5,340	3,450	4,523	4,065	2,550
Dividend per share	LKR	2.00	2.50	9.00	9.00	9.00	12.50	3.00	9.50	8.25*	4.17*
Dividend payout ratio	%	17.45**	15.40**	31.85	38.99	44.97	51.33	19.40	54.07	47.28	24.27
Employee information											
Revenue per employee	LKR Mn	13.75	13.88	15.71	16.58	19.47	12.28	10.02	9.21	9.06	9.57
Net profit per employee	LKR' 000	342	533	1,055	887	769	929	640	826	986	1,153
Number of permanent employees	nos.	1,032	936	804	780	780	786	725	638	531	447

* Adjusted for subsequent bonus issues.

** Adjusted to reflect the issue of 749,370 new ordinary shares as a scrip dividend on 27 January 2015.

Share Information

Shareholdings

As at 31 December 2014 there were 1,758 registered shareholders.

Distribution of Ordinary Shares

Shareholding	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
1 - 1,000	1,586	342,065	1.15	5	749	-	1,591	342,814	1.15
1001 - 10,000	156	398,780	1.33	3	6,526	0.02	159	405,306	1.35
10,001 - 100,000	6	105,601	0.35	-	-	-	6	105,601	0.35
100,001 - 1,000,000	-	-	-	-	-	-	-	-	-
Over 1,000,000	1	26,182,162	87.27	1	2,964,117	9.88	2	29,146,279	97.15
Total	1,749	27,028,608	90.10	9	2,971,392	9.90	1,758	30,000,000	100.00

The percentage of shares held by the public 2.85%.

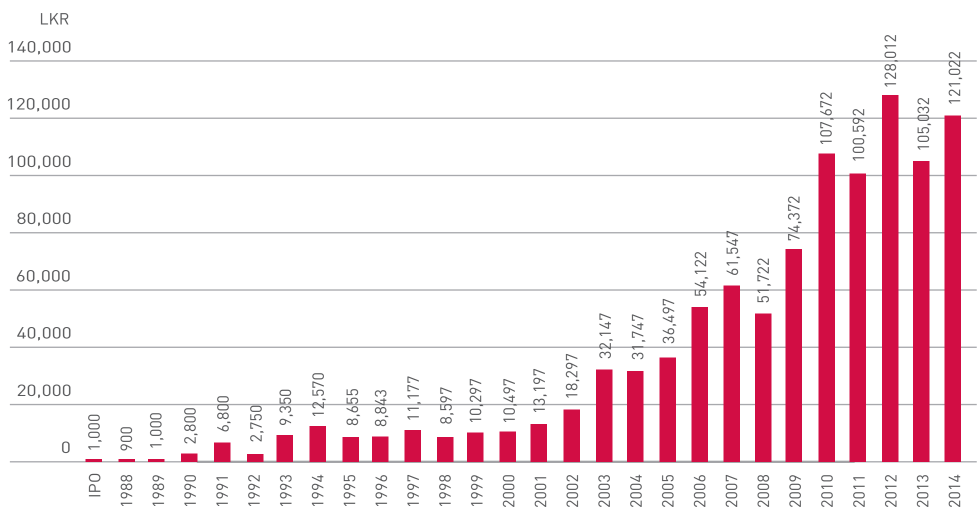
Categories of Shareholdings

Categories of Shareholders	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	1,694	742,802	2.48	8	7,275	0.02	1,702	750,077	2.50
Institutional	55	26,285,806	87.62	1	2,964,117	9.88	56	29,249,923	97.50
Total	1,749	27,028,608	90.10	9	2,971,392	9.90	1,758	30,000,000	100.00

Substantial Shareholdings

Name of the Shareholder	No. of Shares	%
AIA Holdings Lanka (Private) Limited	26,182,162	87.27
AIA Company Limited	2,964,117	9.88

Value of LKR. 1,000 invested at AIA IPO



20 Largest Shareholders

The 20 largest shareholders as at 31 December 2014 are given below.

Name of the Shareholder	31 December 2014	
	No. of Shares	%
AIA Holdings Lanka (Private) Limited	26,182,162	87.27
AIA Company Limited	2,964,117	9.88
Mr. Srikantha Rasaratnam	37,498	0.12
Dawi Investment Trust (Private) Limited	15,000	0.05
Mr. G N Wickramasekera Harry Dias	15,000	0.05
Miss. A S Gunaratne	15,000	0.05
Mr. Chandra Jayaratne	12,898	0.04
Deutsche Bank AG as trustee to Assetline Income Plus Growth Fund	10,205	0.03
Mr. Aravinthan Sivarajah	9,650	0.03
People's Leasing and Finance PLC/ Mr. Chamila Damion Kohombanwickramage	9,482	0.03
Waldock Mackenzie Limited / Dr. Hennedige Srinath Dilanjan Soysa	8,043	0.03
Mr. Varatharajah Selvaratnam	7,498	0.02
Mr. Sivagnanam Sathasivam	7,498	0.02
Mr. S K Kader / Mrs. N M Kader	7,498	0.02
Mr. S P K Chamara Perera	7,255	0.02
Mr. H Janak Bhagwandas	7,048	0.02
Mrs. Thevarajah Sithamparam	6,998	0.02
Mr. N S J Nawaratne	6,600	0.02
People's Leasing and Finance PLC/ Mr. L P Hapangama	6,348	0.02
Mr. R T Manatunga / Mrs. C N C Manatunga	6,000	0.02
	29,341,798	97.76
Others	658,202	2.24
Total	30,000,000	100.00

The 20 largest shareholders as at 31 December 2013 are given below.

Name of the Shareholder	31 December 2013	
	No. of Shares	%
AIA Holdings Lanka (Private) Limited	26,182,162	87.27
AIA Company Limited	2,964,117	9.88
Mr. R Srikantha Rasaratnam	37,498	0.12
Miss. A S Gunaratne	15,000	0.05
Mr. N W H D Gunaratne	15,000	0.05
Mr. Chandra Jayaratne	12,898	0.04
Dawi Investment Trust (Pvt) LTD	10,000	0.03
Mr. Aravinthan Sivarajah	9,650	0.03
Waldock Mackenzie LTD / Mr. Chamila Damion Kohombanwickramage	9,482	0.03
Mr. Varatharajah Selvaratnam	7,498	0.02
Mr. Sivagnanam Sathasivam	7,498	0.02
Mr. S K Kader / Mrs. N M Kader	7,498	0.02
Mr. P K C P Samarasinghe	7,255	0.02
Mr. J B Hirdaramani	7,048	0.02
Mrs. Thevarajah Sithamparam	6,998	0.02
Mr. N S J Nawaratne	6,600	0.02
Waldock Mackenzie LTD / Dr. Hennedige Srinath Dilanjan Soysa	6,510	0.02
Mr. R T Manatunga / Mrs. C N C Manatunga	6,000	0.02
Mr. A P Perera	6,000	0.02
Dr. H R Wickremesinghe / Mr. V K Wickremesinghe	5,600	0.02
	29,330,312	97.72
Others	669,688	2.28
Total	30,000,000	100.00

Share Information

Share Valuation

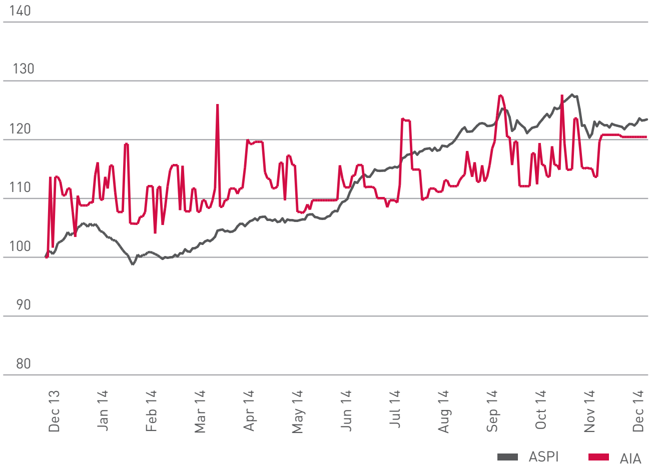
The market value of the Company's ordinary shares as at 31 December 2014 was LKR 302.00 (31 December 2013 - LKR 250.70)

Record of script Issues

Year of Issue	Type of Issue	Ratio
1994	Bonus	1 : 5
1995	Bonus	1 : 4
1996	Bonus	1 : 4
1997	Bonus	1 : 15
2005	Bonus	1 : 2
2015	Bonus	1 : 40

CSE ASPI Index Vs AIA Share Price

Indexed to 31 December 2013



Share Performance

	2014	2013
No. of transactions	654	1,389
No. of shares traded	68,009	234,800
Total value of shares traded (LKR.)	19,576,828	75,653,276
CSE Turnover (LKR. Mn)	341,359	199,835
AIA market cap. (LKR. Mn)	9,060	7,521
CSE market cap. (LKR. Mn)	3,104,864	2,459,897
All Share Price Index - 31 December	7,298.95	5,912.78
AIA Share Price - 31 December (LKR.)	302.00	250.70
AIA Share Price - High (LKR.)	324.00	375.00
AIA Share Price - Low (LKR.)	251.00	250.70
Earnings per share (LKR.)	11.46	16.24
P/E Ratio (times)	26.35	15.44
Net assets per share (LKR.)	158.92*	149.12*
Return on net assets (%)	7.21	10.89

* Adjusted to reflect the issue of 749,370 new ordinary shares as a scrip dividend on 27 January 2015.

Our local and regional reach

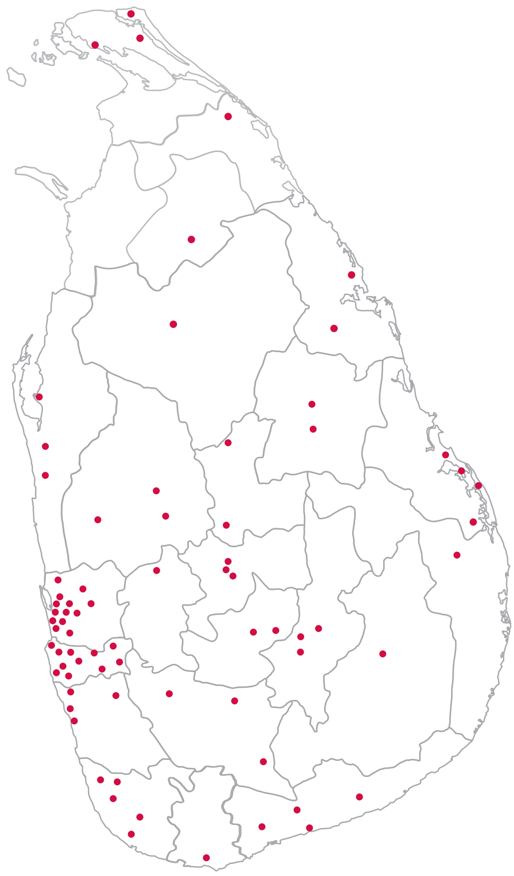
AIA footprint in Asia

Australia
Brunei
China
Hong Kong
India
Indonesia
Korea
Macau
Malaysia
Myanmar*
New Zealand
Philippines
Singapore
Sri Lanka
Taiwan
Thailand
Vietnam

* Representative office

Branch Office Network in Sri Lanka

Ambalangoda
Ambalantota
Ampara
Anuradhapura
Avissawella
Badulla
Balangoda
Bandarawela
Battaramulla
Batticaloa
Beliatta
Chilaw
Colombo
Dambulla
Dankotuwa
Elpitiya
Embilipitiya
Galle
Gampaha
Gampola
Higurakgoda
Homagama
Horana
Ja-ela
Jaffna
Kaduwela
Kalawanchikudi
Kalmunai
Kalutara
Kandana
Kandy
Kanthale
Karapitiya
Kegalle
Kilinochchi
Kiribathgoda
Kodikamam
Kotahena
Kottawa
Kuliyapitiya
Kurunegala
Maharagama
Matale
Matara
Mirigama
Minuwangoda
Moneragala
Moratuwa
Mount Lavinia
Negombo
Nelliady
Nikaweratiya
Nittambuwa
Nugegoda
Nuwara Eliya
Pilimathalawa
Polonnaruwa
Puttlam
Ragama
Ratnapura
Tissamaharma
Trincomalee
Valaichchenai
Vavuniya
Wadduwa
Wariyapola
Wattala
Welimada
Wennappuwa
Yakkala



Distribution Network

Head Office
AIA Insurance Lanka PLC
No 75 Kumaran Ratnam Road
Colombo 2
Tel : 011 231 0300 / 231 0000
Fax : 011 231 0076
E-mail : lk.info@aia.com
Web : www.aialife.com.lk
Hotline : 011 231 0310
Fax : 011 471 5892

Non-life Insurance Division
UPTO Building
No 95 Sir Chittampalam A
Gardiner Mawatha Colombo 2
Tel : 011 231 0400
Fax : 011 231 0011

AIA Life Link
No 1 Kumaran Ratnam Road
Colombo 2
Tel : 011 231 0310
Fax : 011 471 5892

AIA Distribution Network Branch Office Network

Ambalangoda
118A/2/1 GMA Building
Galle Road Ambalangoda
Tel : 091 225 8969
Fax : 091 225 8994

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

Ambalantota Agency 1
143 Main Street Ambalantota
Tel : 047 222 3359 / 437 9672
Fax : 047 222 5022

Ambalantota R2
143 Main Street Ambalantota
Tel : 047 222 3359 / 437 9672
Fax : 047 222 5022

Ambalantota City
No 139 -1/2 Thawaluwila
Food City Building Ambalantota
Tel : 047 222 3099 / 102
Fax : 047 222 3099

Ambalantota City R1
No. 139 -1/2
Thawaluwila Food City
Building Ambalantota
Tel : 047 222 3099 / 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
514/3B 1st Floor
Samanala Building
Maithreepala Senanayaka
Mawatha Anuradhapura
Tel : 025 222 7300 / 222 7301
Fax : 025 222 7301

Anuradhapura R1
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 R1
93/1/1 Rathnapura Road
Avissawella
Tel : 036 223 2597/036 223 3550
Fax : 036 223 3550

Badulla
King City 18/1/2
Dharmadutha Road Badulla
Tel : 055 222 2848 / 223 0772
Fax : 055 222 5780

Badulla R1
King City 18/1/2
Dharmadutha Road Badulla
Tel : 055 222 2848 / 223 0772
Fax : 055 222 5780

Balangoda
51-1/1 Kaltota Road
Balangoda
Tel : 045 228 9516
Fax : 045 228 9517

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

Battaramulla
1006/4/A Pannipitiya Road
Battaramulla
Tel : 011 288 9809-11
Fax : 011 552 5394

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

Beliatta
No 14 1st Floor
Dickwella Road Beliatta
Tel : 047 225 1126 / 27
Fax : 047 225 1127

Chilaw
109/1 Colombo Road Chilaw
Tel : 032 222 1217
Fax : 032 222 3027

Colombo Main
101/1 Sir Chittampalam A
Gardiner Mawatha Colombo 2
Tel : 011 231 0262 / 231 0293
Fax : 011 231 0259

Colombo Region 1
101/1 Sir Chittampalam A
Gardiner Mawatha Colombo 2
Tel : 011 231 0781
Fax : 011 231 0259

Colombo Region 2
101/1 Sir Chittampalam A
Gardiner Mawatha Colombo 2
Tel : 011 231 0289 / 231 0489
Fax : 011 231 0259

Colombo Region 3
101/1 Sir Chittampalam A
Gardiner Mawatha Colombo 2
Tel : 011 231 0264 / 231 0272
Fax : 011 231 0259

Colombo Region 4
100 KumaranRatnam Road
Colombo 2
Tel : 011 231 0006 / 231 0350
Fax : 011 231 0120

Colombo Region 5
101/1 Sir Chittampalam A
Gardiner Mawatha Colombo 2
Tel : 011 231 0010 / 231 0250
Fax : 011 231 0259

Colombo Region 6
101/1 Sir Chittampalam A
Gardiner Mawatha Colombo 2
Tel : 011 231 0249 / 231 0265
Fax : 011 231 0259

Dambulla
734/1 Anuradhapura Road
Dambulla
Tel : 066 228 3335
Fax : 066 228 3336

Dambulla R1
734/1 Anuradhapura Road
Dambulla
Tel : 066 228 3465
Fax : 066 228 3336

Dankotuwa
No 163/A Pannala Road
Dankotuwa
Tel : 031 226 5210 /
031 226 5220
Fax : 031-226 5220

Elpitiya
No 301/1 Ambalangoda Road
Egala Elpitiya
Tel : 091 229 0634 / 229 0635
Fax : 091 229 0634

Embilipitiya
1st 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 City
No 30-1/1 Sri Dewamitta
Road China Garden Galle
Tel : 091 2226 227
Fax : 091 2226 228

Gampaha
85 Bauddhaloka Mawatha
Gampaha
Tel : 033 222 1177 / 222 6840 /
222 7393 / 223 4808
Fax : 033 223 4700

Gampaha Metro
No 161/1/1 Ja-Ela Road
Gampaha
Tel : 033 223 9246 / 223 9247
Fax : 033 223 9247

Gampaha R1
85 Bauddhaloka Mawatha
Gampaha
Tel : 033 222 7393 / 222 6840
/ 223 4808
Fax : 033 223 4700

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

Higurakgoda
No 06 Airport Road Higurakgoda
Tel : 0272245799 / 0272245798
Fax : 0272245799 / 0272245798

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

Horana
135 Panadura Road Horana
Tel/Fax : 034 226 2359

Ja-ela
112/C Negombo Road Ja-ela
Tel/Fax : 011 224 8222 / 224 8223 / 224 8224

Jaffna
62/6 Stanely Road Jaffna
Tel/Fax 021 222 1215 / 021 222 1216

Kaduwela
No 296A/1 New Kandy Road Kothalawala Kaduwela Sri Lanka
Tel : 011 253 8856
Fax : 011 253 8859

Kalawanchikudi
Batticola Road Kalawanchikudi
Tel : 065 225 1933

Kalmunai
No 140/1/2 Main Street Kalmunai
Tel : 067 222 5262
Fax : 067 2225 262

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

Kandana
No 48/04/1/1 Negombo Road Kandana
Tel/Fax : 011 2 226 320 / 011 2 226 146

Kandy
No 90-92 6th Floor Commercial Bank Building Kotugodella Veediya Kandy
Tel : 081 222 2321 / 220 0100 / 220 0101 / 222 2322
Fax : 081 223 2668

Kandy R1
No 90-92 6th Floor Commercial Bank Building Kotugodella Veediya Kandy
Tel : 081 220 0100 / 220 0101 / 222 2322
Fax : 081 223 2668

Kanthale
No 72/2 Main Street Kanthale
Tel : 026 223 4903 / 026 223 4904 / 026 223 4902

Karapitiya
461 Hirimbura Road Karapitiya Galle
Tel : 091 222 6830
Fax : 091 224 6627

Karapitiya R1
No 183/1 Hirimbura Cross Road Karapitiya Galle
Tele : 091 223 1614 / 613 (Gen)
Fax : 091 223 1613

Kegalle
447/8 Main Street Kegalle
Tel : 035 222 3141 / 222 2835
Fax : 035 223 1780

Kegalle R1
447/8 Main Street Kegalle
Tel : 035 222 3141 / 222 2835
Fax : 035 223 1780

Kilinochchi
470/2 Kandy Road Kilinochchi
Tele : 021 228 5514
Fax : 021 228 5513

Kiribathgoda R1
412/2 Gaala Junction Kandy Road Kiribathgoda
Tel : 011 290 1660
Fax : 011 290 1666

Kiribathgoda R2
412/2 Gaala Junction Kandy Road Kiribathgoda
Tel : 011 290 1664
Fax : 011 290 1666

Kodikamam
Kachchai Road Kodikamam
Tel : 021 2050 388
Fax : 021 2050 389

Kotahena
293 Kandy Road Peliyagoda
Tel : 011 298 7950
Fax : 298 7951

Kottawa
Senadheera Alignment Center No 456/2 Highlevel Road Makumbura

Kuliyapitiya
149/7 Main Street Kuliyapitiya
Tel : 037 228 4222
Tel/Fax : 037 228 1867

Kuliyapitiya city
149/7 Main Street Kuliyapitiya
Tel : 037 228 2224
Tel/Fax : 037 228 2224 / 225

Kuliyapitiya R1
149/7 Main Street Kuliyapitiya
Tel : 037 228 4222
Tel/Fax : 037 228 1867

Kurunegala
110/1 Noel Seneviratne Mawatha Colombo Road Kurunegala
Tel/Fax : 037 222 3540 / 222 7707 / 222 9998

Kurunegala City
No 17 Rajapihilla Road Kurunegala
Tel : 037 222 2668 / 222 2828
Fax : 037 222 2668

Kurunegala R1
110/1 Noel Seneviratne Mawatha Colombo Road Kurunegala
Tel : 037 222 1217 / 222 7707
Fax : 222 7707/ 222 9998

Kurunegala R2
110/1 Noel Seneviratne Mawatha Colombo Road Kurunegala
Tel/Fax : 037 222 3990 /222 7707
Fax : 222 7707/ 222 9998

Maharagama
201 Wattegedera Junction High Level Road Maharagama
Tel : 011 283 7611
Fax : 011 283 7488

Mahiyanganaya City
20/1, 22/ 1 First Floor Darashana Bulding Kandy Road (South) Mahiyangana
Tel : 055 225 8475
Fax : 055 225 8476

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

Matale R1
181 Nimali Building Trincomalee Street Matale
Tel/Fax : 066 222 6625
Fax : 066 223 2401-2

Matara
24 E H Cooray Building 3rd Floor Anagarika Dharmapala Mawatha Matara
Tel : 041 222 2844 / 222 0674 / 222 6344
Fax : 041 222 7344

Matara City
No 129 / 2 Anagarika Dharmapala Mawatha Matara
Tel : 041 223 7041 / 041 223 7042
Fax : 041 223 7042

Matara R1
24 E H Cooray Building 3rd Floor Anagarika Dharmapala Mawatha Matara
Tel : 222 0674 / 222 6344 / 0412220674
Fax : 041 222 7344

Mirigama
19 Negombo Road Mirigama
Tel : 033 227 3328 / 73329
Fax : 033 227 3328

Minuwangoda
Sanasa Super Complex First Floor Veyangoda Road Minuwangoda
Tel : 011 229 9364 / 229 9374

Moneragala
308A Kachcheri Junction Wellawaya Road Moneragala
Tel : 055 227 6496
Fax : 055 227 6211

Distribution Network

Moratuwa R1
529/1 Galle Road
Rawathawatte Moratuwa
Tel/Fax : 011 264 8020 / 264 8021 / 264 8022

Moratuwa R2
529/1 Galle Road
Rawathawatte Moratuwa
Tel/Fax : 011 2648020 / 264 8021 / 264 8022

Moratuwa R3
529/1 Galle Road
Rawathawatte Moratuwa
Tel/Fax : 011 264 9009 / 264 8021 / 264 8022

Mount Lavinia
230, Galle Road Mount Lavinia
Tel : 011 271 0267 (Gen)
Fax : 011 271 0268

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

Negombo R1
349/17 Main Street Negombo
Tel/Fax : 031 222 2266 / 223 5115

Negombo R2
349/17 Main Street Negombo
Tel/Fax : 031 222 2266 / 223 5115

Nelliady
109/1 Jaffna Road Nelliady
Jaffna
Tel/Fax : 021 226 2806

Nikaweratiya
78/2 Wanninayake Building
Nikaweratiya
Tel : 037 226 0774 / 226 0775
Fax : 037 226 0774

Nittambuwa
195/2/3 Colombo road
Nittambuwa
Tel : 033 229 8279
Fax : 033 229 8279

Nugegoda
No 513/3/1 High Level Road
Delkanda Nugegoda
Tel : 011 2804 009
Fax : 011 2804 009

Nuwara Eliya
4th Floor No 86
Kandy Road Nuwara Eliya
Tel/Fax : 052 222 3478

Pilimathalawa
No 369/A Colombo Road
Pilimathalawa

Polonnaruwa
68/1 Batticaloa Road
Polonnaruwa
Tel/Fax : 027 222 3108

Puttlam
17/1 Kurunegala Road
Puttalam
Tel : 032 226 6955 / 226 7112

Ragama City
No 43/1/1 Kadawatha Road
Ragama (In front of Cargills Food city)
Tel : 011 295 1078
Fax : 011 295 1078

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

Tissamaharma City
No.02 Munasinghe Building
Wellawaya Road Debarawewa
Tissamaharama
Fax : 047 223 9376 / 377

Trincomalee
5A Main Street Trincomalee
Tel/Fax : 026 222 7949 / 222 6095-6

Trincomalee R1
5A Main Street Trincomalee
Tel/Fax : 026 222 7949 / 222 6095-6

Valichchenai
Karuwakeni Main street
Valichchenai

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

Wadduwa
No 557/1 Galle Road Wadduwa

Wariyapola
No 90 Putthalam Road
Wariyapola
Tel : 037 226 8615
Fax : 037 226 8616

Wattala
No 329/1 Elmo Tower
Negombo Road
Kerangapokuna Wattala
Tel : 0112 945 272 / 1
Fax : 011 294 5271

Welimada
No 232,
1st Floor Nuwaraeliya Road
Welimada
Tel : 0572246878 / 2245177
Fax : 0572245177

Wennappuwa
Chilaw Road Wennappuwa
Tel/Fax : 031 22 55 510 / 22 55 600

Yakkala
No: 91/D/2 Kandy Road
Yakkala
Tel : 033 223 6736 / 223 6763
Fax : 033 223 6763

Area Development Office Network

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

Angunakolapelessa
No. 1 Pragathi Building
Middeniya Road
Angunakolapelessa
Tel : 047 222 9130

Baddegama
Hikkaduwa Road Baddegama
Tel : 091 229 2150

Bandaragama
No 45/1 1st floor Horana Road Bandaragama
Tel : 038 228 9277

Dehiattakandiya
New Town Dehiattakandiya
Tel/Fax : 027 225 0447

Embilipitiya
No 70 New Town Road
Pallegama Embilipitiya

Hali Ela
No 65 Badulla Road Hali Ela
Tel : 055 229 5576 / 229 5575

Kadawatha
No 468/03 Kandy Road
Kadawatha
Tel : 011 292 0270

Kamburupitiya
Pathirana Building
2nd Floor Kirinda Road
Kamburupitiya
Tel : 041 229 4477 / 229 4818

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

Mawanella
No 257 Second Floor
New Colombo Kandy Road
Mawanella
Tel : 035 322 0550

Middeniya
1st Floor Liyanage building
Weeraketiya Road Middeniya
Tel : 047 224 8095

Piliyandala
130/5 Second Floor
Horana Road Kesbewa
Tel : 011 2 703 644

Tangalle
8A Medaketiya Road Tangalle
Tel : 047 224 0166 / 721 1580

Thissamaharama
No 173/1 Iresha Building
Kachcheriyagama
Thissamaharama
Tel : 047 223 9096

Weliweriya
342A New Kandy Road
Weliweriya
Tel : 033 352 6888

Glossary

Actuary
A person who provides solutions to insurance-related problems using applied mathematics (in particular, probability) to provide solutions to insurance-related problems. Actuarial techniques are used to design new insurance products and to assess the profitability of new and existing business.

Agent
An individual who is an independent contractor authorised to carry out transactions on behalf of another, such as the sale of insurance policies. Insurance agents usually earn commission or a fee on the sale of a policy. In Sri Lanka they are tied to a particular insurance company and offer a limited selection of products.

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 levels, to smooth out the effect of large, one-off payments.

Annual report
An annual report is a comprehensive report a company's activities through out the preceding year. Annual reports are intended to give shareholders and other intended people information about the company's activities and financial performance.

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
Non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables or as at fair value through profit or loss. Available for sale financial instruments are measured at fair value, with movements in fair value 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 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 employees 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, note issue, supervision of commercial banks, management of exchange reserves and the national currency's value, as well as acting as the government banker.

CEO
Abbreviation for Chief Executive Officer. The CEO is the head of a company and oversees strategic planning and operational activities.

CFO
Abbreviation for Chief Financial Officer. The CFO is responsible for a company's accounting and financial activities, and usually reports to the Chief Executive Officer.

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.

Claims ratio
Claims incurred, adjusted for any reinsurance, expressed as a percentage of net premiums earned. Sometimes referred to as loss ratio.

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Commission Paid
Payment made to an agent or other 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 D. These are usually issued by a credit rating agency or credit bureau.

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.

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 - is a guide to how well a company is performing. Companies often use a weighted average of shares outstanding over the reporting term.

Economic value
A financial performance measure used to evaluate a company's true profit and the creation of wealth for 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 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, expressed as a percentage of assets.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value through profit or loss (FVTPL)
A financial asset or financial liability that is measured at fair value in the statement of financial position with gains and losses arising from movements in fair value being presented in the consolidated income statement as a component of the profit or loss for the year.

Final dividend
The dividend paid by a company to shareholders at the end of the financial year.

Gross Domestic Product (GDP)
The total value of all goods and services produced domestically by a country each year. Can be calculated as gross national product minus income from abroad. A key measure of national economic health.

Gross written premium
The total earnings or 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 subsequent period.

Health insurance
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.

IFRS
International Financial Reporting Standards. These are accounting regulations designed to ensure comparable Balance Sheet preparation and disclosure, and are the standards that all public listed companies in the European Union are required to use.

In-force
An insurance policy is "in-force" from its start date until the date it is terminated.

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 over a period of time.

Insurance
A contract 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 premium revenue
This includes gross written premium of life and Non-life business and comprised of change in unearned premium reserve applicable for current financial year.

Insurance risk
The potential loss resulting from inappropriate underwriting, mispricing, adverse expense, lapse, mortality and morbidity experiences. Under IFRS, 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. 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 decreased based on a review of future cash flows.

Liability insurance
Insurance designed to protect the policyholder in the event of a claim by a third party alleging that negligence or inappropriate action has resulted in bodily injury or damage to property. Can cover a range of personal, professional and commercial risks.

Life insurance
Promises the payment of an agreed sum of money upon the death of the insured within a specified period of time. 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 the company has in circulation by 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
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
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 wound up.

Net Combined Ratio (NCR)
A financial measure of insurance underwriting profitability that expresses the total of claim costs,

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commission and expenses as a percentage of premiums. A NCR below 100% indicates profitable underwriting.

Net premium earned
The proportion of net written premiums recognised for accounting purposes as income in a given period.

Net written premium
Total gross written premium for a given period, minus premiums paid over or "ceded" to reinsurers.

Net profit
The amount left over after deducting tax, interest, depreciation, fees, minority interests and extraordinary charges from sales revenue. Also known as net earnings, or net income.

New business
Term used to describe the value of long-term savings policies sold to new and existing customers. Includes premium increases on existing business.

Ordinary share
Where ownership of a company is 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 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/Earnings ratio (P / E ratio)
Share price divided by earnings per share over the latest 12-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
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 of time, 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. Also the yield from a fixed income security.

Recession
A period of general economic decline. Specifically, a decline in Gross Domestic Product (GDP) for two or more consecutive quarters.

Regulatory body
An organisation with statutory powers to lay down a framework within which member companies must operate.

Reinsurance
A form of insurance bought by insurance companies to protect themselves from the risk of large losses. One insurer pays to place part of an insured risk or an entire book of business with one or more other insurance companies, known as the reinsurers.

Return
For savings, the difference between the original sum invested and the final value of income or capital growth, given as a percentage. For shares, the overall investment performance based on the movement in the price of the shares (gain or loss) and the dividend income from the shares.

Return on Net Assets (RONA)
Usually calculated as post-tax profit divided by equity (total assets minus total liabilities), expresses 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
The measurable probability of loss or less-than-expected returns from an investment, asset or business activity.

Risk based capital
Capital allocated by a company to cover risks arising from the nature of its business and the markets in which it operates, based on an assessment of those risks and the likelihood of adverse developments. For example, banks may be required to set aside capital to cover their exposure to the risk of customers defaulting on the repayment of loans.

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)
Official Sri Lankan regulatory body responsible for investor protection and regulation of the securities industry and companies quoted on 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 Board of Directors.

Shareholders' funds
Shareholders' funds represent the assets that remain once all a company's liabilities have been accounted for. This also equates to the capital of the company, plus any profits that have been retained by the business.

Stakeholder
Any individual or organisation with an interest in a company.

Statement of Financial Position/Balance Sheet
A statement showing the financial position of a business on a specific date by listing its assets (what it owns) and its liabilities (the claims on its assets, or what it owes).

Stock
Often used as an alternative word for share, especially in the US. However, it can refer specifically to fixed-interest investments, such as bonds and gilt-edged stocks, which represent a loan to the issuer, rather than shares, which signify part ownership of a company.

Stock exchange
A marketplace where stocks and shares and other financial instruments can be traded.

Surrender
The act of cancelling or cashing in the proceeds of an insurance contract before it becomes payable or reaches its maturity date for a surrender value.

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 of the issue not taken up by the public.

Underwriting profit
The difference between insurance premiums earned and claims and expenses paid over a given period. If premiums are the higher figure, there is an underwriting profit; if they are lower, there is an underwriting loss. Underwriting profit excludes investment income, so is a commonly used method of evaluating the performance of a general insurance company.

Unearned premiums
Premiums received by an insurer relating to cover provided outside the current accounting period. Such premiums are not normally treated as income until they have been "earned" during the period to which they relate.

Unearned Premium Reserve (UPR)
The amount set aside from premiums written before the accounting date to cover risks incurred after that date.

Unexpired Risk Reserve (URR)
The reserve required to cover the claims and expenses that are expected to emerge from an unexpired period of cover.

Unit trust
Fund of 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 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. 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

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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 of time. If it moves up and down rapidly or unpredictably, it has high volatility; if it is more stable or rarely changes, it has low volatility.

Warrant

A tradable security that gives the holder the right to buy a share or bond at a fixed price on a future date.

Withholding tax

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

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 29 Annual General Meeting of AIA Insurance Lanka PLC will be held on Friday, 27 March 2015 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 2014 together with the Annual Report of the Board of Directors and the Report of the Auditors thereon.
2. To re-elect Ms. Sally Wan as a Director who retires by rotation in terms of Article 30 of the Articles of Association of the Company.
3. To re-elect Mr. Deepal Sooriyaarachchi as a Director who retires by rotation in terms of Article 30 of the Articles of Association of the Company.
4. To ratify the total donations of LKR 5.2 million which had been made by the Company during the year ended 31 December 2014 which amount is within the aggregate thereof amounting to 1% of the average profits after tax for the preceding three years.
5. 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 2015 not exceeding 1% of the average profits after tax of the Company for the preceding three years.
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
10 February 2015

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 holding 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.

Notes

Notes

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. Mitchell David New	or failing him
Mr. Manoj Ramachandran	or failing him
Mr. Heerak Basu	or failing him
Ms. Sally Yuen Wai Wan	or failing her
Mr. Deepal Sooriyaarachchi	

as my/ our Proxy to represent me/ us and to vote on my/ our behalf at the Twenty Ninth Annual General Meeting of the Company to be held on Friday, 27 March 2015 at 10.00 a.m. at 'Kings Court', Cinnamon Lakeside Hotel Colombo, No. 115, Sir Chittampalam A Gardiner Mawatha, Colombo 02 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 Fifteen.

....
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.

Instructions as to completion of Form of Proxy

1. Kindly perfect the Form of Proxy after filling in legibly your full name and address signing in the space provided and filling in the date of signature.

2. The persons mentioned on the reverse hereof, are Directors of the Company and they are willing to represent any Shareholder/s as Proxy, and vote as directed by the Shareholder. They will not, however be willing to speak or move or second any amendments to the resolutions or make any statement in regard thereto on behalf of any Shareholder.

3. If another Proxy is preferred, delete the names printed, add the name of the Proxy preferred and initial the alteration.

4. Please indicate your preference with 'X' in the appropriate cages provided in the Form of Proxy, as to how your Proxy is to vote on the resolutions. If no indication is given the Proxy in his/her discretion may vote as he/she thinks fit.

5. In the case of a corporate member the Proxy Form must be executed under its common seal or by a duly authorised officer of the entity in accordance with its Articles of Association or Constitution. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed Form of Proxy, if it has not already been registered with the Company.

6. The completed Form of Proxy should be deposited at the registered office of the Company at No. 75, Kumaran Ratnam Road, Colombo 02 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. 07 of 2007.
- Insurance Company licensed by the Insurance Board of Sri Lanka.
- The shares of the Company are listed on the Colombo Stock Exchange.

Tax Payer Identification Number (TIN)
134001356

VAT Registration Number
134001356 – 7000

Directors
Gordon Timmins Watson – Chairman
Mitchell David New
Manoj Ramachandran
Heerak Basu
Sally Yuen Wai Wan
Deepal Sooriyaarachchi

Chief Executive Officer
Shah Rouf

Deputy Chief Executive Officer
Upul Wijesinghe

Company Secretary
Chathuri Munaweera

Accounting year
31 December

Subsidiaries

Name of the Company	Holding	Principal Activity
Rainbow Trust Management Limited	100%	Trust Management
AIA General Insurance Lanka Limited	100%	General Insurance

Registered Office/ Head Office
No. 75, Kumaran Ratnam Road, Colombo 02
Telephone : 0094-11-2310000
Fax : 0094-11-2447620 / 2310076
E-mail : lk.info@aia.com
Web : www.aialife.com.lk

Company Registrars
SSP Corporate Services (Private) Limited
No. 101, Inner Flower Road, Colombo 03
Telephone: 0094-11-2573894 / 2576871

Auditors
PricewaterhouseCoopers
Chartered Accountants
No. 100, Braybrooke Place
Colombo 02,
Sri Lanka.

Appointed Actuary – Life Insurance
Frank Munro
AIA Insurance Lanka PLC
No. 75, Kumaran Ratnam Road, Colombo 2
Sri Lanka

Consultant Actuaries – General Insurance
NMG Financial Services Consulting Pte Ltd
No. 65, Chulia Street #37-07/08
OCBC Centre
Singapore 049513

Lawyers
Julius & Creasy
Attorneys-at-Law & Solicitors
No. 41, Janadhipathi Mawatha
Colombo 01

Reinsurance Panel - Life Insurance
Munich Re
RGA International Reinsurance Company Limited

Reinsurance Panel – General Insurance
Treaty Reinsurers
Aviva Re
National Insurance Trust Fund
Munich Re
ACR
Scor Re
Labuan Re
Malaysian Re
GIC Re
Trust Re

Facultative Reinsurers
Chubb Group
Asia Capital Reinsurance Group
General Insurance Corporation of India
Lloyds Syndicates

Bankers
Standard Chartered Bank PLC
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
National Savings Bank PLC
Deutsche Bank
Union Bank PLC
Pan Asia Banking Corporation PLC
Seylan Bank PLC
DFCC Vardhana Bank

Custodian Banks
Bank of Ceylon
Deutsche Bank AG, Colombo Branch

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Colombo 02, Sri Lanka

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