

Allianz Lanka

Allianz Insurance Lanka Ltd. | Allianz Life Insurance Lanka Ltd.

Annual Report 2010

Allianz 

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Vision

To be the first choice insurer for customers

To be the preferred employer in the insurance industry

To be the number one insurer for creating shareholder value

Mission

As a responsible, customer focused market leader we will strive to understand the insurance needs of consumers and translate them into affordable products that deliver value for money

Guiding Principle

The customer is our most valuable asset and everything we do is aimed at either winning a customer or retaining a customer

Core Values

We value the highest ethical standards

We apply the highest ethical standards to everything we do. Nothing is more important than our reputation for integrity and honesty and we will work to ensure that every Allianz employee continually earns and protects our reputation

We value commitment to excellence

We apply the highest standards of excellence to the products we develop, the services we provide and the relationships we build with our business partners

We value respect for individuals

We believe every job at Allianz is important. We recognise, respect, and appreciate the contributions of each individual by creating a culture that recognises and values our differences - not only in who we are but also in how we think and the way in which we carry our responsibilities

We value our investment in our people

We cultivate an environment that offers employees the opportunity for growth and advancement, personal satisfaction in work accomplishments, and the means to share in the Company's success

About Allianz

Allianz Lanka is a fully owned subsidiary of financial services conglomerate Allianz SE headquartered in Munich, Germany, and now a key player in the local insurance arena. Since inception in 2005, Allianz Lanka has been the fastest growing insurer in Sri Lanka, achieving many 'firsts' that have set the industry benchmark.

Allianz has had a record of excellence over the years, which has established the Group as being a top player in the financial services arena the world over.

Despite the global financial crisis, and recession in Europe, USA and Japan, Allianz maintained its stability and market position among other industry players and Allianz share price remained high. In the annual review of the Dow Jones Sustainability Indexes (DJSI), Allianz retained its position among the sector leaders, coming in just a few decimal points behind Swiss Re's top overall score in the Insurance Super Sector. **DJSI recognised Allianz as leading the insurance sector in Business Risks and Opportunities, Brand Management, Human Capital Development and Stakeholder Engagement.**

In Asia, the Allianz SE Reinsurance Branch, Asia Pacific, was named 2010 General Reinsurer of the Year by the Asia Insurance Industry awards.

In business since 1890, Allianz is renowned as a global leader in Insurance, Asset Management and Banking, and is the world's Number One General insurer and Europe's largest insurer in terms of market capitalisation.

Ranked among the top 20 companies in the Fortune 500 list of top global corporates.

Allianz is present in more than 70 countries and provides its over 80 million customers worldwide with a wide range of

insurance and financial products through globally affiliated subsidiaries, under strong and well-known brands. **Allianz was ranked among the best global brands in the Business Week / Interbrand 2010 annual ranking**, which upped the conglomerate's placement by 14 positions, to 67th this year, putting the Company among the world's top financial services providers, as well as among the top risers.

Due to its strong global business position and solid capitalisation, **Allianz is rated financially strong with an "AA" rating given by global rating agency Standard and Poor's.**

Trust, integrity, reliability and professionalism have been the pillars on which Allianz has built its success. In 2008, **Allianz SE was voted the world's Most Ethical Insurer** by the "Ethisphere Institute", the think tank promoting best practices in global governance, business ethics, compliance and corporate responsibility.

Allianz was the recipient of numerous insurance awards from International financial markets journal "Euromoney" in 2009. In the journal's annual insurance survey, Allianz scored top ratings in 24 categories including Best Insurer for Claims Resolution, Best Product Range, Best for Price and Best Consultant for Insurance Risk Transfer. Allianz created history in 2006 by becoming the first company on the Dow Jones Euro Stoxx 50 index to change its corporate form to a

About Allianz (Contd.)

new European legal form, Societas Europaea (SE).

In 2006, Allianz initiated partnership with the International Paralympic Committee and Deutscher Behindertensportverband, committing to sharing the passion for paralympic sports and to spreading the emotions associated with paralympic sports to a broad global audience.

Allianz is the Official Global Partner of Formula 1 racing and uses the fusion of speed, technology and performance as the perfect platform to drive its expertise in safety. The world's only insurer to have its own safety research centre, the Allianz Center for Technology implements the safety aspects and new technologies in Formula 1 racing and translates these developments into everyday road safety and accident prevention strategies to improve the safety of drivers and passengers worldwide.

This commitment to safety was also taken into the sponsorship of the Allianz Arena in Munich, where the Company installed outstanding safety measures that were recognised by German fire safety organisation Bundesverband Technischer Brandschutz e. V. (bvfa) with the prestigious Sprinkler Protected fire safety award. This is the first time ever that the bvfa has given a football stadium an award for exceptional fire safety.

Empowering its people is just as important to Allianz as providing a premier service to customers.

The over 181,000 staff in Allianz global offices function in a dynamic multiethnic and multi-cultural environment that provides them with a world of opportunities for personal and professional development. The fact that the Allianz Group was adjudged one of Europe's top 100 most favoured employers confirms the success of this focus on people.

Allianz insures many of the world's largest and architecturally significant structures - in Asia alone; Malaysia's Petronas twin towers, one of the world's tallest buildings, the MRT (Mass Rapid Transport) in Singapore and Bangkok, the international airports in Hong Kong, Bangkok and Kuala Lumpur, Dubai's Palm Island the world's largest artificial island, and numerous atolls in the Maldives.

Infrastructure projects and buildings insured by Allianz Lanka are as impressive; the Arugam Bay bridge, the World Trade Centre Twin Towers as well as the Colombo-Matara highway and the first wind power project in Sri Lanka, to name a few.

The global strength and solid capitalisation of the Allianz group coupled with local expertise and business know-how has been Allianz Lanka's powerful formula for success since inception. From its second year of operations, Allianz Lanka has continued to make pure underwriting profits and maintain a combined ratio well below industry norms. Last year, Allianz Lanka celebrated yet another industry first by achieving Rs 1 billion in Premium Income in less than 5 years of operations.

Allianz at a Glance

	2010	Change from previous year	2009	Change from previous year	2008	Change from previous year	2007	Change from previous year	2006	Change from previous year	2005
GENERAL INSURANCE											
Income Statement											
Total revenue (Rs. '000)	388,816	8%	360,783	124%	160,876	117%	73,970	104%	36,316	237%	10,771
Underwriting profit after expenses (Rs. '000)	125,926	101%	62,603	52%	41,294	29%	32,009	822%	3,473	127%	(12,896)
Profit/(Loss) before tax (Rs. '000)	221,305	40%	158,312	82%	86,934	63%	53,207	258%	14,867	267%	(8,900)
Balance Sheet											
Total assets (Rs. '000)	1,586,020	43%	1,105,444	58%	700,033	81%	386,195	47%	263,488	143%	108,624
Shareholders' equity (Rs. '000)	599,255	39%	431,946	38%	312,280	164%	118,411	72%	68,873	42%	48,602
Return on net assets (%)	27.90%	1%	27.7%	19%	23.3%	(44%)	41.8%	126%	18.5%	201%	(18.3%)
Earnings per share (Rs.)	6.69	20%	5.59	(22%)	7.21	(2%)	7.34	250%	2.1	242%	(1.48)

LIFE INSURANCE

Total revenue (Rs. '000)	222,661	74%	128,141	390%	26,171
Loss for the period (Rs. '000)	123,978	64%	75,716	684%	9,651
Investment (Rs. '000)	212,677	12%	189,150	(18%)	231,775
Net assets (Rs. '000)	140,654	(15%)	164,632	(32%)	240,348

Directors' Profiles

Heinz Dollberg

Executive Vice President / Head of Asia
Middle East and North Africa Division,
Allianz SE

Heinz was appointed to the Board of Allianz Insurance Lanka Limited in 2004 and to the Board of Allianz Life Insurance Lanka Limited in 2008.

He has been based in the Asia Pacific Division of Allianz SE, Munich since 1998, and is responsible for managing operations in Asia, the Middle East and North Africa in collaboration with Allianz offices across the region. He frequently travels between Allianz headquarters in Munich and the subsidiaries to oversee operations. He has over three decades of experience with Allianz and has held various positions, from Personnel Manager to General Manager to Chief Representative and Managing Director.

In the 1980s, he worked in Tokyo and Hongkong and was part of the pioneering team that established the Group's widespread operations in the Asia Pacific. Today, Allianz is present in 16 countries in the region. His area of responsibility was extended in October 2007, to five additional countries in the Middle East and North Africa.

Heinz holds a degree in Law and holds executive positions with numerous subsidiaries of Allianz. Heinz was appointed Honorary Professor by two well reputed universities: the South western University of Chengdu, one of the premier universities of finance and economics in China as well as the Tongji University of Shanghai.

Craig Anthony Ellis

Regional General Manager
Life and Health of Allianz SE Insurance Management Asia
Pacific

Craig was appointed to the Board of Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited in June 2010.

He has more than 30 years of experience in the financial services industry in Australia, Europe and Asia. He joined the Allianz SE Group in 1998 as Manager Group Planning and Controlling in Germany and in 2000, was appointed as Regional Chief Financial Officer in 2005, he was appointed Regional General Manager, Life and Health of Allianz SE in Asia. Prior to his employment with the Allianz SE Group, he was General Manager of Finance for Manufacturers Mutual Insurance Sydney, Australia.

Currently, he represents the Allianz SE Group's interest on the Board of Directors of various companies within the Asia Pacific Region. He also holds directorships in the following public companies: Allianz General Insurance Company (Malaysia) Berhad; Allianz Life Insurance Japan Ltd; Allianz Life Insurance Malaysia Berhad; Allianz Taiwan Life Insurance Co. Ltd; and CPRN Holdings Ltd.

Australian-born Craig obtained his Bachelor of Commerce degree in 1979 from the University of New South Wales, Australia. He is also a member of the Institute of Chartered Accountants of Australia.

Directors' Profiles (Contd.)

Don Tri Nguyen

President Director / CEO

PT. Asuransi Allianz Utama Indonesia

Don is a Director of Allianz Insurance Lanka Limited, having been appointed to the Board in 2004.

He joined the Allianz Group in 1991, as Regional Underwriting Executive of the Fireman Fund Insurance Company and was later appointed Project Leader of Allianz AG with responsibility for developing the Company's internet Liability Product and Global Launch platform. He was appointed to the Regional General Manager position at Allianz Insurance Management Asia Pacific Pte. Ltd. in 2000 and is currently President Director PT. Asuransi Allianz Utama Indonesia.

Prior to joining the Allianz Group, he was with the American International Group as Executive Underwriter, and earlier, he was Underwriting Manager of the Ohio Casualty Insurance Company. He launched his insurance career at Reliance Insurance Company in 1977.

A US citizen, Don graduated from the University of California and read for the MBA Executive Program at Harvard University, Massachusetts.

Surekha Alles

Chief Executive Officer

Allianz Lanka

Surekha was appointed to the Board of Allianz Insurance Lanka Limited and Allianz Life Insurance Lanka Limited in June 2010.

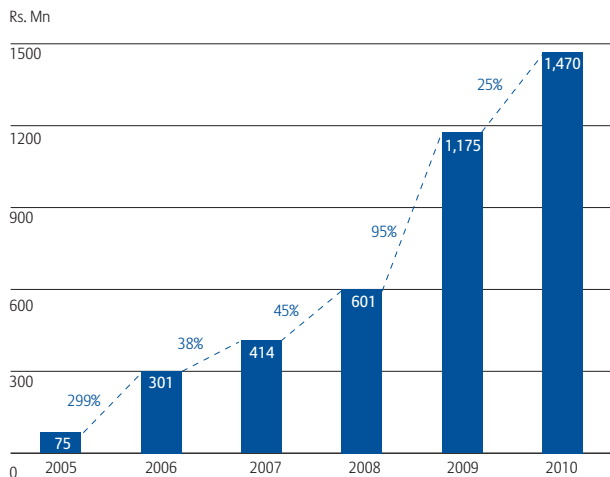
She joined Allianz Insurance Lanka Limited as Head of General Insurance Operations in 2005, and was elevated to the position of Chief Executive Officer one year later.

Surekha counts over 25 years in the field of insurance and has held various senior management positions in diverse areas of insurance. She is a Fellow of the Chartered Insurance Institute, London, is a Chartered Insurer, and holds a MBA from the University of Western Sydney. She is also a Senior Associate member of the Australian New Zealand Institute of Insurance and Finance.

Financial Overview

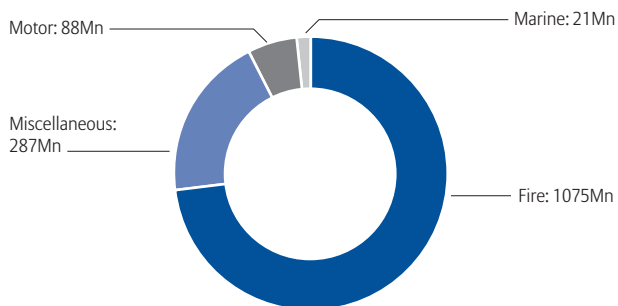
GENERAL INSURANCE

Gross Written Premium (GWP)



Year over year, Allianz Lanka continued to grow well above industry growth. 2010 was no exception. Company GWP grew by 25% over 2009 and stands at Rs 1.47 billion this year.

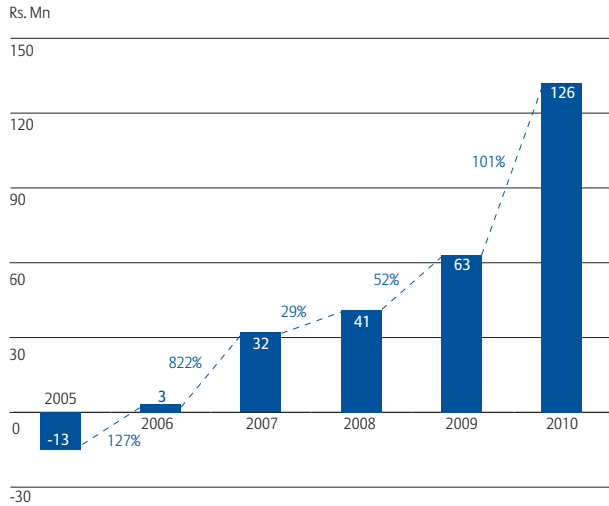
Premium by Classes



The Company's GWP comprises Fire, Miscellaneous, Motor and Marine. The composition of GWP remains unchanged from 2009. Fire, Motor and Marine classes have grown by 26%, 23% and 29% respectively. The growth was mainly in the Non Motor segment, which is contrary to the usual patterns in the General insurance business.

Financial Overview (Contd.)

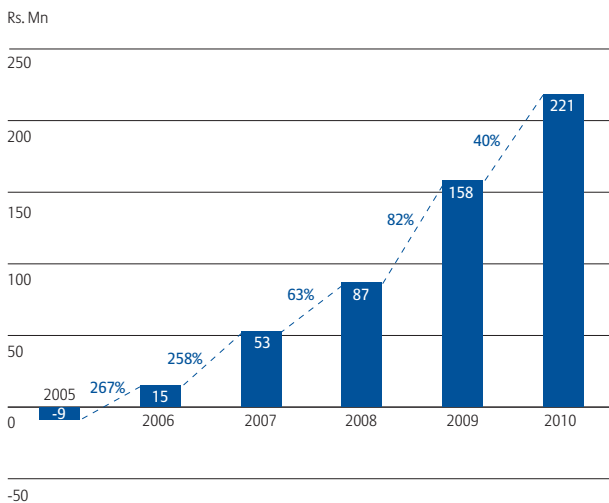
Underwriting Profit



Underwriting profit is an indication of the net result generated solely from General insurance business carried out during the year, before considering investment and any other income generated by the Company in the same period.

Despite intense market competition added to soft premium rates, the Company recorded an impressive 101% growth of Rs 126 million in underwriting profit in 2010, compared with Rs 63 million in 2009.

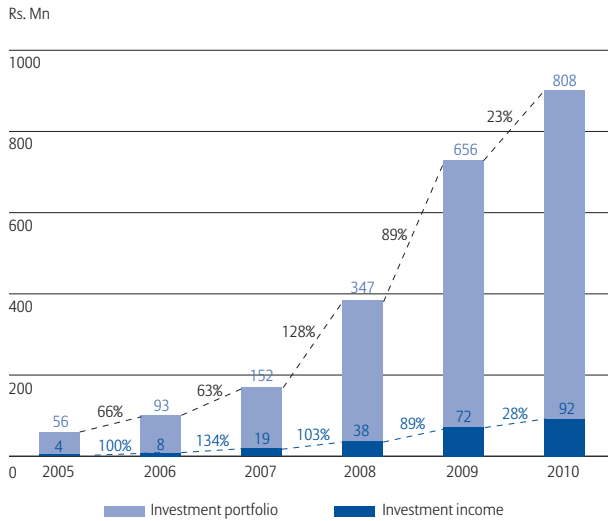
Profit Before Tax (PBT)



The Company has continued its strong performance into 2010 as well by recording a pre tax overall profit of Rs 221 million, which is a 40% growth over 2009. This was derived after charging Rs 110 million as staffing, marketing, depreciation and other operating expenses.

Financial Overview (Contd.)

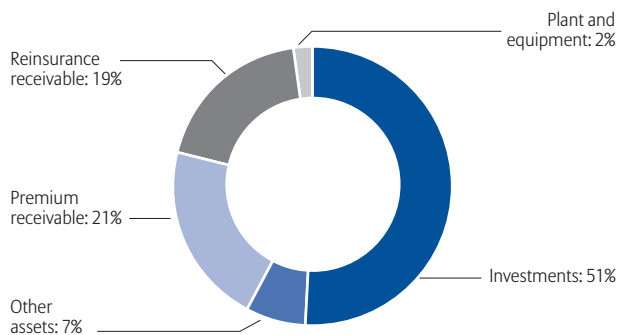
Investment Portfolio



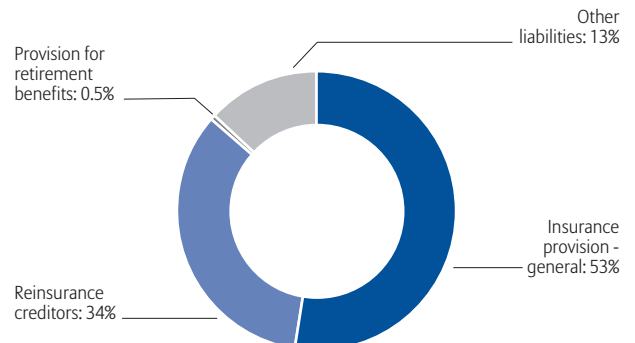
The investments of the Company have grown by 23% during 2010 to Rs 808 million, from Rs 656 million in 2009. This has been mainly due to increased funds received from the growth in operations during 2010. Over 96% of the portfolio has been invested in government securities.

Interest income has grown by 28% during 2010 to Rs 92 million, from Rs 72 million in 2009. The lower income, compared with the previous year, is due to a reduction in interest rates in the country.

Asset Composition

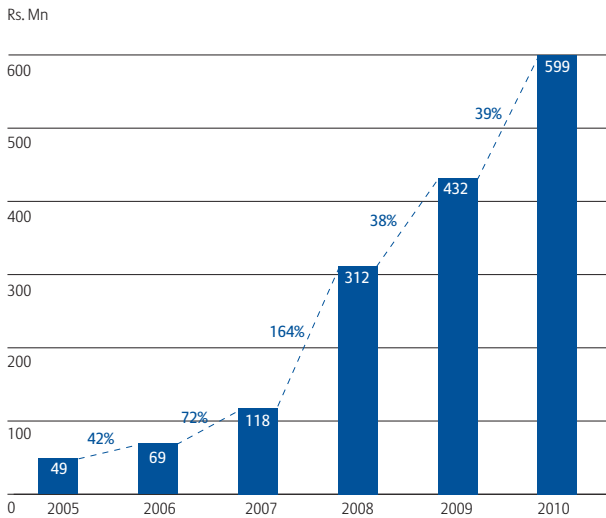


Liability Composition



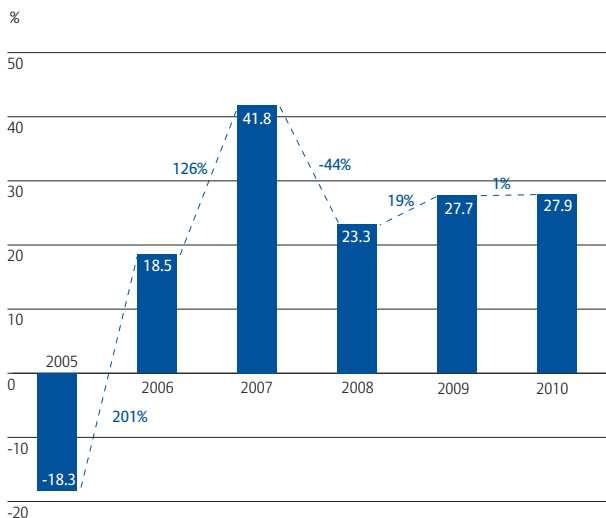
Financial Overview (Contd.)

Net Assets



The Net Assets of the Company grew by 39% during 2010 to Rs 599 million, compared with Rs 432 million in 2009. This is mainly due to the contribution of Rs 168 million during the year to the revenue reserves. The year on year growth in Net Assets maps the blueprint of a company's ability to sustain operations in future years.

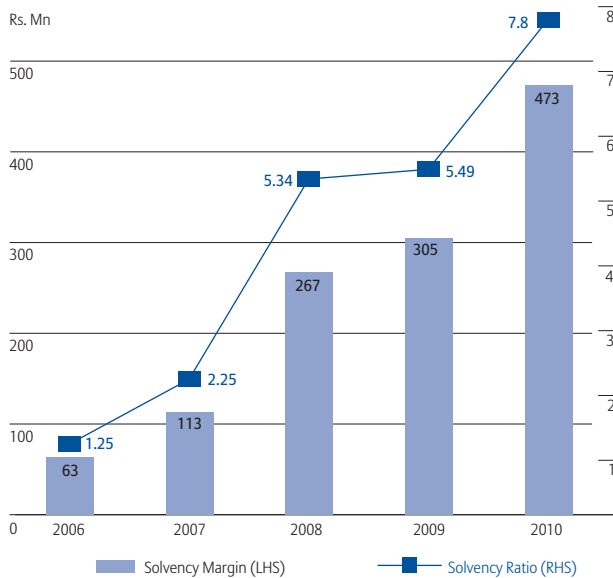
Return on Equity (ROE)



During the period, the Company increased its Net Assets base to Rs 599 million and had a profitability of Rs 221 million, which resulted in a ROE of 27.9%. The Company continues to retain its profit and invest these funds for future expansion. However, during the period, returns gained on these investments were lower than was expected due to low market interest rates, which resulted in a marginal increase of 1% over 2009.

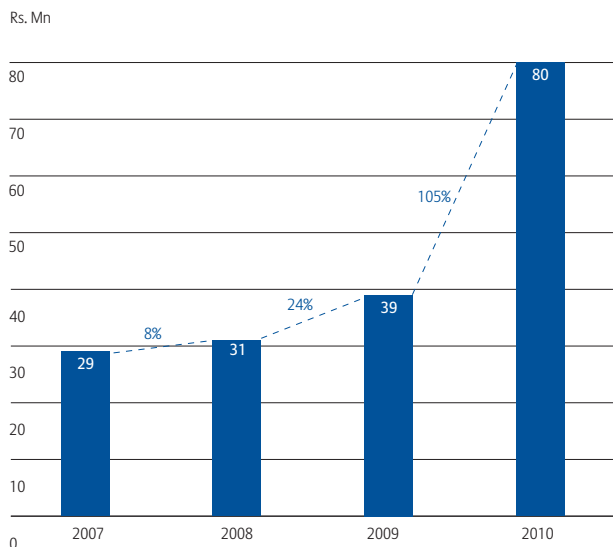
Financial Overview (Contd.)

Solvency Margin



The solvency margin expresses an insurer's ability to pay insurance benefits and make other payments. This is an important measure of an insurance company's stability. The Company continues to maintain its impressive solvency level, which remained well above the regulated minimum during 2010. General insurance solvency improved further, by 55% during 2010, to 7.8 times, compared with the 2009 ratio of 5.49 times.

Economic Value Added (EVA)



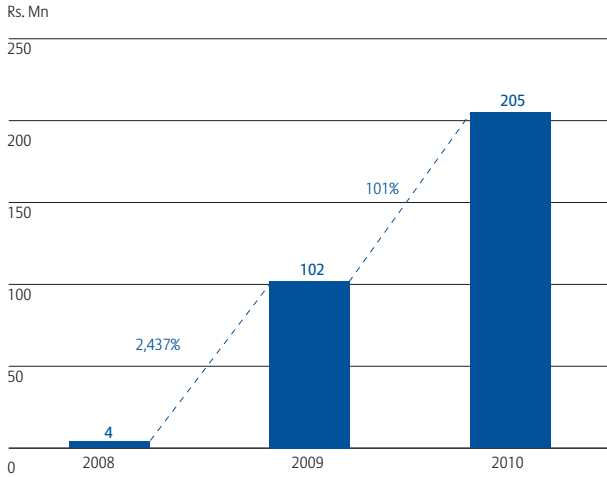
Economic value added (EVA), measures the profitability of the Company after taking into account the cost of invested equity.

The Company has continued to improve its EVA during 2010, to Rs. 80 million. This is an increase of 105% from 2009 and mostly due to the combined effects of an increase in profitability and lower financing costs.

Financial Overview (Contd.)

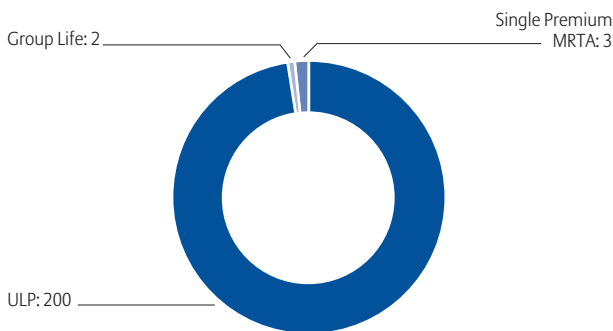
LIFE INSURANCE

Gross Written Premium (GWP)



Allianz Life Insurance Lanka Ltd. is still in its infancy, 2010 being only the second full year of operations. During the year, the gross written premium of the Life insurance segment continued its growth into 2010, showing a growth of 101%. The Company will continue to improve this performance in the coming year with the introduction of a new product.

Product-wise Premium

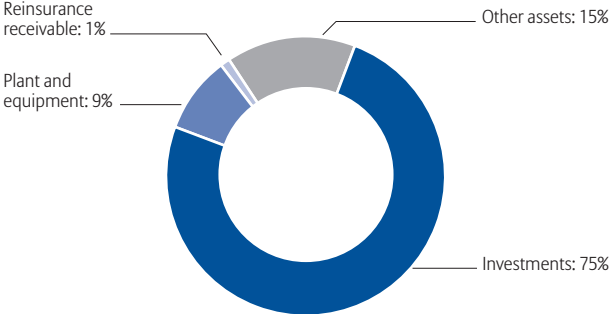


The Company's GWP comprises Universal Life Product (ULP), Single Premium - Mortgage Reducing Term Assurance (MRTA) policies and Group Life policies. The composition of the Company's GWP has not deviated significantly from the previous year, with the individual policies accounting for 98% of the GWP.

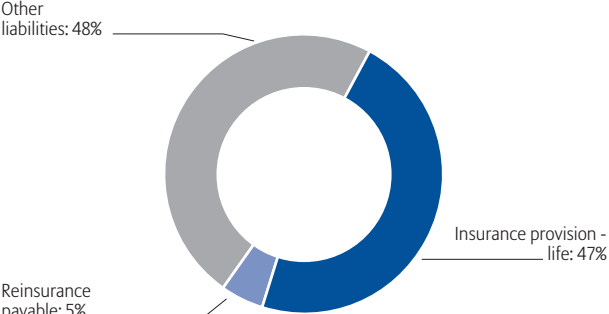
In terms of the composition of assets and liabilities, 47% of liabilities are due to the provisioning of the Life fund. This is backed by 75% of assets of which 95% are invested in government securities.

Financial Overview (Contd.)

Asset Composition



Liability Composition

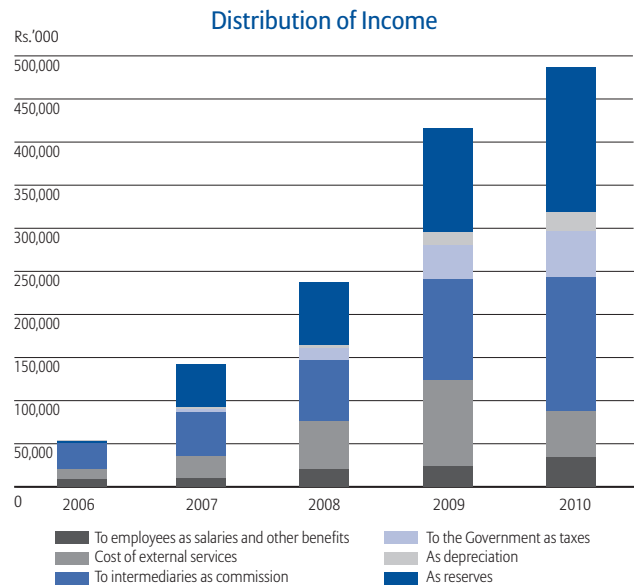
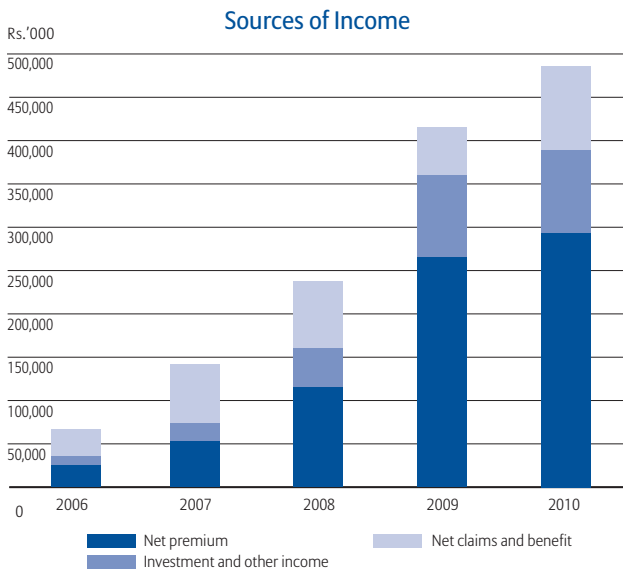


Contribution to the National Economy

GENERAL INSURANCE

Statement of Value Added	2010	2009	2008	2007	2006
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Net earned premium	293,437	265,074	115,236	52,771	24,922
Investment and other income	95,379	95,709	45,640	21,199	11,394
Net claims and benefits	97,203	54,726	76,835	67,962	30,978
Cost of external services	(53,152)	(99,454)	(56,569)	(25,485)	(11,801)
Total value added	432,867	316,055	181,142	116,447	55,493

	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
To employees as salaries and other benefits	34,534	8	24,245	8	19,919	11	9,986	9	8,904	16
To intermediaries as commissions	154,898	36	117,328	37	69,922	39	51,175	44	29,924	54
To the government as taxes	53,996	12	38,646	12	14,190	8	3,669	3	2,105	4
Retained with the business										
- as depreciation	22,130	5	16,170	5	4,367	2	2,079	2	1,798	3
- as reserves	167,309	39	119,666	38	72,744	40	49,538	43	12,762	23
	432,867	100	316,055	100	181,142	100	116,447	100	55,493	100



Economic Overview

World Economy

The year under review saw the global economy expanding at an annualized rate of 3.5% in the third quarter of 2010, mainly due to the robust growth in emerging and developing markets. In terms of advanced economies, consumer confidence was low and reduced level of incomes continued to slow down growth in this segment.

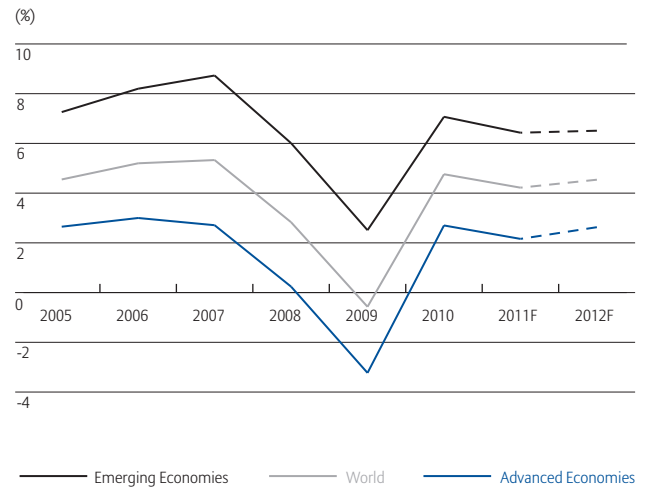
From a financial market perspective, according to the International Monetary Fund (IMF) Global Financial Stability Report, market volatility increased and investor confidence dropped due to financial shocks in most of the European countries. Additionally, risk premiums on corporate bonds widened and the issue of bonds also declined. This trend was seen in emerging economies as well.

The global challenges continued to be high unemployment and rising inflation levels. This was mostly from the rise in prices of consumer products due to changing weather patterns and volatile global oil prices as a result of supply imbalances.

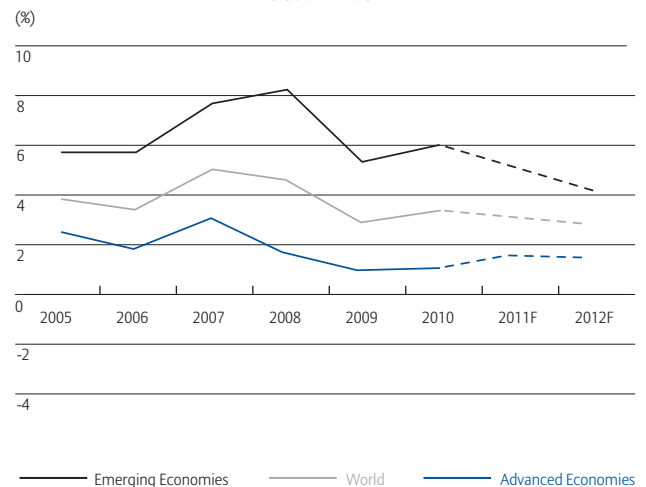
Inflation pressure is expected to rise, with oil prices forecasted to increase into the future due to the worsening of supply and demand imbalances. Commodity prices are also expected to rise as a result of crop reductions due to weather-related damage that occurred towards end 2010. However, according to IMF forecasts as at October 2010, emerging and developing markets will continue to see a reduction in inflation in 2011 and 2012.

The IMF projected global growth for 2011 is 4.4%, with growth in emerging and developing economies forecasted at 6.5% and developing Asia expected to grow at 8.4%, China and India leading this growth. Financial conditions are expected to improve within the year and investor confidence is expected to rise.

Global GDP Growth



Global Inflation



Economic Overview (Contd.)

Sri Lanka, a macro overview

Following the conclusion of the three-decade ethnic conflict in 2009, the Sri Lankan economy has been recording high growth rates in 2010 as a direct result of the strong economic activities taking place during the year.

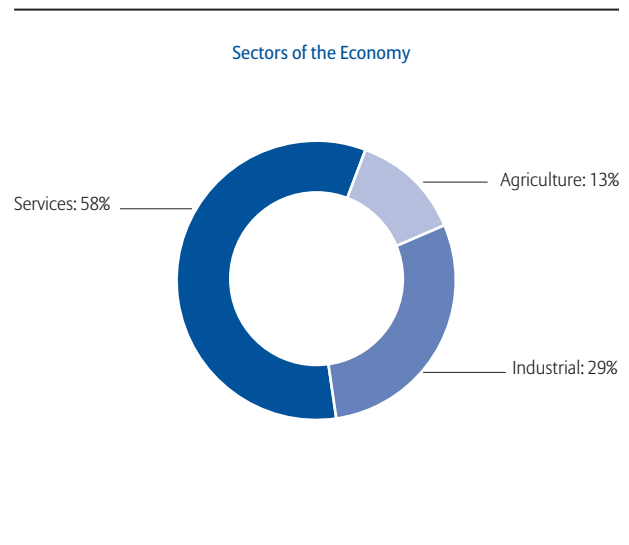
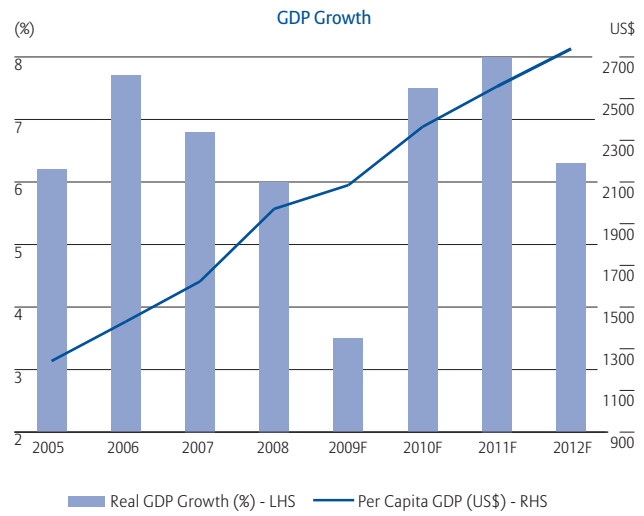
In 2010, the Sri Lankan economy showed a growth of approximately 8%, the most notable being the highest quarterly GDP growth since 2002, recorded at 8.5% in the second quarter of the year. The growth trend commenced in the third and fourth quarters of 2009 with the end of the war in May 2009, and continued into 2010.

The three main sectors of the economy contributed directly to the economic growth of the country. The service sector, which accounts for approximately 58% of GDP grew by 7.9%, while the industrial sector and the agriculture sector grew by 8.3% and 6.8% respectively.

Service sector growth was mostly from the hotels and travel sectors. The other sub-sectors of the service sector that showed high relative growth were transport, communications, banking, insurance, real estate, wholesale and retail trade.

All major sub-sectors in the industry sector, including mining and quarrying, manufacturing and construction, contributed to the growth. In the agriculture sector, growth was the result of developments in the production and fisheries sector, which included tea and rubber production that showed relatively high levels of growth.

The Central Bank estimates the economy to grow by more than 8.5% in 2011 due to strong macro-economic fundamentals and post-war revival.



Economic Overview (Contd.)

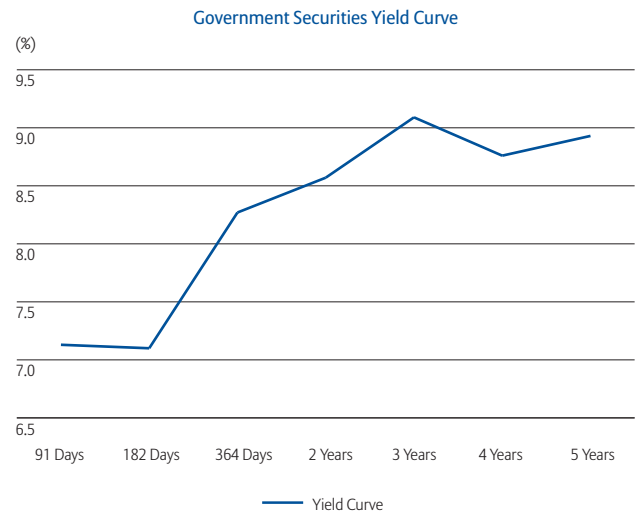
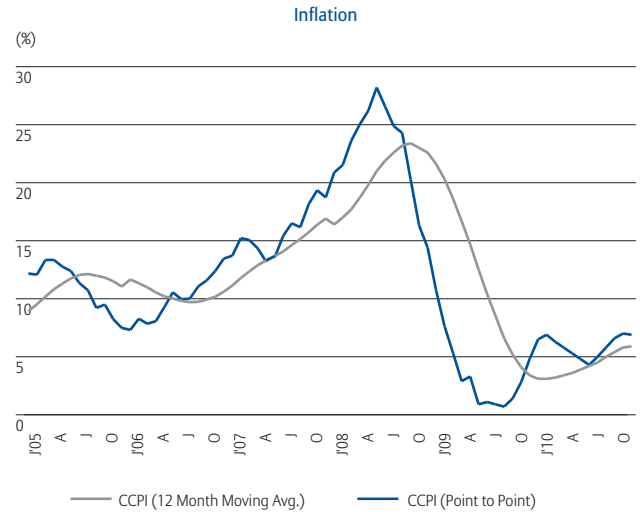
Economic overview

2010 saw increased investor confidence resulting from stable inflation and exchange rates, relaxed monetary policy, improved credit ratings, revision of tax policies and growth in trade activities.

The inflation level of the country was maintained at single digit levels within the year, as measured by the Colombo Consumer Price Index (CCPI). The year ended with a point to point inflation in December 2010 of 6.9% and the 12-month moving average standing at 5.9%. This increase, when compared with 2009, was mostly due to the volatility of global commodity and crude oil prices. However, stable fuel prices helped contain inflation within the country. The concern for 2011 is whether these inflation levels can be sustained in the coming year as rising domestic food prices and high economic growth create demand pressures.

The yield rates on government securities declined during the period, with a decrease of approximately 42 - 117 basis points during the first nine months of the year. However, there was an increase in foreign cash flows with investments being made in treasury bills and bonds. Policy rates were reduced twice during the year, thus the deposit and lending rates pertaining to commercial banks declined by September 2010. With the decline in interest rates there was increased activity in the Sri Lankan stock market, which became one of the best performing stock markets in the region.

The Sri Lankan sovereign credit rating was revised upwards by Standard and Poor's (S&P), Fitch Ratings and Moody's Rating Services. S&P upgraded the long term sovereign rating to B+ and long-term local currency rating to BB- with a stable outlook, thereby giving the country a strong presence in terms of international financial services and gaining the confidence of investors. This confidence was also seen with the



Economic Overview (Contd.)

issue of a third sovereign rated bond for US\$ 1 billion, which was oversubscribed. The IMF standby agreement was extended by 5 years with three out of the five tranches received within 2010, totaling to an amount received of Rs.1.3 billion.

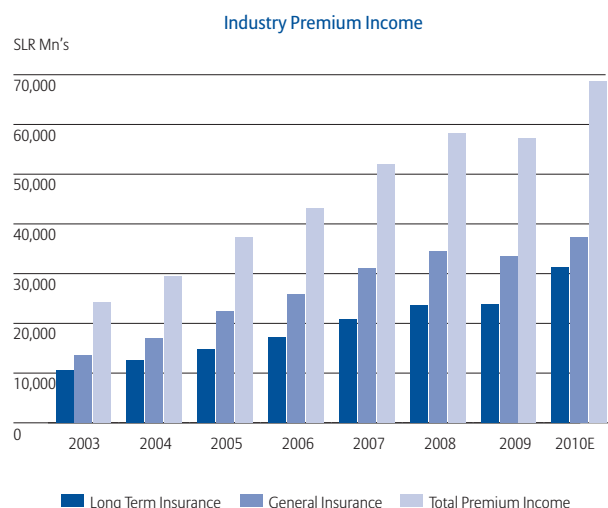
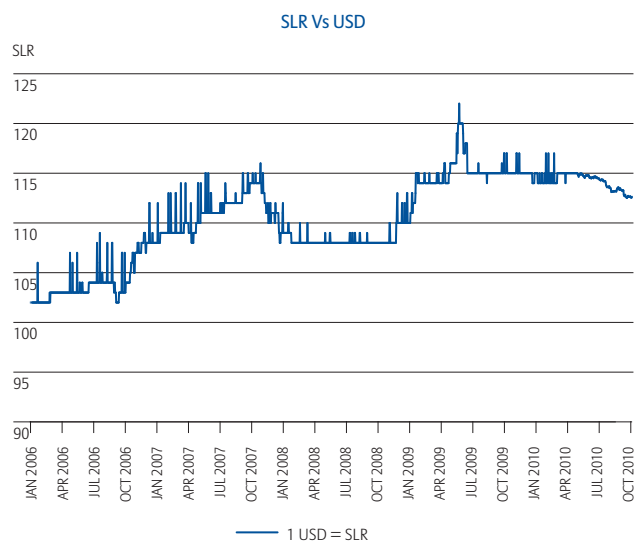
The exchange rate remained stable within the year, with the Sri Lanka Rupee showing an appreciation on average against the US\$ of 2.7% as at end September, mostly due to government intervention in maintaining stability to increase more foreign inflows. The Sri Lankan Rupee is expected to remain strong into 2011 as well.

Exports and imports increased during the initial months of 2010. There were higher export earnings from agriculture products and equipment while imports were higher due to the reduction in tariffs on items such as vehicles, gold and electronic goods.

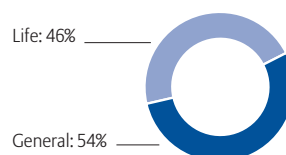
Industry overview

With the entrance of a new player into the market, the Sri Lankan insurance industry comprises 20 players as at end 2010, of which 12 companies operate as composite insurance companies selling both Life and General insurance, two sell Life insurance only, and six sell General insurance only. The industry has become intently competitive; price competition in General insurance, especially, has become a major challenge to all players.

With the exception of one company, all other insurance companies are the local partners of large private sector groups or of the Government, which gives them the added advantage of including competitive business in their portfolio.



Industry Composition



General Insurance Segmentation



Economic Overview (Contd.)

The Sri Lankan insurance industry is gradually recovering from the economic slump of 2008/2009. Based on current available data, the industry has grown by approximately 20% in 2010. The General insurance industry grew by 11% and the Life insurance industry grew by 31%, to achieve a total GWP of Rs 68 billion, of which the Life segment comprises Rs. 31 billion and the General segment comprises Rs. 37 billion respectively.

The General insurance sector accounts for approximately 54% of total GWP in 2010 and demonstrates industry focus towards the General insurance sector, which is predominantly concentrated in Motor insurance - 57% of General insurance GWP is from the motor business segment.

The insurance industry is governed by the provisions of the Regulation of Insurance Industry Act, No. 43 of 2000 and the rules and determination issued thereon by the Insurance Board of Sri Lanka (IBSL). During the year, there were no major changes to the existing regulations issued by IBSL. However, the existing Act is expected to be amended soon and the relevant Bill has already been passed in Parliament.

Accordingly, the Bill presented on the new Act will bring several significant regulatory changes, notably;

- All insurance companies to be segregated as Life Insurance companies and General Insurance companies within four years of the Act coming into effect.
- All insurance companies to be listed in the Colombo Stock Exchange within five years and the new entrants to do so within three years.
- Institutions to be allowed to act as agents of insurance companies
- The National Insurance Trust fund to be brought under the scope of the Regulations of Insurance Industry Act and the purview of IBSL.

IBSL is in the process of introducing a risk-based supervision regime (RBC) in place of the existing compliance-based supervision, following the worldwide trend.

Accordingly, risk-based supervision will supplement sound regulation with focus on the volatile nature of the insurance business that can affect solvency and the ability to meet contingencies.

The budget presented in Parliament in November 2010 brought several changes in the tax structure that will come into effect in 2011:

- Reduction in the corporate tax rate from 35% to 28%
- Reduction in the deemed dividend tax from 25% to 10%.
- Reduction in the NBT rate from 3% to 2%.
- NBT to be allowed as a fully deductible expense for income tax.
- Reduction in the disallowed percentage of advertising expenses from 50% to 25%.
- Waiving off of Debit tax.

All these will have a positive impact on insurance companies.

The war risk premium for Sri Lanka was removed in June 2010, which is a positive development for insurance companies as this will reduce reinsurance premium. Therefore, the outlook for 2011 looks promising.

The projected economic growth of 8.5% in 2011 by the Central Bank estimates growth in all three segments with inflation expected to remain at single digits. With the gradual recovery of the global economy, growth in exports and imports, prospective tax reforms and proposed government investments, the coming year is expected to make a positive contribution to the industry.

Allianz Group Outlook



Executive Vice President / Head of Asia, Middle East and North Africa Division, Allianz SE

Allianz Group in 2010 delivers strong results in tough markets

- Revenues up 9.3 percent to new high of 106.5 billion euros
- Operating profit grows 17.0 percent to 8.2 billion euros, combined ratio improves to 97.2 percent
- Net income up 12.0 percent to 5.2 billion euros
- Solvency ratio increases 9 percentage points to 173 percent
- Proposed dividend of 4.50 euros per share, up 9.8 percent

Allianz Group reported strong results for fiscal year 2010. Based on preliminary figures, total revenues reached a new high of 106.5 billion euros, with Life and Health insurance statutory premiums growing to 57.1 billion euros. Compared to 2009, Allianz Group revenues grew 9.3 percent. Operating profit increased 17.0 percent to 8.2 billion euros, and exceeded the upper target range for 2010 of 7.7 billion euros. This development includes an accounting change¹ and positive foreign currency effects amounting to 0.5 billion euros.

Increased operating profitability in all segments and higher investment results contributed to net income from continuing operations of 5.2 billion euros. This is 12.0 percent above the 2009 figure of 4.65 billion euros.

Allianz Group reported a further improved solvency ratio of 173 percent at year-end 2010 including dividend accrual,

¹ We changed our accounting policy for fixed-indexed annuities as of July 1, 2010, which impacted the result of our U.S. business.

Allianz Group Outlook (Contd.)

which represents an increase of 9 percentage points compared to year-end 2009.

Shareholders' equity grew 10.9 percent to 44.5 billion euros as per December 31, 2010. The Board of Management will propose a dividend of 4.50 euros per share to the Supervisory Board of Allianz SE. This is 9.8 percent higher than last year's dividend of 4.10 euros.

Michael Diekmann, CEO of Allianz SE: "We are proud of having achieved substantial growth in 2010. Revenues were above our historical best and our operating profit exceeded our own expectations. Allianz has managed its risks well and emerged highly profitable and financially stronger from the financial crisis in the years 2008 and 2009. This is the foundation for the resilience and stability our customers, investors and employees expect from us."

Property and Casualty insurance improves operating profit by 6 percent

In Property and Casualty insurance, a positive price trend in several core markets and disciplined underwriting continued in 2010. Total gross premiums written increased 3.2 percent to 43.9 billion euros.

Operating profit grew 5.9 percent to 4.3 billion euros, compared to 4.1 billion euros in 2009. Growth was driven by improvements in both operating investment income and the underwriting result despite a significantly higher volume of natural catastrophe losses. Impact from natural catastrophes almost tripled in 2010 to 1.3 billion euros, compared to 447 million euros in 2009.

The combined ratio improved to 97.2 percent, from 97.4 percent in 2009. This was based on a strong recovery of the combined ratio in the credit insurance business, as well as improved combined ratios in France, Italy and other markets. Positive reserve developments also contributed to this trend.

"Overall, we demonstrated a robust performance in a difficult market environment. In terms of operating profit, the fourth quarter was our strongest quarter in two years," said Oliver Bäte, Member of the Board of Management of Allianz SE. "In 2010, we compensated our customers for more than one billion euros in NatCat claims costs. Yet, our accident year loss ratio excluding NatCat improved. I would also like to highlight double-digit revenue growth in our direct business and positive price effects on both new business and renewed contracts in the UK, Australia, Italy, France and credit insurance."

Life and Health insurance performs strongly in low interest rate environment

In Life and Health insurance, statutory premiums reached a record level of 57.1 billion euros. Growth amounted to 12.5 percent compared to 50.8 billion euros in 2009, and was driven by strong demand for both investment-oriented and traditional life insurance products.

Operating profit grew 7.4 percent to 2.9 billion euros, compared to 2.7 billion euros in 2009. This was largely driven by a better expense result as well as an increase in operating investment income which benefitted from significantly lower impairments compared to 2009.

"Our strong performance in Life/Health exceeded our expectations. Increasing customer demand for Allianz products and solutions fueled double-digit growth in revenues. This shows that our customers want the attractive returns and stability Allianz can offer. Operating profit beat our annual target. Our new business value and margins also improved, despite the tough low interest rate environment," said Oliver Bäte.

Allianz Group Outlook (Contd.)

Success story in Asset Management continues

In 2010, the total assets under management grew 26.2 percent to a record high of 1,518 billion euros. Third-party assets under management amounted to 1,164 billion euros. This is 25.7 percent higher than 926 billion euros at year-end 2009. Third-party net inflows reached a record level of 113 billion euros.

Net fee and commission income rose 37.2 percent to 4.9 billion euros, compared to 3.6 billion euros in 2009. This was driven by higher assets under management and a shift to higher margin products. Performance fees, at 514 million euros, were well above the 2009 level of 421 million euros. Operating profit increased 47.0 percent to 2.1 billion euros from 1.4 billion euros in the previous year.

Fixed income assets under management for third parties grew by 27.6 percent to 1,002 billion euros. Equities ended the year with a 15.1 percent increase to 161 billion euros, which was supported by the improvement in market value of the assets under management.

The cost-income ratio, a key indicator of business efficiency, improved further to 58.7 percent in 2010, compared to 62.0 percent in the previous year.

“Our success story in Asset Management continued in 2010, which marked a record year in terms of assets under management, inflows and profitability. Third-party net inflows came from both retail and institutional clients and grew at a double-digit rate for the second year in a row. There is simply no better vote of confidence from our customers. We recorded an outstanding operating profit which exceeded two billion euros for the first time,” said Oliver Bäte.

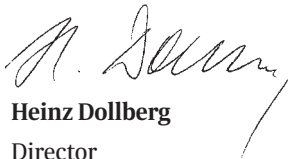
Source: Extracts from Allianz SE Group Communications press release 01/2011.

Allianz Lanka’s performance has been exceptional in the local insurance industry

I am very pleased with the performance made by the Sri Lankan entity. Allianz Lanka continues to grow both in Life and General insurance business and maintains a growth rate well above the industry average. The General business has continued to add value year on year, with growth momentum maintained in the top line as well as the bottom line and the underwriting profits increasing to a substantial Rs.126 million; a 101% increase over the previous year. The General Insurance Company also recorded a net profit of 167 million, is a 40% growth over the previous year. I think what is required is not just growth but profitable growth and that is what Allianz Lanka is doing.

The Life business in Sri Lanka fulfilling our expectations last year, although still in the early stages of operations. I remain positive about the Life business which will come up strongly as has the General business.

During 2010, the Sri Lankan economy recorded a strong growth in all vital sectors and in this post-conflict era I am confident and optimistic that Allianz Lanka will continue with the excellent performance and focus on expansion.



Heinz Dollberg

Director

Allianz Insurance Lanka Ltd.

Allianz Life Insurance Lanka Ltd.

2 March 2011

CEO's Review



The year 2010 can be described as being one of expansion, during which we reached out to our fast growing Life clientele in the more remote regions of Sri Lanka through our network of strategically located 24 agency units and eight branches, two of which were opened during the year, in the key cities of Trincomalee and Kandy.

The positive sentiments that followed the cessation of hostilities in the country created a healthy environment for growth in insurance business. We are very pleased with the performance of our General insurance company, having surpassed our plan in all areas. We ended the year with an impressive gross written premium of Rs 1.47 billion and above-market growth of 25% over the previous year. In General insurance, we continued to maintain the growth momentum both in the topline as well as the bottomline, and made substantial underwriting profits amounting to Rs. 126 million; a 101% increase over the previous year. This is an admirable performance, given the challenge of operating in a highly competitive soft market added to the unusual weather patterns that

caused a substantial increase in claims. This underscores our risk management expertise as well as underwriting prudence. The General Company's PBT was Rs. 221 million, which is a 40% growth over 2009. Net Assets of the General Company grew by 39%.

The year under review saw growth in all classes of General insurance, especially in Fire insurance. Our business this year was mainly from the corporate sector. Volume growth in retail was not as originally anticipated, although business saw growth at the beginning of the year.

Life business growth was mainly from our branch network especially from the Northern and Eastern regions. Life insurance, too, recorded a robust performance by achieving a Gross Written Premium of Rs. 205 million; doubling its growth by 101% over the previous year's performance. This is a laudable achievement in the first two years of Life insurance operations in Sri Lanka.

CEO's Review (Contd.)

Our successful performance in Life insurance and our prudent investment strategy during the year enabled us to declare a dividend of 14% to our participating Life policyholders, once again the highest declared in the local insurance industry for this year.

Both the Life and General companies continue to remain solid despite the strong growth at the initial stages of establishing the Life business. We were successful in growing our investment portfolio substantially, despite the decrease in the investment yield during the year, as a result of perceptive management decisions.

We are gratified that Allianz, as a strong global brand, is finally gaining momentum in the Sri Lankan market. We now enjoy top-of-mind recall islandwide, even in the Northern and Eastern provinces.

We drew on the technical expertise of our parent company, Allianz SE, and continued our strategy of providing our customers with international standards of risk management advice to mitigate business losses.

We also continued our passion to train and develop our employees using our global training expertise, as we believe that our employees are a key differentiator when it comes to insurance and services. This has been our motto, corporate strategy and edge over our competitors. Our focus continues to support performance-based rewards and we welcome diversity and inclusiveness in the workplace.

Many regulatory changes have taken place, and will take place, in the near future. Allianz Lanka is the only insurer in Sri Lanka structured to meet the new insurance industry regulatory requirements that dictate the maintenance of separate businesses for Life and General insurance.

The fact of being a fully owned subsidiary of a world leader in insurance and financial services enjoying AA rating status from Standard and Poor's, has continued to provide our customers - individuals and corporate clients, large and small - with the confidence to entrust us with their lives and their valued possessions. Our international affiliation has also provided us with economies of scale that translate into affordable and competitively priced products with the highest standards of quality and service.

Our Group requirements specify the adoption of internationally acclaimed standards of ethics. In Life insurance, for instance, we ensure that business is procured only through prospecting rather than through cold selling. Our corporate governance framework meets the stringent requirements of the Group. We also have an open door communication policy and a whistle blowing mechanism, where employees are given the freedom to voice their concerns with the utmost confidentiality.

Word of mouth has been our main marketing tool, and we will continue to ensure that our products and service standards will be talked about in the years to come. **Despite being the only insurer in the country with no captive business, we have continued to grow from strength to strength and have created value for all our stakeholders, year on year.**

We have always been mindful of the need to improve the quality of life in the communities in which we operate. Towards this end, we focused our corporate social responsibility initiatives this year in making our contribution towards repairing the ravages of war in the emerging post war economies of the North and East.

For the future, we will focus on delivering on our mandate to our shareholders by continuing to improve operational

CEO's Review (Contd.)

excellence, with special initiatives introduced for productivity and process enhancements that will further improve efficiency and effectiveness across the organisation. Our search for service excellence continues. In all areas, steps are being taken to measure service levels to ensure conformity with Global standards.

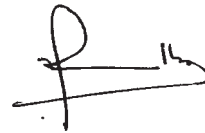
As of now, we have expanded our islandwide network and will continue to grow organically to reach our full potential. Whilst growing the Life business, we will utilise our strategically placed branches to improve our retail clientele portfolio in General insurance business as well. We have extensive plans to grow Life business in Colombo and the Western Province. New distribution channels will be introduced and existing channels of distribution improved.

We have progressed in leaps and bounds in the area of ICT. Our ICT capabilities have been extended to the Life sales force who is now equipped to respond speedily to clients' requirements and access the desired information for their customers. We plan to improve our technological capabilities still further, providing more customer convenience by making ourselves more accessible at the touch of a key.

In Life insurance business, we plan to launch several new products to meet the demands of the day, with children's education plans and pension plans ranking high on the list. Our children are our hope, and their education is a priority for building a solid foundation for their future as well as for the country. At the other end of the spectrum, many people suffer financial hardship due to retirement, with no access to the security of a pension and/or savings to provide them with acceptable living standards in the sunset years of their lives. We will remedy these shortcomings as well as cater to new trends in the post war economy with innovative new policies that will assure our customers of a secure and prosperous future.

To conclude, I take this opportunity to thank all our stakeholders for placing their trust and confidence in us. I thank my Board of Directors for their guidance and unstinted support at all times. To our valued customers and other business partners whose continued partnership demonstrates their faith in our capabilities, I convey my sincere gratitude. Please be assured that we will continue to be with you during life's most memorable moments.

Our staff remains the backbone of our business and I thank them most sincerely for their passion and commitment in taking our business forward by overcoming the challenges faced during the year.



Surekha Alles
Chief Executive Officer
Allianz Insurance Lanka Ltd.
Allianz Life Insurance Lanka Ltd.

2 March 2011

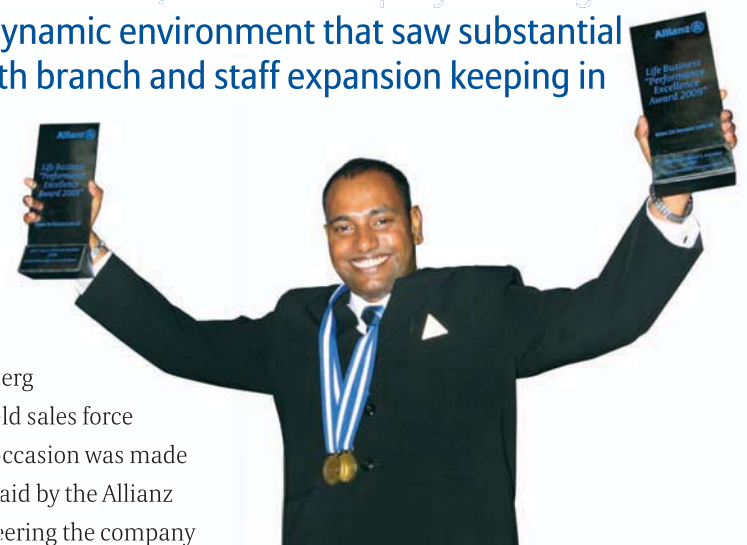
Allianz Moments

This year was another eventful one for Allianz Lanka, with the Company initiating many new events and programmes in a dynamic environment that saw substantial increases in Life and General business, with branch and staff expansion keeping in step.

'Reaching Heights 2010' Sales Conference

Allianz Lanka's inaugural sales conference 'Reaching Heights 2010' was held on 13 May 2010 to recognize and reward achievers who went beyond the call of duty during the previous year. Allianz Executive Vice President Mr Heinz Dollberg graced the glittering event as chief guest, at which over 200 field sales force and employees from branches islandwide were present. The occasion was made a memorable and personal one with heartwarming tributes paid by the Allianz Lanka family to senior management for their leadership in steering the company to its present success.

The conference is the largest and most prestigious event on the Company's calendar and will be held annually from this year on.



Recipient of the Best Sales Person Award



Negombo receives Best Branch Award

Gold Club Membership



Gold Club members' dinner

This year, Allianz recognized the Company's most productive and profitable sales personnel for the first time, with the aim of boosting their morale and giving higher recognition to their contribution. The selection criteria are based on qualitative, quantitative and continuous business growth. The Club was initiated and the qualifying members were feted along with their spouses.

Allianz Moments (Contd.)

Top Ten Awards Congress



Top Ten Congress Awards Ceremony

Allianz Lanka's Top 10 Awards Congress was held on 10 December 2010 for the third consecutive year, to reward the highest achievers in the Life company. More than 200 Sales staff from all branches of the Life Company attended the event, at which the 2011 Plan for the sales force was unveiled. The highlight of the day was the awards presentation to the Top Ten achievers of 2010.

The Top Ten Congress recognises exceptional performance and provides the motivation necessary to reach performance excellence in the coming year.

Bali Convention

For the first time since inception, Allianz Lanka's Top 10 Achiever, recognised at the Top Ten Awards Congress, was invited to participate at the Allianz Convention held in Bali, which is an annual Allianz event held for its top performers in Life sales in the Asia Pacific region. The Convention provides these high achievers with invaluable opportunities for exchanging ideas and strategies that will take them to even greater heights of success. Allianz Lanka is pleased and proud that this year's top achiever met the stringent criteria required to qualify for this exclusive convention, and is confident that many more of its high calibre sales team will qualify to attend the Convention in future years.



Bali convention

Annual Company Outing

Sigiriya Village, Habarana was this year's venue for the annual staff outing. Over 200 staff with their families enjoyed an overnight stay at the hotel. It was a time of fun and fellowship, away from workplace stress. The group climbed Sigiriya rock, ventured on nature trails and participated in many social activities. The informal environment fostered a spirit of camaraderie and provided many occasions for interacting with members of the Allianz family.



Annual Company outing to Sigiriya Village

Allianz Moments (Contd.)

Christmas Events

Christmas has always been the time of year when the Allianz family joined together to look collectively outwards to help the less fortunate in the community. This year's Christmas get together, held on 17 December, was an evening of togetherness for the Allianz family. One and all participated in singing Christmas carols, with the young and the young at heart dancing the night away. But it was a Christmas party with a difference, as all staff agreed to forego the usual exchange of gifts, deciding instead to present toys and educational books to the Education Centre for Street Children of Negombo.



Christmas carols

The head office held a Christmas decorating competition for the first time this year, with the different floors vying with each other for the prize. The competitiveness brought out the creativity and originality of the people, who pitched in with gusto in the true Christmas spirit of unity and fellowship.

Expanding our Footprint



Kandy branch opening



Trincomalee branch opening

The Company made further inroads into the provinces by setting up two more branches in key areas of the country, in the hill capital, Kandy, and in Trincomalee in the Eastern province, to capitalise on the business opportunities available in the newly emerging markets of the North East.

Allianz Lanka has a strong presence in Galle, Negombo, Gampaha, Vavuniya and Jaffna, in addition to Kurunegala, where the Company opened its first branch in December 2008. All these branch offices provide Allianz Lanka clientele in those regions with the same range of insurance products, facilities and financial security enjoyed by customers in Colombo.

Allianz Moments (Contd.)

Training & Development



"Lead to Serve" training programme



Overseas training programme

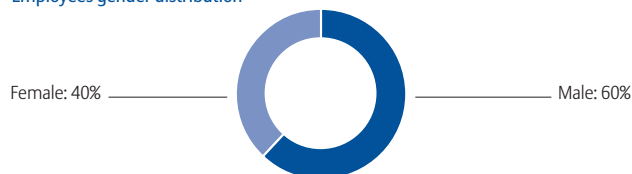
Allianz Lanka continued its training and development initiatives with staff following training programmes at local as well as overseas venues. Training was carried out in Japan, Singapore and India on areas like finance, sales and marketing as well as on general technical areas.

A special leadership training programme titled 'Lead to Serve,' for middle and senior management, was conducted by leadership trainer Mr Dammika Kalapuge.

Staff Movements

The expansion of the branch network and development of other activities necessitated recruitment of several new employees. As at December 2010, the permanent staff cadre was 131, which is an increase of 25% over the previous year. Of this, the larger proportion - 59 - comprises female staff, which follows the Allianz policy of gender equality in the workplace. Allianz Lanka continues to have a young and dynamic team, with the average age of staff standing at 31 years.

Employees gender distribution



Employee Engagement Survey

The Allianz Group recognises employee response and feedback as being invaluable in judging the effectiveness of its policies and workplace enhancement initiatives. Harnessing the full potential of employees in its development process is vital for the continuity of the Group.

The Employee Engagement Survey is designed to gauge the motivational levels of staff in contributing to Group success, and aims to improve job satisfaction and facilitate employee engagement. Feedback areas covered included structure, processes, performance management and compensation as well as employer attractiveness.

The Survey was conducted globally this year too, with Allianz Lanka participating for the fourth time and recording a response rate of over 90%, which is well above the average rate of 69%. The 2010 Employee Engagement Index for Allianz Lanka was rated at 83%, which showed a significant improvement over previous years.

The survey is conducted by an independent third party survey research organisation to ensure impartiality.

Sustainability Report

For a risk management conglomerate operating in over 70 countries and serving an excess of 80 million customers, a sustained approach is essential for long term business. Sustainable development involves the responsible stewardship of resources, which includes working in socially responsible ways to uplift the lives of the people in the communities it serves. Developing solutions that link economic prosperity with social responsibility requires balancing goals and interests whilst integrating social considerations to business decisions across the board.

Poverty and the lack of resources for betterment has been identified as being one of the most debilitating social deterrents to economic development. With this insight comes the responsibility to act. Sharing our success with those at the bottom-most rungs of the economic spectrum to help them attain an acceptable living standard and provide them with hope for a brighter future, has been an Allianz social strategy since inception.



In step with the thinking of its parent company, Allianz Lanka, too, has responded to societal challenges like the alleviation of poverty, since inception.

In Sri Lanka, the restoration of normalcy in the aftermath

of civil war in the country was the need of the hour. This requires building up the ravaged economies of the North East by bringing the living standards of the people on par with those of other regions, and helping the young and the displaced reintegrate into society through skills and knowledge enhancement as well as infrastructure development.

Allianz Lanka staff helped make a difference in the lives of the marginalised and poverty stricken people in areas in Jaffna, Mannar, and Vavuniya, giving selflessly of their time, resources and efforts to uplift the health and educational

facilities in those communities, thereby demonstrating their deep commitment to the Allianz corporate values of Integrity, Care, Passion, Teamwork and Service.

Staff reached out to the community in Mannar with enthusiasm and compassion. Under the aegis of the Roman Catholic Bishop, computers and library books on a range of subjects were provided to more than 100 inhabitants of the area.

The Mulangawil Maha Vidyalam in Mulangawil, in the Northern region of the country, were also beneficiaries. Comprising over 1400 children from under privileged homes who were deprived of a basic education because of the school's lack of infrastructural and educational facilities, the children

Sustainability Report (Contd.)

were nevertheless keen to learn. They were supplied with schooling materials as well as musical instruments, sports equipment and computers. Allianz staff built the school a much needed water supply and pitched in together to paint the school buildings. An entire day was spent in interacting with the impoverished students, which helped greatly to-



wards building bridges of unity and understanding between the communities. The children entertained their benefactors with many skilful and creative dance items of a very high standard, given the fact of their meager resources, and Allianz Lanka staff was unanimous in agreeing that it had been a very heartwarming and memorable experience.

The Company also sponsored the Gunananda Trophy for Volley Ball at Jaffna Central College to develop sporting activities in the school.

Providing underprivileged youth with the skills and knowledge that will empower them to build a better future. Allianz Lanka also expanded job opportunities, particularly in the areas of Jaffna, Muttur, Akkaranpattu and Mullaativu, by recruiting and training many young people to earn a sustainable income by joining the Company's sales cadre.

Taking our commitment to restoring normalcy in the

country a step further, Allianz Lanka supported Government initiatives by working towards reforming 15 former members of the terrorist cadre with the aim of absorbing them back into the mainstream of civilian life.

Activities carried out in the other regions of the country included the donation of white canes for the blind on White

Cane Day, to the Deaf and Blind School in Seeduwa. This is a project to which the Company commits itself annually.

Beautiful Christmas gifts of toys and books were donated to the street children of Negombo. This was a programme carried out by head office staff who agreed to forego the traditional exchange of gifts at Christmas and instead, helped those who had never experienced the warmth and joy of Christmas.



Staff from the Kurunegala branch office teamed to build a home for a single mother of meager resources.

Giving due regard to concerns of health, safety and the environment and working to achieve continuous performance improvements in our aspiration of no harm to people and the environment, will continue to be one of the main challenges in responding to contemporary society's changing demands. This is one more challenge that Allianz Lanka is confident of being well equipped to meet.

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Allianz Insurance Lanka Ltd. **Financial Information**

Directors' Report

The Directors of Allianz Insurance Lanka Ltd., present their Report together with the Audited Financial Statements and the Auditors' Report for the year ended 31 December 2010.

The Audited Financial Statements were approved by the Board of Directors on 2 March 2011.

Principal Activity

The Company underwrites Non-Life Insurance business. Income is derived from Underwriting, Underwriting Management and Investment Income.

Shareholding

Allianz SE of Munich, Germany, is the immediate and ultimate shareholder of the Company. The Allianz Group provides services in Insurance, Banking and Asset Management.

Review of Business and Future Developments

The Business Review, which includes details of the Company's development and performance, is set out in the financial overview on pages 9 to 13. The future developments of the Company are presented in the CEO's Review on pages 25 to 27. These reports together with the Audited Financial Statements, reflect the state of affairs of the Company.

Corporate Governance and Declaration of Compliance

The Board of Directors is committed to maintain an effective corporate governance structure and process and to be in compliance with all possible rules, regulations and best practices on corporate governance. The sustained success of the Company is based on trust, respect and the responsible, integrity-enriched behavior of all employees. With its compliance and anti-money laundering programme, we support and follow guidelines and standards for rules-compliant and value-based corporate leadership.

Risk Management

As a provider of financial services, we consider risk management to be one of our core competencies. It is therefore an integrated part of our business processes. The Allianz Group has put in place a comprehensive framework

that ensures that risks are properly identified, analysed and evaluated. Close risk monitoring and reporting allows us to detect deviations from our risk tolerance at an early stage.

Financial Statements

The Company Financial Statements duly signed by the directors are provided on pages 42 to 61 and the auditors' report on the Financial Statements is provided on page 41 of this annual report.

Earnings Summary

	2010 Rs.'000	2009 Rs.'000
Gross Written Premium (GWP):		
Accident	286,691	299,411
Fire	1,074,604	792,775
Marine	20,525	15,039
Motor	87,718	67,597
Total GWP	1,469,538	1,174,822
Net earned premium	293,437	265,074
Underwriting profit	125,926	62,603
Profit before taxation	221,305	158,312
Taxation	(53,996)	(38,646)
Profit after taxation	167,309	119,666
Profit brought forward from previous year	181,946	123,645
Revenue reserve capitalized	-	(61,365)
Profit available for appropriation	349,255	181,946

Underwriting Result

The underwriting profit increased to Rs 126 million (2009: Rs 63 million).

The gross premiums written grew by 25 % to Rs 1,470 million, mainly based on the increase in Non-Motor premium by Rs 275 million.

Financial Results

The Company recorded a Net Profit of Rs 167 million (2009: Rs.120 million).

Investments

The details of investments held by the Company are disclosed in note 3 to the Financial Statements.

Directors' Report (Contd.)

Asset allocation by asset class

	2010		2009	
	Rs.'000	%	Rs.'000	%
Fixed Income securities	807,591	98	656,207	97
Cash and cash equivalents	19,827	2	23,172	3
Total	827,418	100	679,379	100

Property and Equipment

Details of property and equipment are given in note 4 to the Financial Statements.

Employment Policy

As a people business, our principal asset is intellectual capital and our highly motivated and skilled employees are critical to our success. We acknowledge top performance and reward it appropriately. Our compensation and benefits plans are designed to motivate our employees to successfully implement our strategies and business plans.

We encourage equal opportunity and this involves recruiting, engaging, retaining, rewarding and developing our people solely on the grounds of their ability to do the job, and establishing and promoting a working environment free of discrimination.

Allianz employees continued to receive global training opportunities in the Allianz Group, on current trends and developments in insurance worldwide, which ensures that the Allianz team has the required expertise towards achieving corporate objectives. We believe we can create real competitive advantage by building and maintaining a high performance culture in the Company.

Stated Capital and Shareholders' Funds

In compliance with the Companies Act No. 07 of 2007, the Financial Statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The stated capital of the Company as at 31 December 2010 was Rs.250 million (2009: Rs.250 million). There were no changes in the stated capital during the year.

The total reserves of the Company as at 31 December 2010 amounted to Rs. 349 million (2009: Rs.182 million). The movement of reserves is shown in the statement of changes in equity on page 44.

Directors

The following persons served as Directors of the Company during the year:

- Heinz Dollberg
- Don Tri Nguyen
- Kamesh Goyal (until 30 April 2010)
- Dietmar Raich (until 19 November 2010)
- Craig Ellis (since 3 June 2010)
- Surekha Alles (since 3 June 2010)

Directors' Remuneration and Other Benefits

CEO/Directors' remuneration is decided by the Board, considering individual and Company performance. Due attention is also paid to industry standards, inflationary factors, future plans and Group policy when deciding the remuneration package to the CEO/Director. No remuneration is paid to Non Executive Directors.

Directors' Interest in Contracts with the Company

None of the Directors had any material interests, either directly or indirectly, in any transactions or contracts with the Company other than as disclosed in "Notes to the Financial Statements" (note 21).

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the government, other regulatory institutions and in relation to employees have been made on time.

Environment

The Company's activities can have direct or indirect effects on the environment. It is the policy of the Company to minimise any adverse effects by recycling resources as much as possible and creating awareness among its staff

Directors' Report (Contd.)

on current global environment threats. The Company does its best to comply with the relevant environmental laws and regulations.

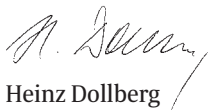
Going Concern

The Board of Directors made necessary review of the financial position and corporate plans for the ensuing years and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

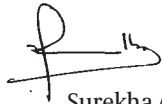
Auditors

The Financial Statements for the year ended 31 December 2010 have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Company (Chartered Accountants), who will retire from office at the end of this Annual General Meeting. They have expressed their willingness to be re-appointed until the next Annual General Meeting at remuneration to be agreed upon.

On behalf of the Board.



Heinz Dollberg
Director



Surekha Alles
Director

Secretaries to the Company

EM & EN Agents and Secretaries (Pvt) Limited
2 March 2011

Certification of Incurred But Not Reported (IBNR) Reserve

I hereby certify that the IBNR reserves of at least Rs. 81Mn are appropriate in relation to the net of reinsurance claim liabilities of Allianz Insurance Lanka Limited. The results have been determined in accordance with generally accepted actuarial principles. The IBNR claim reserves, together with the case reserves held by the Company, are expected to be adequate to meet the future liabilities in respect of the Company's claim obligations as at 31 December 2010, in many but not all scenarios of future experience. I have relied upon information and data provided by the management of the Company and have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonability of the data. The results are subject to certain degrees of uncertainties arising from data inaccuracy.



Pan Wei Cheong

Fellow of the faculty of Actuaries (UK)

2 March 2011

Independent Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300
Sri Lanka.

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TO THE SHAREHOLDERS OF ALLIANZ INSURANCE LANKA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Insurance Lanka Limited, which comprise the balance sheet as at December 31, 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 42 to 61 of this annual report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2010 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2010 and its profit 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) of the Companies Act No. 07 of 2007. Further, pursuant to Regulations of Insurance Industry Act, No 43 of 2000, proper accounting records have been maintained as required by the related rules.

Chartered Accountants
2nd March 2011
Colombo, Sri Lanka.

KPMG Ford, Rhodes, Thornton & Co., a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Corporation ("KPMG International"), a Swiss entity

A.N. Fernando FCA
Ms. M.P. Perera FCA
T.J.S Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA

S. Srikananathan FCA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA

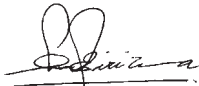
M.R. Mihular FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA

Balance Sheet

As at 31 December	Note	2010 Rs.'000	2009 Rs.'000
Assets			
Investments	3	807,591	656,207
Property and equipment	4	26,330	31,988
Intangible assets	5	11,233	19,453
Reinsurance receivable		296,505	125,480
Premiums receivable	6	326,035	130,678
Other assets	7	95,316	111,342
Deferred tax assets	19b	3,183	7,124
Cash and cash equivalents	8	19,827	23,172
Total Assets		1,586,020	1,105,444
Liabilities and Shareholders' Equity			
Liabilities			
Insurance provision - General	9	520,252	315,105
Reinsurance creditors		336,200	240,657
Retirement benefit obligation	10	4,899	2,856
Other liabilities	11	96,957	107,535
Bank overdraft		28,457	7,345
Total Liabilities		986,765	673,498
Shareholders' Equity			
Stated capital	12	250,000	250,000
Revenue reserves	13	349,255	181,946
Total Shareholders' Equity		599,255	431,946
Total Liabilities and Shareholders' Equity		1,586,020	1,105,444

The above balance sheet is to be read in conjunction with the notes to the Financial Statements on pages 47 to 61.

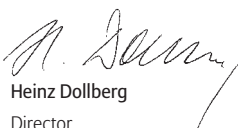
These Financial Statements have been prepared in accordance with the Companies Act No. 7 of 2007.



Dineth Ediriweera
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board by:



Heinz Dollberg
Director



Surekha Alles
Director

2 March 2011

Statement of Income

For the year ended 31 December	Note	2010 Rs.'000	2009 Rs.'000
Revenue	13a	388,816	360,783
Gross written premium		1,469,538	1,174,822
Premium ceded to reinsurers		(1,163,694)	(897,007)
Net written premium		305,844	277,815
Net change in reserve for unearned premium		(12,407)	(12,741)
Net Earned Premium	13b	293,437	265,074
Benefits, Losses and Expenses			
Net insurance claims and benefits	14	(172,754)	(150,698)
Net acquisition cost		115,060	88,096
Total Benefits, Losses and Expenses		(57,694)	(62,602)
Net Premium less Benefits, Losses and Expenses		235,743	202,472
Other Revenue			
Income from investments	15	91,599	72,346
Other income	16	3,780	23,363
Expenses			
Operating and administrative expenses	17	(109,817)	(139,869)
Profit before Taxation	18	221,305	158,312
Taxation	19	(53,996)	(38,646)
Profit after Taxation		167,309	119,666
Earnings per share (Rs.)	26	6.69	5.59

The above statement of income is to be read in conjunction with the notes to the Financial Statements on pages 47 to 61.

Statement of Changes in Equity

	Note	Stated Capital Rs.'000	Revenue Reserves Rs.'000	Total Rs.'000
Balance as at 31 December 2008		188,635	123,645	312,280
Shares issued during the year	12	61,365	(61,365)	-
Net profit for the year		-	119,666	119,666
Balance as at 31 December 2009		250,000	181,946	431,946
Net profit for the year		-	167,309	167,309
Balance as at 31 December 2010		250,000	349,255	599,255

The above statement of changes in equity is to be read in conjunction with the notes to the Financial Statements on pages 47 to 61.

Cash Flow Statement

For the year ended 31 December		2010	2009
	Note	Rs. '000	Rs. '000
Cash Flows from Operating Activities			
Premium received from customers		1,274,181	1,148,737
Reinsurance premium paid		(797,020)	(483,367)
Claims paid		(216,392)	(202,681)
Reinsurance receipts in respects of claims		56,905	85,827
Cash paid to and on behalf of employees		(34,533)	(24,245)
Operating cash payments		(188,921)	(216,065)
Cash Inflow from Operating Activities (Note A)		94,220	308,206
Tax paid		(49,605)	(25,971)
Net Cash Flows from Operating Activities		44,615	282,235
Cash Flows from Investment Activities			
Purchase of investments		(574,536)	(678,470)
Sale of investments		423,152	369,631
Purchase of intangible assets	5	(208)	(15,185)
Purchase of property and equipment	4	(8,045)	(19,673)
Interest income received		90,548	37,322
Proceeds on sale of plant and equipment		17	29
Net Cash Flows from Investing Activities		(69,072)	(306,346)
Net Cash Flow before Financing		(24,457)	(24,111)
Cash Flows from Financing Activities			
Proceeds from Issuance of share capital	12	-	-
Cash Flows from Financing Activities		-	-
Net Decrease in Cash and Cash Equivalents (Note B)		(24,457)	(24,111)

Cash Flow Statement (Contd.)

For the year ended 31 December		2010	2009
	Note	Rs.'000	Rs.'000
A. Reconciliation of Operating Profit with Cash Flows from Operating Activities			
Profit before taxation		221,305	158,312
Depreciation charges	4	13,702	10,636
Provision for gratuity	10	2,043	1,890
Amortization of intangible assets	5	8,428	5,534
Interest & other income		(91,615)	(72,363)
Decrease in debtors		(349,305)	(58,629)
Increase in unearned premiums and deferred acquisition costs		39,811	52,899
Increase in claims provisions		165,337	12,066
Increase in creditors and accruals		84,514	197,860
Cash inflow from operating activities		94,220	308,206
Tax paid		(49,605)	(25,971)
Net Cash Inflow from Operating Activities		44,615	282,235
B. Net Increase in Cash and Cash Equivalents			
Cash in hand and at bank	8	19,827	23,172
Bank overdraft		(28,457)	(7,345)
Net cash and cash equivalents for the current year		(8,630)	15,827
Net cash and cash equivalents for the previous year		15,827	39,938
Net Decrease in Cash and Cash Equivalents		(24,457)	(24,111)

The above cash flow statement is to be read in conjunction with the notes to the Financial Statements on pages 47 to 61.

Notes to the Financial Statements

1 Corporate Information

1.1 Reporting entity

Allianz Insurance Lanka Limited is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company and the principal place of business is located at No. 92, Glennie Street, Colombo 02.

The immediate and ultimate holding Company is Allianz SE of Munich Germany.

The Company was incorporated on 20 January 2004 and commenced Non-life (General) insurance business in January 2005.

1.2 Principal activity

The Company is engaged in the business of Insurance, selling Non-Life policies.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

2.1.1 Statement of compliance

The Financial Statements have been prepared and approved by the Directors in accordance with Sri Lanka Accounting Standards (SLAS), and the requirements of the Companies Act, No 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act, No 15 of 1995, and the Regulation of Insurance Industry Act, No 43 of 2000 and subsequent amendments thereon. The formats and disclosures where applicable are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SORP), adopted by the Institute of Chartered Accountants of Sri Lanka.

The Financial Statements of Allianz Insurance Lanka Ltd. for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the board of directors on 2 March 2011.

2.1.2 Responsibility for Financial Statements

The board of directors is responsible for the preparation and presentation of the Financial Statements.

2.1.3 Basis of measurement

The Financial Statements are presented in Sri Lankan rupees and rounded to the nearest thousand and prepared on the historical cost convention.

The accounting policies have been applied consistently by the Company.

2.1.4 Use of estimates and judgements

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLAS) requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised and in future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes :

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Insurance provision - General	9	56
Unearned premium and deferred acquisition cost	9a & 9b	56
Reserve for gross outstanding claims	9c	56
Deferred taxation – utilisation of losses	19b	60
IBNR reserve	9d	57
Retirement benefit obligation	10	57

Notes to the Financial Statements (Contd.)

2.1.5 Comparative information

Where necessary, comparative figures have been reclassified to conform to the current year's presentation.

The changes made to comparative classifications are disclosed in note 27 to the Financial Statements.

2.1.6 Foreign currency transactions

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were effected. Insurance contracts which were underwritten in foreign currency are converted to Sri Lanka Rupees at the rates of exchange prevailing at the time of underwriting, and revenue is recognised accordingly.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupee equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the Statement of Income.

2.1.7 Taxation

a) Current taxes

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and subsequent amendments thereon.

b) Deferred taxation

Deferred taxation is provided for using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed

to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date. Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced by the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

c) Economic service charge (ESC)

ESC is payable on the liable turnover at specified rates. As per the provision of the Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, ESC is deductible from the income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable as per the relevant provision in the Act.

d) Social responsibility levy (SRL)

As per the provisions of the Finance Act, No. 5 of 2005, as amended by the Finance Act, No. 8 of 2008, a social responsibility levy (SRL) was introduced with effect from 1 January 2005. SRL is payable at the rate of 1.5% on all taxes and levies chargeable as specified in the First Schedule of the Act.

Notes to the Financial Statements (Contd.)

2.1.8 Cash flow statement

The cash flow statement has been prepared using the direct method. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

2.2 Valuation of assets and their measurement basis

2.2.1 Investments

a) Investments in government securities

Investments in treasury bills, treasury bonds and repurchase agreements are stated at cost and interest is accrued up to year end.

b) Investments in debt Instruments and bank deposits

Investments in debt instruments and bank deposits are stated at cost and interest is accrued over the maturity period.

The carrying value of long-term investments is reduced to recognize a decline other than temporary in the value of investments, determined on an individual investment basis.

2.2.2 Property and equipment

a) Recognition and measurement

Property and equipment are stated at cost less accumulated depreciation and less any impairment losses.

The cost of property and equipment is the cost of acquisition or construction together with any expenses incurred in bringing the asset to its working condition for its intended use.

Purchased software which is integral to the computer equipment or the self generated type of software is capitalised under computer equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of

property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

b) Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

c) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Office equipment	3 years
Computer equipment	3 years
Furniture and fittings	5 years
Motor vehicles	5 years

Assets were depreciated from the month they were available for use and no depreciation is provided in the month of disposal.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the Financial Statements (Contd.)

d) Derecognition

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use.

Any gain or loss arising on derecognition of the asset is included in the statement of income in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of property and equipment, the remaining carrying amount of the replaced part is derecognised.

e) Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the statement of income.

2.2.3 Intangible assets

a) Recognition and measurement

Intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

b) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the statement of income as incurred.

c) Amortisation

Amortisation is recognised in the statement of income on a straight-line basis over the

estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods for the intangible assets are 3 years.

The estimated useful life of an intangible asset in a service concession arrangement is the period in which it is available for use to the end of the concession period.

2.2.4 Reinsurance receivable

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurance are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the balance sheet unless a right to offset exists.

2.2.5 Premiums receivable

Premiums receivable and other assets are stated at their net estimated realisable amounts. Collectability of premiums and other assets are reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

2.2.6 Other receivables

Other receivables and dues from related parties are recognised at cost.

2.2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits readily convertible to known amounts of cash and subject to insignificant risks of changes in value.

Notes to the Financial Statements (Contd.)

2.3 Liabilities and provisions

2.3.1 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where 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. When the Company 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 statement of income net of any reimbursement.

2.3.2 Reinsurance payable

Reinsurance liability consists of reinsurance premium due to reinsurance in respect of the reinsurance contracts that are entered into by the Company.

2.3.3 Retirement benefit obligations

a) Defined benefit plan - gratuity

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the SLAS 16. However, under the Payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded nor actuarially valued. The gratuity liability is valued using the gratuity formula method as required by the Sri Lanka Accounting Standard 16 - "Employee Benefits".

b) Defined contribution plans- Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for employees' provident fund contributions and employees' trust fund contributions in line with the

respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to the employees' provident fund and employees' trust fund respectively.

2.3.4 Proposed dividends

Dividend proposed / declared by the Board of Directors after the balance sheet date is not recognised as a liability and is disclosed as a note to the Financial Statements.

2.4 Stated capital

2.4.1 Ordinary shares

The Company's stated capital comprises ordinary shares that are classified as equity.

2.5 Statement of income

2.5.1 Non-Life insurance business

a) Gross written premium

Gross written premium is generally recognised as written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro rata basis over the term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. Earned premiums are calculated on the 365 basis except for marine business, which is computed on a 60-40 basis.

b) Reinsurance premium

Reinsurance premium expense is recognised in the same accounting period as the gross written premium to which it relates or in accordance with the pattern of reinsurance services received.

Notes to the Financial Statements (Contd.)

c) Unearned premium

The unearned premium reserve represents the portion of the gross written premium and reinsurance premium written in the current year but relating to the unexpired period of coverage.

Unearned premiums are calculated on the 365 basis except for marine business, which is computed on a 60-40 basis in accordance with the rules made by the Insurance Board of Sri Lanka.

d) Unexpired risks

Provision is made where appropriate for the estimated amount required over and above the unearned premium to meet future claims and related expenses on the business in force as at 31 December.

e) Claims

Claims expenses and a liability for outstanding claims are recognised in respect of direct and inward reinsurance business. The liability covers claims reported but not yet paid, IBNR (Incurred but Not Reported) claims, IBNER (Incurred but Not Enough Reported) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. The provision in respect of IBNR and IBNER is actuarially valued to ensure a more realistic estimation of future liability based on past experience and trends.

Actuarial valuations are performed on an annual basis. While the directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such amounts are reflected in the Financial Statements for that period. The

methods used and the estimates made are reviewed regularly.

f) Deferred acquisition costs

Deferred acquisition costs represent commissions and reinsurance commission deferred and amortised over the period in which the related written premiums are earned. This is computed on the 365 basis.

2.5.2 Expenditure recognition

- a) Expenses are recognised in the statement of income on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.
- b) For the purpose of presentation of the statement of income the directors are of the opinion that the function of expenses method presents fairly the elements of the Company's performance, and hence such a presentation method is adopted.

2.5.3 Investment income and other income

a) Interest

Interest income is recognised as the interest accrued based on the agreed rates, unless collectability is in doubt.

b) Other

Other income is recognised on an accrual basis. Net gains and losses of a revenue nature on the disposal of plant and equipment and other non current assets including investments have been accounted for in the statement of income, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses.

Notes to the Financial Statements (Contd.)

2.6 Events after the balance sheet date

All material post-balance sheet events have been considered and where appropriate, adjustments or disclosures have been made in note 24 to the Financial Statements.

2.7 Commitments and contingencies

Commitments and contingencies as at the balance sheet date are disclosed in note 22 and 23 to the Financial Statements.

2.8 Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments like investments and receivables:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risk and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these Financial Statements. The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Management is responsible for developing and monitoring the Company's risk management.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

a) Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer and intermediaries. The Company

has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company standard payment terms and conditions are offered. The Company reviews credits granted to customers on a regular basis and takes necessary action if any doubtful debts are identified.

b) Investments

The Company limits its exposure to credit risk by only investing in fixed income securities issued by the government of Sri Lanka and licensed commercial banks. The investment committee is responsible for the management of the investment portfolios including the development of overall and portfolio-specific investment guidelines.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Company reputation.

The Company monitors its cash flow requirements and optimises cash returns on investments. Typically, the Company ensures that it has sufficient cash on demand to meet expected claims, reinsurance premiums and operational expenses on due dates. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Notes to the Financial Statements (Contd.)

Market risk

Market risk is the risk that changes in market prices such as interest rates will affect the Company income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return. In order to manage the market risk, the Company has adapted to the investment guidelines stipulated by the regulator.

2.9 New accounting standards issued but not effective as at balance sheet date

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards – 2011, applicable for financial periods beginning on or after 1 January 2012. These standards have many changes and consequential changes from the adaption of SLAS 44 and 45. These new accounting standards are prefixed. Both SLFRS and LKAS correspond to the relevant IFRS and IAS. Disclosure requirements under SLAS 10.30 and 10.31 have been exempted by the ICASL and therefore all differences and impacts arising from the new standards are not presented in these Financial Statements.

The above standards are effective for annual periods beginning on or after 1 January 2012.

Notes to the Financial Statements (Contd.)

3 Investments	2010	2009
	Rs.'000	Rs.'000
Sri Lanka government securities	772,591	641,207
Fixed deposit	15,000	15,000
Corporate debentures (3.1)	20,000	-
	807,591	656,207

3.1 Debentures	2010			2009		
	Face value	Carrying value	Market value	Face value	Carrying value	Market value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Quoted	20,000	20,000	20,000	-	-	-
Bank of Ceylon - 11.5%	20,000	20,000	20,000	-	-	-

4 Property and Equipment	Office equipment	Furniture and fittings	Computer equipment	Motor vehicles	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost					
Balance as at 1 January 2010	5,379	9,574	25,232	11,580	51,765
Additions during the year	825	2,672	4,548	-	8,045
Disposals	(12)	(19)	(78)	-	(109)
Balance as at 31 December 2010	6,192	12,227	29,702	11,580	59,701
Depreciation					
Balance as at 1 January 2010	2,315	3,153	9,721	4,588	19,777
Depreciation charge for the year	1,707	2,092	7,906	1,998	13,702
Accumulated depreciation on disposals	(12)	(19)	(78)	-	(108)
Balance as at 31 December 2010	4,010	5,226	17,549	6,586	33,371
Carrying amount					
Balance as at 31 December 2010	2,182	7,001	12,153	4,994	26,330
Balance as at 31 December 2009	3,064	6,421	15,511	6,992	31,988

5 Intangible Assets	2010	2009
	Rs.'000	Rs.'000
Acquisition cost		
Balance as at 1 January	25,267	10,082
Additions during the year	208	15,185
Balance as at 31 December	25,475	25,267
Amortization		
Balance as at 1 January	5,814	280
Amortization charge for the year	8,428	5,534
Balance as at 31 December	14,242	5,814
Carrying amount as at 31 December	11,233	19,453

Intangible assets represent the cost of acquisition (Rs. 25 million) of an insurance management system from Data Quest S.A.L. The assets have been amortized over 3 years as per the SLAS 37 - Intangible Assets

Notes to the Financial Statements (Contd.)

6 Premium Receivable	2010	2009
	Rs.'000	Rs.'000
Premium receivable	332,082	151,903
Provision for bad debts	(6,047)	(21,225)
Premium receivable net of provision	326,035	130,678
7 Other Assets	2010	2009
	Rs.'000	Rs.'000
Interest receivable	41,316	40,265
Other debtors and receivables	24,113	6,124
Amounts due from Allianz Life Insurance Lanka Ltd.	29,887	64,953
	95,316	111,342
8 Cash and Cash Equivalents	2010	2009
	Rs.'000	Rs.'000
Cash in hand	247	182
Cash at bank	19,580	22,990
	19,827	23,172
9 Insurance Provision - General	2010	2009
	Rs.'000	Rs.'000
Reserve for net unearned premium (9a)	128,744	116,337
Reserve for net deferred acquisition cost (9b)	94,734	67,331
Reserve for gross outstanding claims (9c)	215,902	99,635
Reserve for IBNR (9d)	80,872	31,802
	520,252	315,105
9a Reserve for net unearned premium	2010	2009
	Rs.'000	Rs.'000
Balance as at 1 January	116,337	103,596
Transfers during the year	12,407	12,741
Balance as at 31 December	128,744	116,337
9b Reserve for net deferred acquisition cost	2010	2009
	Rs.'000	Rs.'000
Balance as at 1 January	67,331	27,172
Transfers during the year	27,403	40,159
Balance as at 31 December	94,734	67,331
9c Reserve for gross claims outstanding	2010	2009
	Rs.'000	Rs.'000
Balance as at 1 January	99,635	95,595
Transfers during the year	448,925	195,085
Claims approved during the year	(332,658)	(191,045)
Balance as at 31 December	215,902	99,635

Notes to the Financial Statements (Contd.)

9d Reserve for IBNR	2010 Rs.'000	2009 Rs.'000
Balance as at 1 January	31,802	12,140
Transfers during the year	49,070	19,662
Balance as at 31 December	80,872	31,802

9e Reconciliation between insurance provision and technical reserve	2010 Rs.'000	2009 Rs.'000
Non-Life insurance provision	520,252	315,105
Reinsurance receivables on claims outstanding	(186,606)	(65,836)
Technical reserve	333,646	249,269

The Non-Life insurance technical reserve of Rs. 334Mn as at 31 December 2010 includes the provision of IBNR claims of Rs. 81 million. This provision represents a best estimate of future claims, with no tendency to be either optimistic or pessimistic. The estimation of IBNR claim liabilities is subject to certain degrees of uncertainties. Uncertainties could arise from data inaccuracy, changes in underlying risk, changes in speed of reporting and settlement, management decisions and other external factors. In view of the inherent variability and uncertainty, these estimates should be viewed as only part of a wider range of possible outcomes produced by alternative assumptions.

10 Retirement Benefit Obligation - Gratuity	2010 Rs.'000	2009 Rs.'000
Balance as at 1 January	2,856	966
Provision made during the year	2,043	1,890
Balance as at 31 December	4,899	2,856

The retirement benefit plan entitles a retired employee to receive payment equal to ½ of final salary multiplied by the number of completed years of service. However, under the Payment of Gratuity Act No. 12 of 1983, the liability of the employee arises only on completion of five years of continued service. The retirement benefit plan valuation is carried out based on the gratuity formula method in accordance with SLAS 16 - "Employee Benefits".

Principal assumptions as at the balance sheet date (Expressed as weighted averages)	2010	2009
Discount rate at 31 December	8%	10%
Future salary increases	12%	12%

11 Other Liabilities	2010 Rs.'000	2009 Rs.'000
Agency commission payable	24,835	27,173
Government levies	8,190	13,830
Tax payable	29,600	29,150
Other creditors and accrued expenses	34,332	37,382
	96,957	107,535

Notes to the Financial Statements (Contd.)

12 Stated Capital	2010 Rs.'000	2009 Rs.'000
Balance as at 1 January	250,000	188,635
Issued during the year	-	61,365
25,000,000 fully paid ordinary shares at Rs.10	250,000	250,000

13 Revenue Reserve	2010 Rs.'000	2009 Rs.'000
Balance as at 1 January	181,946	123,645
Bonus Share Issue	-	(61,365)
Net profit for the year	167,309	119,666
Balance as at 31 December	349,255	181,946

13a Revenue	2010 Rs.'000	2009 Rs.'000
Gross written premium	1,469,538	1,174,822
Less: premium ceded to reinsurers	(1,163,694)	(897,007)
Net written premium	305,844	277,815
Net change in reserve for unearned premium	(12,407)	(12,741)
Net earned premium	293,437	265,074
Income from investments	91,599	72,346
Other income	3,780	23,363
Total revenue	388,816	360,783

13b Net earned premium	2010 Rs.'000	2009 Rs.'000
Gross written premium		
Accident	286,691	299,411
Fire	1,074,604	792,775
Marine	20,525	15,039
Motor	87,718	67,597
	1,469,538	1,174,822
Premium ceded to reinsurers	(1,163,694)	(897,007)
Net written premium	305,844	277,815
Increase in unearned premium	(12,407)	(12,741)
Net earned premium	293,437	265,074

Notes to the Financial Statements (Contd.)

14 Net Insurance Claims and Benefits	2010 Rs.'000	2009 Rs.'000
Gross claims		
Accident	104,260	96,189
Fire	214,500	77,953
Marine	3,472	3,817
Motor	59,496	36,789
	381,728	214,748
Reinsurance recoveries	(208,974)	(64,050)
Insurance claims and benefits (net)	172,754	150,698
15 Income from Investments	2010 Rs.'000	2009 Rs.'000
Interest income	91,599	72,346
16 Other Income	2010 Rs.'000	2009 Rs.'000
Exchange gain	207	-
Other	3,573	23,363
	3,780	23,363
17 Operating and Administrative Expenses	2010 Rs.'000	2009 Rs.'000
Staff expenses (17.a)	34,534	24,245
Administration and establishment expenses	33,584	74,965
Selling expenses	14,625	18,981
Depreciation (4)	13,702	10,636
Amortization (5)	8,428	5,534
Exchange loss	-	5,508
Nations building tax	4,944	
	109,817	139,869
17a Staff expenses	2010 Rs.'000	2009 Rs.'000
Wages and salaries	22,601	15,257
EPF and ETF (17b)	2,675	1,923
Provision for retirement benefits obligation (10)	2,043	1,890
Staff welfare	1,107	1,325
Training expenses	1,114	871
Other costs	4,994	2,979
	34,534	24,245
17b Contributions made to the Provident and Trust funds	2010 Rs.'000	2009 Rs.'000
Provident fund	2,140	1,500
Trust fund	535	423
	2,675	1,923

Notes to the Financial Statements (Contd.)

17c Number of Employees	2010	2009
As at the end of the financial year	102	66

18 Profit Before Tax	2010	2009
Profit before tax for the year is stated after charging the following expenses	Rs.'000	Rs.'000
Depreciation (4)	13,702	10,636
Auditors' remuneration - Audit	625	984
- Audit related fees	-	36
Legal Fees	247	1376

19 Income Tax Expense	2010	2009
	Rs.'000	Rs.'000
Current tax expense		
Current period (19a)	44,872	40,417
Social responsibility levy	740	634
Deemed dividend tax	4,443	1,835
Deferred tax expense		
Reversal and origination of temporary differences (19b)	3,941	(4,240)
Income tax expense from continuing operations	53,996	38,646
Total income tax expense	53,996	38,646

19a Current income tax expense	2010	2009
	Rs.'000	Rs.'000
Accounting profit	221,305	158,312
Aggregate disallowed items	51,044	41,156
Aggregate allowable expenses	(15,946)	(14,399)
Aggregate exempt income	(128,197)	(69,594)
Taxable profit	128,206	115,475
Statutory tax rate	35%	35%
Current income tax expense	44,872	40,417

19b Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010 Rs.'000	2009 Rs.'000	2010 Rs.'000	2009 Rs.'000	2010 Rs.'000	2009 Rs.'000
Plant and equipment	118	-	-	(1,305)	118	(1,305)
Employee benefits	1,372	1,000	-	-	1,372	1,000
Provisions	1,693	7,429	-	-	1,693	7,429
Net tax (assets) / liabilities	3,183	8,429	-	(1,305)	3,183	7,124
Reversal and (origination) of temporary differences					3,941	(4,240)

Notes to the Financial Statements (Contd.)

20 Transactions with Group Companies

Company	Relationship	Nature of transaction	2010 Rs.'000	2009 Rs'000
Allianz SE	Group Company	Reinsurance arrangement	563,081	329,000
Allianz Life Insurance Lanka Ltd.	Group Company of Allianz SE	Reimbursable expenses	33,593	(51,295)

21 Transactions with Key Management Personnel

The key management personnel include the board of directors. There was no remuneration or fee paid and no transactions with key management personnel for the year ended 31 December 2010.

22 Capital Commitments

There were no material capital commitments outstanding as at the balance sheet date.

23 Contingent Liabilities

There were no contingent liabilities outstanding as at the balance sheet date.

24 Events after the Balance Sheet Date

There were no material events occurring after the balance sheet date that require adjustments or disclosures in the Financial Statements.

25 Litigations and Claims

There were no litigations and claims filed against the Company as at the balance sheet date.

26 Earning Per Share

Earning per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding as at year end.

	2010 Rs.'000	2009 Rs.'000
Profit attributable to ordinary shareholders (Rs. '000)	167,309	119,666
Weighted average no. of ordinary shares ('000)	25,000	21,420
Earning per share (Rs.)	6.69	5.59

27 Comparative Information

No changes were made to the comparative classifications and presentation.

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Allianz Life Insurance Lanka Ltd. **Financial Information**

Directors' Report

The Directors of Allianz Life Insurance Lanka Ltd., present their Report together with the Audited Financial Statements and the Auditors' Report for the year ended 31 December 2010.

The Audited Financial Statements were approved by the Board of Directors on 2 March 2011.

Principal Activity

The Company underwrites Life Insurance business. Income is derived from Underwriting, Underwriting Management and Investment Income.

Shareholding

Allianz SE of Munich, Germany, is the immediate and ultimate shareholder of the Company. The Allianz Group provides services in Insurance, Banking and Asset Management.

Review of Business and Future Developments

The Business Review, which includes details of the Company's development and performance, is set out in the financial overview on pages 14 to 15. The future developments of the Company are presented in the CEO's Review on pages 25 to 27. These reports together with the Audited Financial Statements reflect the state of affairs of the Company.

Corporate Governance and Declaration of Compliance

The Board of Directors is committed to maintain an effective corporate governance structure and process and to be in compliance with all possible rules, regulations and best practices on Corporate Governance. The sustained success of the Company is based on trust, respect and the responsible, integrity-enriched behavior of all employees. With its compliance and anti-money laundering programme, we support and follow guidelines and standards for rules-compliant and value-based corporate leadership.

Risk Management

As a provider of financial services, we consider risk management to be one of our core competencies. It is therefore an integrated part of our business processes. The Allianz Group has put in place a comprehensive framework that ensures that risks are properly identified, analyzed and evaluated. Close risk monitoring and reporting allows us to

detect deviations from our risk tolerance at an early stage.

Turnover

The gross written premium for the year was Rs. 205 million and Rs. 102 million for the year 2009.

Financial Statements

The Company Financial Statements duly signed by the directors are provided on pages 68 to 85 and the auditors' report on the Financial Statements is provided on page 67 of this annual report.

Investments

The details of investments held by the Company are disclosed in note 3 to the Financial Statements.

Actuarial Valuation

Liabilities for Life policies are determined by the appointed actuary. An annual dividend of 14% has been recommended for the financial year ending 31 December 2010 to the Life policy holders (2009 : 15%) The rate is determined after taking into consideration the yield obtained on relevant matching assets.

Property and Equipment

Details of plant and equipment are given in note 4 to the Financial Statements.

Employment Policy

As a people business, our principal asset is intellectual capital, and our highly motivated and skilled employees are critical to our success. We acknowledge top performance and reward it appropriately. Our compensation and benefits plans are designed to motivate our employees to successfully implement our strategies and business plans.

We encourage equal opportunity and this involves recruiting, engaging, retaining, rewarding and developing our people solely on the grounds of their ability to do the job, and establishing and promoting a working environment free of discrimination.

Allianz employees continued to receive global training opportunities in the Allianz Group on current trends and developments in insurance worldwide, which ensures that the Allianz team has the required expertise to

Directors' Report (Contd.)

achieve corporate objectives. We believe we can create real competitive advantage by building and maintaining a high performance culture in the Company.

Stated Capital and Shareholders' Funds

In compliance with the Companies Act No. 07 of 2007, the Financial Statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The stated capital of the Company as at 31 December 2010 was Rs.349,998,500 (2009: Rs.249,998,500). The stated capital of the Company increased by Rs.100,000,000 during the year.

Directors

The following persons served as directors of the Company during the year:

- Heinz Dollberg
- Kamesh Goyal (until 30 April 2010)
- Dietmar Raich (until 19 November 2010)
- Craig Ellis (since 3 June 2010)
- Surekha Alles (since 3 June 2010)

Directors' Remuneration and Other Benefits

CEO/Director's remuneration is decided by the Board, considering individual and Company performance. Due attention is also paid to industry standards, inflationary factors, future plans and Group policy when deciding the remuneration package to the CEO/Director. No remuneration is paid to Non-Executive Directors.

Directors' Interest in Contracts with the Company

None of the Directors had any material interests, either directly or indirectly, in any transactions or contracts with the Company other than as disclosed in "Notes to the Financial Statements" (note 19).

Statutory Payments

The directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the government, other regulatory institutions and in relation to employees have been made on time.

Environment

The Company's activities can have direct or indirect effects on the environment. It is the policy of the Company to minimise any adverse effects by recycling resources as much as possible and creating awareness among its staff on current global environment threats. The Company does its best to comply with the relevant environmental laws and regulations.

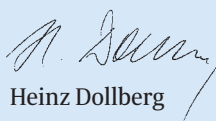
Going Concern

The board of directors made necessary review of the financial position and corporate plans for the ensuing years and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept. Furthermore, during 2011, the Company has planned for a capital injection and thereby the Equity position of the company will increase.

Auditors

The Financial Statements for the year ended 31 December 2010 have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Company (Chartered Accountants), who will retire from office at the end of this Annual General Meeting. They have expressed their willingness to be re-appointed until the next Annual General Meeting at remuneration to be agreed upon.

On behalf of the Board.


Heinz Dollberg
Director


Surekha Alles
Director

Secretaries to the Company

EM & EN Agents and Secretaries (Pvt) Limited
2 March 2011

Actuary's Report - Life

To the shareholders of Allianz Life Insurance Lanka Limited

I have conducted a liability valuation for the business as at 31 Dec 2010.

I am satisfied that I have been provided with adequate records in order to determine an appropriate value of liabilities as at 31 Dec 2010.

I am satisfied that, as at 31 Dec 2010, the Company is capable of meeting all liabilities to policyholders, as well as meeting the statutory solvency margin with a comfortable buffer.



Eng Hun Yeoh

Fellow of the Institute of Actuaries of Australia

28 January 2011

Independent Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300
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TO THE SHAREHOLDERS OF ALLIANZ LIFE INSURANCE LANKA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Allianz Life Insurance Lanka Limited, which comprise the balance sheet as at December 31, 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 68 to 85 of this annual report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2010 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2010 and its loss 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) of the Companies Act No. 07 of 2007. Further, pursuant to Regulations of Insurance Industry Act, No 43 of 2000, proper accounting records have been maintained as required by the related rules.

Chartered Accountants
2nd March 2011
Colombo, Sri Lanka.

KPMG Ford, Rhodes, Thornton & Co., a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

A.N. Fernando FCA
Ms. M.P. Perera FCA
T.J.S Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA

S. Srikananathan FCA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA

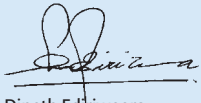
M.R. Mihular FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA

Balance Sheet

As at 31 December	Note	2010 Rs.'000	2009 Rs.'000
Assets			
Investments	3	212,677	189,150
Property and equipment	4	23,787	18,147
Reinsurance receivable		3,108	2,376
Other assets	5	34,442	57,981
Cash and cash equivalents	6	8,351	5,849
Total Assets		282,365	273,503
Liabilities and Shareholders' Equity			
Liabilities			
Insurance provision - Life	7	66,290	8,001
Reinsurance creditors		7,252	5,098
Other liabilities	8	65,484	93,179
Retirement benefit obligation	9	820	508
Bank overdraft	6	1,865	2,085
Total Liabilities		141,711	108,871
Shareholders' Equity			
Stated capital	10	349,999	249,999
Revenue reserves /(accumulated losses)	11	(209,345)	(85,367)
Total Shareholders' Equity		140,654	164,632
Total Liabilities and Shareholders' Equity		282,365	273,503

The above balance sheet is to be read in conjunction with the notes to the Financial Statements on pages 73 to 85.

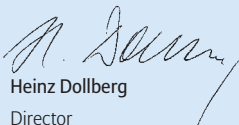
These Financial Statements have been prepared in accordance with the Companies Act No 7 of 2007.



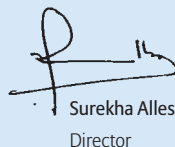
Dineth Ediriweera
Chief Financial Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board by:



Heinz Dollberg
Director



Surekha Alles
Director

2 March 2011

Statement of Income

For the year ended 31 December	Note	2010 Rs.'000	2009 Rs.'000
Revenue	11a	222,661	128,141
Gross written premium	11b	204,814	101,816
Premium ceded to reinsurers		(12,245)	(7,494)
Net written premium		192,569	94,322
Benefits, Losses and Expenses			
Increase in insurance provision - Life	7.1	(58,290)	(7,317)
Net insurance claims and benefits	12	(5,715)	(3,283)
Net acquisition costs	13	(81,149)	(48,014)
Total Benefits, Losses and Expenses		(145,154)	(58,614)
Net Written Premium less Benefits, Losses and Expenses		47,415	35,708
Other Revenue			
Income from investments	14	30,092	33,819
Expenses			
Operating and administrative expenses	15	(201,485)	(145,243)
Loss before Taxation	16	(123,978)	(75,716)
Income tax	17	-	-
Net Loss for the Year		(123,978)	(75,716)
Loss per share (Rs.)	24	(4.38)	(3.03)

The above statement of income is to be read in conjunction with the notes to the Financial Statements on pages 73 to 85.

Statement of Changes in Equity

	Note	Stated Capital Rs.'000	Revenue Reserves Rs.'000	Total Equity Rs.'000
Balance as at 31 December 2008		249,999	(9,651)	240,348
Loss for the year		-	(75,716)	(75,716)
Balance as at 31 December 2009		249,999	(85,367)	164,632
Shares issued during the year	10	100,000	-	100,000
Net profit / (loss) for the year		-	(123,978)	(123,978)
Balance as at 31 December 2010		349,999	(209,345)	140,654

The above statement of changes in equity is to be read in conjunction with the notes to the Financial Statements on pages 73 to 85.

Cash Flow Statement

For the year ended 31 December	Note	2010 Rs.'000	2009 Rs.'000
Cash Flows from Operating Activities			
Premium received from customers	11b	204,814	101,816
Reinsurance premium paid		(10,089)	(3,335)
Claims paid		(7,204)	(5,283)
Reinsurance receipts in respect of claims		3,394	113
Cash paid to and on behalf of employees		(53,687)	(49,136)
Interest received		31,579	25,119
Other operating cash payments		(229,566)	(95,457)
Cash Inflow from Operating Activities (Note A)		(60,759)	(26,162)
Income tax paid		-	-
Net Cash Flows from Operating Activities		(60,759)	(26,162)
Cash Flows from Investing Activities			
Purchase of liquid investments (other than cash equivalents)		(131,929)	(190,879)
Proceeds on maturity investments (other than cash equivalents)		108,402	233,504
Disposal of property and equipment		16	
Purchase of property and equipment	4	(13,008)	(15,220)
Net Cash Flows from Investing Activities		(36,519)	27,404
Net cash inflow before financing		(97,278)	1,242
Cash Flows from Financing Activities			
Issue of share capital	10	100,000	-
Net cash flows from financing activities		100,000	-
Net Increase in Cash and Cash Equivalents (Note B)		2,722	1,242

Cash Flow Statement (Contd.)

For the year ended 31 December		2010	2009
	Note	Rs.'000	Rs.'000
A. Reconciliation of Operating Profit with Cash Flows from Operating Activities			
Loss before tax		(123,978)	(75,716)
Depreciation charge	4	7,352	3,284
Increase in other assets		22,807	(41,118)
Increase in Life insurance provision	7.1	58,289	7,317
Increase in creditors		(25,229)	80,071
Cash Flows from Operating Activities		(60,759)	(26,162)
B. Increase in Cash and Cash Equivalents			
Cash at Bank and in hand and cash equivalents	6	8,351	5,849
Bank overdrafts	6	(1,865)	(2,085)
Net cash and cash equivalents for the current year		6,486	3,764
Net cash and cash equivalents at the beginning of the year		3,764	2,522
Increase in Cash and Cash Equivalents		2,722	1,242

The above cash flow statement is to be read in conjunction with the notes to the Financial Statements on pages 73 to 85.

Notes to the Financial Statements

1 Corporate Information

1.1 Reporting entity

Allianz Life Insurance Lanka Limited is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Company and the principal place of business is located at No. 92, Glennie Street, Colombo 02.

The immediate and ultimate holding Company is Allianz SE of Munich Germany.

The Company was incorporated on 24 March 2008 and commenced Life insurance business in November 2008.

1.2 Principal activity

The Company is engaged in the business of Life insurance.

2 Summary of Significant Accounting Policies

2.1 Basis of preparation

2.1.1 Statement of compliance

The Financial Statements have been prepared and approved by the directors in accordance with Sri Lanka Accounting Standards (SLAS), and the requirements of the Companies Act, No 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act, No 15 of 1995, and the Regulation of Insurance Industry Act, No 43 of 2000 and subsequent amendments thereon. The formats and disclosures where applicable are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SORP), adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

The Financial Statements of Allianz Life Insurance Lanka Ltd. for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 2 March 2011.

2.1.2 Basis of measurement

The Financial Statements have been prepared on a historical cost basis.

2.1.3 Functional and presentation currency

These Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency. All financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

2.1.4 Use of estimates and judgements

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLAS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised and in future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes:

Critical Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page
Insurance provision - Life	7	81
Retirement benefit obligation	9	81
Deferred taxation	17b	84

Notes to the Financial Statements (Contd.)

2.2 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

Where necessary, comparative amounts have been reclassified to conform with the current year's presentation. The changes made to comparative classifications are disclosed in Note 25 to the Financial Statements.

2.2.1 Foreign currency transactions

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were affected. Insurance contracts which were underwritten in foreign currency are converted to Sri Lanka Rupees at the rates of exchange prevailing at the time of underwriting, and revenue is recognised accordingly.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupee equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. The resulting gains and losses are accounted for in the statement of income.

2.2.2 Taxation

a) Current taxes

The provision for income tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act No 10 of 2006 and subsequent amendments thereon.

b) Deferred taxation

Deferred taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and

the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced by the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are disclosed in note 17b to the Financial Statement.

c) Social responsibility levy (SRL)

As per the provisions of the Finance Act, No. 5 of 2005, as amended by the Finance Act, No. 8 of 2008, a social responsibility levy (SRL) was introduced with effect from 1 January 2005. SRL is payable at the rate of 1.5% on all taxes and levies chargeable as specified in the First Schedule of the Act.

2.2.3 Cash flow statement

The cash flow statement has been prepared using the direct method. For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

Notes to the Financial Statements (Contd.)

2.2.4 Earnings per share

The Company presents basic earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

2.3 Valuation of assets and their measurement basis

2.3.1 Investments

a) Investments in government securities

Investments in treasury bills, treasury bonds and repurchase agreements are stated at cost and interest is accrued up to year end.

b) Investments in debt instruments and bank deposits

Investments in debt instruments and bank deposits are stated at cost and interest is accrued over the maturity period.

The carrying value of long-term investments is reduced to recognise a decline other than temporary in the value of investments, determined on an individual investment basis.

2.3.2 Property and equipment

a) Recognition and measurement

Property and equipment are stated at cost less accumulated depreciation and less any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software which is integral to the computer equipments or the

self generated type of software is capitalised under computer equipments.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognised net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

b) Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

c) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Office equipment	3 years
Computer equipment	3 years
Furniture and fittings	5 years
Motor vehicles	5 years

Assets were depreciated from the month they were available for use and no depreciation is provided in the month of disposal.

Notes to the Financial Statements (Contd.)

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

d) Derecognition

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the statement of income in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of property and equipment, the remaining carrying amount of the replaced part is derecognised.

e) Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of income.

2.3.3 Reinsurance receivable

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurance are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance receivables are recorded gross in the balance sheet unless a right to offset exists.

2.3.4 Other receivables

Other receivables and dues from related parties are stated at cost.

2.3.5 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits readily convertible

to known amounts of cash and subject to insignificant risk of changes in value.

2.4 Liabilities and provisions

2.4.1 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where 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. When the company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Income net of any reimbursement.

2.4.2 Reinsurance payables

Reinsurance liability consists of reinsurance premium due to reinsurance in respect of the Reinsurance contracts that are entered into by the Company.

2.4.3 Employee benefits

a) Defined benefit plan - Gratuity

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the SLAS 16. However, under the Payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded nor actuarially valued. The gratuity liability is valued using the gratuity formula method as required by the Sri Lanka Accounting Standard 16 "Employee Benefits".

b) Defined contribution plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for employees' provident fund contributions and employees'

Notes to the Financial Statements (Contd.)

trust fund contributions in line with the respective statutes and regulations. The Company contributes 12 % and 3% of gross emoluments of employees to the employees' provident fund and employees' trust fund respectively.

c) Short-term employee benefits- Cash bonus plans

Cash bonus employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2.5 Stated capital

2.5.1 Ordinary Shares

The Company's stated capital comprises ordinary shares that are classified as equity.

2.6 Statement of income

2.6.1 Life insurance business

a) Gross written premium

Premiums from long term insurance contracts that are non-participating are recognised as revenue when cash is received from the policyholder. The "Single Premium" contracts premiums are also recognised as income when cash is received.

b) Reinsurance premiums

Outward reinsurance premiums are recognized when payable. Reinsurance recoveries are credited to match the relevant gross claims.

c) Claims

Death claims are recorded on the basis of notifications received. Surrenders and maturities are recorded when due. Claims

payable includes direct costs of settlement. The interim payments and surrenders are accounted only at the time of settlement. The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the actuary.

d) Insurance provision - Life

Long duration contract liabilities included in the long term insurance fund result primarily from non-participating long term insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products.

The actuarial reserves/insurance provision has been established based upon the following.

- Interest rates, that vary by product as required by regulations issued by the Insurance Board of Sri Lanka.
- Mortality rates based on published mortality tables adjusted for actual experience, as required by Regulations issued by the Insurance Board of Sri Lanka.
- Surrender rates based on actual experience. The amount of policyholder dividend to be paid is determined annually by the Company, on the advice of the actuary.

e) Expenditure recognition

a) Expenses are recognised in the statement of income, on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

b) For the purpose of presentation of the statement of income the directors are of the opinion that the function of expenses method presents fairly the elements of the Company's

Notes to the Financial Statements (Contd.)

performance, and hence such presentation method is adopted.

2.6.2 Investment income and other income

a) Interest

Interest income is recognised as the interest accrued based on the agreed rates, unless collectability is in doubt.

b) Other

Other income is recognised on an accrual basis. Net gains and losses of a revenue nature on the disposal plant and equipment and other noncurrent assets including investments have been accounted for in the Statement of Income, having deducted from proceeds on disposal the carrying amount of the assets and related selling expenses.

2.6.3 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

2.7 Events after the balance sheet date

All material post balance sheet events have been considered and where appropriate adjustments or disclosures have been made in note 22 to the Financial Statements.

2.8 Commitments and contingencies

Commitments and contingencies as at the balance sheet date are disclosed in note 20 and 21 to the Financial Statements.

2.9 Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments like investments and receivables:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these Financial Statements. The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Management is responsible for developing and monitoring the Company's risk management.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet its contractual obligations, and arises principally from the Company's receivables from investment and other receivables.

a) Investments

The Company limits its exposure to credit risk by only investing in fixed income securities, which are issued by the government of Sri Lanka and licensed commercial banks. The Investment Committee is responsible for management of the investment portfolios including the development of overall and portfolio specific investment guidelines.

b) Other Receivables

The Company's exposure to credit risk is influenced by the individual characteristics of the intermediaries.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company monitors its cash flow requirements and optimises cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected claims, reinsurance

Notes to the Financial Statements (Contd.)

premiums and operational expenses on due dates. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market risk

Market risk is the risk that changes in market prices, such as interest rates will affect the Company income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. In order to manage the market risk, the Company has adapted to the investment guidelines stipulated by the Regulator.

2.10 New Accounting Standards Issued but not Effective as at Balance Sheet Date

The Institute of Chartered Accountants of Sri Lanka (ICASL) has issued a new volume of Sri Lanka Accounting Standards – 2011, applicable for financial periods beginning on or after 1 January 2012. These standards have many changes and consequential changes from the adaption of SLAS 44 and 45. These new accounting standards are prefixed. Both SLFRS and LKAS correspond to the relevant IFRS and IAS. Disclosure requirement under SLAS 10.30 and 10.31 have been exempted by the ICASL and therefore all differences and impacts arising from the new standards are not presented in these Financial Statements.

The above standards are effective for annual periods beginning on or after 1 January 2012.

Notes to the Financial Statements (Contd.)

3 Investments	2010	2009
	Rs.'000	Rs.'000
Sri Lanka government securities	202,677	189,150
Debenture (3.1)	10,000	-
	212,677	189,150

3.1 Debentures	2010			2009		
	Face value	Carrying value	Market value	Face value	Carrying value	Market value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Quoted	10,000	10,000	10,000	-	-	-
Bank of Ceylon - 11.5%	10,000	10,000	10,000	-	-	-

4 Property and Equipment	Computer equipment	Office equipment	Motor vehicle	Furniture and fittings	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost					
Balance as at 1 January 2010	5,800	2,217	-	14,341	22,358
Additions	905	2,411	5,500	4,192	13,008
Disposals	(46)	-	-	-	(46)
Balance as at 31 December 2010	6,659	4,628	5,500	18,533	35,320
Depreciation					
Balance as at 1 January 2010	1,732	365	-	2,114	4,211
Charge for the year	1,977	1,149	917	3,309	7,352
Disposals	(30)	-	-	-	(30)
Balance as at 31 December 2010	3,679	1,514	917	5,423	11,533
Carrying amount					
Balance as at 31 December 2010	2,980	3,114	4,583	13,110	23,787
Balance as at 31 December 2009	4,068	1,852	-	12,227	18,147

5 Other Assets	2010	2009
	Rs.'000	Rs.'000
Interest receivable	10,061	11,547
Other debtors and receivables	24,381	46,434
	34,442	57,981

6 Cash and Cash Equivalents	2010	2009
	Rs.'000	Rs.'000
Cash at bank	8,135	3,563
Cash in hand	216	2,286
	8,351	5,849
Bank overdraft	(1,865)	(2,085)
	6,486	3,764

Notes to the Financial Statements (Contd.)

7 Insurance provision - Life

The valuation of the long term insurance business as at 31 December 2010, was made by Mr. Yeoh Eng Hun, a fellow of the Institute of Actuaries of Australia, for and on behalf of Allianz Life Insurance Lanka Ltd.

In accordance with the actuary's report, the sum of provision Rs. 66.29 Mn includes the liability in respect of IBNR, UPR, Interest credit reserves, guarantee reserves, contingency reserve. In the opinion of the actuary, the provision is adequate to cover the liabilities pertaining to the long term insurance.

Actuarial assumptions	2010	2009
Mortality table used	A67/70	A67/70

7.1 Movement in Insurance Provision - Life

	2010 Rs.'000	2009 Rs.'000
Balance as at 1 January	8,001	684
Increase in the Life Fund	58,289	7,317
Balance as at 31 December	66,290	8,001

8 Other Liabilities

	2010 Rs.'000	2009 Rs.'000
Commission payable	6,058	13,881
Claims payable (8.1)	3,126	489
Premium in deposit	13,371	9,033
Other creditors and accrued expenses	13,042	4,823
Amount due to Allianz Insurance Lanka Ltd	29,887	64,953
	65,484	93,179

8.1 Movement of Claims Payable

	2010 Rs.'000	2009 Rs.'000
Balance as at 1 January	489	-
Claims approved during the year	9,841	5,772
Claims paid during the year	(7,204)	(5,283)
Balance as at 31 December	3,126	489

9 Retirement Benefit Obligation - Gratuity

	2010 Rs.'000	2009 Rs.'000
Balance as at 1 January	508	-
Provision made during the year	312	508
Balance as at 31 December	820	508

The retirement benefit plan entitles a retired employee to receive payment equal to $\frac{1}{2}$ of final salary multiplied by the number of completed years of service. However, under the Payment of Gratuity Act No. 12 of 1983, the liability of the employee arises only on completion of five year of continued service. The retirement benefit plan valuation is carried out based on the gratuity formula method in accordance with SLAS 16 "Employee Benefits".

Principal Assumptions as at the Balance Sheet Date	2010	2009
Discount rate at 31 December	8%	10%
Future salary increases	12%	12%

Notes to the Financial Statements (Contd.)

10 Stated Capital	2010 Rs.'000	2009 Rs.'000
Balance as at 1 January	249,999	249,999
Issued during the year	100,000	-
34,999,850 fully paid ordinary shares	349,999	249,999
11 Revenue Reserve / (Accumulated Losses)	2010 Rs.'000	2009 Rs.'000
Balance as at 1 January	(85,367)	(9,651)
Net loss for the year	(123,978)	(75,716)
Balance as at 31 December	(209,345)	(85,367)
11a Revenue	2010 Rs.'000	2009 Rs.'000
Gross written premium	204,814	101,816
Less: premium ceded to reinsurers	(12,245)	(7,494)
Net written premium	192,569	94,322
Income from investments	30,092	33,819
Total revenue	222,661	128,141
11b Gross written premium	2010 Rs.'000	2009 Rs.'000
Universal Life premium	200,073	96,459
Group Life premium	2,032	4,442
Single premium	2,709	915
	204,814	101,816
12 Net Insurance Claims and Benefits	2010 Rs.'000	2009 Rs.'000
Life insurance claims death, disabilities and hospitalisation	9,841	5,772
Reinsurance recoveries	(4,126)	(2,489)
	5,715	3,283
13 Net Acquisition Costs	2010 Rs.'000	2009 Rs.'000
Net policy acquisition costs	78,926	45,781
Other insurance related costs	2,223	2,233
	81,149	48,014
14 Income from Investments	2010 Rs.'000	2009 Rs.'000
Interest income	30,092	33,819
	30,092	33,819

Notes to the Financial Statements (Contd.)

15 Operating and Administration Expenses	2010 Rs.'000	2009 Rs.'000
Staff expenses (15a)	83,365	49,136
Administration and establishment expenses	59,981	39,565
Selling expenses	50,787	53,258
Depreciation (4)	7,352	3,284
	201,485	145,243

15a Staff expenses	2010 Rs.'000	2009 Rs.'000
Wages and salaries	27,533	23,984
EPF and ETF (15b)	4,146	3,165
Provision for Retirement benefit obligations (9)	312	508
Staff welfare	2,122	622
Training expenses	1,999	759
Other Costs	47,253	20,098
	83,365	49,136

15b Contributions made to the Provident and Trust funds	2010 Rs.'000	2009 Rs.'000
Provident fund	3,320	2,532
Trust fund	826	633
	4,146	3,165

15c Number of employees	2010	2009
As at the end of the financial year	29	32

16 Loss Before Taxation	2010 Rs.'000	2009 Rs.'000
Loss before tax for the year is stated after charging the following expenses		
Depreciation (4)	7,352	3,284
Auditors' remuneration - Audit	330	330
- Audit related fees	-	175

17 Income Tax Expense

The Company is liable for income tax at 35% of its taxable profit. However, no provision is made in view of the tax loss. The tax loss carried forward as at 31 December 2010 is Rs. 401,306,605 (2009 - Rs. 145,421,956).

17a Current income tax expense	2010 Rs.'000	2009 Rs.'000
Accounting loss	(123,978)	(75,716)
Aggregate disallowed items	9,887	20,831
Aggregate allowable expenses	(13,230)	-
Aggregate exempt income	(128,564)	(83,723)
Taxable loss	(255,885)	(138,608)
Tax loss brought forward	(145,422)	(6,814)
Statutory tax rate	35%	35%
Current income tax expense	Nil	Nil

Last year's tax loss was restated to Rs. 145,421,956 based on the final tax computation

Notes to the Financial Statements (Contd.)

17b Deferred tax assets and liabilities	2010	2009
Unrecognised deferred tax assets	Rs.'000	Rs.'000
Deferred tax assets have not been recognized in respect of the following items.		
Tax loss carried forward	(401,307)	(145,422)
Provision for retirement benefits	9,887	508
Other provisions	-	13,230
Total deductible temporary difference	(391,420)	(131,684)
Unrecognised deferred tax assets	(109,598)	(36,872)

Unrecognised deferred tax liabilities

No provision has been made in respect of deferred taxation as the Company has incurred tax losses and the temporary differences are not expected to reverse due to the above component and it is not probable that future taxable profits will be available against which the Company can utilise the benefits therefrom. Taxable temporary differences do not arise as the claiming of capital allowances is governed under Section 25 of the Inland Revenue Act of 2006, which is not applicable to Life insurance business as it should follow the provisions in Section 92 (1) of the Inland Revenue Act of 2006, where the profits of a company, whether mutual or proprietary, from the business of Life insurance, shall be the investment income of the Life insurance fund, less the management expenses (including commissions) attributable to that business.

	2010	2009
	Rs.'000	Rs.'000
Property and equipment	-	1,913
Total taxable temporary differences	-	1,913
Unrecognised deferred tax liabilities	-	536

17c The Company is entitled to the following notional tax credit in case of a future tax liability	2010	2009
	Rs.'000	Rs.'000
Notional tax credit	8,611	6,214

18 Transactions with Group Companies

Company	Relationship	Nature of Transaction	2010	2009
			Rs.'000	Rs.'000
Allianz SE	Group Company	Reinsurance arrangement	377	-
Allianz Insurance Lanka Ltd.	Group Company of Allianz SE	Reimbursable expenses (net)	(33,593)	51,295

19 Transactions with Key Management Personnel

Key management personnel includes the board of directors. There was no remuneration or fees paid and there were no transactions with key management personnel for the year ended 31 December 2010.

20 Capital Commitments

There were no capital commitments outstanding as at the balance sheet date.

21 Contingent Liabilities

There were no contingent liabilities outstanding as at the balance sheet date.

22 Events after the Balance Sheet date

There were no material events occurring after the balance sheet date which require adjustments or disclosures in the Financial Statements.

Notes to the Financial Statements (Contd.)

23 Litigations and Claims

There were no litigations and claims filed against the Company as at the Balance Sheet date.

24 Loss Per Share

Loss per share is calculated by dividing the net loss for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding as at year end.

	2010	2009
Net loss for the year (Rs.'000)	(123,978)	(75,716)
Weighted average no.of ordinary shares ('000)	28,333	24,999
Loss per share (Rs.)	(4.38)	(3.03)

25 Comparative Information

No changes were made to the comparative classifications and presentation.

Six Year Summary

ALLIANZ INSURANCE LANKA LTD

Statement of Income for the year ended 31 December

	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000
Gross Written Premium	1,469,538	1,174,822	601,103	414,017	300,949	75,402
Net earned premium	293,437	265,074	115,236	52,771	24,922	6,775
Income from investment and other income	95,379	95,709	45,640	21,199	11,394	3,996
Insurance claims and benefits (net)	(172,754)	(150,698)	(59,178)	(33,219)	(18,239)	(7,503)
Underwriting and net acquisition cost/income (including reinsurance)	115,060	88,096	66,090	50,006	19,293	4,340
Expenses	(109,816)	(139,869)	(80,854)	(37,549)	(22,503)	(16,508)
Profit before taxation	221,305	158,312	86,934	53,207	14,867	(8,900)
Income tax expense	(53,996)	(38,646)	(14,190)	(3,669)	(2,105)	-
Net Profit for the Year	167,309	119,666	72,744	49,538	12,762	(8,900)

Balance Sheet as at 31 December

	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000	2005 Rs.'000
Assets						
Investments	807,591	656,207	347,368	151,914	93,388	55,618
Property and equipment	26,329	31,988	22,963	2,287	3,708	4,773
Intangible assets	11,233	19,453	9,802	-	-	-
Reinsurance receivables	296,506	125,480	133,939	104,561	75,308	12,948
Premium receivables	326,035	130,678	104,593	76,520	57,937	24,939
Other assets	95,316	111,342	23,680	4,022	2,148	2,485
Deferred tax assets	3,183	7,124	2,884	3,273	-	-
Cash and cash equivalents	19,827	23,172	54,804	43,618	31,000	7,861
Total Assets	1,586,020	1,105,444	700,033	386,195	263,488	108,624
Liabilities and Shareholders' Equity						
Liabilities						
Insurance provision - General	520,252	315,105	238,503	146,349	112,811	24,587
Reinsurance creditors	336,200	240,657	86,537	88,505	56,121	19,734
Retirement benefit obligation	4,899	2,856	966	567	355	126
Other liabilities	96,957	107,535	46,881	28,954	19,043	15,575
Bank overdraft	28,457	7,345	14,866	3,409	6,285	-
Total Liabilities	986,765	673,498	387,753	267,784	194,615	60,022
Shareholders' Equity						
Stated capital	250,000	250,000	188,635	67,510	67,510	60,001
Revenue reserve	349,255	181,946	123,645	50,901	1,363	(11,399)
Total Shareholders' Equity	599,255	431,946	312,280	118,411	68,873	48,602
Total Liabilities and Shareholders' Equity	1,586,020	1,105,444	700,033	386,195	263,488	108,624

Three Year Summary

ALLIANZ LIFE INSURANCE LANKA LTD

Statement of Income for the year ended 31 December

	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000
Gross Written Premium	204,814	101,816	4,013
Net written premium	192,569	94,322	3,840
Income from investment and other income	30,092	33,819	22,331
Insurance claims and benefits (net)	(5,715)	(3,283)	-
Net acquisition cost	(81,149)	(48,014)	(1,849)
Increase in Life insurance provision	(58,290)	(7,317)	(684)
Expenses	(201,485)	(145,243)	(33,289)
Profit before taxation	(123,978)	(75,716)	(9,651)
Income tax expense	-	-	-
Net Profit for The Year	(123,978)	(75,716)	(9,651)

Balance Sheet As At 31 December

	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000
Assets			
Investments	212,677	189,150	231,775
Property and equipment	23,787	18,147	6,210
Reinsurance receivables	3,108	2,376	-
Other assets	34,442	57,981	19,238
Cash and cash equivalents	8,351	5,849	2,522
Total Assets	282,365	273,504	259,745
Liabilities and Shareholders' Equity			
Liabilities			
Insurance provision - Life	66,290	8,001	684
Reinsurance creditors	7,252	5,098	937
Other liabilities	65,484	93,179	17,776
Retirement benefit obligation	820	508	-
Bank overdraft	1,865	2,086	-
Total Liabilities	141,711	108,872	19,397
Shareholders' Equity			
Stated capital	349,999	249,999	249,999
Revenue reserve	(209,345)	(85,367)	(9,651)
Total Shareholders' Equity	140,654	164,632	240,348
Total Liabilities and Shareholders' Equity	282,365	273,504	259,745

Glossary of Insurance Terms

Accumulation

The situation where a significant number of risks insured or reinsured with the same company may be affected simultaneously by a loss event.

Acquisition Expenses

All expenses which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts. e.g. commissions.

Actuary

An expert concerned with the application of probability and statistical theory to problems of insurance, investment, financial management and demography.

Administrative Expenses

Costs of an administrative nature including those arising from premium collection, portfolio administration, handling of bonuses and rebates, and inward and outward reinsurance including staff costs and depreciation provisions in respect of property, plant and equipment.

Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the rules made by the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act No. 43 of 2000.

Annual Basis of Accounting

A basis of accounting for General insurance business whereby a result

is determined at the end of the accounting period reflecting the profit or loss from providing insurance cover during that period, and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Annuity

A series of regular payments. Annuities include annuities certain, where payments depend on the survival of an annuitant. A Life annuity is a contract that provides a regular payment, typically monthly, during the lifetime of the policyholder or a fixed period if less. If the payments starts at the outset of the contract, it is an immediate annuity. If they start at some point in the future, it is a deferred annuity.

Beneficiary

A person named by the policyholder as the recipient of the sum insured and other benefits due in the event of the policyholders' death.

Cedent

Client of a reinsurance company (also see primary insurers)

Claims

The amount payable under a contract of insurance arising from the occurrence of an insured event.

Claims Incurred

A claim is incurred when the event giving rise to the claim occurs. Claims incurred include paid claims and movements in outstanding claims.

Claims Incurred But Not Reported (IBNR)

Claims arising out of events that have occurred by the balance sheet date but have not been reported to the insurer at that date.

Claims outstanding – General Insurance Business

The amount provided to cover the estimated ultimate cost of settling claims arising out of events that have occurred by the balance sheet date, including IBNR claims and claims handling expenses, less amounts already paid in respect of those claims.

Claims outstanding – Life Insurance Business

The amount provided to cover the estimated cost of settling claims arising out of events that have been notified by the balance sheet date, being the sum due to beneficiaries together with claims handling expenses less amounts already paid in respect of those claims.

Co Insurance

An arrangement whereby two or more insurers enter into a single contract with the insured to cover a risk in agreed proportions at a specified premium.

Commissions

A payment made to a broker or a sales agent in return for selling and servicing an insurer's products.

Glossary of Insurance Terms (Contd.)

Deferred Acquisition Costs – General Insurance Business

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date that are carried forward from one accounting period to subsequent accounting periods.

General Insurance Business

Insurance (including reinsurance) business falling within the classes of insurance specified as General insurance business under the Regulation of Insurance Industry Act No.43 of 2000.

Insurance Risk

Uncertainty over the likelihood of an insured event occurring, the quantum of the claim, or the time when claims payments will fall due.

Insurance Provision – General

This usually relates to the proportion of net written premiums relating to periods of risk after the accounting date, that are deferred to subsequent accounting periods, the related net acquisition costs and gross claims outstanding.

Insurance Provision – Life

The fund or funds maintained by an insurer in respect of its Life insurance business in accordance with the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto.

Life Insurance Business

Insurance (including reinsurance) business falling within the classes of insurance specified as long term insurance business under the Regulation of Insurance Industry Act No.43 of 2000 and subsequent amendments thereto.

Net Combined Ratio – General Insurance

This indicates the profitability of the insurer's operations by combining the net loss ratio with the net expenses ratio. The combined ratio does not take account of investment income and other income.

Net Earned Premium

In the case of General insurance business, net earned premium is the proportion of written premiums (including where relevant those of prior accounting periods) attributable to the risks borne, net of premiums ceded to reinsurance.

Net Expense Ratio

A formula used by the Company to relate income to acquisition and administrative expenses excluding Nation Building Tax (NBT) (e.g. commission, staff, selling and operating expenses).

Formula:

Reinsurance commission
(net of acquisition expenses)
and expenses excluding non technical
Net earned premium

Net Loss Ratio

A formula used by insurers to relate net claims incurred to net earned premium (i.e. after deducting relevant reinsurance).

Formula:

Net claims incurred
Net earned premium

Non-Participating Business

Life insurance business where the policyholders are contractually entitled to share in the surplus of the relevant Life fund.

Policy Loans

A loan from the insurer to a policy holder on the security of the surrender value of a Life insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

Primary Insurers

Insurance companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy (private individual, firm or organisation).

Reinsurance

An arrangement whereby one party (the reinsurer) in consideration for a premium, agrees to indemnify another party (the cedent) against part or all of the liability assumed by the cedent under a policy or policies of insurance.

Glossary of Insurance Terms (Contd.)

Reinsurance Commission

Commission received or receivable in respect of premiums paid or payable to a reinsurer.

Reinsurance Inwards

The acceptance of risks under a contract of reinsurance.

Reinsurance Outwards

The placing of risks under a contract of reinsurance.

Reinsurance Profit Commission

Commission received or receivable by the cedent (reinsured) from the reinsurer based on the net profit (as defined in the treaty) made by the reinsurer on the reinsurance treaty.

Retention

That part of the risk assumed which the insurer/reinsurer does not reinsure/retrocede, i.e. retained net for own account.

Solvency Margin - General

The difference between the value of assets and value of liabilities required to be maintained by the insurer who carries on General insurance business as defined in Solvency Margin (General Insurance) rules 2004 made under section 26 of the Regulation of Insurance Industry Act No 43 of 2000.

Solvency Margin - Life

The difference between the value of admissible assets and the value of liabilities required to be maintained

by the insurer who carries on Life insurance business as defined in Solvency Margin (Life Insurance) rules 2002 made under the section 26 of the Regulation of Insurance Industry Act No 43 of 2000.

Surrender Value

The amount payable by an insurer to a policyholder on termination of an insurance policy before the expiry of its term (more common in Life Insurance).

Underwriting Profit

The underwriting result generated by transacting General insurance business without taking into account the investment income.

Written Premium – General Insurance Business

Premiums which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. Under the annual basis of accounting, these are premiums on contracts entered into during the accounting period and adjustments arising in the accounting period to premiums receivable in respect of contracts entered into in prior accounting periods.

Corporate Information

Company Name	- Allianz Insurance Lanka Ltd.	Allianz Life Insurance Lanka Ltd.
Legal Form	- A private limited liability company incorporated in Sri Lanka on 22 May 2008, under the Companies Act No 7 of 2007.	A private limited liability company incorporated in Sri Lanka on 24 March 2008, under the Companies Act No 7 of 2007.
Company Registration Number	- PB 323	PB 3493
Tax Identification Number (TIN)	- 114011487	134034939
VAT Registration Number	- 114011487- 7000	
Directors	- Heinz Dollberg Don Tri Nguyen Craig Ellis Surekha Alles	Heinz Dollberg Craig Ellis Surekha Alles
Auditors	- KPMG Ford Rhodes, Thornton & Co. (Chartered Accountants), 32A, Sir Mohamed Macan Markar Mawatha, Colombo 3.	KPMG Ford Rhodes, Thornton & Co. (Chartered Accountants), 32A, Sir Mohamed Macan Markar Mawatha, Colombo 3.
Consultant Actuaries	- Pan Wei Cheong Allianz SE, Insurance Management Asia Pacific, 3 Ternasek Avenue, # 09-01 Centennial Tower Singapore 039190	Yeoh Eng Hun Allianz SE, Insurance Management Asia Pacific, 3 Ternasek Avenue, # 09-01 Centennial Tower Singapore 039190
Secretaries	- EM &EN Agents and Secretaries (Pvt) Ltd. M & N Building, No. 2, Deal Place, Colombo 3.	EM &EN Agents and Secretaries (Pvt) Ltd. M & N Building, No. 2, Deal Place, Colombo 3.
Bankers	- Citibank Hongkong & Shanghai Banking Corporation Bank of Ceylon	Deutsche Bank AG Standard Chartered Bank Commercial Bank PLC.
Registered Office	- No. 92, Glennie Street, Colombo 2.	No. 92, Glennie Street, Colombo 2.

Corporate Information (Contd.)

Branches

Galle

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Kaluwelle, Galle.
Tel 091-2227392
Fax 091-2227393
E-mail: galle@allianz.lk

Kurunegala

No. 174, Negombo Road, Kurunegala.
Tel: 037-2230505/ 037-2230534
Fax: 037-2230535
E-mail: kurunegala@allianz.lk

Trincomalee

No. 447/2, 2nd Floor,
Dockyard Road, Trincomalee
Tel: 026-2226255
Fax: 026-2226254
E-mail: trincomalee@allianz.lk

Gampaha

No. 6/2, Sri Kurusa Road, Gampaha.
Tel: 033-2234995
Fax: 033-2234994
E-mail: gampaha@allianz.lk

Negombo

No. 51, Thammita Road, Negombo.
Tel: 031-2228455
Fax: 031-2228477
E-mail: negombo@allianz.lk

Vavuniya

No. 45, 2nd Cross Street,
Seylan Bank Building, Vavuniya.
Tel: 024-2225473
Fax: 024-2225523
E-mail: vavuniya@allianz.lk

Kandy

No. 27/3/1, HSBC Building
Cross Street, Kandy.
Tel: 081-2205152
Fax: 081-2205153
E-mail: kandy@allianz.lk

Nugegoda

No. 331A, High Level Road,
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Agency Offices

Ambalangoda

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