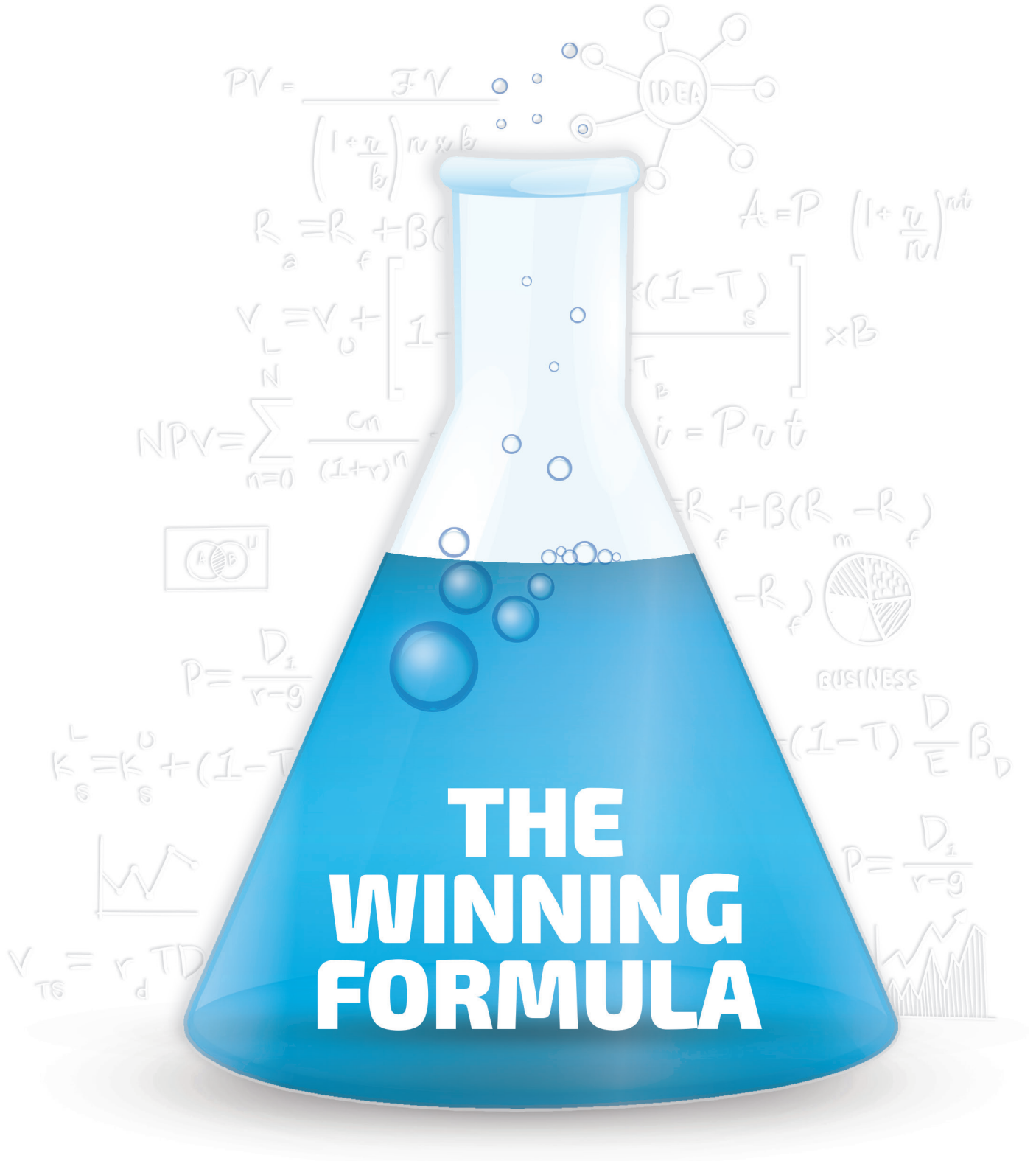




**HNB  
ASSURANCE**

HNB Assurance PLC  
INTEGRATED ANNUAL REPORT 2017







## The Winning Formula

The HNB Assurance winning formula combines the strength that we derive from our people, tactical processes and our innate ability to respond well to market pressure and requirements. Throughout the past 16 years, we have been able to deliver exceptional and market responsive Life and General Insurance solutions to our customers and create value for all our other stakeholders whilst pursuing business success in an ethical and a sustainable manner. Our customers have come to trust our diverse and functional insurance portfolio.

Year 2017 was an eventful and a challenging year in terms of regulatory changes and economic pressure. In spite of these challenges, we were able to utilize our winning combination of business strategies, vision and our belief in our people to strive ahead with confidence and create sustainable value for our stakeholders.



$$K_s^L = K_s^D + (1 - T) \frac{D}{E} (K_s^D - K_D^D)$$

$$R_a = R_f + B(R_m - R_f)$$

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# REPORTING CONTEXT

## Our Integrated Annual Report

### Our Integrated Annual Report

The sixth Integrated Annual Report of HNB Assurance PLC presents the Company's economic, social and environmental performance in a clear, concise and a transparent manner in accordance with GRI G4 Sustainability Reporting Guidelines: 'In-Accordance' core issued by the Global Reporting Initiative.

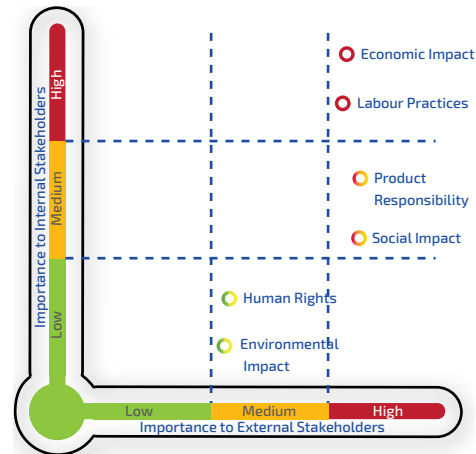
### Scope and Boundary

Our Integrated Annual Report 2017 reflects on our business model which combines the six capitals to generate sustainable business success as well as our financial and operational performance for the twelve months ended 31st December 2017. This report captures the performance of HNB Assurance PLC and its fully owned subsidiary HNB General Insurance Limited, collectively referred to as the Group. The report provides a transparent comprehensive, yet concise review of our business model, sustainable strategy, governance, operating context, performance and future direction. To ensure timeliness and relevance, we have included in this report, all material developments up to 09th February 2018, which is the date of the authorization of this report by the Board of Directors.

### Determining Materiality

We use materiality analysis to assist our investors and other stakeholders to determine our value creation ability and identify the issues of great significance to the business in the short, medium and long terms. We have adopted a comprehensive process to assess material issues which is reported in detail on page 05 to 07 of this

Integrated Report. Stakeholder engagement and inclusiveness process in identifying matters pertaining to the business is detailed on pages 22 to 27 in the report.



### Guiding Frameworks and Principles

We have prepared the Integrated Annual Report 2017 in compliance with the requirements of the following rules and regulations;

- Companies Act, No. 07 of 2007
- Listing Rules of the Colombo Stock Exchange (CSE)
- Regulation of Insurance Industry Act, No. 43 of 2000
- Rules and Regulations of Insurance Regulatory Commission of Sri Lanka (IRCSL)

In addition, we follow the guidelines and frameworks listed below to safeguard the quality of reporting and to ensure that the report provides relevant and necessary information to our investors and other stakeholders.

- Sri Lanka Accounting Standards (LKAS/SLFRS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) - Guiding framework

for the Financial Statements of the Group and the Company, as well as for all financial information contained in this Report.

- Integrated Reporting Framework issued by the International Integrated Reporting Council - Guiding framework for the entire Integrated Annual Report 2017.
- GRI G4 Guidelines 'In Accordance' – Core issued by the Global Reporting Initiative.
- Sustainable Development Goals as set by the United Nations as additional framework for assessment of financial, social and environmental impacts.
- Code of Best Practices on Corporate Governance Issued by CA Sri Lanka and Securities and Exchange Commission of Sri Lanka (SEC) - Guiding framework for governance and related issues.

## Our Integrated Annual Report Contd.

### External Assurance

The Financial Statements and related notes published and presented on pages 258 to 375 have been audited by Messrs. Ernst & Young, the independent Auditors of the Group. The independent Auditors' Report appears on page 257.

### Credibility of Information

The information contained in this report has been reviewed, as applicable, by;

- Board of Directors
- Audit Committee
- Other Sub-committees of the Board
- Group Executive Committee

Striving for maximum accuracy of information, we used data gathered from all relevant departments of the organization to compile the report. In preparing the information, we rely on the financial information system Oracle EBS to ensure accuracy of financial information. The core system TCS Bancs is our main source for insurance activity information while we source human resource information through the HRIS system. We employed identical data calculation methodologies used in preparation of the Integrated Annual Report of 2016, which is our most recent Annual Report, to compile this report. Material restatements of non-financial data were not necessitated during the year under review.

### Disclaimer for the Publication of Forecast Data

The Integrated Annual Report of 2017 present comprehensive data and information with regard to the Group's medium and long term strategic direction as well as future performance forecasts. Nevertheless, such forecasts may be subject to change as a result of economic, social, political and legislative fluctuations. As such, stakeholders are encouraged to consult professionals when and where the need arises to assess such aspects. Changes in the operating environment may cause the actual developments to deviate from the forecasts presented in the Integrated Annual Report 2017.

### Our Endorsements

Our external commitments are extended to the below mentioned organisations by virtue of membership in addition to the standards, codes and guidelines that we endorse.

- Insurance Association of Sri Lanka (IASL)
- Ceylon Chamber of Commerce (CCC)
- Association of Insurers and Reinsurers of Developing Countries (AIRDC)
- Global Reporting Initiative (GRI)



"We are a member of the GOLD Community and support the mission of GRI to empower decision makers everywhere, through GRI Sustainability Reporting Standards and its multi-stakeholder network, to take action towards a more sustainable economy and world."



# Material Aspects

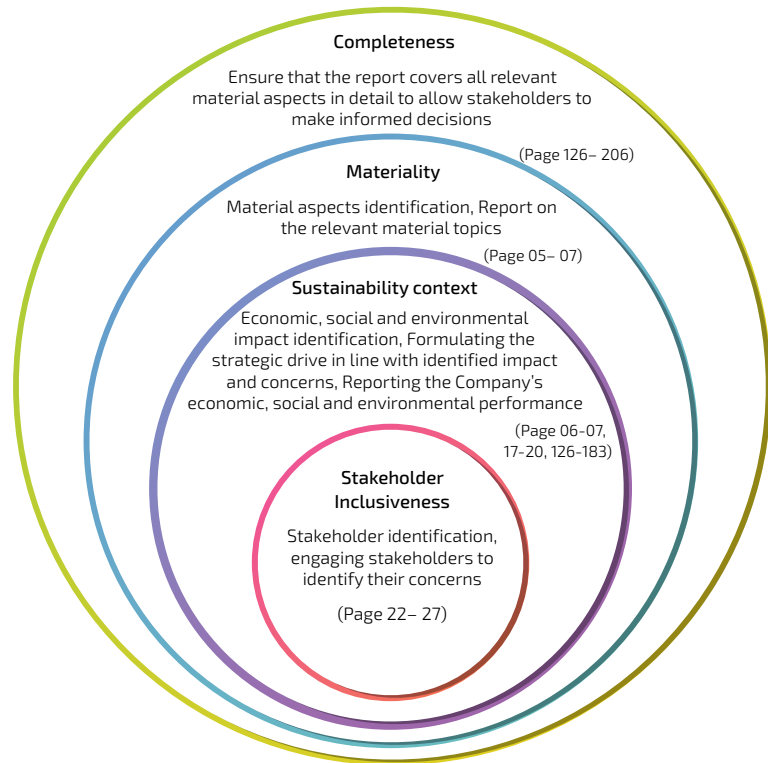
## Defining Materiality

In defining material aspects that are relevant to us, we take into consideration the material matters that reflect our economic, social and environmental impact while influencing stakeholder decisions. Accurate identification and prioritization of material matters pertaining to our performance and impact allows us to create sustainable value and pursue growth.

## Material Aspects and Report Content

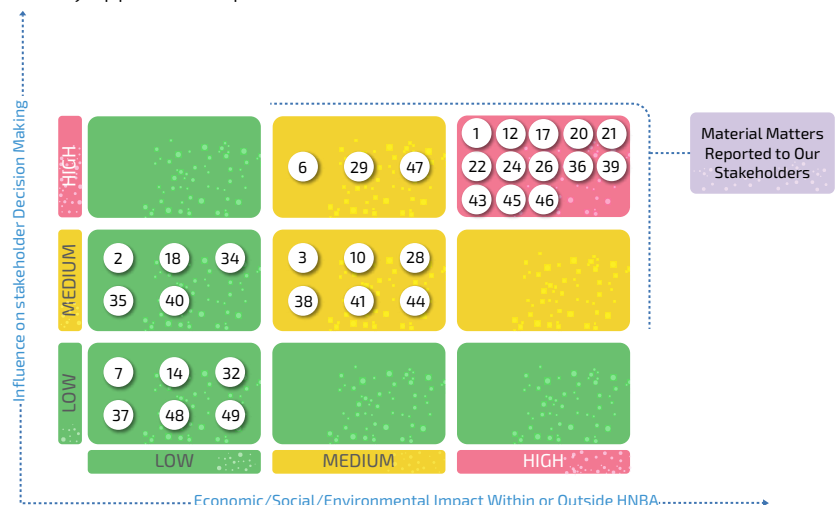
Striving to present a balanced outline of our financial and non-financial performance and impact, we have compiled this report in compliance with GRI G4 Guideline. We have reported on material aspects that are influenced by a series of internal and external aspects in our business process and our larger impact on the economy, society and the environment. In defining boundary, we have taken into account the impact on sustainability within the Group as well as with regard to our business partners.

## Materiality Impact Identification Process



## Prioritising of Material Aspects

We map the priority level of each material aspects against the economic, social and environment impact and relevance to our stakeholders. We use this priority mapping process to recognize the content of this report and identify applicable aspects.



## Material Aspects Contd.

We have compiled the below table to illustrate a clear depiction of identified material aspects while mapping priority level and boundaries.

No	GRI category	Material Aspect	Materiality	Impact		Boundary	Reporting Status
				Internal	External		
1	Economic	Economic Performance	●	●	●	Group	Reported
2	Economic	Market Presence	●	●	●	Company	Not reported
3	Economic	Indirect Economic Impacts	●	●	●	Community	Reported
4	Economic	Procurement Practices	n/a	n/a			
5	Environmental	Materials	n/a	n/a			
6	Environmental	Energy	●	●	●	Company	Reported
7	Environmental	Water	●	●	●	Company	Not reported
8	Environmental	Biodiversity	n/a	n/a			
9	Environmental	Emissions	n/a	n/a			
10	Environmental	Effluents and Waste	●	●	●	Environment	Reported
11	Environmental	Products and Services	n/a	n/a			
12	Environmental	Compliance	●	●	●	Company	Reported
13	Environmental	Transport	n/a	n/a			
14	Environmental	Overall	●	●	●	Company	Not reported
15	Environmental	Supplier Environmental Assessment	n/a	n/a			
16	Environmental	Environmental Grievance Mechanism	n/a	n/a			
17	Social - Labour Practices and Decent Work	Employment	●	●	●	Company	Reported
18	Social - Labour Practices and Decent Work	Labour/ Management Relations	●	●	●	Company	Not reported
19	Social - Labour Practices and Decent Work	Occupational Health and Safety	n/a	n/a			
20	Social - Labour Practices and Decent Work	Training and Education	●	●	●	Company	Reported
21	Social - Labour Practices and Decent Work	Diversity and Equal Opportunity	●	●	●	Company	Reported
22	Social - Labour Practices and Decent Work	Equal Remuneration for Women and Men	●	●	●	Company	Reported
23	Social - Labour Practices and Decent Work	Supplier Assessment for Labour Practices	n/a	n/a			
24	Social - Labour Practices and Decent Work	Labour Practices Grievances	●	●	●	Company	Reported
25	Social - Human Rights	Investment	n/a	n/a			

● High    ● Medium    ● Low    n/a-not applicable

No	GRI category	Material Aspect	Materiality	Impact		Boundary	Reporting Status
				Internal	External		
26	Social - Human Rights	Non-Discrimination	●	●	●	Company	Reported
27	Social - Human Rights	Freedom of Association and Collective Bargaining	n/a	n/a			
28	Social - Human Rights	Child Labour	●	●	●	Company	Reported
29	Social - Human Rights	Forced or Compulsory Labour	●	●	●	Company	Reported
30	Social - Human Rights	Security Practices	n/a	n/a			
31	Social - Human Rights	Indigenous Rights	n/a	n/a			
32	Social - Human Rights	Assessment	●	●	●	Company	Not reported
33	Social - Human Rights	Supplier Human Rights Assessments	n/a	n/a			
34	Social - Human Rights	Human Rights Grievance Mechanism	●	●	●	Company	Not reported
35	Social - Society	Local Communities	●	●	●	Community	Not reported
36	Social - Society	Anti-Corruption	●	●	●	Company	Reported
37	Social - Society	Public- Policy	●	●	●	Company and the Government	Not reported
38	Social - Society	Anti-Competitive Behaviour	●	●	●	Company and Competitors	Reported
39	Social - Society	Compliance	●	●	●	Company	Reported
40	Social - Society	Supplier Assessment for Impact on Society	●	●	●	Suppliers	Not reported
41	Social - Society	Grievance Mechanism for Impacts on Society	●	●	●	Company	Reported
42	Social - Product Responsibility	Customer Health and Safety	n/a	n/a			
43	Social - Product Responsibility	Product and Service Labelling	●	●	●	Company	Reported
44	Social - Product Responsibility	Marketing Communications	●	●	●	Company and Customers	Reported
45	Social - Product Responsibility	Customer Privacy	●	●	●	Customers	Reported
46	Social - Product Responsibility	Compliance	●	●	●	Company	Reported
47	Social - Product Responsibility	Product Portfolio	●	●	●	Company	Reported
48	Social - Product Responsibility	Audit	●	●	●	Company	Not reported
49	Social - Product Responsibility	Active Ownership	●	●	●	Company	Not reported

● High    ● Medium    ● Low    n/a-not applicable





# Our Management Formula

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# ABOUT US


## HNB Assurance PLC

Positioned as the sixth largest Life Insurer in Sri Lanka. HNB Assurance PLC (HNBA) operates with a fully owned subsidiary, HNB General Insurance Limited (HNBGI), which provides General Insurance solutions.

The Company was established in the year 2001 as a fully owned subsidiary of the Hatton National Bank PLC (HNB) which continues to be the main shareholder with ownership of 59.99% of the issued ordinary share capital. HNBA has been listed on the Colombo Stock Exchange since 2003. As at end of the financial year 2017, our market capitalization amounted to Rs 3.6 Billion.

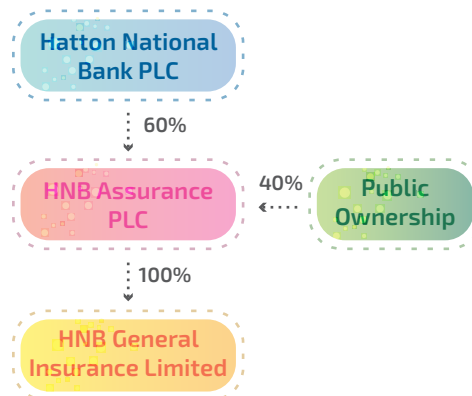
During the year no significant changes were made to the size, structure, ownership or the supply chain of the business.

Our extensive product portfolio caters to the varying protection and investment needs of our customers through a wide-spread network of 59 branches islandwide.

 A representation of our islandwide branch network is illustrated on page 163 of this Integrated Annual Report.

The 16th year of our progressive journey albeit rife with challenges has been one that led to profitability and sustainable growth both in the short and the long term. During the

year under review we combined our people strength with our strategic processes which delve into market realities to find solutions to create a winning formula that ultimately creates value for all stakeholders.



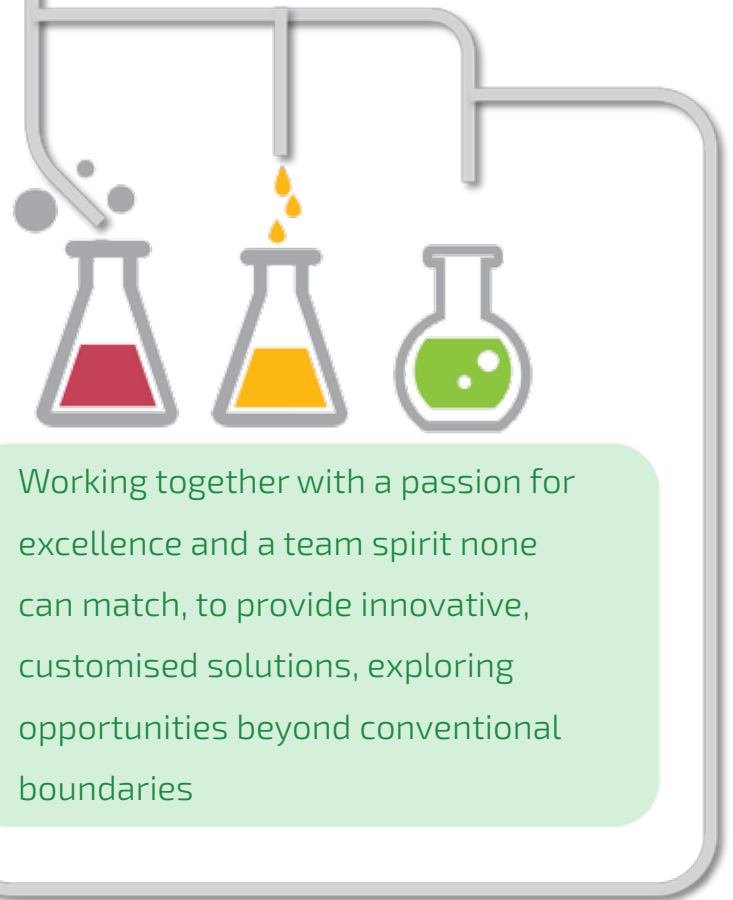
### Stakeholder Inquiries



## Our Vision



## Our Mission

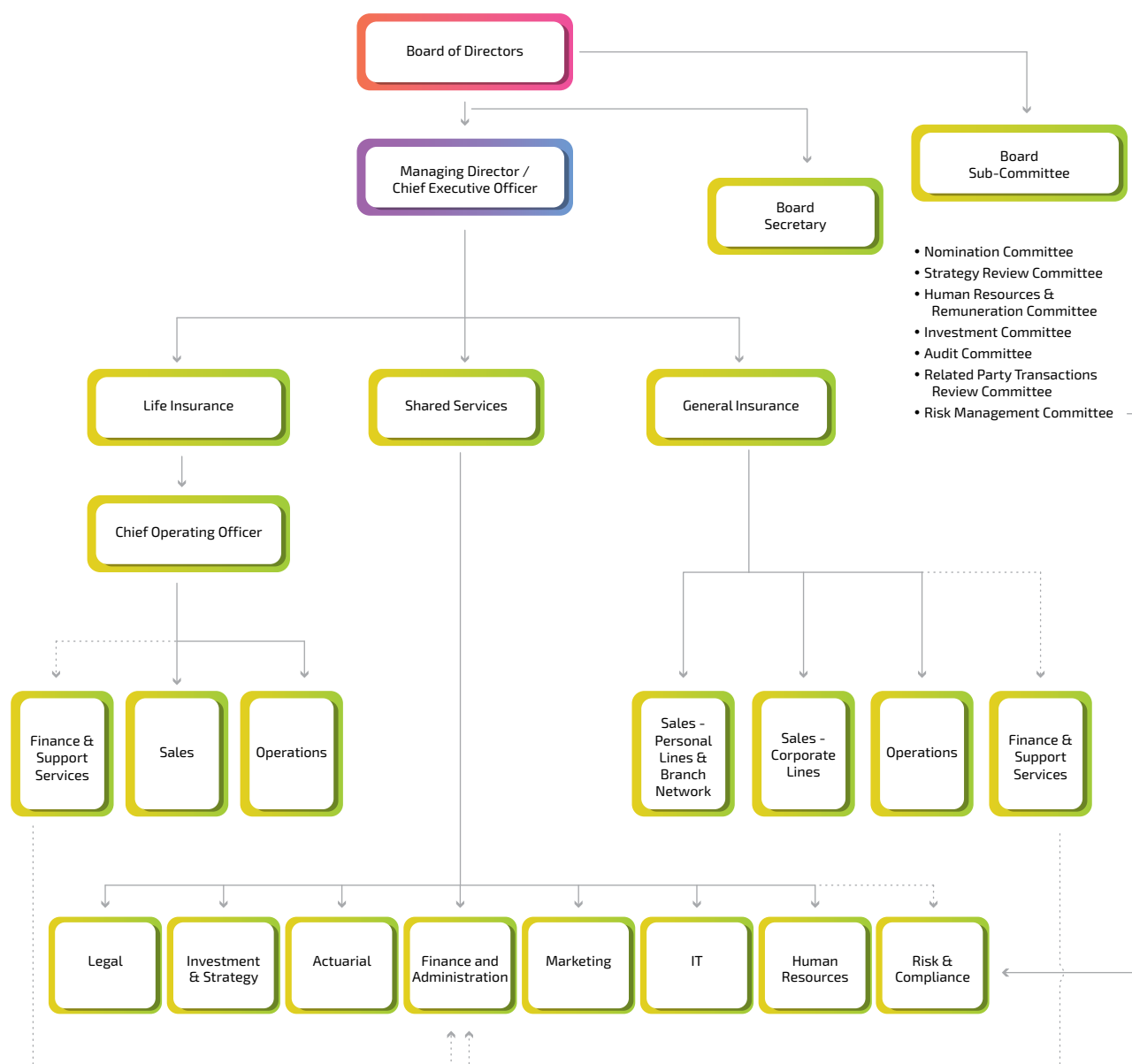


## Our Values



- Show mutual respect in all our interactions
- Empower people to strive for excellence
- Inculcate positive thinking
- Treasure integrity and ethical conduct
- Foster diversity as a corporate strength

# Organisation Structure



# Highlights of the Year

Indicator	Status	2017	2016	Growth	Page Reference
<b>Financial Performance of the Group</b>					
GWP (Rs. Mn.)	↑↑	7,821	6,657	17%	137-138
Investment Income (Rs. Mn.)	↑↑	1,736	1,145	52%	138-139
Profit After Tax (Rs. Mn.)	↑↑	910	647	41%	140
Funds Under Management (Rs. Mn.)	↑↑	15,555	12,170	27%	140, 200-201
Market Capitalisation (Rs. Mn.)	↑↑	3,625	2,940	23%	144
<b>Returns to Investors</b>					
Return on Equity	—	24%	24%	-	137
Earnings Per Share (Rs.)	↑↑	18.2	12.95	41%	144
Dividends Per Share (Rs.)	↑↑	6.00	5.00	20%	144
Dividend Payment (Rs. Mn.)	↑↑	300	250	20%	144
Market Price Per Share (Rs.)	↑↑	72.5	58.8	23%	144
P/E Ratio (Times)	↑↑	3.98	4.54	(12%)	144
<b>Life Insurance Operation</b>					
Market Share	—	5.6%	5.6%	-	186
GWP (Rs. Mn.)	↑↑	3,964	3,554	12%	186
Life Fund	↑↑	10,801	8,634	25%	190, 309
Number of Policies	↑↑	143,933	135,027	7%	185
Lapse Ratio (First Year)	↓↓	48%	46%	2%	187
Premium Persistency Ratio	↓↓	80%	85%	(5%)	187
Claim Ratio (With Maturities)	↓↓	15%	12%	3%	188
Claim Ratio (Without Maturities)	—	9%	9%	-	188
Expense Ratio	↓↓	49%	48%	1%	188
Combined Ratio (With Maturities)	↓↓	64%	60%	4%	189
Combined Ratio (Without Maturities)	↓↓	58%	57%	1%	189
<b>General Insurance Operation</b>					
Market Share	↑↑	4.4%	4.1%	0.3%	194
GWP (Rs. Mn.)	↑↑	3,907	3,142	24%	194
General Fund	↑↑	2,385	1,922	24%	312
Number of Policies	↑↑	146,138	131,324	11%	193
Claim Ratio	↑↑	64%	69%	(4%)	196
Expense Ratio	—	38%	38%	-	196
Combined Ratio	↑↑	102%	107%	(5%)	196

↓↓ Declined

↑↑ Improved

— Unchanged



Indicator	Status	2017	2016	Growth	Page Reference
<b>Employee Benefits - Group</b>					
Number of Staff	⬆	947	903	5%	147
GWP Per Employee (Rs. Mn.)	⬆	8.26	7.37	12%	147
Profit Per Employee (Rs. Mn.)	⬆	0.96	0.72	33%	147
Training hours Per Employee (hrs)	⬆	16.6	6.6	152%	151-152
Employee Turnover (without Fixed Term Contract Staff)	⬇	17%	16%	1%	150-151
<b>Business Partners - Group</b>					
Number of Advisors	⬆	2,440	2,062	18%	168, 191, 197
Commission Paid to Intermediaries (Rs. Mn.)	⬆	938	880	7%	166
Number of Brokers	⬆	53	48	10%	166
Number of Assessors	⬇	58	60	10%	163
Acquisition cost as a % of GWP	⬆	12%	13%	(1%)	166
<b>Customer Value</b>					
Claims and Benefits - Incurred (Rs. Mn.)	⬆	2,293	1,948	18%	139
Number of Branches	⬆	59	58	2%	162
Number of New Products	—	3	3	-	160
% of Customer Complaints Settled	⬆	81%	77%	4%	165
Bonus for Policyholders (Rs. Mn.)	⬆	101	83	22%	190
Rate of Dividend for Non-Participating Policyholders	—	8%	8%	-	190
<b>Community Emphasis - Group</b>					
Number of Micro Insurance Policies	⬇	3,522	3,889	(9%)	165
Total Number of School Water Projects completed (cumulative)	⬆	48	43	12%	173
Total Investment in Community (Rs. Mn.)	⬆	4	3	33%	173
<b>Environment Involvement</b>					
Electricity Consumption (Units)	⬇	1,705,063	1,506,728	13%	182
Paper Recycle (Kg)	⬆	609	4,699	(87%)	183

⬇ Declined

⬆ Improved

— Unchanged



Commencing the journey of delighting our stakeholders

2001



We become a Public Listed Company through an Initial Public Offering (IPO)

2003



We are recognised by Fitch Ratings Lanka Ltd with an Insurer Financial Strength Rating of 'A (lka)' and National Long Term Rating of 'A-'

2007



Our effort of responsible corporate reporting is recognised as we win the First International Award for Best Presented Accounts – Corporate Governance presented by South Asian Federation of Accountants (SAFA)

2009



We made a Right Issue of 6.25 Million shares to meet the future regulatory changes

2011

# Our Journey



HNBGI takes on our GI business while we increase our focus on the Life Insurance business as we segregate the Companies as per regulation

2015

Marking another milestone in our journey, HNB General Insurance Takaful unit received the Gold Award for 'Takaful Window/Unit of the Year' at the Islamic Finance Forum of South Asia

2017



Our efforts in delighting our stakeholders are recognized as we become the winner of the Micro Insurance Contribution category and CSR Contribution category at the 1st edition of Fintelekt Insurance Industry Awards 2016 held in association with the Insurance Association of Sri Lanka (IASL)

To better serve our customers we moved our Head Office premises to a new location

2016

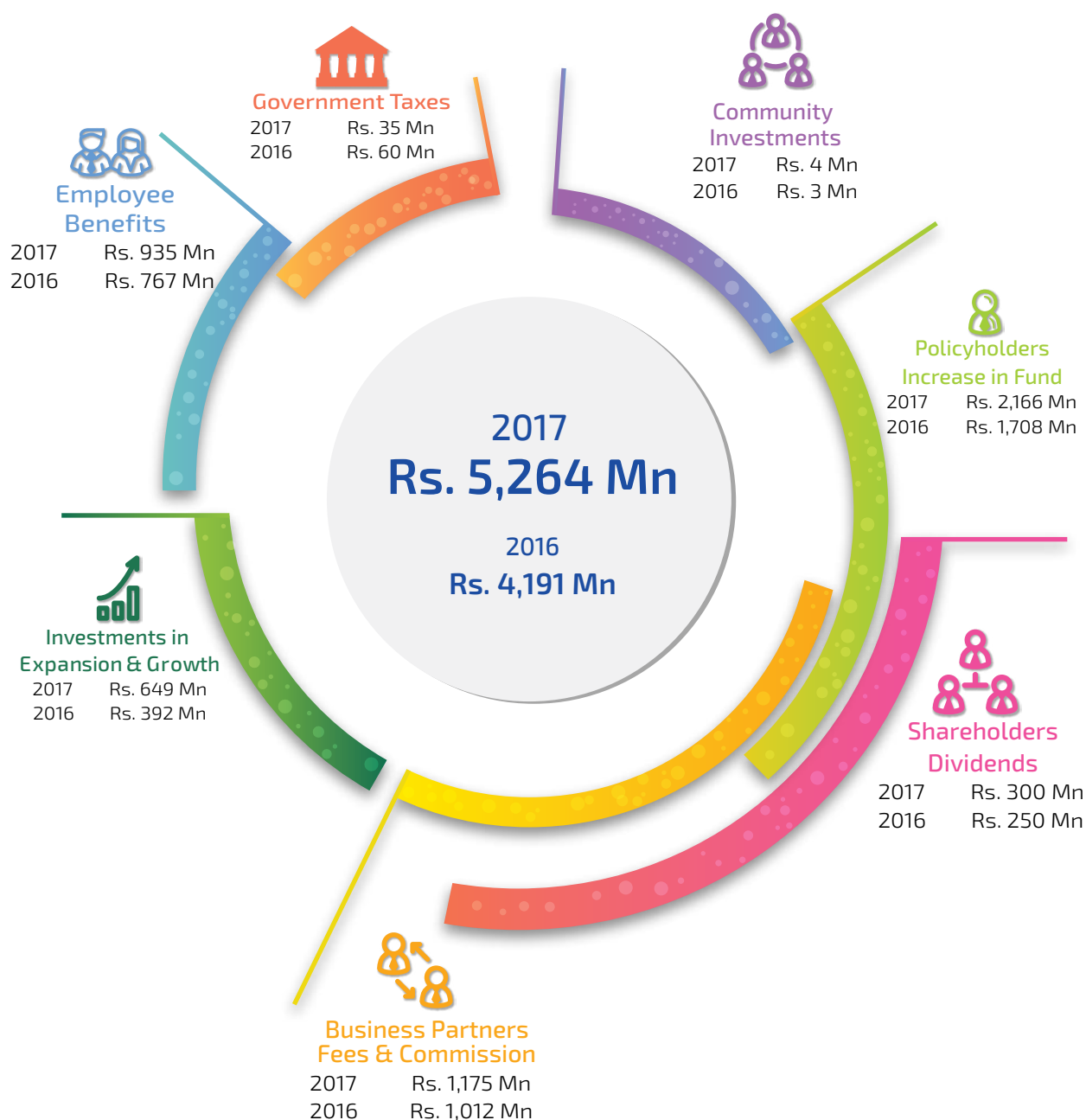


Company received the ISO 9001:2015 certification on the Life Insurance claims process further establishing the quality of our service standards

2017

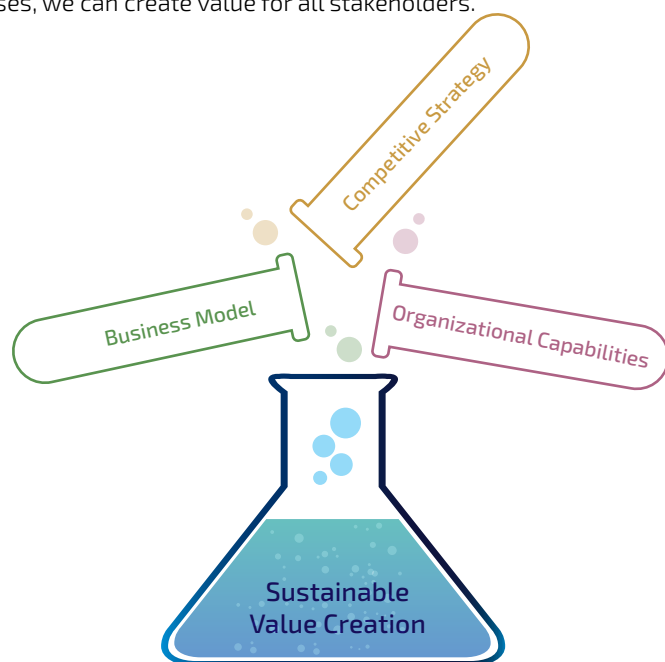


# Contribution to National Economy



# Our Sustainable Strategy

Sustainability is not a static agenda in our quest to create long-term value for all stakeholders. We consistently build and implement our winning formula mindful of the fact that the issues that impact our customers, shareholders and employees continue to evolve over time. Accordingly, we continue to adjust our strategic response to such issues. Nevertheless, we base our responses on three vital aspects that create robust strategic approaches to issues affecting our stakeholders. This approach is based on the all-encompassing view that once sustainability is integrated to all business processes, we can create value for all stakeholders.



This formula assists us to address emerging issues with focus on risks and opportunities to drive business growth in a sustainable manner. Striving to integrate sustainability into our daily business activities, we have incorporated sustainable principles to our business model.

## Our Sustainability Goals



## Competitive Strategy

Our competitive strategy generates superior returns for stakeholders with focus on growing our business both in terms of the top-line and the bottom-line. Our comprehensive product portfolio satisfies the requirements of our customers in a time-sensitive and an efficient manner in order to create lasting trust and generate value for shareholders and employees.

The Life Insurance strategy that we employ differentiate tools to identify the relevant segments of society and offer those segments timely and unique value propositions. Our General Insurance solutions focus on underwriting segments of preferred risks to provide value propositions based on service offerings.

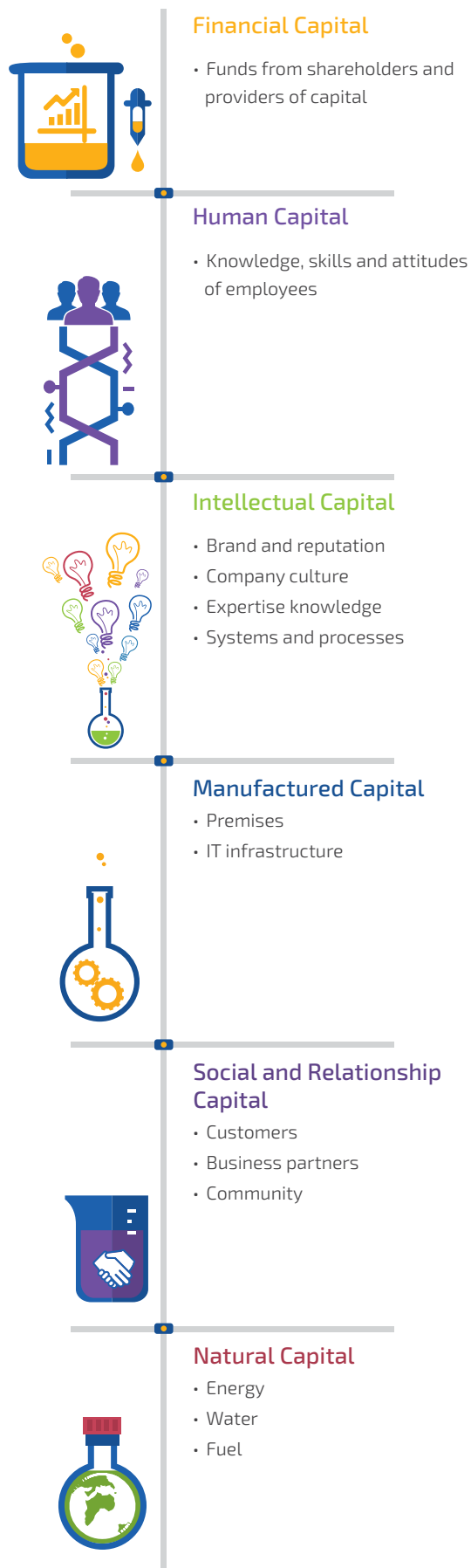
## Organizational Capabilities

Operating with the understanding that our unique organizational capabilities make a meaningful difference in the way we operate and create growth opportunities for our customers, shareholders and employees, we have adopted a mechanism to enhance these capabilities to suit stakeholder needs. Throughout the year we invested in improving our human capital, financial capital, intellectual capital and manufactured capital to maximize organizational capabilities. Our Organizational capital steers us forward on an upward yet a sustainable trajectory to differentiate our products and services along with service excellence to cater to the growth needs of our stakeholders in an ever-evolving operating and social environment.

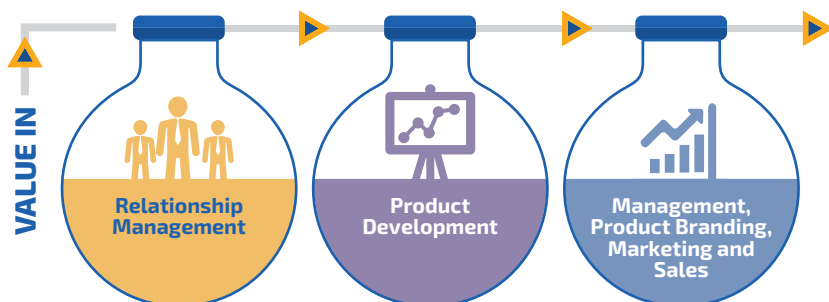
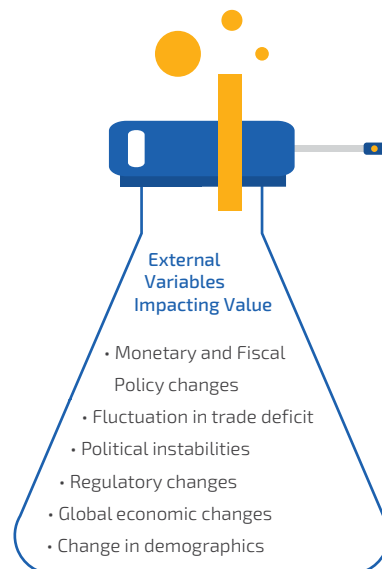


## Our Business Model

### INPUTS



### BUSINESS CONTEXT



### OUR PROFIT FORMULA

#### Revenues

- Insurance premiums
- Investment Income
- Reinsurance commission and profit commission
- Fund management fees

#### Expences

- Reinsurance premiums
- Business acquisition expenses
- Staff expenses
- Administration expenses
- Marketing and business development expenses
- Finance expenses
- Taxes

### VALUE PROPOSITIONS

#### Customer

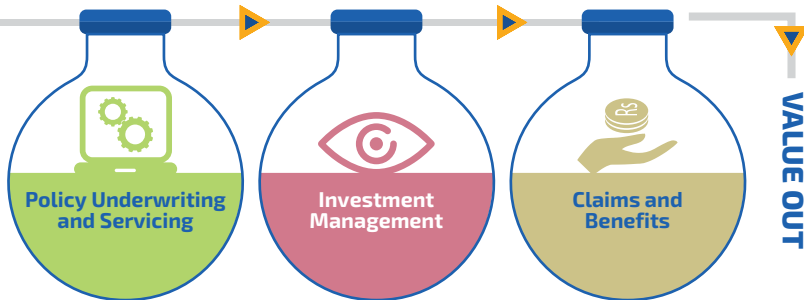
Providing superior protection to all our customers by meeting their insurance needs professionally with a spirit of caring.

#### Shareholders

Consistently delivering superior returns to our shareholders through well managed business operations and investment management

### Our Material Risks

- Volatility in Interest rates
- Severe price competition and substitutes for insurance solutions
- Increasing risk of man-made and natural catastrophes
- High inflation and falling disposable income
- Equity markets and Exchange rate volatilities
- Sophisticated customer expectations with technological developments
- Changing demographics
- High costs and expertise involved with implementation of new regulations



### OUR PRODUCTS AND OUTPUTS

#### Life Insurance

- Protection plans
- Retirement plans
- Child insurance plans
- Group life plans
- Mortgage protection plans
- Takaful solutions



#### General Insurance

- Motor Insurance
- Fire and Engineering Insurance
- Marine Insurance
- Medical Insurance
- Workmen's Compensation Insurance
- Takaful solutions



#### Employees

Ensure superior work-life balance and personal development through inculcating a culture of learning and growth to achieve personal and professional development

#### Society

Delivering sustainable value to all our stakeholders through superior corporate stewardship

### OUTCOMES

#### Financial Capital



- Delivering attractive shareholder returns
- Ensuring financial stability and growth

#### Human Capital



- Ensuring employee satisfaction and motivation
- Ensuring a rewarding and progressive careers
- Fair treatment and provision of equal opportunities
- Safe working environments

#### Intellectual Capital



- Building the right organisational and governance structure
- Inculcating values promoting a performance culture
- Enhancing knowledge and building internal capabilities
- Investing in systems and refining processes

#### Manufactured Capital



- Creating long term value through investments in building premises, IT infrastructure and other equipment

#### Social and Relationship Capital



- Delighting our customers
- Creating win-win partnerships
- Creating employment opportunities
- Developing communities around us

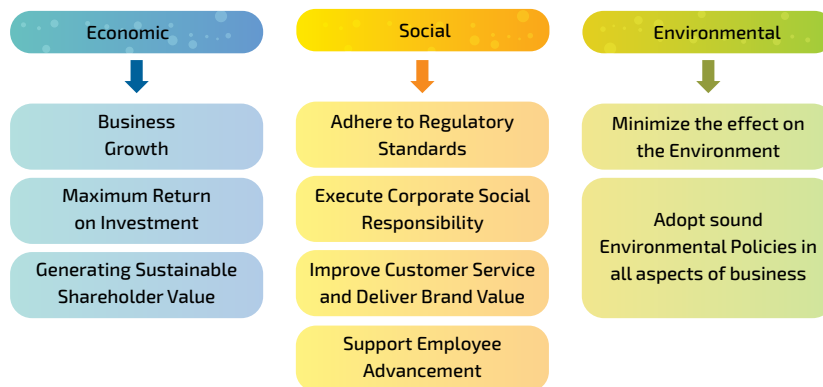
#### Natural Capital



- Conserving energy resources and reducing our carbon footprint

## Our Sustainable Strategy Contd.

### Strategic Focus Areas



### Our Strategic Planning Process

Our annual strategic planning mechanism focus on developing strategy for the next three years while revisiting strategies developed during the previous years to ensure timeliness, effectiveness and relevance of those strategies.

Prior to laying down the strategic plan for the next three years, we conduct an in depth review of the external realities as well as our internal capabilities. These in depth research and analysis yield answers that reveal market risks and opportunities which enable us to capitalize on our inherent capabilities to induce business growth.

### Strategy Development Process



The three-year strategic plan acts as the foundation to form strategies to achieve both short-term and long-term goals to create sustainable value.

## Strategies Towards Sustainable Value Creation

Sustainability Impact	Strategic Focus	Goals for 2017	Progress in 2017	More Details On
Economic	Business Growth	Group GWP – Rs. 8.1 Billion	Group GWP – Rs. 7.8 Billion	Financial Capital page 136 - 145
		Company Market Share – 6%	Company Market Share – 5.6%	Life Insurance Review page 184-191
		Premium Persistency – 83.5%	Premium Persistency – 80%	Life Insurance Review page 184-191
	Maximum Return on Investment	Yield – 10.4%	Yield – 12.6%	Investment Review page 199-200
	Generating Sustainable Shareholder Value	ROE – 24% Company PAT – Rs. 701 Million Group PAT – Rs. 871 Million A (Ika) Fitch Credit Rating – HNBA and HNBGI	ROE – 24% Company PAT – Rs. 726 Million Group PAT – Rs. 910 Million A (Ika) Fitch Credit Rating – HNBA and HNBGI	Financial Capital page 136-145
Social	Support Employee Advancement	Employee Turnover below 15%	Employee Turnover – 17%	Human Capital page 146 -157
		Enhance work-life balance	Inaugural HNBA/HNBGI Dinner Dance	
			Encourage employees to utilise annual leave	
	Adhere to Regulatory Standards	Compliance with RBC regime	Continued to adhere to all RBC regime requirements	Key trends in our operating environment page 132-134
	Execute Corporate Social Responsibility	Continue to enhance access to clean drinking water	Completed 5 projects during the year giving access to clean drinking water for more than 1,000 school children	Community engagement page 172-176
Environmental	Improve Customer Service and deliver Brand Value	Continue to strengthen the brand image through Group synergies	Co-branding activities to reinforce HNBA and HNBGI as part of HNB brand	Customer Capital page 158-165
		Minimize the effect on the Environment	Reduce the carbon foot print created	Natural Capital page 182-183
			Saved 19,354 liters of water, 2,346 kWh of electricity, 1,069 liters of oil, 10 trees and 2m <sup>3</sup> Land Fill and reduced 609kg of green- house gas emission	

# Engaging Stakeholders

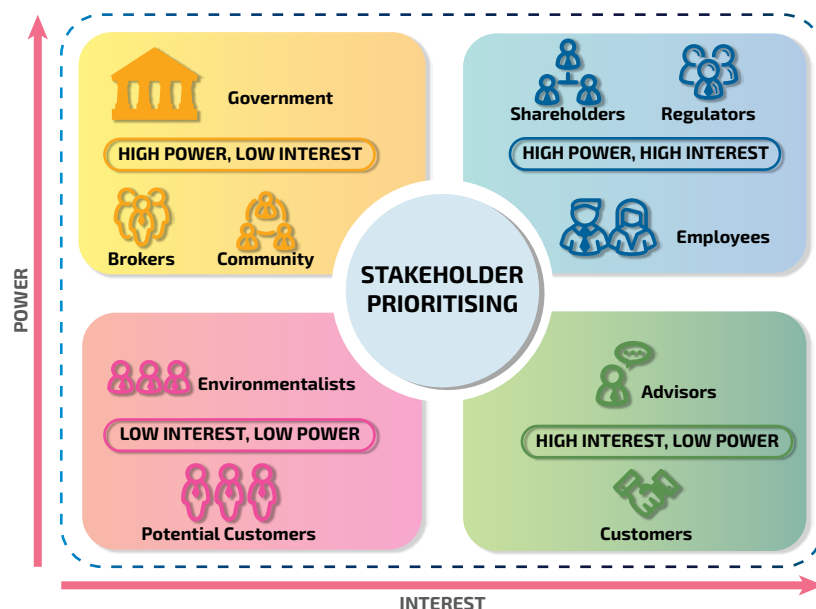
We believe that maintaining a constant dialogue with our stakeholders enables us to create value for them effectively. Our stakeholder engagement mechanism focuses on being responsive to their concerns and material issues in a prompt and a sustainable manner. Identifying the feasible involvement level of our stakeholders and prioritizing their influence level is of paramount importance to sustainable value creation and business success. We have identified six key stakeholders of the Group based on the level of interest they have in the business operations and the outcome as well as their capacity to stimulate change in our strategic direction to achieve common goals.



## Stakeholder Prioritizing

We believe effective stakeholder management to be a crucial element of resolving issues and pursuing sustainable business success. We have implemented a series of tested mechanisms to enhance stakeholder engagement whilst remaining mindful of the specific needs and the level of involvement of each group of stakeholders. We employ specific and transparent channels of communication with each group of stakeholders in order to satisfy their varying and sometimes conflicting requirements to obtain the best possible outcome. The end result is a feasible and an effective guidance framework towards designing and implementing the strategic direction, policies and sustainable practice adoption of HNB Assurance PLC Group.

*Our Stakeholder Prioritising Matrix*





Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response
			Continuous	Monthly	Quarterly	Bi-Annually	Annually		
Shareholders & Investors	Timely and relevant information to existing/ potential investors	Interim Financial Reports			√				The Dividend paid increased to Rs. 6.00 with the increased profitability and the dividend payout reached 41%.
		Annual Reports					√	Attractive dividends and appreciation of the share value	The share price of the Company increased to Rs. 72.5 in 2017 from Rs. 58.8 in 2016.
		Decisions via the exercise of voting rights					√	Maintaining liquidity of shares	HASU traded 89.25% of market days.
	Raise concerns	Annual General Meeting					√	Clarification about Financial / Operational Ratios	Shareholder suggestions are taken into account in providing financial/ operational information in Annual Report.
							√	Convenience of attending AGM	AGM is scheduled considering shareholder requests made at former AGMs.
		Access to Chairperson/ Managing Director/ Board Secretary via email/letter/ telephone	√					Information about the Company in English, Sinhala, Tamil	The Chairperson's message, Managing Director's review and the Key Financial Statements are provided in Sinhala and Tamil languages along with the Annual Report on request of the shareholders.

## Engaging Stakeholders Contd.

Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response
			Continuous	Monthly	Quarterly	Bi-Annually	Annually		
Employees	Create and maintain a motivated workforce	Company Intranet	√					Attractive remuneration	Salaries on par with industry and provision of other allowances.
	Be a responsible and a reputed employer	Staff Conference					√	Recognition and Appreciation	Best performing employees are recognised with the 'Chairman's Award'.
		Management Meetings/ Distribution Management Meetings			√			Information about the performance of the Company and job security	Educate and inform employees on the performance and the future prospects of the organization.
	Get valued input from employees to improve the value creation process	Employee Surveys					√	Superior work-life balance	Build the responses into the formulation of the Human Resource strategies.
								Identify training needs	Providing different training opportunities.
		Whistle-Blowing Policy and Process	√					Ethical practices of work	Investigate the concerns raised and take necessary actions.
		Exit Interviews	√					Expressing their level of satisfaction	Feedback is shared with top management for future development.
		Open-Door Culture	√					Communication with the management	All senior level employees welcome communication.
		Performance Reviews				√		Career growth and development	Two way communication to improve the relationships between the employee and us and provide opportunities for growth.

Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response
			Continuous	Monthly	Quarterly	Bi-Annually	Annually		
Customers	Customer assistance	Online Help-Desk and 24 hour Customer Hotline	√					Assistance during accidents, help with claim intimation and information on products	A state-of-the-art Customer Service Centre to assist customers 24/7.
	Identify insurance needs and providing high level of service	Branch Network and Customer Service Center	√					Improved service levels	The branch network was expanded to 59 branches to improve convenience and the service of the customer service center is strengthened to provide better service levels.
	Product awareness	Propaganda Vehicle travelling Island-wide creating Product Awareness	√					Innovative products	Continuously engage in product development.
	Improve customer loyalty and interaction	Interactive Corporate Website, Facebook page and Android Applications, Web inquiries	√					Easy access to information	Maintain consistent service levels and training front line staff to provide better customer service.
		Customer Satisfaction Survey	√						Incorporate the findings into the strategies developed
Regulator (IRCSL)	Adherence to rules and regulations	Submission of Returns as stipulated by the IRCSL			√			Maintaining Solvency and Capital adequacy	Prompt response to queries.
	Clarifications on rules and regulations set by them	Submission of other Documentation as per Regulator's Stipulations e.g. New Product Details, New Advertisements, Annual Report, etc.	√					Maintaining Solvency and Capital adequacy	Submission of statutory returns well before target dates.
	Approval for new products	Prompt and Appropriate Responses to queries raised by the IRCSL	√					Policyholder protection	Submit product proposals well in advance of the product launch date.

## Engaging Stakeholders Contd.

Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response
			Continuous	Monthly	Quarterly	Bi-Annually	Annually		
Business Partners	Win win relationships with downstream business partners such as Advisors, Assessors, Brokers, Garages and Financial Institutions who directly deal with our customers	Dissemination of Information on our Achievements and Strategies		√				Need for training	281 training programmes done for Advisors with over 4600 participants.
		Sales Clinics conducted for Advisors		√				Prompt payments	Payments made on a monthly basis for Advisors and Brokers on an agreed date.
		Award ceremony for HNB Branches					√	Rewards	Top performing HNB branches are recognised annually.
		Training offered to Advisors and Brokers	√						Top performing Advisors are recognised annually.
	Gain the financial backing of our reinsurers	Communication via e-mail with Reinsurers	√					Win win relationships with Reinsurers	Transact only with at least an A- rated reinsurance providers in the industry.
		Regular meetings with Reinsurers	√						

Stakeholder Group	Purpose of Engagement	Mode of Engagement	Frequency of Engagement					Stakeholder Concerns and Expectations	Our Strategic Response
			Continuous	Monthly	Quarterly	Bi-Annually	Annually		
Community	Contribute to the development of the communities which we are a part of	Media Statements	√					Community needs such as water facilities for schools, equipment needs of hospitals/ sports teams and other community groups	Review such requests and fulfill them if they fall in to our CSR criteria
	Discharge our responsibility as a good corporate citizen	Consultation of Community Members through our Branch Network to identify Community needs	√					Support needed to conduct academic/ professional conferences, performing arts, music and theatre, publication of books, etc.	Ensure sustainability of our CSR initiatives by keeping in touch with target communities and fulfilling maintenance needs
	Provide information about our activities	Maintaining a dialogue with Community Representative Groups such as National Blood Bank, Cultural Foundations, etc.	√						

The ultimate purpose behind our stakeholder engagement mechanism is to create sustainable value for all stakeholders and ensure long-term business, financial and operational success

within an ethical and a transparent framework. To this end the Board of Directors provide stewardship while the management bears the responsibility of leading business

operations in line with the Board's guidance and direction. The Executive Committee engages in the stakeholder involvement process to ensure sustainability of business operations.



It is with great pleasure that I welcome you to the 16th Annual General Meeting of the Company and present our sixth Integrated Annual Report and the Audited Financial Statements for the year ended 31st December 2017. Against a background of a challenging macro-economic environment and the continued stiff industry competition, I am pleased to state that the Group achieved 17% growth in the topline and an impressive 41% growth in the bottom line during the year under review, in comparison to 2016.

### The Global Context

The Global economic growth in 2017 estimated at 3.7%, indicated an improvement over the expected growth, mainly coming from the pickup in economic activity gaining momentum in countries contributing around 75% of the world GDP. Following this trend, the growth forecast for 2018 remains strong with an upward revision to the earlier forecast in countries such as the USA, several European countries as well as in advanced Asian economies. Developing and emerging Asia is expected to grow more or less at the same impressive rates of around 6.5% in 2018. However, several downside risks, including

faster than expected unwinding of accommodative monetary policy in developed economies, inward looking policies and other factors such as geopolitical tensions and vagaries of extreme weather worldwide, may create a negative impact to this outlook.

### Sri Lankan Economy

Having experienced two major natural disasters, the Country's Gross Domestic Product is estimated to have grown by around 4% during 2017 in comparison to the previous year. This was driven mainly by the upward swing in industrial activities as well as the growth in the services activities. Agricultural activities continued to



# Chairperson's Message

**41**  
↑  
% 2017  
**PAT**  
**GROWTH**

It is with a sense of satisfaction that I announce that, HNB Assurance PLC Group has increased its profitability further recording a Profit After Tax (PAT) of Rs 910 Million,

depicting a growth of 41% in comparison to the previous year. This impressive performance of the Group was due to the improved performance of both Life and General Insurance business segments.

contract against weather related disruptions. The 4.5% growth of industry activities recorded during the first nine months of the year was mainly driven by the increase in construction activities coupled with the expansion in mining and quarrying and to a lesser degree the slow-paced growth in manufacturing activities. Financial services, transportation, healthcare, retail trade and wholesale sectors grew during the first nine months of the year contributing to an overall value added services activity growth of 4.2%.

Headline inflation as measured by the National Consumer Price Index (NCPI) indicated an upward trend

during the mid-year period. The combined effects of tax revisions, adverse weather conditions in the domestic front as well as rising global commodity prices caused headline inflation to remain high. The average annual NCPI inflation increased from 4.0% to 7.7% from 2016 to 2017. The Colombo Consumer Price Index (CCPI) too recorded a similar trajectory with average annual headline inflation at 6.6% by December 2017 as a result of food inflation. CCPI Core inflation (year on year) showed an upward trend in the beginning of the year and plateaued thereafter. However, CCPI core inflation recorded an annual average increase from 4.4% to 5.9% during the year 2017. Real wage erosion recorded in the

year due to increased inflation caused the disposable income of consumers to display a downward trend.

The Central Bank continued its tight monetary policy in the year 2017 with an increase of policy interest rates by 25 basis points. The combined effect of tight monetary policy stance of the Central Bank and tightening of market liquidity conditions led to an increase in market interest rates during the first half of the year. However, this trend reversed during the second half of 2017 with market rates sharply falling due to reduced government borrowing requirements, and an increase

## Chairperson's Message Contd.

in foreign investment in the government securities market.

The Sri Lankan Rupee depreciated by 2.3% against the US Dollar during the year 2017.

Sri Lanka's export earnings improved recording an increase of 9.4% during the first eleven months of the year in comparison to the corresponding period of the previous year. Increased commodity prices in the global market and recovery in key export markets contributed to this positive trend. Despite an increase in import expenditure, increased export earnings higher inflows from investors following the improved confidence with the successful completion of the Second and the Third Reviews of the IMF Fund Facility (IMF-EFF) somewhat eased the pressure on the Balance of Payment.

The Government continued its revenue based fiscal consolidation process in 2017 in a bid to decrease the budget deficit and address the high level Government Debt. Among these measures the enactment of the new Inland Revenue Bill Act which comes into force from the First of April 2018 is an important milestone in this direction. Broadly it aims at broadening the tax base with the introduction of a three tier tax structure on corporate income as well as several other changes to the tax structure. With limited revenue resources and with a heavy public sector, servicing the Government debt remained a major challenge during the year in the fiscal front. In this sphere, with a view to addressing the payment bunching issue and to better manage the government debt,

several initiatives including the drafting of Liability Management Bill were undertaken. In addition, with the aim of strengthening and enhancing the effectiveness, it has also been proposed to introduce amendments to the Fiscal Responsibility Management Act.

The economy, with these positive developments including improved external conditions and anticipated improvement in agriculture sector, can reasonably be expected to depict a better performance in 2018. Private sector has been accepted as the engine of growth and employment creation. The Government, with the aim of improving public financial management and competitiveness, is committed to implement a medium term reform agenda. However, achieving these within a complex political environment will be a challenge.

### The Insurance Industry

Insurance Industry, during the last few years has grown at a commendable pace with total insurance premium income growing at a more impressive pace than the country's GDP growth rates. Gross Written Premium (GWP) in the Life Insurance industry posted a growth of 12% while the GWP of the General Insurance Industry grew by 16% in 2017 compared with 2016. The Life Insurance Industry

experienced a drop in the growth rate during the year. Weather related disruptions to steady incomes sources were among the main factors that contributed to this position. However, the General Insurance industry showed a marginal increase in its growth rate. This is mainly driven by the increased premiums and the introduction of a medical insurance scheme for school children by the government which had a significant premium income flow to the industry. Continued focus of the industry on increasing the top line sales and bottom line profitability continued during the current year against a very competitive environment.

Total number of insurance companies stood at 27, with 2 composite insurance companies, 12 Life Insurance companies and 13 companies engaged in General Insurance as at end of 2017. The number of composite companies in operation in the previous year was 3 while the number of other companies both in Life and General insurance sectors was the same. It is reported that one general insurance company no longer accepts new insurance business and is in the process of exiting from Sri Lanka.

Mainly in line with continuously changing regulatory and compliance requirements as well

21 % PAT  
Life Insurance

289 % PAT  
General Insurance

as other economic factors, the industry witnessed significant transformation during the last five years changing the landscape of the industry. Since the segregation regulations came into effect, the industry has seen a few major acquisitions and mergers. Indicating signs of further consolidation, interest by big players for acquisitions and buy outs, especially the general insurance business continued to be seen during 2017.

The Risk Based Capital Regime implemented in the previous year continued to be in operation during the current year. The regulator is currently reviewing the Risk Based Capital (RBC) rules on Life insurance, with the view to introducing a uniform treatment across all players. However, as the risk and product mix of each life insurance company differs, this proposal will have to be studied carefully before implementation. Changes are also expected to take place in financial reporting relating to the Insurance Industry. One such major change is the adoption of SLFRS 9 on Financial Instruments. The new standard needs are to be adopted from 2018 with the option of deferring it to 2021. Furthermore, insurers across the globe are required to adopt IFRS 17- Insurance Contracts from 2021, which will pose a significant difference on the outlook of the financial reporting of insurers. In addition, notable changes have been introduced in the area of taxation on the Insurance Industry under the new tax regime coming in to effect in April 2018. Accordingly, life insurance business is liable to pay a tax at 28% while life policy holders who hold participatory

insurance policies will be required to pay tax at 14%. The new tax on policyholders is likely to bring in negative results on the penetration level of life insurance at least in the short term. However, signaling the importance attached to insurance, the Government, has declared First of September as the National Insurance Day.

The Regulation of Insurance Industry Act, No. 43 of 2000 was amended during the year through the Regulations of Insurance Industry (Amendment) Act, No. 23 of 2017. One of the main changes which has been introduced under the amended Act is to grant exemptions to the mandatory listing requirement of insurers. Accordingly, the Company's fully owned subsidiary HNB General Insurance Limited can apply for an exemption from the mandatory listing requirement under this Act. A further change brought through this amended Act is the change of the name of the regulator from 'Insurance Board of Sri Lanka (IBSL)' to 'Insurance Regulatory Commission of Sri Lanka (IRCSL)'.

### Performance of the Company

It is with a sense of satisfaction that I announce that, HNB Assurance PLC Group has increased its profitability, further, recording a Profit After Tax (PAT) of Rs 910 Million, depicting a growth of 41% in comparison to the previous year. This impressive performance of the Group was due to the improved performance of both Life and General Insurance business segments.

HNB Assurance PLC, Life segment recorded a GWP of Rs. 3.96 Billion in 2017 with a growth of 12% compared to the previous year. The slowdown in the revenue growth rate in the life segment in the current year compared to the last years' figure of 27% was mainly due to a strategic decision taken to reduce the single premium investment product with the objective of laying a stronger foundation towards improving sustainability and profitability of the company in the medium and long term. Despite this decision, the Company improved its profitability by 21% recording a PAT of Rs. 726 Million against Rs. 600 Million recorded in 2016. Further, our Life Insurance Fund reached a value of Rs. 11 Billion at the end of the financial year which registered a growth of 25%. The achievements of the company are laudable especially in the context of the difficulties the Company was faced with, from time to time throughout the year, in collecting premiums due to disruptions to regular income of customers owing to floods and drought situations in several parts of the country.

The performance of our fully owned subsidiary HNBGI further improved during the year and played a major role in the improved performance of the Group during the year. The GWP of HNBGI grew by 24% over the previous year recording a value of Rs. 3.91 Billion. With no changes introduced to pricing, this was mainly due to the increase in the number of policies written by more than 11% over 2016 which depicts the improved claim services and the confidence of customers on the brand name. Arising from this the

## Chairperson's Message Contd.

profitability of the subsidiary further improved during the year reaching a total of Rs. 184 Million marking a remarkable growth of 289% compared to the Rs. 47 Million achieved in 2016. The performance of the subsidiary too is praiseworthy as this was achieved against increased claims arising from floods, and a cyclone in some parts of the country and also a drop in the number of vehicle registrations which has been our main segment of business.

**The Company was able to improve its profitability by 21% recording a PAT of Rs. 726 Million against Rs. 600 Million recorded in 2016.**

The Group achieved a noticeable growth of 52% in Investment Income recording Rs. 1.7 Billion compared to the Rs. 1.1 Billion made in 2016. Further, Funds Under Management crossed the Rs. 15 Billion mark by the end of the financial year. This was made possible through efficient investment management strategies formulated and executed to exploit the conditions created by macro-economic variables.

I am happy to note that the financial performance of the Group, based on our strategies, especially during the past two years, has laid a strong foundation to meet the challenges and strategic growth in the future.

### Corporate Governance

HNB Assurance PLC remains committed to adopting both regulatory and voluntary governance practices that are conducive to sustainable growth. We at the HNBA Group family believe transparency in corporate governance practices and adhering to regulatory requirements. I am pleased to state that we have complied with all necessary regulatory requirements during the year under review. The Group successfully adjusted to the RBC (Risk Based Capital) regime maintaining a Capital Adequacy Ratio above that of the regulatory requirements throughout the year with proper risk assessment and management strategies.

We have presented a comprehensive report on the governance practices implemented in this Annual Report. The Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka was revised in December 2017. The Company will take necessary measures to align the Company's corporate governance practice in line with the new revised code wherever possible.

### Dividend Payments

In line with the improved performance of the Group, The Board of Directors has declared an interim dividend of Rs 6.00 per share. This is an increase of 20% in comparison with previous year. Earnings Per Share for the year 2017 is Rs 18.20 compared to the Rs. 12.95 in 2016.

### Engaging with Communities

Striving to build social and relationship capital through engagement with communities, we contributed to community growth through a number of impactful CSR endeavours that spans the areas of education, healthcare, water stewardship, women's empowerment, environment and arts and culture patronage. Our award winning water stewardship initiative continued to provide access to purified drinking water to numerous schools in rural parts of the nation. The Group's healthcare community engagement initiatives sought to increase the general public's awareness of topical health issues through the 'Suwathi Diwiyata Magak' programme and contributed to the healthcare sector's knowledge building and sharing process through sponsoring a series of symposiums in partnership with the College of Community Physicians of Sri Lanka. In terms of resource facilitation, the Group assisted the District General Hospital in Negombo and the Pediatric Intensive Care Unit of the Lady Ridgeway Hospital. We were pleased and honored to hold our annual blood donation campaign for the 12th consecutive year during the current year. A detailed presentation of our corporate social responsibility endeavours are presented on page 172 to 176 in the Management Discussion and Analysis.

### Accolades

Demonstrating the Group's strong presence and the success of our business and operational endeavours that fall in line with sustainable development goals, we won numerous Awards and Accolades during the year under review. HNBA won the Gold Award

in the Insurance Companies Category at the 53rd Annual Report Awards Ceremony, organized by the Institute of Chartered Accountants of Sri Lanka for the 2016 integrated annual report, themed '15 Years of Delighting Our Stakeholders'. HNB Assurance PLC was also adjudged as the winner under the category of "Micro-insurance Leader - Life Insurance Award 2017" at Fintelekt Insurance Awards of Sri Lanka 2017. The Islamic Insurance Unit of HNBGI was acclaimed with the Gold Award for 'Takaful Window/Unit of the Year' at the Islamic Finance Forum of South Asia Amongst many nominees from India, Pakistan, Maldives and Bangladesh. HNB Assurance PLC's (HNBA) representative, K. M. Dullish won the Silver Award for the category of Sales Executives and Sales Supervisors of Life Insurance at the National Sales Congress (NASCO) organized by the Sri Lanka Institute of Marketing (SLIM). Meanwhile, the Life Claims Department of HNB Assurance PLC (HNBA) obtained the certification in compliance with ISO 9001 : 2015 for its service standards following an independent audit.

### Future Outlook

During the past 16 years, HNB Assurance PLC has continuously showcased sustained growth, while successfully adjusting to ever-changing market dynamics. While we have maintained our position as the sixth largest player in Life Insurance Industry, our timely and flexible strategic drive enabled us to achieve both topline and bottom-line growth to create value for all stakeholders and remain a strong contender in the market. We will continue to review and refine our product portfolio in the future in line with customer requirements whilst concentrating on a robust risk management framework to maintain long-term

stability and growth. In order to accommodate Company's fast growing business with enhanced efficiency and convenience, we will strengthen our technological capabilities in the delivery of our services to the customers. We will continue to leverage on the brand strength of the parent company, Hatton National Bank, while pursuing forward-thinking and market-sensitive strategies to create sustainable growth and profitability.

### New Appointments

I wish to place on record three new appointments to the Board of Directors that took place during the year under review. Mr. Deepthi Lokuarachchi joined the Board on 26th May 2017 as the Managing Director (Non-Independent and Executive Director). Mr. Rajive Dissanayake was appointed to the Board as a Non-Independent and Non-Executive Director on 27th of June 2017 while Mr. Ravi Abeyesuriya joined the Board on 1st January 2018 as an Independent and Non-Executive Director.

### Resignations

During the year two of our Board Directors resigned from their posts. Mr. N H T I Perera - Non-Independent and Non-Executive Director resigned on April 27th 2017 while Mr. K Balasundaram - Independent and Non - Executive Director retired on 22nd December 2017. I wish to express my sincere appreciation of their valuable contribution to the Group's growth.

### Appreciation

On behalf of the Group, I wish to thank for the support extended to us by the Chairperson, Director General and other officials of the

Insurance Regulatory Commission of Sri Lanka. I also wish to record my appreciation for the cooperation extended to us by the Insurance Ombudsman during 2017 and his commitment to the industry.

I could not have steered the Group towards success without the ready and invaluable guidance and support extended to me by all my fellow members on the Board. I would like to thank every single one of them for their ready support, valuable contribution and for standing by me throughout a challenging year 2017. I also wish to express my appreciation of Mr. Deepthi Lokuarachchi our Managing Director/Chief Executive Officer as well as all the members of senior management including the Executive Committee members for their hard work and unwavering commitment towards the cause of the group. Staff members of HNBA and HNBGI contributed to the Group's growth through their uncompromising work ethics and dedication to work. I wish to thank all of them and record my appreciation of their commitment. Last but not least, I would like to thank our shareholders, business partners and customers for their faith in our abilities. We will continue to honour your trust by continuing to forge ahead on our upward growth trajectory whilst maintaining our integrity as a corporate entity through upholding corporate governance standards.



Rose Cooray  
Chairperson

Colombo, Sri Lanka.  
09th February 2018



# Managing Director's Review

Rs. **910** Mn 2017  
**PAT**

In spite of a challenging Marco economic environment and intense competition from industry peers, the revenues of both HNBA and HNBGI grew profitably contributing to an

achievement of Rs. 910 Million as Group Profit After Tax for the period ended 31st December 2017. It is noteworthy to mention growth of PAT increase represented a growth of 41% compared to the prior year. This impressive growth in profits can be attributed to well thought out strategies implemented during the period under review.



It is with great pleasure I recap 2017 highlights and present the sixth Integrated Annual Report and the Financial Statements of HNB Assurance PLC (HNBA). This Annual Report contains the triple bottom-line performance of the Company and its fully owned subsidiary, HNB General Insurance Limited (HNBGI).

In spite of a challenging Marco economic environment and intense competition from industry peers, the revenues of both HNBA and HNBGI grew profitably contributing to an achievement of Rs. 910 Million as Group Profit After Tax for the year ended 31st December 2017. It

is noteworthy to mention growth of PAT increase represented a growth of 41% compared to the prior year. This impressive growth in profits can be attributed to well thought strategies implemented during the period under review. The business strategies of the group aligned with our core values created the winning formula that steered the Company on a path of steady growth.

## Challenging Business Environment

Even though the country's GDP showed a slight increase (4%) during the first half of 2017 when compared to the corresponding

period in 2016 (3.7 %), economic growth has been relatively slow. In the year 2017, nominal wages in the economy indicated a slowdown in growth when compared to inflation rate which led to a decline in overall real wages during the year. In this context, the disposable income of individuals suffered a setback which in turn affected the purchasing power of people, which particularly affected the life Insurance Industry. As a result of Government imposed limitations, the leasing sector too experienced a setback resulting in a reduction in credit growth. Amidst these conditions, the Insurance sector have undergone a slow growth





in the Life Insurance sector and a restricted growth in the General Insurance sector. The severe floods experienced in May 2017 eroded the margins of General Insurance sector due to the high severity claims with large payouts to customers thus resulting in the use of funds for claims which were otherwise available for investment opportunities. Moreover, the industry faced a number of challenges due to regulatory changes that took place during the years 2016 and 2017. Following the transition from the solvency regime to the RBC (Risk Based Capital) regime, under new guidelines

implemented by the Insurance Regulatory Commission of Sri Lanka, Insurance companies are yet to fully adjust to new changes. The proposed IFRS 17 standard to be complied by 2020/2021 creates additional challenges to the industry necessitating extra effort and remobilization of resources.

### Strategy and Core Values

In pursuing strategy to achieve sustainable business growth, the Company continuously engages its business acumen and experience to identify profitable segments having regard to risk

based macroeconomic conditions. This real time information driven strategy coupled with intense monitoring of activities have steered the Company in the right direction to create value for all stakeholders and maintain robust profitability on a consistent basis. Further the sound corporate governance practices enabled us to generate trust from the market and from employees and shareholders. I acknowledge the contribution of all such stakeholders for the contribution they have made towards growth and the financial wellbeing of the company.

## Managing Director's Review Contd.

### Performance

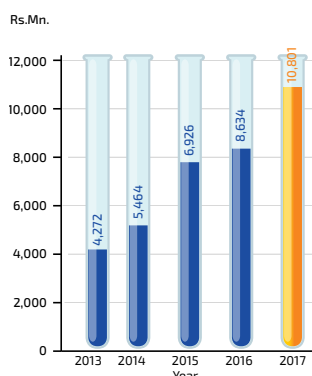
During the year under review HNB Assurance PLC and HNB General Insurance Limited performed well above market growth rates recording Rs 7.8 Billion as consolidated GWP.

### Life Insurance

The Life Insurance business showed remarkable growth during the year under review surpassing various economic and industry challenges. Gross Written Premium reached Rs. 3.6 Billion, growing by 12%, on par with industry growth, consequently allowing HNBA to retain the sixth place in the market.

This year we recorded our highest ever net profit of Rs. 726 Million, with a 21 % of growth over the previous year's Net Profit of Rs. 600 Million. The surplus transfer from the Life Insurance business recorded an increase in growth of 12%, reaching Rs 519 Million in comparison to the Rs 461 Million recorded in 2016. At the conclusion of the year, the Life Insurance Fund reached Rs 10.8 Billion, allowing the Company to declare a highest bonus of Rs 54 per Rs 1000 to Policyholders and a 8% dividend rate for Policyholders of fund-based products.

Life Insurance Fund



HNBA Endowment Policies grew by 17% compared to the previous year, contributing a substantial 91% of Gross Written Premium. Myfund and Ranmaga outperformed the rest of the product mix posting a growth of 20% and 38% respectively.

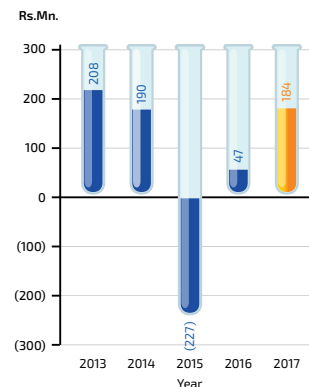
### General Insurance

In spite of the inherent volatility and susceptibility to risk, which are the prevalent considerations of the General Insurance sector and specific setbacks experienced during the year from weather related disasters, the Company's General Insurance business grew at a steady pace. Risk mitigation measures implemented by the company in anticipation of market disturbances enabled the Company to maintain a praiseworthy growth.

Driven by a clear and a well-focused strategy and with the overall preparedness of the company to meet the challenges and dynamics of general insurance business, HNBGI recorded a growth of 24%, reaching a GWP of Rs 3.91 Billion and a profit of Rs 184 Million by the year end. The sustainable business model involving risk selection, pricing and expense management verticals adopted in 2016, continued to enrich the growth momentum of consolidated revenue and profits in 2017.

The accelerated growth recorded in the year will fuel future growth of the Company, aided by the dynamic team of employees and managers who perform extraordinarily well setting benchmarks for the industry.

Profit After Tax - General Insurance (PAT)



### Investments

Even though the challenging macroeconomic environment limited investment opportunities, HNB Assurance succeeded in recording a remarkable growth in Investment Income. The Group's investment portfolio recorded an impressive income growth well-above the previous year's investment income to reach Rs 1.7 Billion for the year. HNBA contributed Rs 1,479 Million to the Group's Investment Income recording a growth of 54%, supported by a 28% increase in funds under management. HNBGI contributed to the Group's Investment Income with Rs 258 Million recording a growth of 38% in comparison to the previous year. Our appropriate and far-sighted fund management decisions resulted in the equity portfolios outperforming the benchmark All Share Price Index (ASPI) by 5.85 % on average.

### Capital Adequacy and Stability

HNBA recorded a Capital Adequacy Ratio (CAR) of 358% while the subsidiary, HNBGI recorded a CAR of 178% by the end of the financial year after providing for all contract and other liabilities.


## Acknowledgements

I would like to express my sincere appreciation of the Chairperson and Board of Directors for their insightful leadership, guidance and unwavering support extended to me and the senior management. I would also like to extend my gratitude to the Chairperson, Director General and staff of IRCSL for their continued support and endeavors to uplift the standards of our insurance market. Further my appreciation goes to all members of the Executive Committee and other senior officials, staff and members of the field force. I convey my warm appreciation for their individual and collective efforts. Finally, I wish to convey my thankfulness to Brokers, Re-insurers, intermediaries' network and all strategic business partners for their valuable cooperation.

**HNBA Endowment Policies grew by 17% compared to the previous year, contributing a substantial 91% of Gross Written Premium.**

## Future Outlook

The insurance market will continue to be competitive and challenging in 2018 particularly with changes to the regulatory landscape and on the general economic front. Nevertheless, the Company remains on a strong footing in the market with significant potential for sustainable growth in the future. Even though the prevailing economic and regulatory challenges will continue to have an impact on our business operations, we are well geared to surpass them. The company will continue to optimize the product mix using regular market insights with a view of increasing profitability. I believe that our efforts to strengthen the IT infrastructure and introduce innovative tools and novel experiences to customers will pave the way for a complete transformation of our business dynamics.



Deepthi Lokuarachchi  
*Managing Director/Chief Executive Officer*

Colombo, Sri Lanka  
09th February 2018

# Board of Directors



## ROSE COORAY

*Chairperson / Non-Executive Director – HNB Assurance PLC and HNB General Insurance Limited*

*B.A. (Hons) (University of Ceylon, Peradeniya), MSc. (Strathclyde University, U.K.)*

Appointed as the Chairperson on 06th July 2015. Mrs. Rose Cooray is a Director of Hatton National Bank PLC. Having served the Central Bank of Sri Lanka for over 35 years she retired as the Deputy Governor and counts over 43 years of experience in the financial sector. She is the Chairperson of Ceylon Guardian Investment Trust PLC, Ceylon Investment PLC, Sithma Development (Pvt) Limited and HNB General Insurance Limited and a Director of HNB Grameen Finance Limited and Guardian Capital Partners PLC.

On release from the Central Bank, she had served the Ministry of Finance as Director General Fiscal Policy and Economic Affairs for nearly 6 years and represented the Government on the Boards of DFCC Bank, Sri Lanka Institute of Information Technology, Sri Lanka Telecom, Ceylon Electricity Board, De La Rue Currency and Security Print (Pvt) Ltd, Export Development Board, National Housing and Development Authority and the Monetary Board on West Coast Power (Pvt) Ltd.

Mrs. Cooray has been extensively involved in policy making in the financial sector and implementing development projects. She has wide experience in negotiating loans with multilateral donors/bilateral trade agreements. She has contributed papers to professional journals.

## DEEPTHI LOKUARACHCHI

*Managing Director / Chief Executive Officer – HNB Assurance PLC and HNB General Insurance Limited*

*LL.B (Colombo), ACII (UK), Attorney-at-Law, Chartered Insurance Risk Manager*

Mr. Lokuarachchi counts over two decades of professional experience in the fields of general management, distribution, risk management and overall operations management. He commenced his career at Eagle Insurance where he held various key positions including General Manager Distribution and Risk Management. Advancing in his career, he moved to AIG Insurance Limited where he held the position of Deputy Chief Executive and Chief Operating Officer in charge of the Sri Lankan and Maldivian Operations. Deepthi also served as the Chief Executive Officer of Orient Insurance Limited, Sri Lanka and the Chief Executive Officer of Sri Lanka Insurance Corporation Limited prior to joining HNBA. He was the President of the Sri Lanka Insurance Institute and is the current President of the Insurance Association of Sri Lanka.

## SARATH RATWATTE

*Non-Executive Director – HNB Assurance PLC*

*FCMA (UK), CGMA*

Mr. Ratwatte counts over 35 years of private sector experience in the fields of Accounting, Financial & Treasury Management, Project Financing & Development, Investments and Risk Management. He has held senior positions in several multinational organisations and conglomerates in Sri Lanka and overseas. Mr. Ratwatte was employed in the Aitken Spence Group of Companies for a period of 18 years up to 2008, in many capacities including that of Group Treasurer/ Director – Corporate Finance, Director – Ace Power Embilipitiya (Pvt) Ltd and Director – Aitken Spence (Garments) Ltd. Presently he is also an Independent Non-Executive Director of Elpitiya Plantations PLC.



### MAHENDRA JAYASEKERA

*Independent / Non-Executive Director – HNB Assurance PLC*

*FCA, BSc Special Hons - University of Sri Jayawardenapura*

Managing Director of Lanka Tiles PLC, Lanka Walltiles PLC, Lanka Ceramic PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium Limited. Immediate past President of Sri Lanka Ceramics & Glass Council and the past Chairman of Centec Limited, a public private partnership between the Sri Lanka Ceramics & Glass Council and the Industrial Technology Institute.

### DILSHAN RODRIGO

*Non-Executive Director – HNB Assurance PLC and HNB General Insurance Limited*

*MBA (Cranfield University, UK) FCMA (UK), CGMA, FCCA (UK)*

Chief Operating Officer of Hatton National Bank PLC and Director of HNB General Insurance Ltd, Sithma Development (Pvt) Ltd, Guardian Acuity Asset Management Ltd and Credit Information Bureau of Sri Lanka. A senior banker with extensive experience in Retail Banking, Finance, Institutional Banking and Risk Management in leading local and foreign commercial banks operating in Sri Lanka.

Elected Chairman for a two year period of the Asian Banker's Policy Advocacy Committee, a forum for advancing the cause of banking and finance in the region and promoting regional co-operation. Served as Lecturer and Examiner for Strategic Management for the University of Wales affiliated MBA Program in Sri Lanka, Guest Lecturer at Postgraduate Institute of Management and Director Certification Program at Sri Lanka Institute of Directors. Has presented technical papers in various forums locally and overseas on Strategy, Business Transformation and Risk Management. A former President of ACCA Sri Lanka Division.

### SIROMI WICKRAMASINGHE

*Non-Executive Director – HNB Assurance PLC*

*Attorney – at – Law*

Presently is a Director of Agstar PLC. Also functions as the Head of Credit Counselling Centre. A Fellow of the Chartered Management Institute, UK. Counts over 34 years of multi-functional and progressive experience in the Sri Lankan Banking Sector including 13 years in the Corporate Management level of Hatton National Bank PLC. Previously held the position of Chairperson of HDFC Bank, General Manager / CEO of Lankaputhra Development Bank, Chairperson of Ceybank Asset Management Company, (a subsidiary of Bank of Ceylon), Director of Commercial Bank of Ceylon PLC, Commission Member of the SEC and a Director of Sri Lanka Banks' Association Gtee Ltd.



# Board of Directors



**DR. SIVAKUMAR SELLIAH**

*Independent / Non-Executive Director  
– HNB Assurance PLC*

*(MBBS, M.Phil)*

Dr. Selliah holds an MBBS degree and a Master's Degree (M.Phil). He has over two decades of experience in diverse fields.

He is the Deputy Chairman of Asiri Hospitals Holdings PLC and the Deputy Chairman of Asiri Surgical Hospital PLC. He is a Director of Lanka Tiles PLC, Softlogic Holdings PLC, ODEL PLC, Lanka Walltiles PLC, ACL Cables PLC, Horana Plantation PLC and Lanka Ceramic PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium Ltd. Dr. Selliah is the Chairman of JAT Holdings (Pvt) Ltd, Cleanco Lanka (Pvt) Ltd and the Deputy Chairman of Central Hospital (Pvt) Ltd. He is also the Chairman of Greensands (Pvt) Ltd and Vydexa (Lanka) Power Corporation (Pvt) Ltd.



**RAJIVE DISSANAYAKE**

*Non-Executive Director – HNB Assurance PLC  
and HNB General Insurance Limited*

*CFA, FCMA(UK), CGMA, BBA (University of Colombo)*

Mr. Dissanayake counts over 15 years of experience covering banking sector and capital markets. He currently serves as the Chief Strategy Officer of Hatton National Bank PLC.

In addition to being on the Board of HNB Assurance PLC, Mr. Dissanayake is also a Director of HNB General Insurance Ltd, HNB Grameen Microfinance Ltd, Acuity Partners (Pvt) Ltd, Acuity Securities Ltd and Lanka Ventures PLC.

Mr. Dissanayake serves as a member of the Board Audit Committee, Strategy Review Committee, Related Party Transactions Review Committee and the Investment Committee.



**RAVI ABEYSURIYA**

*Independent / Non-Executive Director  
– HNB Assurance PLC*

*CFA, FCMA(UK), CGMA, MBA (Monash University, Australia)*

Ravi Abeysuriya is the Group Director of Candor Group, owned by National Industries Group (NIG), one of the largest listed companies in Kuwait. Formerly, he was the Head of Strategic Business Development at Hayleys Group, Managing Director of Amba Research Lanka and Managing Director of Fitch Ratings Lanka.

He functioned as a permanent member of the Financial Sector Reforms Committee (FSRC) and was twice appointed as a commission member of the Securities and Exchange Commission of Sri Lanka and was a Director of Sri Lanka Insurance (SLIC). He is the President of the Association of Alternative Financial Institutions and a member of the National Agenda Committee, of the Ceylon Chamber of Commerce. He was the immediate past President of the Colombo Stock Brokers Association, former President of CFA Sri Lanka, President of ITESA & Vice President of SLASSCOM.





**FAIZAL SALIEH**

*Independent / Non-Executive Director – HNB General Insurance Limited*

**BA (Econ) Hons. MBA, FCPM**

Has long and extensive experience in commercial and development banking both in Sri Lanka and overseas and has held top management positions in global and local banks such as Grindlays Bank, ANZ Bank, NDB and Amana Bank; experienced Board Director of several companies in the business of banking, finance, insurance, fund management, stockbroking, manufacturing, trading and education; has served on State University Boards, The Ceylon Chamber of Commerce and several Government and Non-Governmental Committees in the fields of finance, economic affairs, housing, construction and tertiary education.

He is presently the Vice Chairman of The Sri Lanka Institute of Directors and serves on the Board of Directors of Cargills Bank, The Sri Lanka Institute of Directors, The Distance Learning Centre Limited, and is a Council Member and Financial Consultant at Gerson Lehrman Group, USA. He has served on the Board of Directors of The Ceylon Chamber of Commerce and continues to serve on the Chamber's Main Committee.



**MARINA THARMARATNAM**

*Independent / Non-Executive Director – HNB General Insurance Limited*

**FCA Post Graduate Diploma (CIM,UK), Diploma in Computer Systems and Design (NIBM)**

Her career spans over 4 decades where she has held many senior positions in multiple industries ranging from banking and insurance to heavy machinery. She served Union Assurance as its Director / CEO. She has held Board positions in the capacity of Director at Singer Finance PLC, DFCC Vardhana Bank PLC, United Tractor & Equipment Limited, Eagle Insurance Company Limited, and Eagle NDB Fund Management Co. Ltd. She was also the Chairperson of World Vision Lanka. In addition, she was the President of the Sri Lanka Institute of Directors in 2007 and 2008, Member of the National Council for Economic Development (NCED) for Capital Markets from 2004 to 2007, has served on various committees of the Institute of Chartered Accountants of Sri Lanka, was a Director of Employers Federation and served on the main committee of the Ceylon Chamber of Commerce.



**SITARI JAYASUNDARA**

*Company Secretary - HNB Assurance PLC and HNB General Insurance Limited*

**Attorney-at-Law & Notary Public, MBA (PIM-USI) Pg. Adv. Dip (Finance, Banking & Insurance Laws)**

Presently works as Head of Legal and Company Secretary of HNB Assurance PLC and HNB General Insurance Limited. She counts over 18 years experience in the legal profession and heading the Legal and Company Secretarial Division of HNB Assurance PLC for over 8 years. Prior to joining HNB Assurance PLC, Sitari served as Legal Officer & Company Secretary of Delmege Group of Companies and Director – Businessmate (Pvt) Limited, the Corporate Secretarial arm of Baker Tilly Edirisinghe & Company, Chartered Accountants.

# GROUP EXECUTIVE COMMITTEE



Standing from Left to Right

## Chandana L. Aluthgama

Chief Business Officer (Corporate Lines) –  
HNB General Insurance Limited

B Com Sp. (Kelaniya), FCMI (UK), MBA  
(Colombo)

## Pushpika Seneviratne

Chief Actuary - HNB Assurance PLC and HNB  
General Insurance Limited

B.Sc Hons (Colombo), M.Sc Actuarial Hons  
(UK), ASA (US), FCMA (UK), CGMA, CERA

## Sithumina Jayasundara

Chief Technical Officer – HNB General  
Insurance Limited

ACII (UK), ANZIF (Snr Assoc), Chartered Insurer

## Dinesh Udawatta

Chief Technical Officer – HNB Assurance PLC

BSc (Statistics)Hons (Colombo), FIII(India),  
MBA(Colombo), ANZIIIF (Fellow) CIP  
(Australia), ACII (UK), Chartered Insurer.

## Deepthi Lokuarachchi

Managing Director/Chief Executive Officer  
- HNB Assurance PLC and HNB General  
Insurance Limited

LL.B (Colombo), ACII (UK), Attorney-at-Law,  
Chartered Insurance Risk Manager



Standing from Left to Right

## Prasantha Fernando

Chief Operating Officer – HNB Assurance PLC

BSc. Hons (Colombo), ACII (UK), Chartered Insurer

## Nileshe Amarasinghe

Chief Investment & Strategy Officer- HNB Assurance PLC and HNB General Insurance Limited

BSc. Econ & Mgt Hons (LSE), MBus. (Fin) (UTS)

## Indika Perera

Chief Financial Officer - HNB Assurance PLC and HNB General Insurance Limited

BBMgt – Hons (SP in Acc.), ACA, ACMA

## Ivan Nicholas

Chief Business Officer-HNB Assurance PLC

## Jude Benjamin

Chief Business Officer (Personal Lines and Branch Network) – HNB General Insurance Limited



## Group Executive Committee Contd.

### Deepthi Lokuarachchi

*Managing Director / Chief Executive Officer  
- HNB Assurance PLC and HNB General  
Insurance Limited*

*LL.B (Colombo), ACII (UK), Attorney-at-Law,  
Chartered Insurance Risk Manager*

Mr. Lokuarachchi counts over two decades of professional experience in the fields of general management, distribution, risk management and overall operations management. He commenced his career at Eagle Insurance where he held various key positions including General Manager Distribution and Risk Management. Advancing in his career, he moved to AIG Insurance Limited where he held the position of Deputy Chief Executive and Chief Operating Officer in charge of the Sri Lankan and Maldivian Operations. Deepthi also served as the Chief Executive Officer of Orient Insurance Limited, Sri Lanka and the Chief Executive Officer of Sri Lanka Insurance Corporation Limited prior to joining HNBA. He was the President of the Sri Lanka Insurance Institute and is the current President of the Insurance Association of Sri Lanka.

### Prasanth Fernando

*Chief Operating Officer - HNB Assurance PLC*

*BSc. Hons (Colombo), ACII (UK), Chartered  
Insurer*

Prasanth joined HNB Assurance in 2012 and he served as General Manager - Life Insurance for three years prior to being promoted as Chief Operating Officer of HNB Assurance PLC. Prior to joining HNB Assurance, he held the position of Assistant General Manager, Life Operations at Aviva NDB Insurance PLC. He counts over 22 years of experience in the Life Insurance Industry. Prasanth is also a founder council member of

Association of Chartered Insurance Professionals (ACIP) and served as the Treasurer. He is a past Chairman of the Life Insurance Forum (LIF) of the Insurance Association of Sri Lanka (IASL) and was a lecturer at the Sri Lanka Insurance Institute. He also serves as the Principal Officer and Specified Officer of HNB Assurance PLC.

### Chandana L. Aluthgama

*Chief Business Officer (Corporate Lines) -  
HNB General Insurance Limited*

*B Com Sp. (Kelaniya), FCMI (UK), MBA  
(Colombo)*

Chandana joined HNBA in 2004 as the Business Development Manager and was promoted as the Head of Corporate Business Development in January 2009 and subsequently as the Chief Business Officer in 2014. He counts over 25 years' experience in business development, operations, claims management, branch operations, corporate marketing, Bancassurance, and channel management. He is also a visiting Lecturer at the Postgraduate Unit of the University of Colombo - Management and Finance Faculty. Has presented research papers at local and international conferences. He has undergone extensive training both locally and overseas including at Generali Insurance AG, Vienna, Austria and NUS Business School, Singapore. Chandana served at Eagle Insurance PLC as the Manager Bancassurance prior to joining HNBA and is the immediate past Secretary of the Royal College Union and represented the Executive Committee of the Colombo University Alumni. He also serves as the Principal Officer of HNB General Insurance.

### Ivan Nicholas

*Chief Business Officer - HNB Assurance PLC*

Ivan joined HNB Assurance in 2010 as the Head of Distribution and promoted as the Chief Business Officer Life Insurance in 2016. Initially he was responsible for Life and General Distribution channels for the entire branch network before the segregation. At present he holds the National level responsibility of Life Distribution, Bancassurance and Corporate Sales Units. He counts over 32 years' experience in Sales and Sales management at Regional and National level Life and General Distribution within the Insurance Industry. He has served at Eagle Insurance PLC where he gained multinational exposure and at Union Assurance PLC as AGM Corporate Business Development unit prior to joining HNB Assurance PLC. Ivan is also an Associate Financial Advisor awarded by Limra International (Pvt) Ltd.

### Nilesh Amarasinghe

*Chief Investment and Strategy Officer - HNB  
Assurance PLC and HNB General Insurance  
Limited*

*BSc. Econ & Mgt Hons (LSE), MBus. (Fin) (UTS)*

Nilesh counts more than a decade of extensive experience in Capital Markets specialising in fund management, macroeconomic analysis, investment analysis etc. Having joined HNBA in 2005 as a Management Trainee, Nilesh served HNBA as Assistant Manager - Investments, Manager - Investments and Head of Investment & Strategy prior to assuming the role as the Chief Investment & Strategy Officer. As the CIO, he is responsible for the performance of more than Rs. 15 Billion funds of the HNB Assurance Group, belonging to Life and General policyholders and shareholders including the Sharia compliant Takaful Portfolios.

## Sithumina Jayasundara

*Chief Technical Officer – HNB General Insurance Limited*

*ACII (UK), ANZIF (Snr Assoc), Chartered Insurer*

Joined HNB General Insurance in July 2014. Appointed to the Group Executive Committee in 2015, Subsequently promoted as the Chief Technical Officer of HNB General Insurance Ltd. He counts over 19 years experience in different capacities in several companies in the Insurance Industry and was appointed as a Specified Officer since December 2017. He has also obtained foreign exposure through different training programmes in General Insurance and specialized in the Reinsurance field. Holds a Diploma in Computer Studies and reading for MBA from Cardiff Metropolitan University (UK). Currently holds the position of Treasurer of the Sri Lanka Insurance Institute which is affiliated to the Chartered Insurance Institute of the UK. A member of the Ceylon Chamber of Commerce “Young Members Forum” and is the Treasury of The Association of Chartered Insurance Professionals (ACIP).

## Indika Perera

*Chief Financial Officer - HNB Assurance PLC and HNB General Insurance Limited*

*BBMgt – Hons (SP in Acc.), ACA, ACMA*

Indika counts over 17 years of experience in finance field where he possesses more than 10 years experience in the Insurance Industry both locally and internationally.

He started his career with KPMG Sri Lanka and joined HNB Assurance in 2004 as the Accountant. Indika left the Company from the position Finance Manager in 2007 to join Gulf Union Insurance Group in

Bahrain where he served in Group Internal Audit Division and Group Finance Division. After 5 years, he returned to the country and served as the Assistant Vice President at Acuity Securities Limited, a Central Bank registered primary dealer of government securities and Vice President – Operations Control at Orient Insurance Limited, a subsidiary of Al-Futtaim Group in Dubai. He rejoined HNB Assurance in 2015 as the Head of Finance and currently serves as the Chief Financial Officer of both HNB Assurance PLC and HNB General Insurance Limited.

## Jude Benjamin

*Chief Business Officer (Personal Lines and Branch Network) – HNB General Insurance Limited*

Jude is a charismatic and a dynamic personality hailing from St. Thomas College, Mount Lavinia who holds expertise of over two decades in marketing including, brand building, marketing communication, business development, event management as well as Broker development. He held many Senior Managerial positions at leading companies such as Orient Insurance Limited, a subsidiary of the prestigious Al-Futtaim Group in Dubai, American International Group (AIG), Asian Alliance Insurance and Whittall Boustead Ltd Insurance Division (Union Assurance PLC) which is an associated company of John Keells Holdings PLC prior to joining HNBGI as its Chief Business Officer for Personal Lines and Branch Network in December 2016.

## Dinesh Udawatta

*Chief Technical Officer – HNB Assurance PLC*

*BSc (Statistics) Hons (Colombo), FIII (India), MBA (Colombo), ANZIIF (Fellow) CIP (Australia), ACII (UK), Chartered Insurer.*

Dinesh joined HNB Assurance in 2003. Currently he is serving as the Chief Technical Officer for Life Insurance. Having joined in 2003 as an Actuarial Executive and Dinesh developed his Technical competencies in Life Insurance. He acquired professional qualifications from three well known Insurance Institutes and developed his career as a life technical person. He served as Head of Operations - Life Insurance for two years prior to being promoted as CTO. He counts over 15 years of experience in the Life Insurance Industry. He has undergone extensive training both locally and overseas including at Munich Re, Munich, Germany and FALIA, Japan.

## Pushpika Seneviratne

*Chief Actuary - HNB Assurance PLC and HNB General Insurance Limited*

*B.Sc Hons (Colombo), M.Sc Actuarial Hons (UK), ASA (US), FCMA (UK), CGMA, CERA*

Having joined HNB Assurance in 2011 as Assistant Manager and being instrumental in setting-up the Actuarial Department within HNBA, Pushpika currently works in the capacity of Chief Actuary, leading the Actuarial Department catering to Life and General Insurance. Prior to this role, she functioned at various capacities at HNBA, Ceylinco-Life and at Eagle Insurance, where she embarked on her Actuarial journey. Having qualified as an Associate Actuary from the Society of Actuaries US, Pushpika is one of the few qualified Actuaries in the country and the only local Actuary to attain the Chartered Enterprise Risk Analyst (CERA) whilst also being a Fellow Member of the Chartered Institute of Management Accountants (CIMA). Pushpika is also a member of the Actuarial sub-committee of Insurance Association of Sri Lanka.

## Management Team - HNB Assurance PLC



**Hiran Fernandopulle**

Head Of Distribution



**Geethani Saram**

Head of Support Services



**Dinesh Yogaratnam**

Head of Marketing



**Tharaka Perera**

Head of IT



**Sitari Jayasundara**

Head of Legal and Company Secretary



**Rohan Hemantha**

Senior Manager - Risk & Compliance



**Salinda Perera**

Senior Manager - Administration



**Padma Dahanayke**

Senior Manager - Life Servicing



**Punsirini Perera**

Senior Manager - Finance



**Harindra Ramasinghe**

Senior Zonal Manager - Southern



**Waruna Peiris**

Manager - Actuarial



**Ritchie Adaman**

Manager - Actuarial



**Dasun Siriwardana**

Manager - Corporate Life



**Tharuka Jayasekera**

Manager - Finance



**Harshana Aponsu**

Manager - Finance



**Ayanthi Wettasinghe**

Manager - Human Resources





**Kamini Gunawardene**

Manager - Marketing



**Anuradha Ranasinghe**

Manager - MRP



**Sanesh Fernando**

Manager - Partnerships



**Prasad Thambawita**

Manager - Sales Training



**Sameera Gamage**

Project Manager - IT



**Jagath Gaspe**

Zonal Manager - Central



**Hemantha Liyanage**

Zonal Manager - Metro North



**Nadaraja Sugunan**

Zonal Manager - North & East



**Ananda Kulasooriya**

Zonal Manager - North Western



**Chaminda De Zoysa**

Regional Manager



**R M K G Harischandra**

Regional Manager



**Kapila Jayarathne**

Regional Manager



**B G Dhanawardena**

Regional Manager

## Management Team - HNB General Insurance Limited



**Chitparan Vivekanandan**  
Head of Finance & Support Services



**A R Bazlin Salih**  
Zonal Head - Southern



**Sajeewa Chandrasena**  
Zonal Head - Central



**Sampath Wickramaarachchi**  
Head of Corporate and  
Alternate Channels



**Hazana Caffoor**  
Senior Manager - Motor



**Hifly Huzair**  
Senior Manager - Takaful



**Thameera Walpita**  
Senior Manager - Motor Claims



**Sanath Ranaweera**  
Chief Engineer



**Poornima Nazeem**  
Senior Manager - Bancassurance



**Ayodhya Perera**  
Senior Manager - Non Motor Claims



**T R Rizapan**  
Zonal Manager - North & East



**Jehan Haniff**  
National Sales Training &  
Development Manager



**Sanjeevani Pitadeniya**  
Manager - Customer Relations



**Devaka Jayasinghe**  
Manager - Broker Development



**Samantha Liyanage**  
Manager - Non Motor Underwriting



**Dayan Georgesz**  
Manager - Bancassurance



**Anushika Wickramasinghe**  
Manager - Motor Processing



**Dilum Medahinna**  
Manager - Title Insurance



**Samudra Jayawardena**  
Acting Assistant Zonal Manager



**Anuruddha Wickramasinghe**  
Acting Assistant Zonal Manager



**Wasantha Rathnakumara**  
Cluster Manager



**Damayanthi Nelumdeniya**  
Cluster Manager

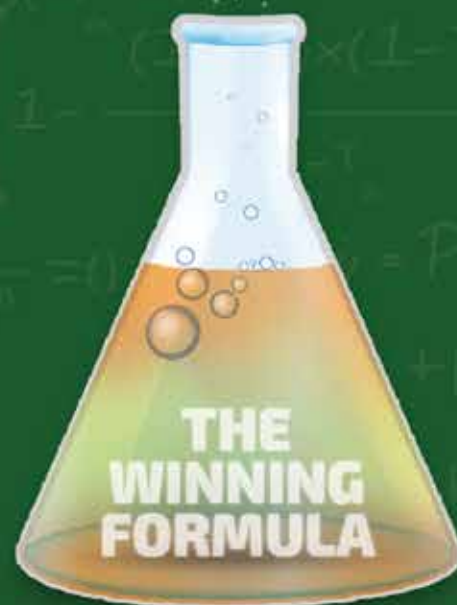




# Our Good Governance Formula

## STEWARDSHIP

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# Chairperson's Statement

We firmly believe that robust Corporate Governance Practices lay the foundation for sustainable business growth, building trust and long-term value creation. Your Group consistently attends to improving Corporate Governance practices not only in line with the regulatory requirements but also through enhancing our own system of effective governance practices. Our Corporate Governance framework is laid down in a manner that enables us to achieve transparency, accountability and integrity in all aspects of our business operations and relations with other entities. In short, our Governance framework ensures the highest level of professionalism and ethical conduct.

## The Governance Framework

The Board of Directors follows the Charter of the Board of Directors, ('the Board') to execute their collective and individual responsibilities in an ethical and a professional manner, consequently leading by example to set the overall tone of Corporate Governance framework that steers the Group. Moreover, Board Sub Committees adhere to guidance provided in charters with regard to their responsibilities and ethical standards required of each member. At the end of each financial year, the Board conducts an evaluation of its own performance to reflect the Board's commitment on good corporate governance.

## Corporate Governance Initiatives during 2017

In 2017, the Board maintained the highest level of Corporate Governance practices in line with the Code of Conduct and Ethics

while paying close attention to adhering to regulatory requirements laid down by the Insurance Regulatory Commission of Sri Lanka. Following an in-depth analysis of the existing Corporate Governance policies, we revised and updated the policies in line with current local and international standards. Accordingly, your Company adopted a number of new policies including an Anti-Bribery and Corruption policy, a Customer Complaint Handling policy, policy on Employment of Relations as well as a comprehensive HR policy.

The three new appointments to the Board that took place during the year under review further strengthens the Board's collective capability and adds to the diversity of knowledge and expertise to steer the Group in an upward trajectory towards sustainable growth in an ethical and a transparent mode. During the year under review, the Chief Executive Officer was promoted as the Managing Director of the Company (HNBA) and its fully owned subsidiary HNB General Insurance Limited, thus enriching the Director Board further.

Further strengthening the Board Risk Management Committee and the Strategy Review Committee, we appointed Ms. Marina Tharmaratnam a Director of HNB General Insurance Limited to the two committees during the year. Ms Tharmaratnam possesses extensive experience in the fields of insurance, finance and general management. In addition, Mr. Damith Pallewatte, the Chief Risk Officer of the parent company Hatton National Bank PLC was appointed to the Risk Management Committee and he will contribute

to reinforce the Group's risk management in his capacity as an expert in the area.

## Compliance with Corporate Governance Codes

The Corporate Governance Report presented on pages 52 to 124 illustrates the adopted governance framework of the Group. The above-mentioned report adheres to the rules and regulations presented in the Code of Best Practice on Corporate Governance (the Code) issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), as well as Rule No. 7.10 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange (CSE). As required by the above Code, I hereby confirm that I am not aware of any material violations of the provisions of the Code of Conduct and Ethics, by any Director or any member of the corporate management team of the Company/Group.



**Rose Cooray**  
Chairperson

Colombo, Sri Lanka.  
09th February, 2018.

# Corporate Governance

## Our Corporate Governance Framework

A staunch commitment to upholding ethical business practices and an inherent wish to conduct business with integrity, transparency and accountability steers the Corporate Governance framework of HNB Assurance PLC which permeates across all levels of the Company. The Board of Directors sets the direction of the Company's Corporate Governance policies and practices including specific charters for Board Sub-Committees in line with the above mentioned fundamental commitment. The Corporate Governance framework of HNB Assurance PLC is a combination of corporate governance policies, charters and values as well as the laws applicable to the Company.

Broadly, our corporate governance framework rests on two important principles:

- consistently enhancing corporate governance principles and practices in line with our experiences, regulatory requirements, international developments and stakeholder expectations.
- adherence to the imperative to provide a clear and a comprehensive presentation of the Company's corporate governance principles and practices. Accordingly, this report provides a systematic disclosure of the corporate governance framework of the Company, including the structure, principles, policies and practices of corporate governance at HNB Assurance PLC.

Our efforts to improve the Company's corporate governance framework and the disclosure of our corporate governance practices have been recognized on a number of occasions during the past.

## Awards won by the Corporate Governance Report

### Annual Report 2015

**Merit Award** - Corporate Governance Disclosures at the South Asian Federation of Accountants (SAFA) Best Presented Annual Reports

### Annual Report 2013

**Silver Award** - Corporate Governance Disclosure at the CA Sri Lanka Annual Report Awards

### Annual Report 2011

**Third place** - Corporate Governance Disclosure at the CA Sri Lanka Annual Report Awards

### Annual Report 2009

**First runner-up** - Corporate Governance Disclosure at the South Asian Federation of Accountants (SAFA) Best Presented Annual Reports

### Annual Report 2008

**Joint Silver Award** - Corporate Governance Disclosure at the CA Sri Lanka Annual Report Awards

## Corporate Governance Improvements in 2017

- Took steps to introduce policies on Anti-Bribery and Corruption, Employment of Relations, Customer Complaints Handling and a comprehensive HR Policy
- Reviewed Board and Board Sub-Committee Charters
- Strengthened the Board Risk Management Committee and the Strategy Review Committee
- Reviewed and updated the policies of the Company
- Revised the Whistleblowing Policy of the Company
- Appointed the CEO as Managing Director of the Company/Group during the year

## The Corporate Governance Structure of HNB Assurance PLC

A proper corporate governance model interweaves the distinct and complementary relations between Shareholders, the Board of Directors and the Management. Interactions between these three stakeholders craft the foundation that the Company's core objectives are built on in order to ensure the smooth functioning of the institution.

Hence, our corporate governance structure reinforces the vital relationship between Shareholders, the Board, the Management, and other stakeholders while amalgamating the adopted policies, charters and procedures as well as strategies used to achieve the core objectives of ethical values and corporate objectives.



## Rules and Guidelines which shape our Corporate Governance framework

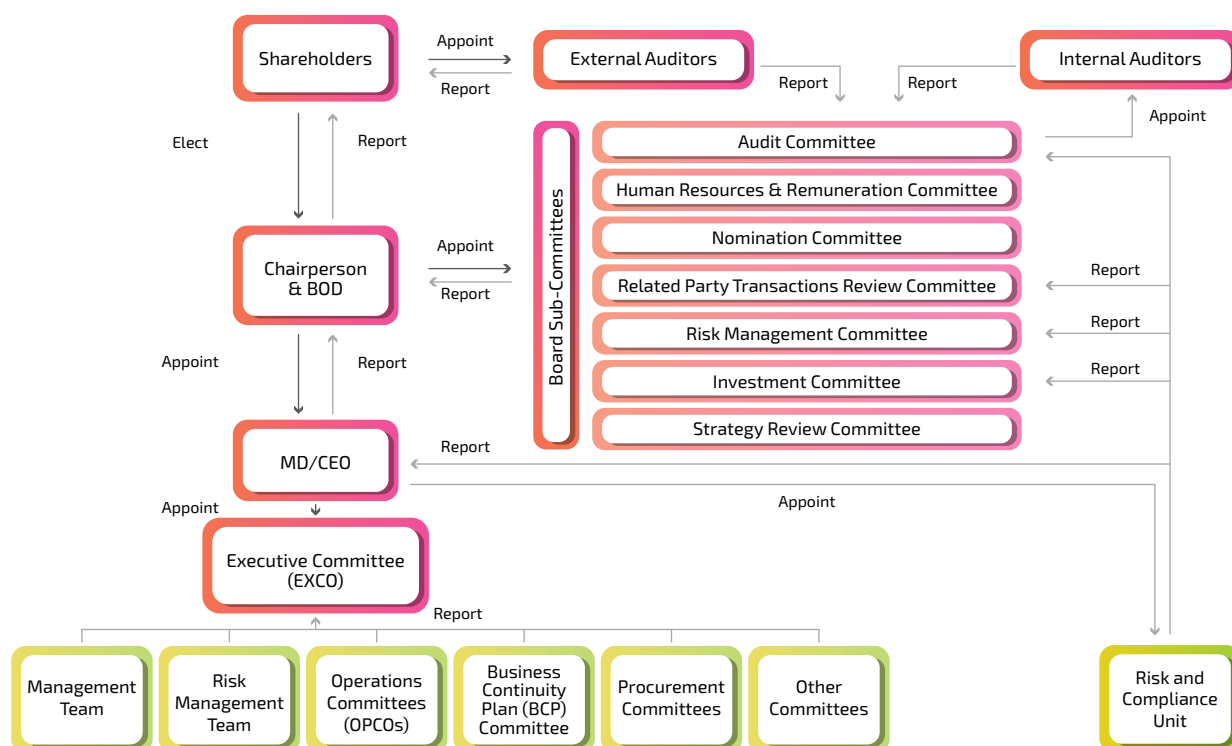
### Regulatory Requirements that shape the Company's Corporate Governance framework

- Companies Act, No. 07 of 2007
- Regulation on Insurance Industry (RII) Act, No.43 of 2000 and subsequent amendments thereto
- Listing Rules of the Colombo Stock Exchange (CSE)
- Sri Lanka Accounting Standards (LKAS/SLFRS) issued by CA Sri Lanka
- Rules, regulations, determinations, directives and circulars issued by the Insurance Regulatory Commission of Sri Lanka
- Motor Traffic Act, No. 14 of 1951 and subsequent amendments thereto
- Inland Revenue Act, No. 10 of 2006
- The Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and CA Sri Lanka

### Internal Requirements that shapes the Company's Corporate Governance framework

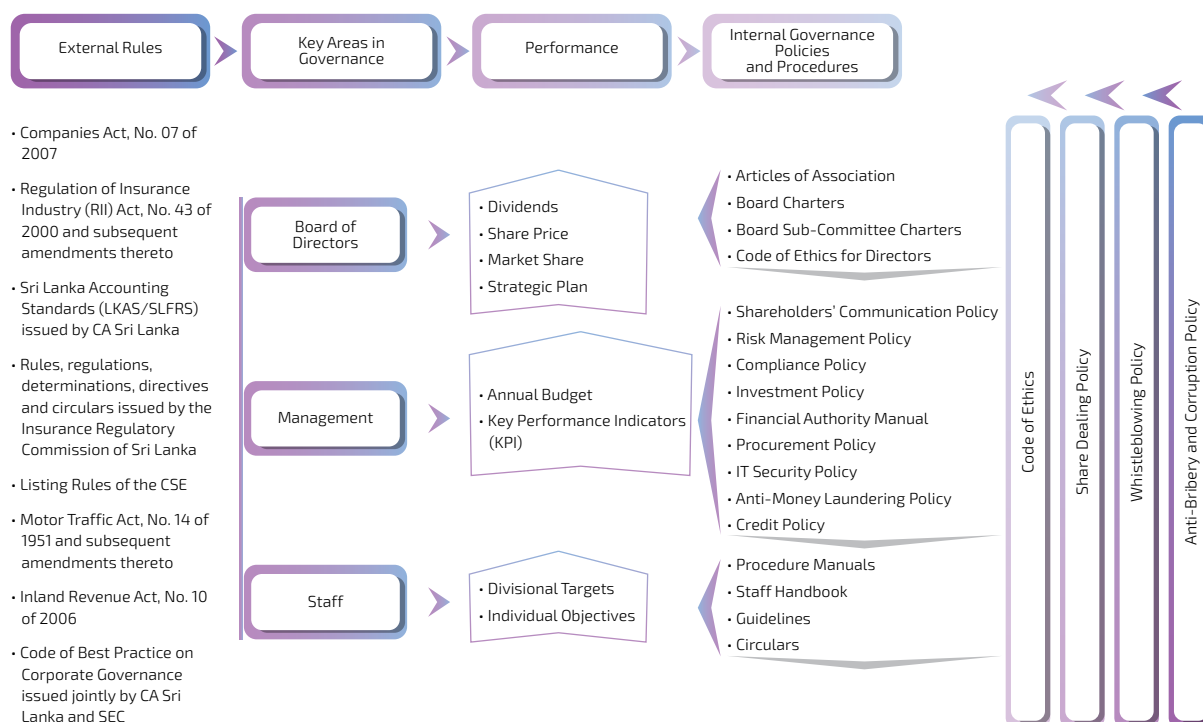
- Articles of Association
- Board Charters
- Board Sub-Committee Charters
- Code of Ethics for Directors
- Shareholders' Communication Policy
- Risk Management Policy
- Compliance Policy
- Investment Policy
- Financial Authority Manual
- Procurement Policy
- IT Security Policy
- Anti-Money Laundering Policy
- Credit Policy
- Procedure Manuals
- Staff Handbook
- Guidelines and Checklists
- Circulars

The fundamental relationship among HNB Assurance's (HNBA) Shareholders, the Board, the Management, and other stakeholders is depicted in the following diagram.



## Corporate Governance Contd.

### Governance Policy Framework of HNB Assurance



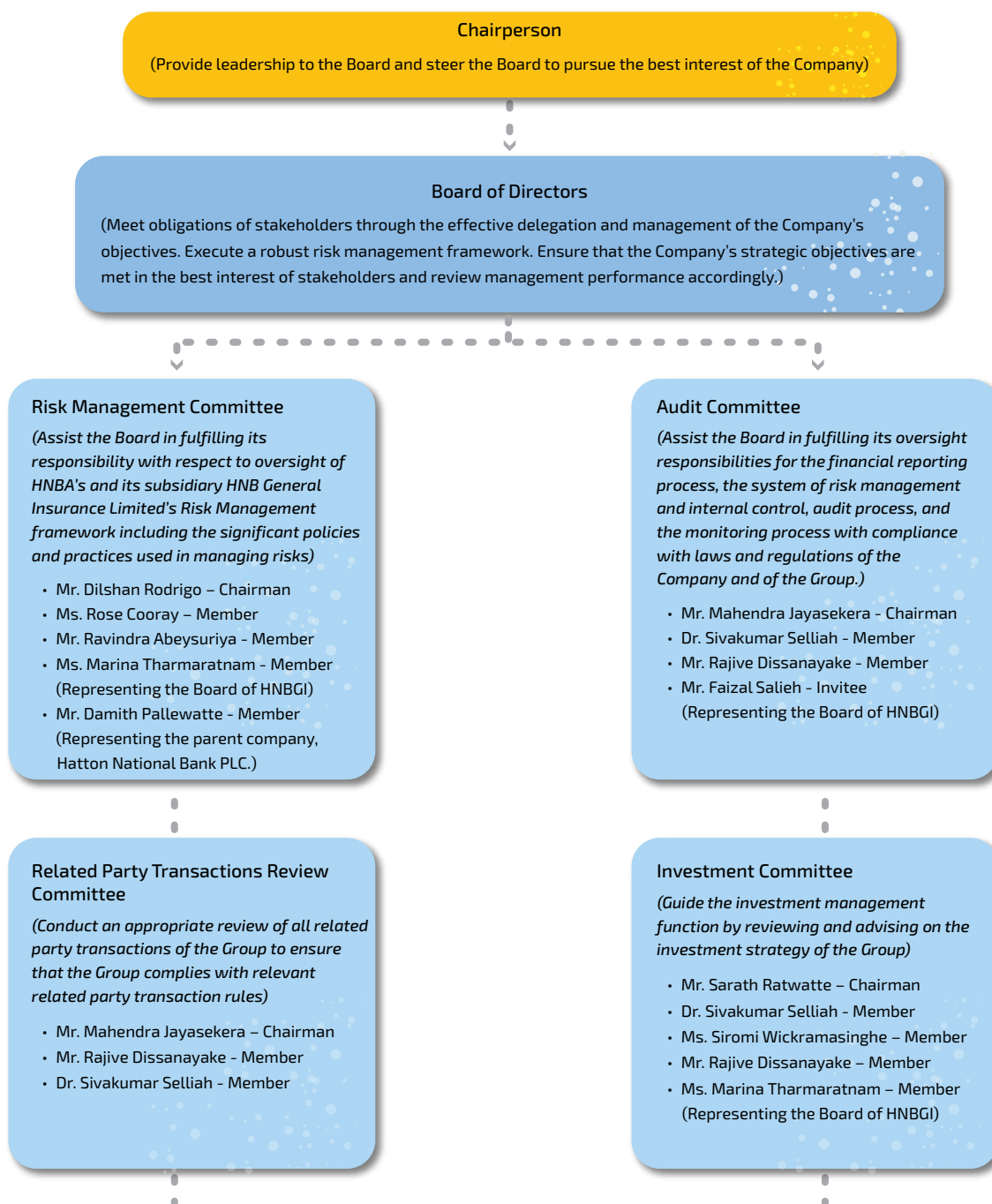
### Corporate Governance Report

HNB Assurance ('the Company') and its subsidiary, HNB General Insurance Limited recognise the importance of employing comprehensive corporate governance practices to effectively balance the many interests of our stakeholders. In complying with the Code of Best Practice on Corporate Governance ('the Code') issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC), as well as Rule No. 7.10 of Listing Rules on Corporate Governance issued by the Colombo Stock Exchange (CSE), we ensure that we maintain a high standard of corporate governance.

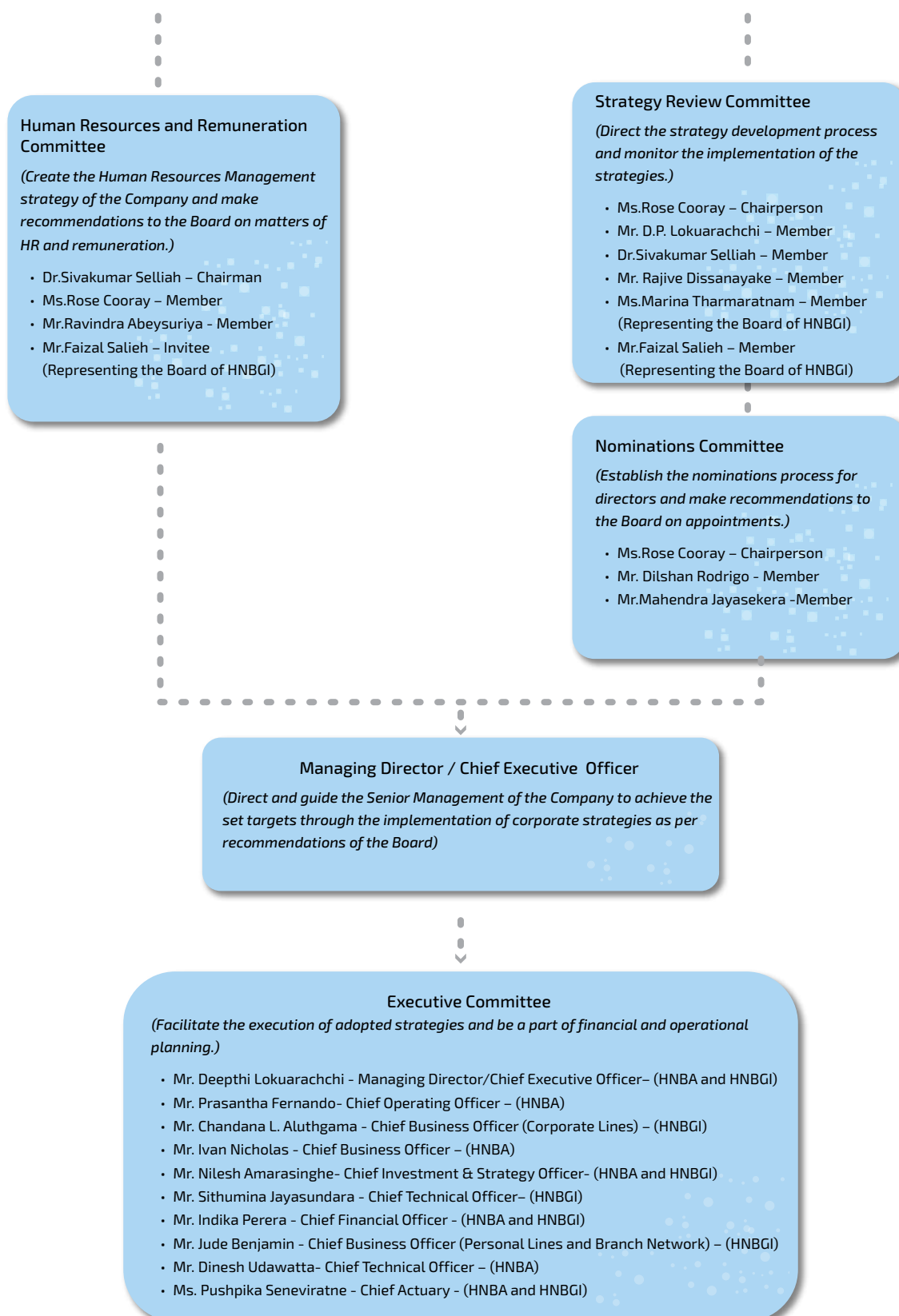
In line with the requirements of the section D.5 of the Code issued by the CA Sri Lanka and SEC, this report discloses governance practices continued, adopted and implemented during the financial year ended 31st December 2017. In disclosing such details we have adhered to the requirement to disclose the extent to which the Company adheres to established principles and practices of good corporate governance. Complying with the requirement to present a corporate governance report in the Annual Report, this report provides comprehensive details about the manner and extent to which the Company has complied with the principles and provisions of the above Code.

We believe that sound corporate governance practices provide an efficient management tool to lay a strong foundation to drive success in a sustainable and an ethical manner. Therefore, going beyond merely adhering to the established governance practices, we have also provided enhanced disclosures relating to the Company's corporate governance policies and practices, in instances where it exceeds the requirements of the Code.

## Governance Framework



## Corporate Governance Contd.



### Statement of Compliance

HNB Assurance PLC is fully compliant with the Code of Best Practice on Corporate Governance issued jointly by CA Sri Lanka and SEC. In addition, the Company is fully compliant with Rule No. 7.10 of the Listing Rules issued by the CSE on Corporate Governance.

Our status of compliance with each section of the Code of Best Practice on Corporate Governance issued jointly by CA Sri Lanka and SEC appears on pages 57 to 93. We have also included a table which summarises the status of compliance with Rule No. 7.10 of the Listing Rules of the CSE, on pages 94 to 96.

## Compliance with Codes of Corporate Governance

### Code of Best Practice on Corporate Governance Issued Jointly by CA Sri Lanka and SEC

First established in 2008 and revised in 2013, the above Code refers to the formulation of good corporate governance practices in Sri Lanka and stipulates seven principal areas that a Company should put emphasis on in order to develop a robust corporate governance structure.

#### Section – I

- |                                |   |                        |
|--------------------------------|---|------------------------|
| A. Directors                   | } | Focuses on the Company |
| B. Directors' Remuneration     |   |                        |
| C. Relations with Shareholders |   |                        |
| D. Accountability and Audit    |   |                        |

#### Section – II

- |                             |   |                             |
|-----------------------------|---|-----------------------------|
| E. Institutional Investors  | } | Focuses on the shareholders |
| F. Other Investors          |   |                             |
| G. Sustainability Reporting |   |                             |

The above Code was revised in December 2017, and the revised code is applicable from 01st January 2018 onwards. Therefore, this Annual Report does not include revised sections of the new Code.

## Corporate Governance Contd.

The Company has complied with all sections of the Code of Best Practice on Corporate Governance Issued Jointly by CA Sri Lanka and SEC and the manner in which the Company has complied with each section of the Code is given below;

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
I	THE COMPANY	
A	DIRECTORS	
A.1	THE BOARD	
	<p><b>Principle: Every public company should be headed by an effective Board</b></p> <p>The Company is headed by an effective Board which is collectively responsible for the long-term success of the Company. The Board, directly and through its Committees and the Chairperson of the Board provides direction to senior management, generally through the Managing Director/Chief Executive Officer, to pursue the best interests of the Company.</p>	Complied
A.1.1	<p><b>The Board should meet regularly. Board meetings should be held at least once in every quarter of a financial year.</b></p> <p><i>Number of meetings</i></p> <p>The Board meets monthly to review the Company's performance and to determine whether its strategies and business practices are in line with the expectations of the Board. Accordingly, 12 Board meetings were held during 2017. In addition, Sub-Committee meetings were held depending on the requirement.</p> <p>The number of Board meetings held during 2017, together with the individual attendance of Board members, is given on page 241.</p> <p><i>Agenda setting process, information and minutes of the meetings</i></p> <p>The Board Secretary draws up the agenda in consultation with the Directors prior to each Board meeting, as delegated by the Chairperson. During the meetings and at regular intervals, all Directors are given, in a timely manner, adequate information which is accurate, clear, complete and reliable. This is in order for them to maintain effective control over the strategic, financial, operational, compliance and corporate governance issues of the Company.</p> <p>The Board Secretary keeps detailed minutes of each meeting, and records all matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed by each Director. The minutes of meetings are sent to all Directors in a timely manner for their comments and record. Similar processes apply to Board Sub-Committee meetings as well. All Board Sub-Committee minutes are tabled at the Board meeting that follows immediately.</p>	Complied



Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.1.2	<p><b>Responsibilities of the Board</b></p> <p>The fundamental role of the Board is to provide entrepreneurial and coherent leadership and direction within a framework of prudent and efficient controls which enables risks to be assessed and managed.</p> <p>The Charter of the Board of Directors sets out the main responsibilities of the Board. A summary of how the Board discharged its duties during the year are given below from page 59 to 62.</p>	Complied
	<p><b>Ensuring the formulation and implementation of a sound business strategy</b></p> <p>The Managing Director(MD)/Chief Executive Officer(CEO), together with the management team, develops corporate strategies, annual budgets, and action plans to implement corporate strategies, on an annual basis, under the direction of the Board. The corporate plan and the annual budget are approved by the Board every year, and the achievement of the objectives set in the plan is closely monitored by the Board.</p> <p>Accordingly, the MD/CEO and the Management presented the Company's Strategy for 2018-2020 to the Board in December 2017. Meanwhile, the implementation of the corporate plan and the budgets presented in previous years were monitored through the Board Strategic Review committee and at each Board meeting.</p>	Complied
	<p><b>Ensuring that the Managing Director/Chief Executive Officer and the Management team possess the skills, experience and knowledge to implement the strategy</b></p> <p>The Board actively works to ensure that the MD/CEO and the Management team continue to have the right balance of skills, experience and knowledge necessary to discharge their responsibilities in accordance with the highest standards of governance.</p> <p>The Board through the Human Resources and Remuneration Committee is involved in the recruitment of the senior management paying due attention to knowledge, skills and experience. The profiles of the members of the Executive Committee (EXCO) are given on pages 42 to 45. Details of the Management team are provided on pages 46 to 49.</p>	Complied
	<p><b>Ensuring the adoption of an effective MD/CEO and key management personnel succession strategy</b></p> <p>Succession plans are in place for the MD/CEO and for all other key managerial positions and are monitored continuously by the HR Division and the Human Resources and Remuneration Committee of the Board.</p>	Complied

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.1.2 (Contd.)	<p><b>Ensuring effective systems to secure the integrity of information, internal controls, business continuity and risk management</b></p> <p>Effective systems and procedures are in place to ensure the integrity of information, internal controls and information security. Such systems are continuously monitored by the Management, Internal and External Auditors, and at times by independent experts.</p> <p>The Company has a Business Continuity Plan (BCP) which is implemented through the BCP team. During the year, a BCP test was carried out in one occasion covering the operations of Head Office building. Results of the BCP test was submitted to the Audit Committee.</p> <p>Effective mechanisms are also in place to identify, assess and manage/mitigate risks faced by the Company. Accordingly, the Board has set up the Audit Committee, Related Party Transactions Review Committee, Investment Committee, Risk Management Committee, Human Resources and Remuneration Committee and the Strategy Review Committee, to ensure that the Company has proper systems and controls. Please refer the Reports by the Board Sub-Committees on pages 215 to 232 for more information on their functions.</p>	Complied
	<p><b>Ensuring compliance with laws, regulations and ethical standards</b></p> <p>The Board of Directors, having identified the importance of compliance requirements, have adopted a Compliance Policy to provide direction on the compliance activities of the Company. A compliance checklist, covering applicable laws and regulations, is signed-off by the Management monthly, and tabled at each Board, Audit Committee and Risk Management Committee meetings.</p> <p>Additionally, the Compliance Officer monitors compliance with applicable laws, rules and regulations. Compliance reports prepared by him are thereby presented to the Board and the Investment Committee, on a regular basis.</p> <p>Upholding the Company's commitment to abide by the rules set out by the regulator, the Company submitted all returns to the Insurance Regulatory Commission of Sri Lanka (IRCSL) within the stipulated time limits. Further, all IRCSL returns were subject to the review of the Risk and Compliance Department and the Audit Committee.</p> <p><i>Submissions and payments to Regulatory Authorities</i></p> <p>The Company has submitted the regulatory returns and payments to the IRCSL, CSE, Central Bank of Sri Lanka (CBSL), Department of Inland Revenue, Registrar General of Companies, National Council for Road Safety, Employees' Trust Fund Board, National Insurance Trust Fund and Commissioner of Motor Traffic, within the stipulated time period.</p> <p>Please refer the table on page 123 to 124 for details of regulatory returns submission and payments of the Company/Group.</p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.1.2 (Contd.)	<p><b>Summary of the Compliance Policy of the Company</b></p> <ul style="list-style-type: none"> <li>• Compliance Policy and Principles <ul style="list-style-type: none"> <li>- Compliance policy</li> <li>- Compliance principles</li> </ul> </li> <li>• Compliance at HNB Assurance <ul style="list-style-type: none"> <li>- Compliance Objective</li> <li>- Duties of the Management towards Compliance</li> <li>- Compliance Function and Responsibility</li> <li>- Scope of the Compliance Function</li> <li>- Independence and Authority of the Compliance Function</li> <li>- Reporting of the Compliance Function</li> </ul> </li> <li>• Compliance Officer</li> <li>• Monitoring of Anti-Money Laundering Controls</li> <li>• Training and Education</li> </ul> <p><i>Compliance with Colombo Stock Exchange (CSE) Listing Requirements</i></p> <p>During the year the Company complied with all Listing Requirements relating to dividend payments, submission of Interim Financial Statements, circulation of Annual Reports, contents of the Annual Report, corporate governance requirements and announcements to the CSE. Further, details on these aspects are given on the following pages of this report.</p> <ul style="list-style-type: none"> <li>- Listing Rules on contents of the annual report applicable for Annual Report 2017 are given in detail from pages 116 to 120</li> <li>- Requirements as per the Companies Act, No. 07 of 2007 on contents of the annual report applicable for Annual Report 2017 are given in detail on page 121</li> <li>- Announcements to the CSE during 2017 are given on pages 122 to 123</li> </ul> <p><b>Ensuring all stakeholder interests are considered in corporate decisions</b></p> <p>The Board ensures that the interests of all stakeholders are considered and safeguarded in making corporate decisions. Further, details in this regard are discussed in the Management Discussion and Analysis on pages 126 to 212.</p>	Complied
		Complied

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.1.2 (Contd.)	<p><b>Recognising sustainable business development in corporate strategy, decisions and activities</b></p> <p>The Board recognises the necessity of sustainable business development in the corporate strategy, decisions and activities. Please refer the Management Discussion and Analysis from pages 126 to 212 for more information on the Company's activities with regard to sustainable business development.</p>	Complied
	<p><b>Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations</b></p> <p>The Company's accounting policies are fully in line with Sri Lanka Accounting Standards (SLFRS/LKAS). Further, the accounting policies are reviewed annually to be in line with the changing business requirements and best practices in the industry.</p> <p>Please refer the Independent Auditor's Report, which affirms that the Company's Financial Statements are in line with Sri Lanka Accounting Standards, given on page 257.</p>	Complied
	<p><b>Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned</b></p> <p>The Board takes all its decisions paying due attention to the interests of all stakeholders and paying due attention to all matters of concern. Accordingly, through the Board meetings and Board sub-committee meetings ensure that all matters of concerns are properly addressed.</p>	Complied
A.1.3	<p><b>The Board collectively, and Directors individually, must act in compliance with laws and access to independent professional advice should be available for the Board at the expense of the Company</b></p> <p><i>Directors' compliance with the laws of the country, as applicable to the business enterprise</i></p> <p>A Code of Conduct and Ethics for Directors has been introduced with the intention of providing guidance on recognizing and handling areas of ethical issues, information on how to report unethical conduct and to help foster a culture of openness and accountability. This Code has identified the importance of compliance with laws and regulations. As per the Code, Directors are expected to carry out their responsibilities in compliance with all laws, rules and regulations applicable to the Company and with the highest standards of business ethics. They are also expected to promote ethical behavior and create a culture of compliance with all applicable laws, rules and regulations. A summary of the code of conduct and ethics for directors is given on page 91.</p> <p><i>Obtain independent professional advice</i></p> <p>The Charter of the Board permits all Directors to seek independent professional advice at any time, at the Company's expense, if considered appropriate and necessary. However, no such advice has been obtained by any Director during the year.</p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.1.4	<p><b>All Directors should have access to the advice and services of the Company Secretary and the role of the Company Secretary</b></p> <p><i>Advices and Services of the Company Secretary</i></p> <p>Mrs. Sitari Jayasundara, an Attorney-at-Law by profession, functions as the Company Secretary and the Secretary to the Board of Directors. Her role is to support the Chairperson, the Board and the Sub-Committees of the Board by ensuring the proper flow of information and that Board policies and procedures are followed.</p> <p>Although the Company Secretary reports to the Chairperson on Board related matters, all Directors may call upon her at any time for advice and assistance in respect of their duties and the effective operation of the Board and Board Sub-Committees. The Board Secretary also plays a critical role in maintaining the relationship between the Company and its shareholders and regulators, including assisting the Board in discharging its obligations to shareholders.</p> <p>The role of the Company Secretary is in line with Schedule 'F' of the Corporate Governance Code issued by the CA Sri Lanka and SEC, which includes her duties relating to Board meetings, general meetings, compliance with Memorandum and Articles of Association, coordinating the circulation of Financial Statements, preparing the Directors' Report for the Annual Report, maintaining registers, filing information and returns with the Registrar of Companies, reviewing the Company's corporate governance policies and practices in line with applicable rules, ensuring compliance and managing relations with the CSE, etc.</p>	Complied
A.1.5	<p><b>All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct</b></p> <p><i>Independent Judgment of Directors</i></p> <p>All Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.</p> <p>The Board is conscious of its obligation to ensure that the Directors avoid conflicts between their duty towards the Company and towards their other interests. All Directors are expected to make decisions objectively, avoiding conflicts of interest and in the best interests of the Company.</p> <p>Members of the Board are therefore required to disclose all transactions with the Company, including those of their close family members, as obligatory under the Sri Lanka Accounting Standards 24 – Related Party Disclosures and the Companies Act, No. 07 of 2007. This has been fully complied with and adequately disclosed in this Annual Report. Please refer pages 346 to 350 and 248 for information on Related Party Disclosures and Directors' Interests in Contracts, respectively. The Board has established a Related Party Transactions Review Committee to review all related party transactions.</p>	Complied

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status																																																						
A.1.6	<p><b>Dedicating adequate time and effort by the Directors</b></p> <p>Directors ensure that they are able to render sufficient time and attention to the affairs of the Company. The number of Board seats held by Directors, in companies other than HNBA, is given in the table below.</p> <table><tr><th rowspan="2">Name of the Director</th><th colspan="4">Number of Board Seats held other than in HNBA</th></tr><tr><th>Listed</th><th>Non-Listed</th><th>Executive</th><th>Non-Executive</th></tr><tr><td>M A R C Cooray</td><td>04</td><td>03</td><td>-</td><td>07</td></tr><tr><td>D P Lokuarachchi</td><td>-</td><td>01</td><td>01</td><td>-</td></tr><tr><td>S C Ratwatte</td><td>01</td><td>-</td><td>-</td><td>01</td></tr><tr><td>J A P M Jayasekera</td><td>04</td><td>06</td><td>06</td><td>04</td></tr><tr><td>D P N Rodrigo</td><td>-</td><td>03</td><td>-</td><td>03</td></tr><tr><td>S N Wickramasinghe</td><td>01</td><td>-</td><td>-</td><td>01</td></tr><tr><td>Dr. S Selliah</td><td>10</td><td>10</td><td>-</td><td>20</td></tr><tr><td>A G R Dissanayake</td><td>01</td><td>04</td><td>-</td><td>05</td></tr><tr><td>D R Abeyesuriya</td><td>-</td><td>04</td><td>-</td><td>04</td></tr></table>	Name of the Director	Number of Board Seats held other than in HNBA				Listed	Non-Listed	Executive	Non-Executive	M A R C Cooray	04	03	-	07	D P Lokuarachchi	-	01	01	-	S C Ratwatte	01	-	-	01	J A P M Jayasekera	04	06	06	04	D P N Rodrigo	-	03	-	03	S N Wickramasinghe	01	-	-	01	Dr. S Selliah	10	10	-	20	A G R Dissanayake	01	04	-	05	D R Abeyesuriya	-	04	-	04	Complied
Name of the Director	Number of Board Seats held other than in HNBA																																																							
	Listed	Non-Listed	Executive	Non-Executive																																																				
M A R C Cooray	04	03	-	07																																																				
D P Lokuarachchi	-	01	01	-																																																				
S C Ratwatte	01	-	-	01																																																				
J A P M Jayasekera	04	06	06	04																																																				
D P N Rodrigo	-	03	-	03																																																				
S N Wickramasinghe	01	-	-	01																																																				
Dr. S Selliah	10	10	-	20																																																				
A G R Dissanayake	01	04	-	05																																																				
D R Abeyesuriya	-	04	-	04																																																				
A.1.7	<p><b>Training for New and Existing Directors</b></p> <p>The Board acknowledges the need for continuous development and expansion of knowledge and skills of new and existing Directors. Accordingly, new Directors are inducted to the Board by providing them with a comprehensive understanding of their duties and responsibilities.</p> <p>Moreover, adequate knowledge sharing opportunities are provided to both new and existing Directors on a continuous basis, at the Company's cost, with respect to matters on the general aspects of directorship as well as matters specific to the industry and the Company. The Directors are also constantly updated on the latest trends and issues facing the Company and the insurance industry.</p>	Complied																																																						
A.2	<p><b>CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)</b></p> <p><b>Principle: Division of responsibilities at the head of the Company</b></p> <p>The posts of Chairperson and MD/CEO were held separately by Mrs. Rose Cooray and, Mr. Deepthi Lokuarachchi respectively.</p> <p>This segregation ensures a clear distinction between the Chairperson's responsibility to manage the Board and the MD/CEO's responsibility to manage the Company's business, and thereby ensures the balance of power and authority.</p>	Complied																																																						
A.2.1	<p><b>Disclosure required if the positions of the Chairman and the MD/CEO are combined</b></p> <p>The position of the Chairperson and the MD/CEO are separated.</p>	Not Applicable																																																						



Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.3	<b>CHAIRPERSON'S ROLE</b>	
	<p>Principle: The Chairperson should preserve order and facilitate the effective discharge of Board functions.</p> <p>The Chairperson is responsible for leading the Board and ensuring that it operates under the highest standards of governance. The Chairperson is charged with encouraging the effective participation of all Directors in the decision making processes and thereby ensuring the effective performance of the Board.</p>	Complied
A.3.1	<p><b>Role of the Chairperson</b></p> <p>The Non-Executive Chairperson is responsible for chairing and managing the operations of the Board, as well as for monitoring the performance of the MD/CEO and the Company. The Chairperson provides leadership to the Board and ensures that the opinions of all Directors are appropriately considered in decision making. She fulfills this function by facilitating and encouraging all Directors, particularly the Independent Non-Executive Directors and Non-Executive Directors, to voice their views and concerns openly. She also ensures the formation of constructive relations between MD/CEO and Non-Executive Directors so that the decisions made by the Board fairly reflect a consensus. A summary of the responsibilities of the Chairperson is given below:</p> <ul style="list-style-type: none"> <li>• Chairing the Board and shareholder meetings</li> <li>• Ensuring that the operations of the Board are managed effectively</li> <li>• Ensuring that all key and relevant issues are discussed by the Board in a timely and constructive manner</li> <li>• Taking appropriate steps to provide effective communication with shareholders and to ensure that shareholders' views are communicated to the Board as a whole</li> <li>• Ensuring that good corporate governance practices are followed</li> </ul> <p><b>Enhanced Disclosure</b></p> <p><b>Role of the Managing Director/Chief Executive Officer</b></p> <p>The MD/CEO is responsible to the Board for managing the business of the Company. He is responsible for the effective implementation of the strategies and policies agreed by the Board, and for leading the Management to fulfill the objectives set by the Board. The Board has given broad authority to the MD/CEO, and he is accountable to, and reports to, the Board on the performance of the business. A summary of the responsibilities of the MD/CEO is given below;</p>	Complied

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.3.1 (Contd.)	<ul style="list-style-type: none"> <li>Developing, recommending and implementing the Company's policies and strategies to reflect the long-term objectives and priorities approved by the Board</li> <li>Assuming full accountability to the Board on all aspects of the Company's operations and performance</li> <li>Maintaining a continuous dialogue with the Chairperson and other Directors</li> <li>Representing the Company and managing the Company's day-to-day business</li> <li>Monitoring operational and financial results closely, in accordance with plans and budgets</li> <li>Establishing adequate operational, planning and financial control systems</li> </ul> <p>The MD/CEO, supported by the Executive Committee, provides the Board with high quality information and recommendations to help yield informed decisions on all areas regarding the strategies of the Company.</p>	Complied
A.4	<p><b>FINANCIAL ACUMEN</b></p> <p><b>Principle: Availability of sufficient financial acumen and knowledge to offer guidance on matters of finance</b></p> <p>The Board is made up of knowledgeable and experienced individuals who can provide guidance on matters of finance. All Directors possess qualifications and/or experience in accounting and finance.</p> <p>Members of our Board and their qualifications/experience in finance are as given below:</p> <p><b>M A R C Cooray - Chairperson and Non-Executive Director</b> <i>B.A. (Hons) (University of Ceylon, Peradeniya), MSc. (Strathclyde University U.K) -(Former Deputy Governor with experience over 35 years in the Central Bank of Sri Lanka and nearly 6 years of experience in the Ministry of Finance)</i></p> <p><b>S C Ratwatte - Non-Executive Director</b> <i>FCMA (UK), CGMA (Chartered Global Management Accountant and experienced treasurer)</i></p> <p><b>J A P M Jayasekera - Independent Non-Executive Director</b> <i>FCA, BSc Special Hons - (University of Sri Jayawardenapura) (Chartered Accountant with over 20 years of experience in accounting, capital markets and general management).</i></p> <p><b>D P N Rodrigo – Non-Executive Director</b> <i>MBA (Cranfield University, UK) FCMA (UK), CGMA, FCCA (UK) (Senior banker with extensive experience in the banking sector)</i></p> <p><b>S N Wickramasinghe - Non-Executive Director</b> <i>Attorney-at-Law (Banker with over 34 years of multifunctional and progressive experience in the Sri Lankan banking sector)</i></p> <p><b>Dr. S Selliah - Independent Non-Executive Director</b> <i>MBBS, M.Phil (Over 24 years of experience as an investor in the CSE and a company Director)</i></p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.4 (Contd.)	<p><b>D P Lokuarachchi – Executive Director LLB (Colombo), ACII (UK), Attorney at Law, Chartered Insurance Risk Manager</b> (Over 20 years' experience in the insurance industry and in the fields of general management, distribution, compliance and risk management)</p> <p><b>A G R Dissanayake – Non-Executive Director BBA(University of Colombo), FCMA(UK), CGMA, CFA</b> (Over 15 years' experience in Banking and Capital Market).</p> <p><b>D R Abeyesuriya – Independent Non-Executive Director FCMA(UK), CFA, MBA (Monash University Australia).</b> (Extensive experience in capital market, fund management and general management).</p> <p>Further details on the Directors are given in their profiles on pages 38 to 41.</p>	Complied
A.5	<p><b>BOARD BALANCE</b></p> <p><b>Principle: The Board should have a balance of Executive and Non-Executive Directors</b></p> <p>The Board comprises eight Non-Executive Directors and one Executive Director who functions as the Managing Director/CEO. Names of the Directors of each Category are given on page 241.</p>	Complied
A.5.1	<p><b>The Board should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of the total number of Directors, whichever is higher.</b></p> <p><i>Presence of Non-Executive Directors</i></p> <p>As at the date of this Annual Report, the Board comprised nine Directors, eight of whom are Non-Executive. As per the Code two or one third of the total number of Directors, whichever is higher, should be Non-Executive.</p> <p><i>Role of the Non-Executive Directors</i></p> <p>The Non-Executive Directors scrutinize the management's performance in achieving agreed corporate goals and objectives and monitor the reporting of the Company's performance. They also assure clarity and accuracy on the reporting of financial information and ensure that controls and systems of risk management are effectively in place. They constructively challenge the Management in all areas, which is vital for upholding objectivity.</p>	Complied

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.5.2	<p>Two or one-third of Non-Executive Directors appointed to the Board, should be 'Independent Non-Executive Directors'</p> <p><i>Presence of Independent Directors</i></p> <p>One-third of Non-Executive Directors of the Company are independent Mr. J A P M Jayasekera, Dr. S Selliah, and Mr. D R Abeyesuriya (Appointed w.e.f 1st January 2018) are Independent Non-Executive Directors. Mr. K Balasundaram who resigned from the Board in December 2017 was an Independent Non-Executive Director. Further Mr. Sarath Ratwatte was an Independent Non-Executive Director until 30th January 2018. As per the Code two or one third of Non-Executive Directors appointed to the Board, whichever is higher, should be 'Independent'. Therefore, the number of Independent Non-Executive Directors is in compliance with the requirement of the Code. In addition to their expertise and fresh perspectives, Independent Directors also bring independent judgment to the Board, and take an unbiased stance in situations where conflicts of interest may arise.</p>	Complied
A.5.3	<p>For a Director to be deemed 'Independent', such Director should be independent of the management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment</p> <p>All three Independent Non-Executive Directors meet the criteria for independence as per the Code of Best Practice on Corporate Governance (Code) and Listing Rules and are deemed to be independent of management and free of business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment. Four Non-Executive Directors are not considered 'Independent' since they are nominee Directors of the parent Company, 'Hatton National Bank PLC'. Mr. Sarath Ratwatte became Non-Independent on 30th January 2018 as a result of completing nine years of service as an Independent Director.</p>	Complied
A.5.4	<p>A declaration should be signed by each Non-Executive Director annually, stating Independence or Non-Independence against Specified criteria.</p> <p>Non-Executive Directors have submitted a declaration of Independence or Non-Independence as per the Code. Relevant declarations were tabled at the Board Meeting held on 09th February 2018.</p>	Complied
A.5.5	<p>The Board should make a determination on the independence or non-independence of the Directors based on the above declaration and other information available to the Board.</p> <p>The Board, on page 241 of this Annual Report, has determined the Independence or Non-Independence of each Director. This was declared at the Board meeting held on 09th February 2018.</p>	Complied
A.5.6	<p>If an alternate Director is appointed by a Non-Executive Director such alternate director should not be an Executive of the Company</p> <p>The Company does not have any Alternate Directors</p>	Not Applicable

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.5.7	<p>When the Chairman and the MD/CEO is the same, the Board should appoint an Independent Non-Executive Director to be the Senior Independent Director and disclose this appointment in the Annual Report.</p> <p>The roles of the Chairperson and the MD/CEO of the Company are separated.</p>	Not Applicable
A.5.8	<p>The Senior Independent Director should make himself available for confidential discussions with other Directors</p> <p>Since the roles of the Chairperson and the MD/CEO of the Company are separated, this requirement does not arise.</p>	Not Applicable
A.5.9	<p>The Chairperson should hold meetings with Non-Executive Directors, without the presence of the Executive Directors, at least once a year.</p> <p>The Board meets at least once a year, without the presence of MD/CEO. One of the main areas of focus at this meeting is the performance of MD/CEO and his remuneration package. Any other such meeting would be held as and when the need arises.</p>	Complied
A.5.10	<p>When Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should be recorded in the Board Minutes.</p> <p>During the year under review all decisions of the Board were taken unanimously and there were no concerns raised by the Directors which needed to be recorded in the Board minutes. However, if such concerns do arise, the Company's policy is to record them accordingly.</p>	Complied
A.6	<b>SUPPLY OF INFORMATION</b>	
A.6.1	<p>Principle: The Board should be provided with timely information, in a form and of a quality appropriate to enable it to discharge its duties</p> <p>The Management has an obligation to provide the Board with appropriate and timely information</p> <p>The Board receives a comprehensive set of Board papers seven days prior to each meeting, granting each member ample time to review the affairs scheduled to be discussed. The Board Secretary is responsible for crafting the agenda in consultation with the Board in advance. During each Board meeting, the Senior Management presents adequate information with regard to new developments, proposed strategies, financial operations, investment proposals, compliance and brand positioning and other corporate governance issues pertaining to the Company to ensure clear and robust communication of information. Thus, each Board meeting leads to a thorough analysis of information, in depth discussions and effective decision making.</p>	Complied



## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.6.2	<p>The minutes, agenda and papers required for Board Meetings should be provided at least seven days before the meeting</p> <p>The Board Secretary keeps detailed minutes of each meeting, and records all matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed by each Director. The minutes of meetings are sent to all Directors in a timely manner for their comments and record. Similar processes apply to Board Sub-Committee meetings as well. All Board Sub-Committee minutes are tabled at the Board meeting that follows immediately.</p> <p>In addition, the Board requests additional information with respect to areas such as the Company's operations, industry and competitors, risk management, laws and regulations and corporate governance, as the need arises. The Management provides any such information in a timely manner.</p>	Complied
A.7	<p><b>APPOINTMENTS TO THE BOARD</b></p> <p>Principle: There should be a formal and transparent procedure for the appointment of new Directors to the Board</p> <p>All new appointments to the Board are made following a formal and transparent procedure through the Nomination Committee.</p> <p>Details and the process of new appointments are given in the Nomination Committee report on Pages 226 to 227.</p>	Complied
A.7.1	<p>A Nomination Committee should be established to make recommendations to the Board on all new Board appointments.</p> <p>HNB Assurance follows a transparent and a formal procedure with regard to Board appointments as recommended in the Code of Corporate Governance. The Nomination Committee which elects Directors to the Board comprises of three Directors including the Chairperson. During the year Four (4) Nomination Committee meetings were held. The composition, responsibilities and other information of the Nomination Committee are disclosed on pages 226 to 227.</p>	Complied
A.7.2	<p>An annual assessment of the Board composition should be conducted by the Nomination Committee</p> <p>The composition of the Board is subject to continuous review by the Nomination Committee, especially with regard to changes in the environment and regulations. The Committee makes recommendations for new appointments where necessary.</p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.7.3	<p>The Company should disclose information to the shareholders upon the new appointment of Directors</p> <p>All appointments of new Directors are informed to the shareholders and the public, with sufficient details, via notification to the CSE and through newspapers. Accordingly, appointments of Mr. Deepthi Lokuarachchi, Mr. Rajive Dissanayake and Mr. Ravindra Abeysuriya were notified to the CSE and was published in the newspapers.</p> <p>In addition, according to the terms of the Regulation of Insurance Industry Act, prior approval from the Insurance Regulatory Commission of Sri Lanka (IRCSL) is obtained for all new appointments.</p> <p>The Annual Report of the Board of Directors also carries details of new appointments of Directors. Please refer page 242 for details of new appointments.</p>	Complied
A.8	<b>RE-ELECTION</b>	
A.8.1	<p>Principle: All Directors should be required to submit intervals and at least once every three years</p> <p>Non-Executive Directors should be appointed for specified terms subject to re-election.</p> <p>According to Section 92 of the Articles of Association of the Company, the Board possesses the power to appoint any person, at any time, as a Director, either to fill a casual vacancy or as an additional member of the Board, subject to applicable regulations and approval of regulatory authorities. Any Director so appointed shall hold office until the next Annual General Meeting, where he/she is then eligible for re-election</p>	Complied
A.8.2	<p>All Directors including Chairperson should be subject to election by shareholders at the first opportunity after the appointment and to re-election at intervals of no more than three years</p> <p>Mr. S C Rathwatte was re-elected by the shareholders at the Annual General Meeting held on the 29th March 2017.</p> <p>Further, according to Section 86 of the Articles of Association of the Company, Directors other than the Chairperson, the Managing Director/CEO and Nominee Directors have to retire by rotation at least once every three years. Accordingly, Dr. S. Selliah is due to retire by rotation and be re-elected at the Annual General Meeting to be held on 27th March 2018.</p>	Complied
A.9	<b>APPRAISAL OF BOARD PERFORMANCE</b>	
A.9.1	<p>Principle: The Board should annually appraise its own performance in the discharge of key responsibilities.</p> <p>The Board appraised itself on its performance in the discharge of its key responsibilities. The results of the appraisal were tabled at the Board meeting held on 9th February 2018.</p>	Complied

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.9.2	<p>The Board should undertake an annual self-evaluation of its own performance and that of its committees</p> <p><i>Annual Self-Evaluation of the Board</i></p> <p>During the year, the Board conducted a self-evaluation of its performance, using a checklist which covered a range of areas including, but not limited to, the composition of the Board, skills and experience of the members, adequacy and the role of Board Sub-Committees, proceedings of meetings and the quality of reports and materials submitted. Each Director filled the checklist and submitted to the Board Secretary, who in turn compiled and tabled a summary with the Board for discussion. The objective of this evaluation was to improve the performance of the Board and to support the achievement of the Company's objectives.</p> <p><i>Evaluation of the Audit Committee and the Risk Management Committee</i></p> <p>The Audit Committee and the Risk Management Committee also carried out self-assessments to ensure they function effectively and efficiently and discharge their responsibilities as outlined in their Charters.</p>	Complied
A.9.3	<p>The Board should state in the Annual Report how such performance evaluations have been conducted</p> <p>Please refer A.9.2 above for details on the process followed with regard to the evaluation of the Board and its committees.</p>	Complied
A.10	<p><b>DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS</b></p> <p>Principle: Shareholders should be kept advised of relevant details in respect of Directors</p>	

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status																						
A.10.1	<p>Annual Report should contain details of all Directors</p> <p>Required information with respect to all Directors is disclosed in this Annual Report, where relevant. Disclosure requirements and the relevant page numbers are given below.</p> <table><thead><tr><th>Disclosure Requirement</th><th>Page Nos.</th></tr></thead><tbody><tr><td>Name, qualifications and brief profile</td><td>38 to 41</td></tr><tr><td>The nature of his/her expertise in relevant functional areas</td><td>38 to 41</td></tr><tr><td>Immediate family and/or material business relationships with other Directors of the Company</td><td>248, 346 to 350</td></tr><tr><td>Executive, Non-Executive and/or Independent Director</td><td>241</td></tr><tr><td>Names of listed companies in Sri Lanka in which the Director concerned serves as a Director</td><td>38 to 41</td></tr><tr><td>Names of other companies in which the Director concerned serves as a Director</td><td>38 to 41</td></tr><tr><td>Number/percentage of Board meetings of the Company attended during the year</td><td>241</td></tr><tr><td>The total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an Executive or Non-Executive capacity</td><td>64</td></tr><tr><td>Names of Board committees in which the Director serves as Chairman or a member</td><td>215 to 232</td></tr><tr><td>Number/percentage of committee meetings attended during the year</td><td>215 to 232</td></tr></tbody></table>	Disclosure Requirement	Page Nos.	Name, qualifications and brief profile	38 to 41	The nature of his/her expertise in relevant functional areas	38 to 41	Immediate family and/or material business relationships with other Directors of the Company	248, 346 to 350	Executive, Non-Executive and/or Independent Director	241	Names of listed companies in Sri Lanka in which the Director concerned serves as a Director	38 to 41	Names of other companies in which the Director concerned serves as a Director	38 to 41	Number/percentage of Board meetings of the Company attended during the year	241	The total number of Board seats held by each Director indicating listed and unlisted Companies and whether in an Executive or Non-Executive capacity	64	Names of Board committees in which the Director serves as Chairman or a member	215 to 232	Number/percentage of committee meetings attended during the year	215 to 232	Complied
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A.11	APPRAISAL OF MANAGING DIRECTOR(MD)/CHIEF EXECUTIVE OFFICER (CEO)																							
A.11.1	<p>Principle: The Board should be required, at least annually, to assess the performance of the MD/CEO.</p> <p>The Board should set, with consultation of the MD/CEO, the financial and non-financial targets to be achieved by the MD/CEO during the year, in line with short, medium and long-term objectives of the Company.</p> <p>The Board, in consultation with the MD/CEO, sets reasonable financial and non-financial targets in line with the short, medium and long-term objectives of the Company, which are to be achieved by the MD/CEO every year.</p> <p>These corporate objectives are included in the corporate plan for the year, which is in turn, reviewed and approved by the Board. The main focus areas of the corporate plan of 2017 were;</p> <div><div>• Market Share</div><div>• Underwriting Results</div><div>• Profitability</div><div>• Premium Persistency</div><div>• Dividend Payout</div><div>• Remuneration of Employees</div><div>• Gross Written Premium for Life and General Insurance</div></div> <p>The Board monitors the progress in the achievement of the set targets throughout the year and provides appropriate counsel when necessary.</p>	Complied																						

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
A.11.2	<p>The performance of the MD/CEO should be evaluated by the Board at the end of each year</p> <p>The Board evaluates the MD/CEO's performance through monitoring the achievement levels of set objectives during the year. Remuneration for the MD/CEO is determined based on the achievement of these set targets.</p>	Complied
<b>B</b>	<b>DIRECTORS' REMUNERATION</b>	
<b>B.1</b>	<b>REMUNERATION PROCEDURE</b>	
B.1.1	<p>Principle: Companies should establish a formal and transparent procedure for developing policies on remuneration. No Director should be involved in deciding his/her own remuneration.</p> <p>Board should set up a Remuneration Committee to make recommendations to the Board.</p> <p>HNB Assurance maintains a formal and a transparent mechanism with regard to developing remuneration policies in accordance with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.</p> <p>Responsibilities of the Human Resources and Remuneration Committee during 2017 and up to the date of this report and a summary of the work undertaken on behalf of the Board, is given on pages 221 to 223.</p>	Complied
B.1.2	<p>Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.</p> <p>The Remuneration Committee consists of Non-Executive Directors and the Chairman is an Independent Non-Executive Director. Members of the Committee are given below.</p> <ul style="list-style-type: none"> <li>• Dr. Sivakumar Selliah (Chairman) - Independent Non-Executive Director</li> <li>• M A R C Cooray (Member) - Non-Executive Director</li> <li>• Ravindra Abeyesuriya - Independent Non-Executive Director</li> </ul>	Complied
B.1.3	<p>Members of the Remuneration committee should be listed in the Annual Report</p> <p>Please refer the Report of the Human Resources and Remuneration Committee on pages 221 to 223</p>	Complied
B.1.4	<p>Determination of Remuneration of Non-Executive Directors</p> <p>Non-Executive Directors who are employees of the parent company are paid a nominal fee for their attendance at the Board and Sub-Committee meetings. Other Non-Executive Directors are remunerated in line with market practices, based on attendance at Board and Sub-Committee meetings</p>	Complied



Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
B.1.5	<p>The Remuneration Committee should consult the Chairperson and/or MD/CEO about its proposals relating to the remuneration of other Executive Directors and have access to professional advice from within and outside the Company, in discharging their responsibilities</p> <p>The Chairperson of the Board is also a member of the Human Resources and Remuneration Committee. The MD/CEO attend meeting by invitation. The Charter of the Human Resources and Remuneration Committee has set out provisions to obtain professional advice from within and outside the Company.</p>	Complied
B.2	<b>THE LEVEL AND MAKE UP OF REMUNERATION</b>	
	<p>Principle: The levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of the Executive Directors' remuneration should be structured to link with corporate and individual performance.</p>	
B.2.1	<p>The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors</p> <p>The Company has appointed the CEO as Managing Director during the year and the Remuneration Committee and the Board ensures that the MD/CEO is provided with an appropriate remuneration package.</p>	Complied
B.2.2	<p><b>Comparison of remuneration with other companies</b></p> <p>The Human Resources and Remuneration Committee compares the remuneration levels of the Company with such packages of comparable companies in the industry and is sensitive to changes in the remuneration levels. It reviews reports of salary surveys periodically to get an indication of comparable industry standards.</p>	Complied
B.2.3	<p><b>Comparison of remuneration with other companies in the Group</b></p> <p>The Human Resources and Remuneration Committee considers remuneration levels of the Group when deciding HNBA's remuneration packages.</p>	Complied
B.2.4	<p><b>Performance related elements of the remuneration of Executive Directors should be aligned with the interests of the Company and main stakeholders.</b></p> <p>The performance-related elements of the remuneration package of the MD/CEO and other executive employees are linked to corporate and individual performance.</p>	Complied
B.2.5	<p><b>Executive share options should not be offered at a discount</b></p> <p>The Company does not have any share option scheme for the Directors or employees at present.</p>	Not Applicable

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
B.2.6	<p><b>Designing performance-based remuneration of Executive Directors / CEO</b></p> <p>Objectives for the MD/CEO are set at the beginning of the year to align his interests with those of the Company. Accordingly, his remuneration, including the performance bonus, is decided based on the degree of achievement of such pre-set targets.</p> <p>The Company does not have any long-term incentive schemes, including share option schemes. Performance-related remuneration schemes are not applied retrospectively. Non-Executive Directors are not eligible for performance-based remuneration schemes.</p>	Complied
B.2.7 & B.2.8	<p><b>Compensation commitments on early termination</b></p> <p>Termination of the MD/CEO is governed by his contract of service/employment</p>	Complied
B.2.9	<p><b>Remuneration of Non-Executive Directors should reflect the time, commitment and responsibilities of their role, in line with market practices</b></p> <p>Non-Executive Directors are paid only on their attendance at meetings. Non-Executive Directors who are nominees of the parent company and are employed at parent company are paid a nominal fee for their services. Other Non-Executive Directors are remunerated in line with market practices</p>	Complied
B.3	<b>DISCLOSURE OF REMUNERATION</b>	
B.3.1	<p><b>Principle: The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole</b></p> <p><b>Remuneration Policy and details of remuneration of the Board should be stated in the Annual Report</b></p> <p>The aggregate remuneration paid to the MD/CEO and Non-Executive Directors is disclosed on page 346 of this Report. The Report of the Human Resources and Remuneration Committee, which highlights the Remuneration Policy of the Company, is given on pages 221 to 223.</p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status										
C	RELATIONS WITH SHAREHOLDERS											
C.1	CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS											
	<p>Principle: The Board should use the AGM to communicate with shareholders and should encourage their participation</p> <p>The AGM is the most awaited meeting of the Company's shareholders, since it provides an opportunity for direct communication between themselves and the Board of Directors. The Company uses the AGM as a tool to effectively communicate with shareholders and to allow them a reasonable opportunity to ask questions from the Board of Directors. Notice of the AGM is circulated to all shareholders 15 working days ahead, in accordance with the requirements of the Companies Act.</p> <p>All members of the Board and the senior management make an effort to attend the AGM and answer questions and concerns raised by the shareholders. A representative (usually the engagement partner) of the External Auditors also attends the AGM and takes questions from shareholders relating to their audit of the Company's Financial Statements, if required. The most recent shareholders' meeting was the 15th Annual General Meeting (AGM) of the Company held on 29th March 2017, at the Auditorium on Level 22 of "HNB Towers", at No: 479, T.B. Jayah Mawatha, Colombo 10.</p>	Complied										
C.1.1	<p>Companies should count all Proxy Votes</p> <p>The Company has a mechanism in place, to count all proxy votes and to indicate to the Chairperson the level of proxies lodged on each resolution and the number of votes for and against such resolutions.</p>	Complied										
C.1.2	<p>Separate resolutions for substantially separate issues and adoption of annual report and accounts</p> <p>Each substantially separate issue is proposed as a separate resolution. The adoption of the Annual Report of the Board of Directors, along with the Financial Statements, is also proposed as a separate resolution. The main items discussed, and the percentages of votes cast in favor of the resolutions relating to those items at the 15th Annual General Meeting (AGM) of the Company are set out below:</p> <table><tr><th>Resolution</th><th>Percentage of Votes</th></tr><tr><td>Declaration of a dividend of Rs. 5.00 per share</td><td>100%</td></tr><tr><td>Re-election of Mr. S C Ratwatte as a Director of the Company</td><td>100%</td></tr><tr><td>Re-appointment of Messrs. Ernst &amp; Young, Chartered Accountants, the Auditors for the ensuing year/ authorise the Directors to fix their remuneration.</td><td>100%</td></tr><tr><td>Authorise the Directors to determine payments for charitable and other purposes</td><td>100%</td></tr></table>	Resolution	Percentage of Votes	Declaration of a dividend of Rs. 5.00 per share	100%	Re-election of Mr. S C Ratwatte as a Director of the Company	100%	Re-appointment of Messrs. Ernst & Young, Chartered Accountants, the Auditors for the ensuing year/ authorise the Directors to fix their remuneration.	100%	Authorise the Directors to determine payments for charitable and other purposes	100%	Complied
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Authorise the Directors to determine payments for charitable and other purposes	100%											

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
C.1.3	<p><b>Availability of Chairmen of Board committees at the AGM</b></p> <p>All members of the Board including chairmen of sub committees and the Senior Management make an effort to attend the AGM and answer questions and concerns raised by the shareholders. A representative (usually the engagement partner) of the External Auditors also attends the AGM and takes questions from shareholders relating to their audit of the Company's Financial Statements, if required.</p>	Complied
C.1.4	<p><b>Adequate notice of the AGM</b></p> <p>The Annual Report, together with the Notice of Meeting and related documents and other resolutions, if any, is circulated to the shareholders at least 15 working days prior to the date of the AGM.</p>	Complied
C.1.5	<p><b>Summary of procedures governing voting at the General Meeting</b></p> <p>The Annual Report of 2016 was submitted to the CSE on 06th March 2017 and was posted to all shareholders by 07th March 2017. The AGM was held on 29th March 2017.</p> <p>Please refer page 392 for the Notice of Meeting of the 16th AGM to be held on 27th March 2018.</p> <p>The proxy form given on pages 395 to 396, which includes a summary of the procedures governing voting at the General Meetings, is circulated to all shareholders.</p>	Complied
<b>C.2</b>	<b>COMMUNICATION WITH SHAREHOLDERS</b>	
	<p><b>Principle: The Board should implement effective communication with shareholders.</b></p>	
C.2.1	<p><b>A channel to reach all shareholders of the Company in order to disseminate timely information</b></p> <p>All financial information released to the shareholders and the public is authorized by the Managing Director/Chief Executive Officer and/or Chief Financial Officer. All price sensitive information is first communicated to the CSE by the Company Secretary and then to the public through mass media. Any other information released to the public is approved by the MD/CEO and/or Chief Operating Officer and is communicated through the Head of Marketing.</p>	Complied
C.2.2	<p><b>Disclose the policy and methodology for communication with shareholders.</b></p> <p>The Company has adopted a 'Shareholders' Communication Policy' with the purpose of ensuring that the Company's shareholders and the investment community at large are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company.</p> <p>The Company uses numerous channels to keep its shareholders informed of the performance and operations of the Company.</p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
C.2.2 (Contd.)	<p><b>Summary of the Communication Policy of the Company</b></p> <ul style="list-style-type: none"> <li>• Purpose</li> <li>• General Policy</li> <li>• Reports to Shareholders <ul style="list-style-type: none"> <li>- Annual Report</li> <li>- Quarterly Reports / Interim Financial Statements</li> <li>- Sustainability Reporting</li> </ul> </li> <li>• Corporate Website</li> <li>• Annual General Meetings</li> <li>• Shareholders' Enquiries and Feedback</li> <li>• Responding to Shareholders' Enquiries and Feedback</li> <li>• Submission of Information to the Colombo Stock Exchange</li> <li>• Investment Market Communications</li> <li>• Media Releases</li> </ul>	Complied
C.2.3	<p>Disclose how the Company has implemented the above policy and methodology</p> <p><b>Reports to Shareholders</b></p> <p><i>Annual Report</i></p> <p>The Annual Report is the main document the Company uses to inform its shareholders on the affairs of the Company. Efforts are made to include a significant amount of important non-financial information that extends beyond regulatory requirements, in the Annual Report.</p> <p>Our efforts in providing a comprehensive report have been recognized at numerous awards ceremonies, both local and international.</p>	Complied



## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
C.2.3 (Contd.)	<p><b>Awards won by the 2016 Annual Report</b></p> <p>53rd Annual Report Awards conducted by CA Sri Lanka</p> <ul style="list-style-type: none"> <li>• Gold Award – Insurance Sector Companies</li> </ul> <p>South Asian Federation of Accountants (SAFA) Best Presented Annual Reports</p> <ul style="list-style-type: none"> <li>• Merit Award</li> </ul> <p>Institute of Certified Management Accountants of Sri Lanka – Excellence in Integrated Reporting Awards 2017</p> <ul style="list-style-type: none"> <li>• Merit Award</li> </ul> <p><b>Awards won by the 2015 Annual Report</b></p> <p>52nd Annual Report Awards conducted by CA Sri Lanka</p> <ul style="list-style-type: none"> <li>• Silver Award – Insurance Sector Companies</li> </ul> <p>South Asian Federation of Accountants (SAFA) Best Presented Annual Reports</p> <ul style="list-style-type: none"> <li>• Winner – Insurance Sector</li> </ul> <p>Institute of Certified Management Accountants of Sri Lanka – Excellence in Integrated Reporting Awards 2016</p> <ul style="list-style-type: none"> <li>• Top Ten Best Integrated Reports</li> </ul> <p><i>Equitable Treatment to all Shareholders</i></p> <p>The Company has consistently ensured that all shareholders are treated equitably. Accordingly, both Sinhala and Tamil language translations of the Chairperson's Message, the CEO's Review, Statement of Financial Position, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity were distributed along with our previous annual reports. This year too, the Company will continue the distribution of above reports in Sinhala and Tamil languages.</p> <p><i>Timely Communication of Financial Statements</i></p> <p>In addition to enhancing the quality of the information provided in the Annual Report, the Company also believes in the efficient and timely communication of the Annual Report to the shareholders. Therefore, all possible measures are taken to present the Annual Report before the statutory deadline. The table below demonstrates the dates on which the Annual Report has been released to the CSE in the past.</p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements		Compliance Status														
C.2.3 (Contd.)	<table><tr><th>Annual Report</th><th>Date of Submission to the Colombo Stock Exchange (CSE)</th></tr><tr><td>Annual Report – 2016</td><td>06th March 2017</td></tr><tr><td>Annual Report – 2015</td><td>01st March 2016</td></tr><tr><td>Annual Report – 2014</td><td>27th February 2015</td></tr><tr><td>Annual Report – 2013</td><td>04th March 2014</td></tr><tr><td>Annual Report – 2012</td><td>01st March 2013</td></tr><tr><td>Annual Report – 2011</td><td>28th February 2012</td></tr></table>	Annual Report	Date of Submission to the Colombo Stock Exchange (CSE)	Annual Report – 2016	06th March 2017	Annual Report – 2015	01st March 2016	Annual Report – 2014	27th February 2015	Annual Report – 2013	04th March 2014	Annual Report – 2012	01st March 2013	Annual Report – 2011	28th February 2012		Complied
Annual Report	Date of Submission to the Colombo Stock Exchange (CSE)																
Annual Report – 2016	06th March 2017																
Annual Report – 2015	01st March 2016																
Annual Report – 2014	27th February 2015																
Annual Report – 2013	04th March 2014																
Annual Report – 2012	01st March 2013																
Annual Report – 2011	28th February 2012																
	<b>Interim Financial Statements</b> <p>As per the Listing Rules of the CSE, the obligation of the Company extends only to the submission of Interim Financial Statements to the CSE which, in turn, will release it to the public. However, as a self-imposed best practice, the Company also communicates the Interim Financial Statements to the public through the following methods;</p> <ul style="list-style-type: none"><li>• Circulating printed copies of Interim Financial Statements amongst all shareholders</li><li>• Publishing Interim Financial Statements in print media</li><li>• Publishing Interim Financial Statements on the Company's website</li></ul> <p>All efforts are taken to ensure the accuracy of information published, and accordingly, a voluntary interim audit was performed for the 6-month period ended 30th June 2017. This enabled the receipt of an independent opinion from the External Auditors and hence, the Interim Financial Statements published and circulated amongst the shareholders for the period ended 30th June 2017 were based on audited numbers.</p> <p>Furthermore, in order to ensure the accuracy of the information disseminated to the public, all press releases and other communications relating to financial results are approved by the Managing Director/Chief Executive Officer and/or Chief Financial Officer prior to release.</p>																
	<b>Sustainability Reporting</b> <p>Information on the Company's sustainability policies and practices are given on pages 204 to 206 in the sustainability section of this Annual Report and on the Company's website. This includes the ways in which the Company seeks to achieve sustained profits for shareholders, develop long-lasting customer relationships, value our employees and manage the social and environmental impacts of our business.</p>																

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
C.2.3 (Contd.)	<p><b>Corporate Website</b></p> <p>Our corporate website provides an additional channel for shareholders, customers and other stakeholders to access information about the Company. Financial Statements, details of the Company, names of the Board of Directors and the Executive Committee members, information on new products, news and announcements are available on this website, which could be accessed at <a href="http://www.hnbassurance.com">www.hnbassurance.com</a>.</p>	Complied
C.2.4	<p><b>Disclose the contact person for such communication</b></p> <p>The Company Secretary and the MD/CEO will be the main contact persons with regard to any public disclosures. Therefore, any clarification or further information with regard to any information published about the Company should be directed to the Managing Director/Chief Executive Officer, Mr. Deepthi Lokuarachchi, through the following channels</p> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 10px; margin: 10px 0;"> <p>Telephone - +94 11 2436182 / +94 11 4793795</p> <p>E-mail - <a href="mailto:deepthi.lokuarachchi@hnbassurance.com">deepthi.lokuarachchi@hnbassurance.com</a></p> <p>Address - Managing Director/Chief Executive Officer HNB Assurance PLC Iceland Business Centre, No. 30, Sri Uttarananada Mawatha, Colombo 03, Sri Lanka.</p> </div> <p>Further, clarifications with regard to any financial information published can also be directed to the Chief Financial Officer, Mr. Indika Perera through the following channels.</p> <div style="border: 1px solid #ccc; border-radius: 10px; padding: 10px; margin: 10px 0;"> <p>Telephone - +94 11 2421909 / +94 11 4793702</p> <p>E-mail - <a href="mailto:indika.perera@hnbassurance.com">indika.perera@hnbassurance.com</a></p> <p>Address - Chief Financial Officer HNB Assurance PLC Iceland Business Centre, No. 30, Sri Uttarananada Mawatha, Colombo 03, Sri Lanka.</p> </div> <p>In reflection of its commitment to pay heed to the needs of shareholders, the Company has introduced an Investor Feedback Form in its Annual Report. All shareholders have been encouraged to use this form and provide their comments regarding the Company. The feedback so received is attended to by the Board or the management as appropriate. Please refer page 397 for the Stakeholder Feedback Form.</p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
C.2.5	<p><b>A process to make all Directors aware of major issues and concerns of shareholders</b></p> <p><i>Responding to Shareholders' Enquiries</i></p> <p>Matters of shareholders relating to their holding of HNBA shares, such as details of the holdings, changes of address, non-receipt of dividend cheques, share certificate issues etc., are handled by the Company Secretary through the Registrars of the Company (SSP Corporate Services). Any other matters raised are forwarded to the Chairperson and/or to the MD/CEO for necessary action.</p> <p>If there are any major issues and/or concerns raised by shareholders, they are brought to the attention of all Directors by the Company Secretary. No such issues and/or concerns were raised by the shareholders during the year.</p>	Complied
C.2.6	<p><b>The person to contact in relation to shareholders' matters</b></p> <p>Shareholders are encouraged to maintain direct communication with the Company. The Company Secretary is the main contact person in relation to such matters. They may raise inquiries and concerns with the Board by contacting the Company Secretary, Ms. Sitari Jayasundara, through the following channels.</p> <div style="border: 1px dashed black; padding: 10px; margin: 10px 0;"> <p>Telephone - +94 11 4793732</p> <p>E-mail - sitari@hnbassurance.com</p> <p>Address - Company Secretary HNB Assurance PLC Iceland Business Centre, No. 30, Sri Uttarananada Mawatha, Colombo 03, Sri Lanka.</p> </div> <p>Any other person of the Company who receives any correspondence from shareholders is required to forward the same to the Company Secretary for necessary action, as per the Shareholder Communication Policy.</p>	Complied
C.2.7	<p><b>The process for responding to shareholder matters</b></p> <p>The Company's aim is to provide an appropriate reply to written requests from shareholders, within a reasonable time. If those queries raise a matter of general interest to shareholders, the Company will take this into account and will address them in subsequent corporate communications to all shareholders.</p>	Complied

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
C.3	<b>MAJOR AND MATERIAL TRANSACTIONS</b>	
	<p>Principle: All material transactions i.e. those which, if entered into, would materially alter/vary the net asset value of the Company, should be disclosed</p>	
C.3.1	<p><b>Proposed major transactions</b></p> <p>There were no major transactions during the year.</p> <p><b>Extended Disclosure on communication with Institutional Shareholders, Analysts and Media Releases</b></p> <p><i>Submission of Information to the CSE/Shareholders</i></p> <p>The Company acknowledges the importance of publishing essential information with the CSE as required by the Listing Rules and ensures that all such requirements are met in a timely manner. Further, we ensure that all relevant information is provided to shareholders, even beyond regulatory requirements.</p> <p>The table on page 122 to 123 demonstrates the dates on which important information was released to the CSE/ shareholders during the year 2017.</p> <p><i>Communication with Institutional Shareholders, Analysts and Media Releases</i></p> <p>We are committed to maintain a constant dialogue with institutional investors, brokers and financial analysts in order to improve their understanding of our operations, strategy and plans, thereby enabling them to raise any concerns which may linger in their minds, and which may in turn affect their perceived value of the Company. Investor/analysts briefings and one-on-one meetings, media interviews etc., are carried out on a regular basis in order to facilitate communication between the Company, shareholders and the investment community. However, the Board and the management strictly adhere to the statutory and ethical guidelines regarding their responsibility of maintaining confidentiality of price sensitive information.</p> <p>Further, the management reviews research reports on HNBA prepared by various institutions. Under normal circumstances, the Company will make no comment on the analyst's financial projections or opinions. However, where a research report contains inaccurate information, the Chief Executive Officer or an officer designated by him will inform the analyst of the correct information, if such information is already in the public domain and is not price sensitive.</p> <p><b>Inquiries on Media Releases</b></p> <p>In order to keep the shareholders, analysts and the general public updated on the developments of the Company, information is published from time-to-time through media releases, the Company's website and social media.</p>	Not Applicable



Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
<b>D</b>	<b>ACCOUNTABILITY AND AUDIT</b>	
<b>D.1</b>	<b>FINANCIAL REPORTING</b>	
<b>D.1.1</b>	<p><b>Principle: Board responsibility for statutory and regulatory reporting</b></p> <p><b>Board's responsibility for interim and other price-sensitive public reports , statutory and regulatory reporting</b></p> <p>The Company presents its Financial Statements in line with Sri Lanka Accounting Standards (SLFRS/LKAS) and other applicable laws and regulations. The Board's responsibility for financial reporting is given on pages 249 to 251. Further, the Interim Annual Financial Statements were published on a timely basis during 2017. All regulatory reports were filed by their due dates and price sensitive information was disclosed to the CSE on a timely basis during the year. Dates of releasing information to the CSE during 2017 are disclosed on page 122 to 123.</p>	Complied
<b>D.1.2</b>	<p><b>Declarations by Directors in the Directors' Report</b></p> <p>The following information has been declared in the Annual Report of the Board of Directors from pages 235 to 247.</p> <ul style="list-style-type: none"> <li>- Declaration that the Company has not engaged in any activity which contravenes laws and regulations is given on page 244.</li> <li>- Declaration that the Directors have declared all material interests in contracts involving the Company is given on page 243.</li> <li>- Declaration that the Company has made all endeavors to ensure the equitable treatment of shareholders is given on page 244.</li> <li>- Declaration that the business is a going concern is given on page 245</li> <li>- Declaration that the Directors have conducted a review of the internal controls, covering financial, operational and compliance controls and risk management is given on page 245</li> </ul>	Complied
<b>D.1.3</b>	<p><b>Statements by Directors and Auditors</b></p> <p>Pages 249 to 251 contains the statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements.</p> <p>The Auditor's Report is provided on page 257.</p>	Complied

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status																		
D.1.4	<p>The Annual Report should contain a 'Management Discussion and Analysis'</p> <p>The Management Discussion and Analysis is given on pages 126 to 212 of this Annual Report, which covers the disclosure requirement under this Code, as indicated below.</p> <table><thead><tr><th>Required Disclosure</th><th>Page Numbers</th></tr></thead><tbody><tr><td>Industry structure and developments</td><td>184 to 186 &amp; 192 to 194</td></tr><tr><td>Opportunities and threats</td><td>185, 193 to 194 &amp; 198</td></tr><tr><td>Risks and concerns</td><td>109 to 115, 185, 193 to 194 &amp; 198</td></tr><tr><td>Internal control systems and their adequacy</td><td>233 to 234</td></tr><tr><td>Social and environmental protection activities carried out by the Company</td><td>172 to 176 and 182 to 183</td></tr><tr><td>Financial performance</td><td>137 to 145</td></tr><tr><td>Material developments in human resource management/ industrial relations</td><td>146 to 157</td></tr><tr><td>Prospects for the future</td><td>129, 191, 198, 202, 203</td></tr></tbody></table>	Required Disclosure	Page Numbers	Industry structure and developments	184 to 186 & 192 to 194	Opportunities and threats	185, 193 to 194 & 198	Risks and concerns	109 to 115, 185, 193 to 194 & 198	Internal control systems and their adequacy	233 to 234	Social and environmental protection activities carried out by the Company	172 to 176 and 182 to 183	Financial performance	137 to 145	Material developments in human resource management/ industrial relations	146 to 157	Prospects for the future	129, 191, 198, 202, 203	Complied
Required Disclosure	Page Numbers																			
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Material developments in human resource management/ industrial relations	146 to 157																			
Prospects for the future	129, 191, 198, 202, 203																			
D.1.5	<p><b>Declaration on the going concern of the Business</b></p> <p>The declaration of the Company as a 'going concern' is given in the Directors' Report on page 245.</p>	Complied																		
D.1.6	<p><b>Summon an Extraordinary General Meeting (EGM)</b></p> <p>There has not been a requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss of capital. Although the likelihood of such a situation is remote, if it arises, an EGM would be called to inform shareholders.</p>	Not Applicable																		
D.1.7	<p><b>Disclosure of Related Party Transactions in the Annual Report</b></p> <p><i>Related Party Transactions</i></p> <p>Related party transactions during the year are given on pages 346 to 350 The Board has established a Related Party Transactions Review Committee to review and approve all related party transactions of the Company. The Committee met four times during the year. Please refer the Report of the Related Party Transactions Review Committee on pages 224 to 225 for more details.</p>	Complied																		
D.2	<p><b>INTERNAL CONTROL</b></p> <p>Principle: The Board should maintain a sound system of internal controls to safeguard shareholders' investments and the Company's assets.</p>																			

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
D.2.1	<p><b>Directors to conduct an annual review of the risks facing the Company and the effectiveness of the system of internal controls</b></p> <p>The Board has the overall responsibility for the system of internal controls and has delegated some of these responsibilities to the Audit Committee, Risk Management Committee, Related Party Transactions Review Committee, Investment Committee, Strategy Review Committee and the Human Resources and Remuneration Committee. These Committees review internal control processes of the Company. During the year the Company's procurement procedure was reviewed and implemented a new process. Further, some policies of the Company were reviewed during the year.</p>	Complied
D.2.2	<p><b>The need for an internal audit function</b></p> <p>Internal Auditors of the Company play a vital role in the governance structure of the Company. They monitor the Company's adherence to the procedures and guidelines, developed based on the policies adopted by the Company as well as laws and regulations.</p> <p>In order to strengthen the independence of the internal audit function, it has been outsourced to Messrs. KPMG. During 2017, the Internal Auditors reported their findings to the Senior Management and the Audit Committee, covering various operational and financial aspects of the Company. The Internal Auditors were also given the opportunity during the year to meet with the Audit Committee, without the presence of the Management.</p>	Complied
D.2.3	<p><b>Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls</b></p> <p>The Audit Committee is responsible for ensuring that the Company has an effective internal control system. It reviews the effectiveness of the internal control system through the Internal Auditors and the Risk and Compliance Department. The minutes of the Risk Management Committee meetings are tabled at the Audit Committee meetings for review, since the Audit Committee carries the responsibility over the Company's risk management practices.</p> <p>Minutes of both Audit Committee and the Risk Management Committee meetings are tabled at Board meetings for review.</p>	Complied

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
	<p><b>Extended Disclosure on the Internal Control Process of the Company</b></p> <p><b>Internal Controls at HNBA</b></p> <p>A system of effective internal controls is fundamental for the safe and sound management of an institution. Internal control procedures keep the Company on course toward achieving its mission and objectives whilst minimizing the impact of surprises along the way.</p> <p>The Company's internal control process has been designed to achieve the following objectives:</p> <ul style="list-style-type: none"> <li>• Effective and efficient operations</li> <li>• Effective risk management systems</li> <li>• Reliable financial reporting</li> <li>• Compliance with applicable laws and regulations</li> <li>• Safeguarding of the Company's assets</li> </ul> <p>While the Company acknowledges that internal control is, to a large degree, everyone's responsibility, the primary responsibility for establishing, maintaining and operating an effective system of internal controls lies with the Board of Directors and the Senior Management. The Audit Committee also performs a supervisory role in this regard, via the frequent review of the effectiveness of the Company's system of internal controls, as well as the review of reports submitted by the Internal Auditors and the Management regarding the same.</p>	Complied
D.2.4	<p><b>Statement of internal control</b></p> <p>The Board's Statement on Internal Control is given on pages 233 and 234.</p>	Complied
D.3	<b>AUDIT COMMITTEE</b>	
D.3.1	<p><b>Principle: The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintain an appropriate relationship with the Company's Auditors.</b></p> <p><b>Composition of the Audit Committee</b></p> <p>The Audit Committee comprises three Directors, all of whom are Non-Executive. Two Directors of the committee are Independent Non-Executive Directors, while the Chairman is an Independent Non-Executive Director.</p> <p>Please refer the Report of the Audit Committee on pages 215 to 220 for details on the functions of the Audit Committee.</p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
D.3.2	<p><b>Duties of the Audit Committee on the review of objectivity of the External Auditor</b></p> <p>The Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.</p> <p>Messrs. Ernst &amp; Young, the Auditors of the Company, has given a declaration of its independence to the Audit Committee, as per the relevant rules.</p> <p><i>Extended Disclosure - External Auditors</i></p> <p><i>Independence of External Auditors</i></p> <p>In order to maintain their independence, the External Auditors are not employed for non-audit work unless such work has been pre-approved by the Audit Committee. Moreover, steps are taken to ensure that there are clear efficiencies and value-added benefits to the Company from such tasks being undertaken by the External Auditors, with no adverse effect on the independence of their audit work or the perception of such independence.</p> <p>During the year, the External Auditors provided the following audit and permissible non-audit services to the Company:</p> <ul style="list-style-type: none"> <li>• Year End Audit as at 31st December 2017</li> <li>• Special Purpose Audit as at 30th June 2017</li> <li>• Certification of Solvency Report for the purpose of dividend declaration</li> <li>• Certification of Insurance Solvency</li> <li>• Review gap analysis on SLFRS-9</li> </ul> <p>Details regarding the fees paid to External Auditors appear on page 245.</p> <p>With a view to improving transparency, the External Auditors were given the opportunity to meet the Audit Committee without the presence of the management, during the current year.</p> <p><i>Auditor Rotation Policy</i></p> <p>The Company has adopted an Auditor Rotation Policy, whereby the Company's External Auditor is required to be changed every five years.</p>	Complied



## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
D.3.3	<p><b>Terms of reference of the Audit Committee</b></p> <p>The Audit Committee operates with clearly defined terms of reference which are reviewed annually. Key areas of focus in the Charter of the Audit Committee are;</p> <ul style="list-style-type: none"> <li>- Composition</li> <li>- Internal audit</li> <li>- Financial reporting</li> <li>- Risk management and internal control</li> <li>- Related party transactions</li> <li>- Meetings</li> <li>- External audit</li> <li>- Compliance and litigation</li> <li>- Reporting responsibilities</li> <li>- Other responsibilities</li> </ul> <p>Determination of the independence of the Auditors and the basis of such declaration is given on pages 217 to 218.</p>	Complied
D.3.4	<p><b>Disclosures required by the Audit Committee in the Annual Report</b></p> <p>Names of the Directors comprising the Audit Committee are set out on page 216 of the Annual Report.</p> <p>Please refer the Report of the Audit Committee on pages 215 to 220 for more details.</p>	Complied
D.4	<b>CODE OF BUSINESS CONDUCT &amp; ETHICS</b>	
D.4.1	<p><b>Principle: Companies must adopt a Code of Business Conduct &amp; Ethics for Directors and members of the senior management team and must promptly disclose any waivers of the Code by Directors or others.</b></p> <p><b>Disclosures on presence of Code of Business Conduct and Ethics</b></p> <p>HNB Assurance employs a Code of Business Conduct and Ethics for Directors to provide guidance in maintaining an ethical business practice and conduct at all times. Further, the Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without exception. The Code of Business Conduct and Ethics is intended to encourage accountability and openness.</p>	Complied
D.4.2	<p><b>Affirmation by the Chairperson</b></p> <p>There has been no violation of the Code of Conduct of the Company by any Director or any member of the Corporate Management of the Company during the year. The Chairperson of the Board has affirmed this in her statement on page 51 that there is no violation of the Code of Business Conduct &amp; Ethics.</p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status								
D.4.2 (Contd.)	<div><p><b>A Summary of the Company's Code of Conduct and Ethics for Directors</b></p><p><b>Conflict of Interest</b> - Directors should avoid conflict of interest and the code provides examples of common conflicts.</p><p><b>Corporate Opportunities</b> - Directors are prohibited from taking for themselves or their own companies or other companies with which they have a fiduciary relationship, any opportunities arising as a result of the Director holding a directorship in the Company, unless such opportunities are fully disclosed by the interested Director and approved by the disinterested Directors.</p><p><b>Confidentiality</b> - Directors must maintain the confidentiality of non-public proprietary information entrusted to them by the Company or its customers or other parties with whom the Company does business, except when such disclosure is authorised or legally required. This principle applies to all communications, whether oral, written or electronic.</p><p><b>Dealings with Third Parties</b> – Only the persons named in the Code are authorised to deal with third parties on behalf of the Company.</p><p><b>Compliance with Laws and Regulations and Fair Dealing</b> - Directors are expected to carry out their responsibilities in compliance with all laws, rules and regulations applicable to the Company and with the highest standards of business ethics.</p><p><b>Encouraging the Reporting of any Illegal or Unethical Behaviour</b> - Directors are expected to promote ethical behaviour and create a culture of compliance with all applicable laws, rules and regulations.</p><p><b>Protection and Proper Use of Company Assets</b> - All Directors must protect the Company's assets and ensure their efficient use.</p><p><b>Enforcement</b> - The Board (or the disinterested members of the Board) will review and investigate any allegation of a breach of this policy by a Director, with or without the participation of any Director who may be the subject of such report.</p></div> <p><b>Extended disclosure: Share dealing Policy</b></p> <p><i>Dealing with Shares of the Company</i></p> <p>In view of strengthening governance, a Share Dealing Policy and Code has been adopted by the Company.</p> <p>This Code is applicable to the following officers and employees;</p> <table><tr><td>Chairperson</td><td>Managing Director / CEO</td></tr><tr><td>All Non-Executive Directors</td><td>Board Secretary</td></tr><tr><td>Members of the Executive Committee (EXCO)</td><td>Members of the Finance Division</td></tr><tr><td>Members of the Investment Division</td><td>Members of the Actuarial Dept</td></tr></table>	Chairperson	Managing Director / CEO	All Non-Executive Directors	Board Secretary	Members of the Executive Committee (EXCO)	Members of the Finance Division	Members of the Investment Division	Members of the Actuarial Dept	Complied
Chairperson	Managing Director / CEO									
All Non-Executive Directors	Board Secretary									
Members of the Executive Committee (EXCO)	Members of the Finance Division									
Members of the Investment Division	Members of the Actuarial Dept									

## Corporate Governance Contd.

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status
D.4.2 (Contd.)	<p>Members of the Risk and Compliance Dept. and All other employees in possession of any insider information</p> <p><b>Key Restrictions as per the Policy</b></p> <p>The following key restrictions are applicable for persons identified in the policy, when dealing with shares of the Company.</p> <p>Dealing in shares of the Company can only be carried out during open periods.</p> <p>The 'Open Period' commences after four (04) market days upon announcing the quarterly results of the Company and terminates after the 15th day of the last month of each quarter.</p> <p>Dealing in Company shares should not be based on short term considerations. Generally, such shares should not be sold within six months of purchase and purchases should not be made within six months of any sale. Dealing in shares of any listed company within the HNB Group at any time, when in possession of unpublished price sensitive information in relation to those shares, should not be done.</p> <p>The terms of this Policy is applicable to all connected/related persons of persons named in this Policy</p>	Complied
D.5	<b>CORPORATE GOVERNANCE DISCLOSURES</b>	
	Principle: Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.	
D.5.1	<p><b>Disclosure of Compliance with the Corporate Governance Code</b></p> <p>Pages 52 to 93 set out the manner and extent to which the Company has complied with the principles and provisions of the Code of Best Practice on Corporate Governance issued jointly by the SEC and the CA Sri Lanka.</p>	Complied
II	<b>SHAREHOLDERS</b>	
E	<b>INSTITUTIONAL INVESTORS</b>	
E.1	<b>SHAREHOLDER VOTING</b>	
	Principle: Should ensure institutional shareholders' voting intentions are translated into practice.	
E.1.1	<p><b>Communication with Shareholders</b></p> <p>Please refer pages 78 to 79 for details on shareholder communication, under C.2.1 and C.2.2</p>	Complied

Section Number	The Company's Compliance with Corporate Governance Requirements	Compliance Status																								
<b>E.2</b>	<b>EVALUATION OF GOVERNANCE DISCLOSURES</b>																									
E.2	<p>Principle: Institutional investors should be encouraged to give due weight to the relevant governance arrangements.</p> <p>Sufficient attention has been given to the interests of institutional investors. The Company's Corporate Governance Structure and Practices are discussed in detail from pages 52 to 93.</p>	Complied																								
<b>F</b>	<b>OTHER INVESTORS</b>																									
<b>F.1</b>	<b>INVESTING/ DIVESTING DECISION</b>																									
F.1	<p>Principle: Individual shareholders, investing directly in shares of companies, should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.</p> <p>Individual shareholders are encouraged to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions. The Annual Report contains sufficient information to make an informed decision.</p>	Complied																								
<b>F.2</b>	<b>SHAREHOLDER VOTING</b>																									
F.2	<p>Principle: The Company must encourage individual shareholders to participate in General Meetings and exercise voting rights</p> <p>All shareholders are encouraged to participate at General Meetings and cast their votes.</p>	Complied																								
<b>G</b>	<b>SUSTAINABILITY REPORTING</b>																									
G.1.	<p>Principle: Importance of Sustainability Reporting</p> <p>The Company, having identified the importance of sustainability reporting, provides a detailed review of its sustainability initiatives. Sustainability reporting requirements as per this Code and the page numbers for the relevant disclosures in this Annual Report are given in the following table.</p> <table> <tr> <th>Code Reference</th><th>Disclosure Requirement</th><th>Page Reference</th></tr> <tr> <td>G.1.1</td><td>Principle 1 – Economic Sustainability</td><td>136 to 145</td></tr> <tr> <td>G.1.2</td><td>Principle 2 – The Environment</td><td>182 to 183</td></tr> <tr> <td>G.1.3</td><td>Principle 3 – Labour Practice</td><td>146 to 157</td></tr> <tr> <td>G.1.4</td><td>Principle 4 – Society</td><td>172 to 176</td></tr> <tr> <td>G.1.5</td><td>Principle 5 – Product Responsibility</td><td>164 to 165</td></tr> <tr> <td>G.1.6</td><td>Principle 6 – Stakeholder Identification, Engagement &amp; Effective Communication</td><td>22 to 27</td></tr> <tr> <td>G.1.7</td><td>Principle 7 – Sustainable Reporting to be Formalised</td><td>3 to 7 and 17 to 21</td></tr> </table>	Code Reference	Disclosure Requirement	Page Reference	G.1.1	Principle 1 – Economic Sustainability	136 to 145	G.1.2	Principle 2 – The Environment	182 to 183	G.1.3	Principle 3 – Labour Practice	146 to 157	G.1.4	Principle 4 – Society	172 to 176	G.1.5	Principle 5 – Product Responsibility	164 to 165	G.1.6	Principle 6 – Stakeholder Identification, Engagement & Effective Communication	22 to 27	G.1.7	Principle 7 – Sustainable Reporting to be Formalised	3 to 7 and 17 to 21	Complied
Code Reference	Disclosure Requirement	Page Reference																								
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G.1.7	Principle 7 – Sustainable Reporting to be Formalised	3 to 7 and 17 to 21																								

## Corporate Governance Contd.

### Compliance with Listing Rules Section 7.10

Compliance with Corporate Governance Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange

The Company is fully compliant with the Corporate Governance Rules as per Section 7.10 of the Listing Rules. The following table has been published in accordance with the requirement to disclose the level of compliance with such rules

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10 (a)	Statement of Compliance	Publish a statement of compliance with Corporate Governance Rules (Section 7.10 of the Listing Rules) in the Annual Report	Compliant	Please refer page 57 for the statement of compliance
7.10.1	Non-Executive Directors	Two or one-third of the total number of Directors, whichever is higher, shall be Non-Executive Directors	Compliant	Eight Directors of HNBA function as Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors appointed to the Board, whichever is higher, shall be Independent	Compliant	Three out of eight Non-Executive Directors are independent
7.10.2 (b)		Each Non-Executive Director shall submit a declaration of Independence or Non-Independence in the prescribed format	Compliant	Non-Executive Directors have submitted declarations during 2017
7.10.3 (a)	Disclosures Relating to Directors	The Board shall disclose the names of the Independent Directors in the Annual Report.	Compliant	Please refer page 241 of the Annual Report of the Board of Directors for the names of Independent Directors
7.10.3 (b)		In the event a Director does not qualify as Independent as per the Rules on Corporate Governance, but if the Board is of the opinion that the Director is nevertheless Independent, the Board shall specify the basis for that determination in the Annual Report.	Not Applicable	No such situation has arisen during the year
7.10.3 (c)		The Board shall publish a brief resume of Directors in the Annual Report, including their experience in relevant areas.	Compliant	Please refer the profiles of Directors on pages 38 to 41.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Colombo Stock Exchange (CSE) for dissemination to the public.	Compliant	Appointment of Mr. Deepthi Lokuarachchi as the Managing Director was informed to the CSE on 29th May 2017, appointment of Mr. Rajive Dissanayake was informed to the CSE on 25th September 2017, appointment of Mr. Ravindra Abeyesuriya was informed to the CSE on 19th January 2018 including their brief resumes.
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee	Compliant	Details of the Human Resources and Remuneration Committee is given on pages 221 and 223.
7.10.5 (a)		The Remuneration Committee shall comprise of Non-Executive Directors, a majority of whom shall be Independent.	Compliant	The Human Resources and Remuneration Committee comprises three Non-Executive Directors, of whom two are Independent Non-Executive Directors.
		One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors.	Compliant	Dr. S Selliah (Independent Non-Executive Director) functions as the Chairman of the Human Resources and Remuneration Committee.
7.10.5 (b)		The Remuneration Committee shall recommend the remuneration of the Managing Director/Chief Executive Officer.	Compliant	Please refer the functions of the Human Resources and Remuneration Committee on pages 221 to 223.
7.10.5 (c)		The Annual Report should set out names of the Directors serving in the Remuneration Committee.	Compliant	Please refer page 221 for the composition of the Human Resources and Remuneration Committee.
		Statement of Remuneration Policy	Compliant	Please refer the Human Resources and Remuneration Committee Report on pages 221 to 223.
		Aggregate remuneration paid to Executive and Non-Executive Directors.	Compliant	Please refer pages 243 and 346 of the Annual Report of the Board of Directors.



## Corporate Governance Contd.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.6	Audit Committee	A listed entity shall have an Audit Committee.	Compliant	Details of the Audit Committee are given on pages 215 to 220.
7.10.6 (a)		The Audit Committee shall comprise Non-Executive Directors, a majority of whom shall be Independent.	Compliant	The Audit Committee comprises three Non-Executive Directors, two of whom are Independent.
		One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors.	Compliant	Mr. J A P M Jayasekera (Independent Non-Executive Director) functions as the Chairman of the Committee.
		Chief Executive Officer (CEO) and Chief Financial Officer (CFO) shall attend Audit Committee meetings.	Compliant	Both the MD/CEO and the CFO attend the meetings by invitation.
		Chairman or one member of the Committee should be a member of a recognized professional accounting body.	Compliant	Please refer page 216 and 38 to 41 for qualifications of the members of the Audit Committee. The Chairman is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.
7.10.6 (b)		The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules.	Compliant	Please refer pages 215 to 220 for the Report of the Audit Committee and details of the functions of the Committee.
7.10.6 (c)		The Annual Report should set out:		
		- Names of the Directors serving in the Audit Committee.	Compliant	Please refer page 216 for the composition of the Audit Committee.
		- The Committee's determination of the independence of the Auditors and the basis for such determination.	Compliant	Please refer page 218 for the Report of the Audit Committee.
		- A Report by the Audit Committee setting out the manner of compliance with the requirements set out in Section 7.10 of the Listing Rules.	Compliant	Please refer pages 215 to 220 for the Report of the Audit Committee.

# Corporate Governance at HNB General Insurance Limited

HNB General Insurance Limited (HNBGI) was incorporated on 30th January 2014 as a limited liability company, and is a fully owned subsidiary of HNB Assurance PLC. Its business operations commenced from 01st January 2015, after the segregation of Life and General Insurance businesses of HNB

Assurance PLC. HNBGI uses best practices as given in the Corporate Governance Codes issued by the CA Sri Lanka and the SEC as guidance to its Corporate Governance framework. Corporate Governance Rules as per the Listing Rules of CSE also shape its Corporate Governance Framework.

## The Board and the Directors of HNB General Insurance Limited

As at the date of this report, HNBGI comprises of Five Non-Executive Directors, two of whom are Independent. Details on the Board of Directors appear in the table below:

Name of the Director	Independent / Non-Independent	Date of Appointment
M A R C Cooray	Non-Executive Director	30th June 2015
D P Lokuarachchi	Managing Director/Chief Executive Officer	26th May 2017
M O F Salieh	Independent Non-Executive Director	22nd September 2014
D P N Rodrigo	Non-Executive Director	21st December 2015
M Tharmaratnam	Independent Non-Executive Director	01st September 2016
A G R Dissanayake	Non-Executive Director	27th June 2017

## Compliance with Corporate Governance Codes

### Non-Executive Directors

Five Directors of HNBGI are Non-Executive and therefore the requirement on the minimum number of Non-Executive Directors as per Corporate Governance Codes is satisfied.

### Independent Non-Executive Directors

HNBGI has two Independent Directors as at the date of this Annual Report. Therefore, HNBGI satisfies the requirement of minimum number of Independent Directors.

### Roles of the Chairperson and the Chief Executive Officer of HNBGI

The functions of the Chairperson and the Chief Executive Officer are separated, to ensure balance of power and authority. Mrs. Rose Cooray and Mr. Deepthi Lokuarachchi held the positions of Chairperson and the Chief Executive Officer.

## Board Meetings

12 Board meetings were held during 2017 and the attendance of each Director at such Board meetings is given in the following table:

Name of the Director	Board Meetings	
	A	B
M A R C Cooray – Chairperson	12	12
D P Lokuarachchi – Managing Director/ Chief Executive Officer	07	06
M O F Salieh	12	12
D P N Rodrigo	12	08
M Tharmaratnam	12	10
A G R Dissanayake	05	05
N H T I Perera (Resigned w.e.f: 26th April 2017)	05	03

A - Number of meetings held in the period during the year when the Director held office

B - Number of meetings attended

# Corporate Governance at HNB General Insurance Limited Contd.

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## Board Sub-Committees of HNBGI

Board sub-committees of HNB Assurance PLC review the operations of HNBGI which fall under their purview. Accordingly, the following Board Sub-Committees of HNB Assurance PLC review the operations of HNBGI as well.

- Audit Committee
- Human Resources and Remuneration Committee
- Nomination Committee
- Related Party Transactions Review Committee
- Risk Management Committee
- Investment Committee
- Strategy Review Committee

The Corporate Governance Codes allow the Audit and Remuneration Committees of the parent company to function as the subsidiary's Audit and Remuneration Committees, provided that the parent company is listed on the stock exchange. Since this requirement is satisfied, HNBGI is identified as complying with the requirements of the Corporate Governance codes relating to Board Sub-Committees. All Board Sub-Committees of HNB Assurance PLC includes Directors representing the Board of HNB General Insurance Limited, to ensure that adequate attention is provided for the operations of HNBGI as well. Therefore, the reports of the Board Sub-Committees given on pages 215 to 232 relate to the operations of HNBGI as well.

## External Audit

HNBGI's external audit is carried out by Messrs. Ernst and Young, Chartered Accountants, who are the External Auditors of its parent company HNB Assurance PLC, as well as of the ultimate parent company, Hatton National Bank PLC.

## Internal Audit

Messrs. KPMG, the Internal Auditors of the parent company also function as the Internal Auditors of HNBGI. Accordingly, in their audit plan the Internal Auditors cover the operations of HNBGI as well. The audit plan is prepared in consultation with the Audit Committee and adequate steps are taken to ensure it covers the high risk areas of HNBGI's operations.

## Risk Management and Compliance of HNBGI

The Risk Management function of HNBGI is handled by the Risk and Compliance Department of HNB Assurance PLC. Considering the nature of the business, a separate Risk Register has been maintained for HNBGI as well. Further, considering the operations of the business a separate Risk Appetite Statement has also been prepared for HNBGI. Additionally, a statement of Key Risk Indicators (KRI), covering high/critical risks of the Company, is prepared on a monthly basis. This KRI Statement is tabled at the Risk Management Committee meetings for review.

A Compliance Checklist, confirming compliance with applicable laws and regulations, is also prepared monthly for HNBGI. Relevant operational managers who are responsible for compliance with relevant rules and regulations sign off this checklist. These checklists, together with a confirmation from the Compliance Officer, are tabled at the Audit Committee meetings, Risk Management Committee meetings and Board meetings.

# Group Performance Governance

The Group/Company regards the governance of its performance to be of paramount importance and hence has set up numerous controls to secure that the performance objectives of the Group/Company are met. The Board of Directors assumes the primary responsibility with respect to performance governance, and it operates via its Sub-Committees, namely, Audit Committee, Investment Committee, Human Resources and Remuneration Committee, Risk Management Committee, Strategy Review Committee and Related Party Transactions Review Committee, to maintain adequate supervision over performance.

## Strategy Review Committee

The 'Strategy Review Committee' reviews and monitors the implementation of the three year strategic plan of the Group and keeps the Board informed of the progress of implementation and makes any recommendations that are deemed necessary for further development of the activities of the Group. The Committee is having an oversight on all planned activities as stated in its strategic plan and monitoring the performance including recommending any further actions if it feels necessary.

## Corporate Planning and Budgeting

The development of the corporate plan of the Group/Company, which is carried out annually aiming the performance in the three immediately following years, is the activity on which performance governance is based. The corporate planning team, which includes leading personnel across all crucial

functions of the Group/Company, forms the long-term goals and objectives of the Group/Company for the planning period and develops strategies to accomplish the same. Next, the Management prepares the annual budget for the Group/Company, referring to the goals stated in the corporate plan.

The corporate plan, coupled with the budget, is then presented before the Board of Directors for comments and approval, and amendments are made to the plan based on the feedback from the Board. Once the overall business strategy is approved by the Board, the corporate objectives formed are transmitted to the Management Team, including the Managing Director/CEO, as performance objectives. These performance objectives are then handed down to the lower Management levels and become the key criteria for performance measures which determine remuneration levels and bonus entitlements of the Managing Director/CEO and other members of the Management Team.

## Monitoring Progress as per the Corporate Plan

Performance objectives, budgets, relevant policies and procedures are regularly monitored and all managers are held responsible for the accomplishment of the objectives and component/s of the budget assigned to him and his team. They are required to scrutinise the progress and report on the same to their superiors. The Executive Committee examines the corporate plan at regular intervals to guarantee that the objectives are fulfilled. In addition, the progress of the business is

routinely reviewed by the Board Strategy Review Committee as well. The Management prepares a front burner document containing materially significant short term activities, change of processes, etc. This document is monitored monthly by the Board Strategy Review Committee and the Board.

## Key Performance Indicators

Key Performance Indicators (KPIs) are devised to facilitate performance review and the process is evaluated monthly by the Board Strategy Review Committee and the Board of Directors. These KPIs are more frequently reviewed by the Executive Committee, the Management Team and the Operational Committees. A list of the Group's Key Performance Indicators appears on pages 12 to 13.

Further details about the performance governance mechanism on each operational area are summarized in the following table.

## Group Performance Governance Contd.

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Formulation and Execution of Corporate Plan and Budgets	Vision and Mission  Strategic Plan	Corporate Planning Team consisting of EXCO Members and Key Operational Managers  Board Strategy Review Committee  Board of Directors	Review of the Corporate Plan by the Board Strategy Review Committee  Performance review by EXCO on a monthly basis  Independent follow up by the Risk and Compliance Department  Review of actual results against the budget by the Board on a monthly basis  Budget review meetings with operational departments
Underwriting and Reinsurance	Risk Appetite Statement  Underwriting Procedure Manuals  Guidelines  Credit Policy  Anti-Money Laundering Policy	Operations Committee - Life (HNBA)  Operations Committee - General (HNBGi)  Risk and Compliance Department	Implementation of system controls in line with procedure manuals, wherever possible  Updating of procedure manuals and guidelines based on changes in the environment  Regular Operational Committee meetings (OPCOs)
Claims Management	Procedure Manuals  Guidelines  Claims Reserving Policy  Manual of Financial Authority  Customer Service Standards	Operations Committee – Life (HNBA)  Operations Committee – General (HNBGi)  Claims Panel  Claims Sub-Panel  Risk and Compliance Department	Monitoring of customer service standards by OPCOs and EXCO  Closed Files Review (CFR) process to identify any claims leakages  Maintenance of healthy relationships with service providers such as garages, spare parts dealers, medical laboratories, etc., to provide a speedy service to customers and achieve cost advantages  Paying due concern to customer claim appeals via Claims Panels and Claims Sub-Panels  Periodic meetings with MD/CEO and CFO

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Investment Management	Investment Policy  Financial Authority Manual	Segregation of Investment Front Office and Back Office to ensure compliance with set policies  Board Investment Committee  Risk and Compliance Department	Providing frequent updates of investment related KPIs and KRIs  Independent monitoring by the Risk and Compliance Department  Quarterly review by Board Investment Committee
Sales and Distribution	Company Budget  Annual Targets  Individual Objectives	Operations Committee - Life Sales (HNBA)  Operations Committee- General Sales (HNBGi)  Management Team  EXCO  Risk and Compliance Department	Distribution Managers Meetings  Renewal Review Meetings  Performance Reviews by OPCOs, EXCO and the Board  Sales convention and various competitions and rewards, including foreign tours  Visits to Zonal Offices by the EXCO members to address issues faced by distribution staff
Product Development	Product Development Policy	Operations Committee - Life (HNBA)  Operations Committee - General (HNBGi)  Product Development Committees  Risk and Compliance Department	Appointment of product owners for each new product  Conducting post-launch evaluations by a multidisciplinary team  Conducting market research on products  Product development checklists
Finance-Related Functions	Financial Authority Manual  Procedure Manuals Guidelines  Procurement Policy and Procedures  Annual Budget	Operations Committee – Finance and Administration  Procurement Committees  Procurement Unit  Risk and Compliance Department	Budget Review meetings  Forecasting results to check possibility of achieving the budgeted targets  Monthly checklists on compliance with procedures and guidelines  Independent monitoring of adherence to the Procurement Policy and Procedures, by the Risk and Compliance Department



## Group Performance Governance Contd.

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Use of Information Technology and IT Governance	IT Security Policy  Disaster Recovery Plan	Operations Committee - IT  Segregation of IT Operations and IT System Developments  IT Security Administrator  Risk and Compliance Department	Regular meetings with other departments to obtain user feedback  IT Help Desk to solve technical issues faced by employees  Employment of separate personnel to ensure IT security  Independent review of operations of the IT Division by the Assistant Manager – IT Governance and Compliance
Corporate Social Responsibility	Corporate Plan	Executive Committee (EXCO)	A detailed review of the Company's actions towards Corporate Social Responsibility is given on pages 172 to 176.
Human Resources	Remuneration Policy  Code of Ethics  Share Dealing Policy  Staff Handbook  Whistleblowing Policy  Grievance Handling Policy  Performance Appraisal Process	Human Resources and Remuneration Committee  Risk and Compliance Department	Communication of the Company's objectives and plans at the Annual Staff Conference  Performance measurement via mid-year and year-end appraisals  Periodic employee surveys  Salary surveys  Provision of a special e-mail address for employee feedback  Conducting employee exit interviews  Frequent dissemination of information on HR policies and practices through 'HR Notices'  Review of annual staff increments and promotions by the Human Resources and Remuneration Committee

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Risk Management	Risk Management Policy	Business Continuity Plan (BCP) Committee	Preparation of Risk Registers identifying key risks faced by the Company
	Business Continuity Plan	Board Risk Management Committee	Preparation of Key Risk Indicators (KRIs) based on the main risks faced by the Company and its risk appetite
		Audit Committee	Frequent monitoring of the KRIs and the implementation of risk mitigating actions agreed on by the management
		Risk and Compliance Department	Review of KRIs by the Board Risk Management Committee
		External assistance as needed	Conducting BCP drills to identify gaps in the BCP
Legal and Compliance	Compliance Policy	Operations Committees	Tabling a monthly Compliance Report to the Board on the Company's compliance with applicable laws and regulations by Senior Manager - Risk and Compliance
	Document Retention Policy	Audit Committee	Tabling a Compliance Report at the Audit Committee and Board Risk Management Committee meetings by Senior Manager - Risk and Compliance
		Board Risk Management Committee	Preparation of a monthly Compliance Checklist on all applicable regulations
		Risk and Compliance Department	Checking of all Compliance Reports by the Risk and Compliance Department and review of such reports by the Audit Committee, prior to submission to the regulator

# Risk Management

## Overview

In a business of risk acceptance such as Insurance, managing risk becomes a crucial part of protecting the Company's capital and maintaining continuous value creation. Risk environment is highly influenced by the macro-economic developments in the operating environment. The Insurance industry in particular faces a set of risks that needs to be managed to ensure long-term progress and value creation for all related entities. The core activities of HNB Assurance PLC consists of Product Development, Pricing, Underwriting, Claims Management, Reinsurance Management, Investment Management and Financial and Regulatory Reporting. These involve risks that are often interconnected and spans across a wide range of risk landscapes. Hence, Risk Management is a fundamental aspect of the Company's business activities.

## Risks Faced by the Company

Considering the current developments in the macro-economic environment, all industries today face dynamic factors that are beginning to transform the way business is conducted. In this environment the Group/Company is also faced with risks which, if not properly managed, would hamper the progress of the Group/Company.

Some such key risks faced by the Group/Company are:

- Increasingly volatile weather conditions and natural disasters that have increased in frequency of occurrence
- Increasing road accidents and increased cost of medical treatment resulting in high motor and medical claim costs
- Price competition due to a high number of players in the insurance market
- High staff turnover and lack of skilled employees in the labour market
- High life policy lapses due to the prevailing economic environment
- Increasing threats on information security
- High volatility in interest rates
- Increasing regulatory requirements such as requirement for Anti-Money Laundering, changes in Accounting Standards etc.

Thus, all insurance companies in particular are compelled to focus on the fundamentals of Risk Management. The Company's Risk Management Framework is driven by the Risk Management Policy of the Company.

### Summary of the Risk Management Policy of the Company

- Risk Management Objectives
- Risk Management and Internal Control
  - General Control Environment
  - Specific Internal Control Environment
- Risk Assessment
- Risk Management at HNB Assurance Group
  - Risk/Control Self-Assessment
  - Risk Grading
  - Monitoring the Risk Management and Internal Control Programme
  - Risk Management and Internal Control Responsibilities
- Risk Appetite Levels

## Risk Management Objectives

The Group's Risk Management programme is designed to achieve the following objectives:

Use risk as a planning tool to optimise growth in view of the current operating environment and the unique challenges it poses.	To achieve excellence in financial and non-financial performance through adhering to well-defined requirements.	Establish a common framework, language and systems to develop a consistent approach to manage risk.
Develop and disseminate tools to allow line managers to foresee, evaluate and measure risks in a manner which facilitates improved decision making.	Increase return on investments, profitability, shareholder value and induce sustainable growth through effective use of capital and risk alleviation.	Reinforce HNBA's reputation as a differentiator in Risk Management and Corporate Governance.
Cultivate stakeholder trust through preventing detrimental events of direct interest to them.	Ascertain areas which require contingency plans and act accordingly.	Early problem identification to minimise risk management costs.

## Risk Management and Internal Control

We believe a strong internal control environment is essential to provide a foundation for the management of risks. The internal control environment sets the tone of the Group/Company and influences the control consciousness of its people. It is the foundation for the Risk Management Framework providing both discipline and structure. The hallmark of an effective internal control environment is the commitment by the Board of Directors and the Senior Management.

Therefore, the Group/Company has taken numerous steps to strengthen the internal control environment of the Group as evidenced by a number of criteria, including the following:

- Adopting and implementing policies and procedures such as the Risk Management Policy, Compliance Policy, Investment Policy, Anti-Money Laundering Policy, Manual of Financial Authority, Code of Ethics, Procurement Policy and Procedures, etc. to give direction to the Management to build a strong control environment.
- Developing procedure manuals and guidelines to ensure that the requirements in the policies are trickled down to lower levels of the structure.
- The establishment of the Audit Committee, Risk Management Committee, Investment Committee, Human Resources and Remuneration Committee, Strategy Review Committee and Related Party Transactions Review

Committee to oversee and critically review the operations of the respective areas.

- Establishing a Risk and Compliance Department to ensure that the Company's practices are in line with the set policies and procedures.
- Appointing an independent firm of Internal Auditors (Messrs. KPMG) to monitor the activities of the Group/Company.
- Training and educating employees on the importance of internal controls

## Risk Management Structure and Responsibilities

The Group/Company adopts a Risk Management Structure that is commensurate with the size and nature of its activities.

The Board of Directors is ultimately responsible for the sound and prudent management of the Group/Company and its approval is necessary for the Risk Management Strategy and Risk Policies pertaining to all activities of the Company.

Further, the Board also ensures that adequate resources, expertise and support is provided for the effective implementation of the risk management strategy, policies and procedures of the Group/Company.

The Audit Committee is responsible for assisting the Board in fulfilling its responsibilities for the Financial Reporting Process, the system of Risk Management and internal Control, the Audit Process and the Monitoring Process for compliance with laws and regulations.

## Risk Management Contd.

The Risk Management Committee is responsible for assisting the Board in fulfilling its responsibility with respect to HNBA's Risk Management Framework, including the significant policies and practices used in managing risks.

The Committee reviews the Group's Risk Profile as well as its Risk Management Framework, including the significant policies and practices employed to manage

both risks in the Group's business and the overall adequacy of the Risk Management Function. Activities carried out by the Risk Management Committee is given in the Risk Management Committee Report on page 228 to 229.

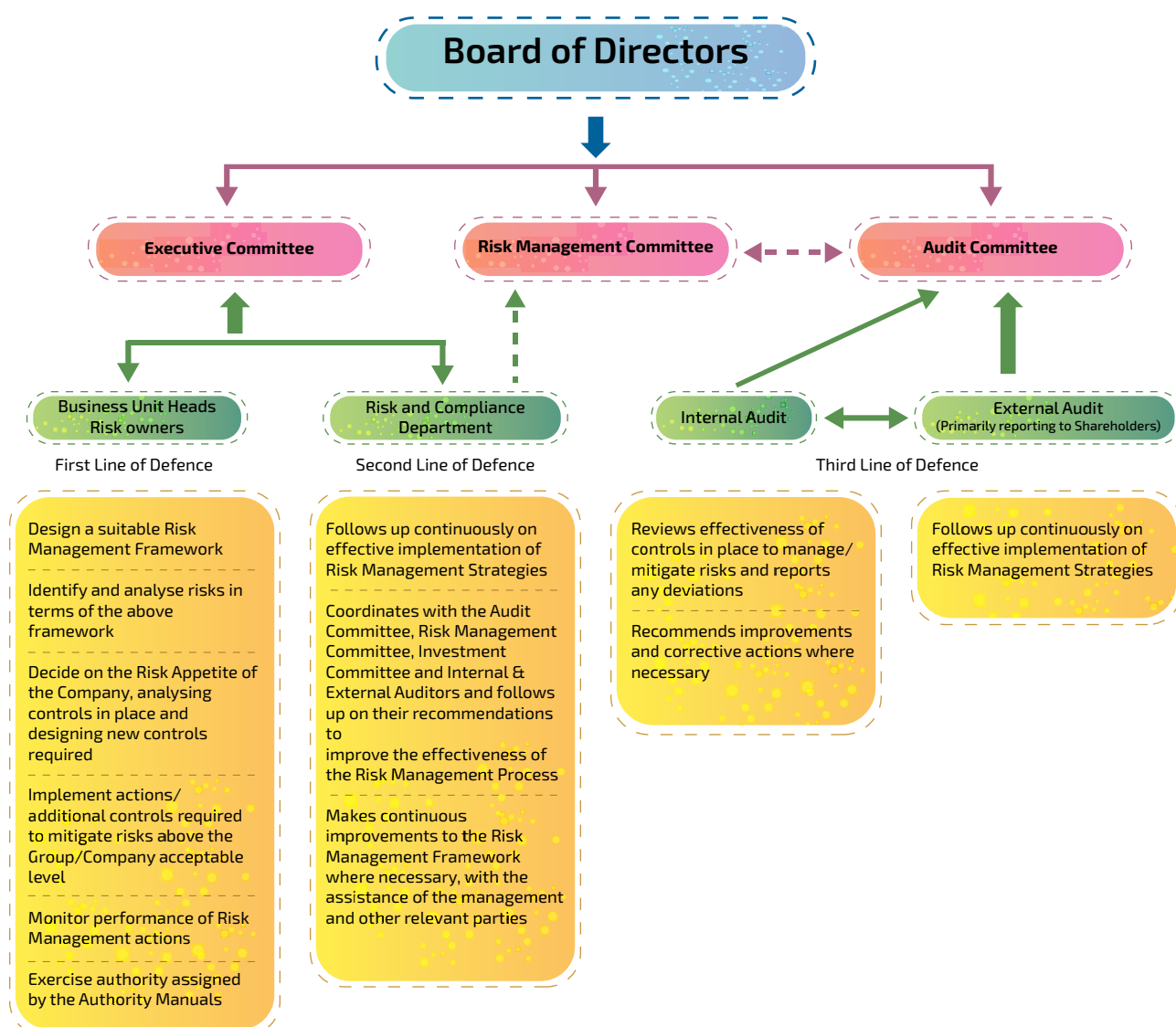
### Three Lines of Defence for Risk Management

HNBA's Risk Management structure is formulated with three Lines of Defence

to manage the risks effectively.

### 1st Line of Defence

Business Unit Heads/Risk Owners are charged with employing personnel with the appropriate skills and experience to identify, measure, monitor and control risks within the areas of their particular expertise.



## 2nd Line of Defence

The Risk and Compliance Department is primarily responsible for developing the Group's Risk Management Policies and Procedures as well as ensuring compliance. This Department is also responsible for ensuring that changes in regulations are disseminated to the appropriate business units.

## 3rd Line of Defence

The Internal Auditor is responsible for ensuring the adequacy of the overall Risk Management and Internal Control Processes of the Group/Company and also to monitor the effectiveness of implementation of agreed actions to mitigate identified risks. They report their findings to the Management on a monthly basis and to the Audit Committee on a quarterly basis.

The External Auditor also reports on Internal Control Weaknesses that affect the financial reporting process identified during the audit.

## Our Approach to Risk Management

In carrying out the core activities, the Company is faced with a wide range of risks which are often interlinked, and if not properly managed, could threaten the ability of the Group/Company to achieve its objectives. The Group/Company therefore adopts a holistic approach to correctly identify, measure, monitor and control these risks.

## HNB Assurance PLC Risk Management Process

### Risk Identification

At any given time the Company/Group faces a number of potential risks including generic risks associated with the socio-economic environment as well as industry specific risks. The Group seeks seven types of key categories.

- Insurance Risk
- Investment Risk
- Operational Risk
- Strategic Risk
- Regulatory Risk
- Reputational Risk
- Socio-Economic and Political Risk

### Risk Register

Our Risk Register has been developed to identify key risks faced by the Group/Company with regard to both core and supporting activities of the business.

The Risk Register plays a crucial role in our Risk Management Strategy by assisting us to identify and address issues as soon as they arise. The continuously updated Risk Register enables us to conduct qualitative and quantitative risk analysis and follow up with designing appropriate risk responses to monitor and control risks. Once an identified risk has been managed successfully and becomes no longer relevant, the Risk Management team removes that risk from the Risk Register to maintain a cohesive list of risks associated with core and supporting activities related to our business.

### Risk Measurement

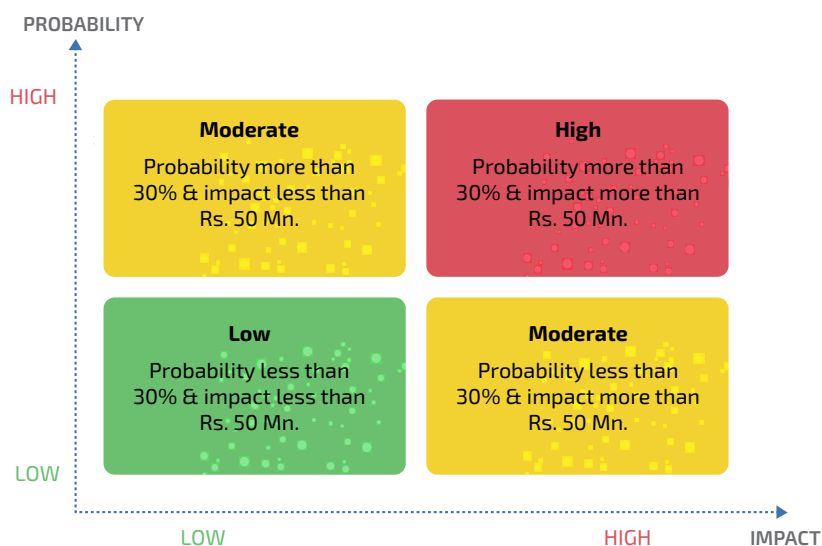
All identified risks are analysed in terms of the probability of occurrence and impact. A Risk Matrix has been developed based on the probability and impact providing a quantitative background to the process based on our prior experience.





## Risk Management Contd.

### HNB Assurance Risk Grid



### Risk Control

The Management and relevant functions/business units evaluate identified risks to determine the adequacy of existing risk control measures. If the Management or relevant business unit deems existing controls inadequate to manage identified risks, further action is deliberated and implemented following appropriate procedures and reviews. Relevant members of the Company's Risk Management team takes on the responsibility of implementing the new controls to mitigate identified risks in a timely manner.

### Risk Monitoring

Risk Monitoring is a detailed and a comprehensive process in which all related parties discharge a set of unique responsibilities to ensure effective monitoring of risk.

### Key Risk Indicators

Key Risk Indicators (KRIs) enables the Company/Group to monitor each identified risk on a continuous basis and provide detailed reports periodically at Risk Management Committee meetings.

### Monitoring by the Risk and Compliance Department

The Risk and Compliance Department monitor the Risk Register to ensure that all actions agreed upon have been carried out effectively. The function is also responsible for updating the risk profile of the Group/Company in line with the evolving risk environment.

### Monitoring by Internal Auditors

Internal Auditors design an audit plan to monitor the implementation process of the identified risk controls listed in the Risk Register. The audit reports

drafted by Internal Auditors contain any control lapses that occurred during the Risk Management implementation procedure. These reports are presented at Audit Committee meetings.

### Monitoring by the Risk Management Committee

The Risk Management Committee reviews the main risks faced by the Group/Company and discusses the actions taken to mitigate those risks. The Risk Management Committee also reviews the KRIs prepared. Further, the Risk Management Committee monitors the action taken by the Group/ Company on the changes to applicable regulations, changes to reinsurers' ratings, risks arising from external events, compliance checklists, etc.

### Monitoring by the Audit Committee

The Audit Committee reviews the minutes of the Risk Management Committee as well as all Internal Audit Reports and Management Letters issued by both Internal and External Auditors. The Audit Committee is responsible for communicating with the Risk Management Committee to resolve matters that require the attention of the Risk Management Committee.

### Monitoring by the Board

The Board of Directors reviews the minutes of the Risk Management Committee meetings and the Audit Committee meetings. In addition, the Board reviews a report on the Company's compliance activities with the applicable rules and regulations on a monthly basis.

### Monitoring by the Board Integrated Risk Management Committee of Hatton National Bank PLC

Throughout the year under review, HNB Assurance PLC consistently reported to the 'Board Integrated Risk Management Committee' (BIRMC) of Hatton National Bank PLC (HNB), the parent Company.

BIRMC of Hatton National Bank PLC reviewed the detailed risk management reports of HNB Assurance PLC. Four reports were provided to the Parent Company for review. These reports include the financial results, details of the high risks faced by the Company as well as the risk mitigation measures adopted to manage identified risks.

A description of the main risks faced by both HNB Assurance PLC (HNBA) and HNB General Insurance Limited (HNBGI) and controls implemented to mitigate/manage such risks are given below:

Risk	Mitigation Strategies
<b>The Risk Management actions relating to core operational functions of the Life Insurance Business</b>	
<b>Underwriting Risk</b>  This refers to the risk of accepting insurance business that carries an unacceptably high exposure to the risk of claims and accepting risks at rates that do not contain an adequate risk premium. Underwriting risk could also arise due to a lack of understanding regarding changes in the environment such as the effect of climate change.	<ul style="list-style-type: none"> <li>• An adequate level of segregation of duties is ensured between underwriting and sales. The underwriting function is centralised and operates from the Head Office.</li> <li>• Manual of Financial Authority is available to give guidance on underwriting limits.</li> <li>• Frequent audits and verifications</li> <li>• Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are adequately priced.</li> <li>• Only registered laboratories are used when obtaining medical reports and regular visits are made by the Management to such laboratories to monitor the quality of service.</li> <li>• Carrying out underwriting as per the guidelines set by the reinsurers.</li> <li>• Focused training is provided on proper selling in Sinhala, Tamil and English to Insurance Advisors.</li> <li>• A 'Customer Need Analysis' Form is used to identify customer requirements and sell the most appropriate policy.</li> <li>• Frequent expense studies and product profitability studies are carried out.</li> </ul> <p>Further details on Underwriting Risk Management are given in Note 43.2.2.1 from pages 354 to 356.</p>

## Risk Management Contd.

Risk	Mitigation Strategies
<p><b>Reinsurance Risk</b></p> <p>Reinsurance Risk refers to:</p> <ul style="list-style-type: none"> <li>retaining risks beyond the Company's net retention capacity without having adequate reinsurance; or</li> <li>the inability of reinsurers to meet their commitments due to insufficient financial strength.</li> </ul>	<ul style="list-style-type: none"> <li>Frequent review of the outstanding Reinsurance receivables.</li> <li>A very close and professional relationship is maintained with all reinsurers.</li> <li>Only reinsurers with ratings above the regulatory requirements are used as reinsurers.</li> <li>Changes to the ratings of reinsurance companies are continuously monitored.</li> </ul> <p>Further details on Reinsurance Risk Management are given in Note 43.2.2.1 from pages 354 to 357.</p>
<p><b>Claim Risk</b></p> <p>Claim Risk refers to the risk of over or under payment of claims, risk of not meeting the service standards set for claims payment process and claims cost exceeding the budgeted levels.</p>	<ul style="list-style-type: none"> <li>An Independent Actuary is engaged to carry out a valuation of the Life Fund twice a year.</li> <li>An in-house Actuarial Department, headed by a qualified actuary, is in place to review the Life Insurance business more closely and guide the Management to make more informed decisions.</li> <li>Claims are reserved immediately at the intimation or on the availability of information on the death, injury or illness of an insured.</li> <li>Service standards have been set on the time taken to process claims and these are monitored by the Management as well as by the Board Risk Management Committee.</li> <li>Independent investigators are used to investigate claims to ensure fraudulent claims are identified.</li> <li>Financial authority limits are set based on the claim limits where the maximum limit is with the Claims Panel which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.</li> </ul> <p>Further details on Claims Risk Management is given in Note 43.2.2.1 from pages 354 to 357.</p>
<p><b>Risks Relating to Tax Changes in the Life Insurance Business</b></p> <p>The Inland Revenue Department presented new Inland Revenue Act No. 24. of 2017 which will be applicable with effective from 01st April 2018.</p>	<ul style="list-style-type: none"> <li>Upcoming changes to Income Tax and other taxes on Life Insurance Business was reviewed, evaluated and updated to the Audit Committee, Board of Directors and the Parent Company regularly.</li> <li>Financial implications for the year 2017 and 2018 due to tax changes were analysed and reported to the Audit Committee and the Board of Directors and necessary accounting treatments were made in the annual financial statements.</li> <li>Obtain Tax consultancy services to identify the impacts of new Inland Revenue Act.</li> <li>Participate to the training programme which organized to discuss the implication of new Inland Revenue Act and other tax changes.</li> </ul>

Risk	Mitigation Strategies
<p><b>Risk of Substitutes</b></p> <p>Due to the high interest rates in the country, bank deposits would be more attractive to the market. Also, certain financial institutes provide a free Life Insurance Cover for their deposits which increases the competition for the Company's Investment type products.</p>	<ul style="list-style-type: none"> <li>• The Company is focusing on different promotional mechanisms to sell Investment type products and is reducing the dependency on Single Premium Investment products.</li> <li>• The Company has taken steps to increase the protection element in Life Insurance new business.</li> </ul>
<p><b>The Risk Management actions relating to core operational functions of the General Insurance Business under HNB General Insurance Limited</b></p>	
<p><b>Underwriting Risk</b></p> <p>This refers to the risk of accepting insurance business that carries an unacceptably high exposure to the risk of claims and accepting risks at rates that do not contain an adequate risk premium. Underwriting risk could also arise due to a lack of understanding regarding changes in the environment such as the effect of climate change</p>	<ul style="list-style-type: none"> <li>• An adequate level of segregation of duties is ensured between underwriting and sales. Both Motor and Non-Motor underwriting functions have been centralised and operations are handled from the Head Office.</li> <li>• Manual of Financial Authority is available to give guidance on underwriting limits.</li> <li>• Frequent audits and verifications</li> <li>• Carrying out risk surveys and portfolio reviews.</li> <li>• A risk based pricing mechanism has been introduced for motor underwriting.</li> <li>• Minimum premium levels have been set for certain vehicle categories.</li> <li>• Motor underwriting is carried out considering the limits set in the Risk Appetite Statement. Motor insurance performance against the Risk Appetite Statement is monitored at the Board Risk Management Committee meetings.</li> <li>• Monitor customer profitability continuously and discontinue loss making agreements.</li> <li>• New incentive scheme was designed for sales staff considering both turnover and profitability.</li> <li>• Average premium prices with that of the average claims cost and the claims frequency is monitored on a daily basis to identify any changes in the business on an ongoing basis.</li> <li>• Not renewing the policies of loss making customers. Increasing the renewal prices based on the profitability.</li> </ul> <p>Further details on Underwriting Risk Management are given in Note 43.2.2.2 from pages 358 to 361.</p>

## Risk Management Contd.

Risk	Mitigation Strategies
<p><b>Reinsurance Risk</b></p> <p>Reinsurance Risk refers to:</p> <ul style="list-style-type: none"> <li>retaining risks beyond the Company's net retention capacity without having adequate reinsurance; or</li> <li>the inability of reinsurers to meet their commitments due to insufficient financial strength.</li> </ul>	<ul style="list-style-type: none"> <li>Frequent review of the outstanding Reinsurance receivables</li> <li>A very close and professional relationship is maintained with all reinsurers and reinsurance brokers.</li> <li>No insurance cover is issued without a confirmed reinsurance in place, except in the case of some selected classes which are written on a net basis.</li> <li>Only a globally trusted and stable portfolio of reinsurance companies is used. Please refer page 359 for the Credit Ratings of the Company's Reinsurer Portfolio.</li> <li>Changes to the ratings of reinsurance companies are continuously monitored.</li> <li>During the year there were significant losses to the Company as a result of catastrophic events occurred in the country. The Company paid claims worth of Rs. 327 Million due to this incident. However, the Company was able to recover a substantial portion of this amount from reinsurers and the net impact to the Company was Rs. 33 Million. This shows the strength of the Company's reinsurance arrangements.</li> </ul> <p>Further details on Reinsurance Risk Management are given in Note 43.2.2.2 from pages 358 to 361.</p>
<p><b>Claim Risk</b></p> <p>Claim Risk refers to the risk of over or under payment of claims, risk of not meeting the service standards set for claims payment process and claims cost exceeding the budgeted levels</p>	<ul style="list-style-type: none"> <li>Motor claims engineering and motor claims processing functions have been segregated to ensure proper segregation of duties.</li> <li>Average size of the claims outstanding and a trend analysis on the claims outstanding amount is carried out to check any unusual movements in claims reserving.</li> <li>The service of a qualified Independent Actuary is obtained quarterly to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.</li> <li>All third party claims are separately reviewed with the support of the Legal Department.</li> <li>Closed file reviews are carried out periodically to identify any control lapses.</li> <li>Independent investigators are used to investigate claims to ensure fraudulent claims are identified.</li> <li>Increase the number of on-site offers for low value motor claims to provide a better service and reduce the administration cost of the claims process.</li> <li>Financial authority limits are set based on the claim limit giving the maximum limit to the Claims Panel which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.</li> </ul> <p>Further details on Claims Risk Management is given in Note 43.2.2.2 from pages 358 to 361.</p>

Risk	Mitigation Strategies
<p><b>Credit Risk</b></p> <p>Credit Risk is identified as the risk pertaining to uncertainty on the debtors' ability to meet obligations due to the Company.</p>	<ul style="list-style-type: none"> <li>• Premium Payment Warranty (PPW) is strictly implemented and all General Insurance Policies with payments outstanding for more than 60 days are cancelled.</li> <li>• Follow-up meetings on debt collection are conducted. Analysis of PPW cancellations are presented to the Board Risk Management Committee.</li> <li>• Information regarding policies cancelled due to non-payment of premiums is submitted to the industry database on a routine basis.</li> <li>• Claim settlements are processed only after reviewing the position of outstanding receivables.</li> <li>• All other receivables, including reinsurance receivables are reviewed on a monthly basis and recoveries made on time</li> </ul>
<p>Increased number of road accidents and increase repair cost of vehicles</p>	<ul style="list-style-type: none"> <li>• Number of accidents reported from insurance policies issued by the Company is monitored on a daily basis to identify any adverse developments at the early stage.</li> <li>• Claim frequency and average claim size have been set as main criteria when determining the price.</li> <li>• The pricing grid prepared captures the geographical area of the vehicle insured and the type of vehicle to ensure higher prices are charged for vehicles insured from high risk areas and for high risk vehicle types.</li> </ul>
<p>Tax Increases on Motor Vehicle Imports</p>	<ul style="list-style-type: none"> <li>• Closely working with Hatton National Bank (HNB) to increase percentage of business channeled through the Bank.</li> <li>• Expanding the Agent Channel to target more non-leasing business.</li> </ul>
<p><b>The Risk Management actions taken relating to Investment Risk</b></p> <p>Investment risk refers to the various types of risks associated with the significant portfolio of investments managed by the Company</p>	
<p><b>Concentration Risk</b></p> <p>This refers to the risk of over-exposure to a particular company or sector due to lack of diversification in the investment portfolio.</p>	<ul style="list-style-type: none"> <li>• A target asset allocation limits are set by the Investment Committee for HNBA Funds and HNBGI Fund by the Investment Committee in consultation with the Management and Risk Management Committee.</li> <li>• Sectoral limits are set for both equity and fixed income investments which are adhered to when placing new investments.</li> <li>• Adherence to target is reviewed periodically by MD/CEO, CFO with the participation of both front-office and back-office investment staff. A special focus is placed on reviewing exposures to Equity and Corporate Debt investments.</li> <li>• A checklist must be made to verify the compliance of all new investment placements other than Government Securities with all applicable rules and guidelines. Investment Committee meets on quarterly basis and reviews the investment portfolios, investment strategy and the future outlook.</li> </ul>



## Risk Management Contd.

Risk	Mitigation Strategies
	<ul style="list-style-type: none"> <li>• Compliance with Investment Policy and best practices are reviewed by the Internal Auditors and the Risk and Compliance Department on a monthly basis.</li> <li>• Deviations from target asset allocation if any are reported to the Risk Management Committee periodically.</li> </ul>
<p><b>Credit Risk</b></p> <p>This relates to the risk of not being able to recover the capital and/or interest relating to investments</p>	<ul style="list-style-type: none"> <li>• Investments are only made with entities approved by the Investment Committee consisting of companies which, in the opinion of the Committee, carry minimal credit risk. Creditworthiness of potential investment entities is checked mainly through ratings assigned to the issuing institution or the ratings assigned to the issue.</li> <li>• Any investments in any other entity are carried out only with the explicit approval of the Investment Committee.</li> <li>• All investments in Corporate Debt Instruments, whether rated or not, are done after a detailed evaluation carried out by the Investment Management Team, who will recommend the investment for approval by the Chief Investment and Strategy Officer, MD/CEO or the Investment Committee according to the Limits of Authority pertaining to investments.</li> <li>• Single party exposure limits are decided based on the credit ratings and regulatory requirements and are monitored closely at different levels.</li> <li>• Master Repo Agreements are signed with all primary dealers working with the Company in order to ensure zero level of default risk in respect of Government Securities bought through such parties in the event of their bankruptcy.</li> <li>• Maintaining a custodian arrangement for Government Securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd (a joint venture of HNB and DFCC Bank) provides additional comfort.</li> </ul> <p>Please refer pages 361 to 372 (Financial Risk section) for further information.</p>
<p><b>Liquidity Risk</b></p> <p>Liquidity Risk refers to the inability of the Company to meet contractual obligations such as claim settlements and payments to reinsurers and other creditors due to the insufficient availability of cash and other liquid investments.</p>	<ul style="list-style-type: none"> <li>• The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy which is reviewed by the Investment Committee regularly.</li> <li>• Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet insurance and investment contract obligations.</li> <li>• Reviewing the maturity mix of the investment portfolio by the Management and the Investment Committee on a regular basis.</li> </ul>

Risk	Mitigation Strategies
<p><b>Market Risk – Interest Rate Risk</b></p> <p>The risk of fluctuations of fair values or future cash flows of investments due to a change in market interest rates. This may result in under achievement of investment income, fall in fund value and inability to meet solvency standards as a result of a fall in bond prices due to a rise in interest rates.</p>	<ul style="list-style-type: none"> <li>• The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy. The ALM guidelines are reviewed by the Investment Committee regularly.</li> <li>• Macro-economic indicators and their impact on the Group's Investment Portfolio are monitored closely by the Management, Investment Committee and Risk Management Committee regularly.</li> <li>• Necessary changes are made to the asset allocation and the maturity mix of investments on a periodic basis.</li> <li>• Investments are classified into different categories as required by Sri Lanka Accounting Standards (SLFRS/LKAS) considering both the intention and the ability of the Company to hold such investments.</li> </ul>
<p><b>Market Risk – Equity Price Risk</b></p> <p>The risk of fluctuation in equity investments due to change in equity market prices</p>	<ul style="list-style-type: none"> <li>• Total exposure to equity investments is made strictly within the agreed target asset allocation and sectoral equity limits.</li> <li>• Equity investments are mostly made in fundamentally sound stocks which are identified after an in-depth research and evaluation process by the internal investment management team.</li> <li>• Equity portfolios are reviewed quarterly by the Investment Committee on a quarterly basis.</li> <li>• Impact from market movement is monitored on a daily basis and warnings sent to MD/CEO and CFO of high impact volatilities.</li> </ul>
<p><b>The Risk Management actions taken relating to the management of the Human Resources Risk</b></p>	
<p>High Staff Turnover Ratio</p>	<ul style="list-style-type: none"> <li>• Motivating employees through rewarding schemes and trainings.</li> <li>• Counselling employees as and when they need counselling.</li> <li>• Conduct exit interviews.</li> <li>• Periodically carrying out induction programmes.</li> <li>• Analysis of staff turnover is reviewed by the Management and the Board.</li> <li>• Employee surveys are carried out on a periodic basis.</li> </ul>
<p>Retaining Key People in the Company</p>	<ul style="list-style-type: none"> <li>• Remuneration packages are aimed to be in line with the industry to retain and attract qualified and talented staff.</li> <li>• Salary surveys are conducted periodically to ensure competitive salaries are given to the staff.</li> <li>• Regular Management meetings and Distribution Management meetings are conducted to convey the key decisions taken at the top Management level and to communicate what is happening in the Company to all members of the Management Team.</li> </ul>

# Share Information

## Compliance with disclosure requirements as per the Listing Rules issued by the Colombo Stock Exchange (CSE)

We have disclosed below the information required by Section 7.6 and 9.3.2. of the Listing Rules of the Colombo Stock Exchange (CSE) in an Annual Report and Accounts of a Listed Entity. We have also disclosed additional information which we believe would be of value to shareholders.

### 1. Stock Exchange Listing

The issued ordinary shares of HNB Assurance PLC are listed on the Main Board of the Colombo Stock Exchange (CSE). Stock Exchange code for HNB Assurance PLC share is HASU.

### 2. Submission of Financial Statements to the CSE

As required by the Listing Rules, the audited Financial Statements for the year ended 31st December 2016 were submitted to the CSE on 06th March 2017. The Interim Financial Statements of the 4th Quarter, for the year/quarter ended 31st December 2017, was submitted to the CSE on 14th February 2018. The Audited Financial Statements for the year ended 31st December 2017 will be submitted to the CSE within three months of the Reporting Date in line with the requirements of the CSE.

### 3. Names of Directors (Rule number 7.6 (I))

The names of persons who held the position of Directors during

the financial year are given in the Annual Report of the Board of Directors on page 241

### 4. Principal activities of the Company (Rule number 7.6 (II))

The principal activities of the Company and its subsidiary during the year are given in the Annual Report of the Board of Directors and Note 1.4 in Accounting Policies on pages 237 and 264 respectively.

### 5. Top 20 Shareholders (Rule number 7.6 (III))

The 20 largest shareholders as at 31st December 2017 together with their Shareholding as at 31st December 2016 are given below.

Name of the Shareholder	2017		2016	
	Shareholding	% on Issued Shares	Shareholding	% on Issued Shares
01. Hatton National Bank PLC A/C No.1	29,993,000	59.99	29,993,000	59.99
02. The Ceylon Guardian Investment Trust PLC A/C No.2	2,000,000	4.00	2,000,000	4.00
03. Mercantile Merchant Bank Ltd.	913,265	1.83	913,265	1.83
04. Janashakthi General Insurance Limited	824,425	1.65	824,425	1.65
05. Bank of Ceylon A/C Ceybank Century Growth Fund	575,317	1.15	651,894	1.30
06. Mr. Mohamed Faizer Hashim	510,000	1.02	530,534	1.06
07. Salamander Investments (Pvt.) Ltd	475,000	0.95	475,000	0.95
08. Mrs. Arunthathi Sellia	400,000	0.80	400,000	0.80
09. Mr. S. N. P. Palihena & Mrs. A. S. Palihena	400,000	0.80	400,000	0.80
10. Mrs. Abiramipillai Kailasapillai	400,000	0.80	400,000	0.80
11. Arunodhaya (Pvt.) Ltd	400,000	0.80	400,000	0.80
12. Arunodhaya Industries (Pvt.) Ltd	400,000	0.80	400,000	0.80
13. Arunodhaya Investments (Pvt.) Ltd	400,000	0.80	400,000	0.80
14. Union Assurance PLC No-1 A/C	336,266	0.67	336,266	0.67
15. J. B. Cocoshell (Pvt) Ltd.	300,186	0.60	144,655	0.29
16. Corporate Holdings (Pvt.) Ltd A/C No.01	245,103	0.49	245,103	0.49
17. Central Finance Company PLC A/C No.05	226,609	0.45	-	-
18. Mr. Madduma Hetti Vidanelage Upali Gunatilaka	205,978	0.41	202,080	0.40
19. Mr. Sharda Vikas	203,000	0.41	-	-
20. Mr. Kailasapillai Aravinthan	200,000	0.40	200,000	0.40
	<b>39,408,149</b>	<b>78.82</b>		

## 6. Public Shareholding (Rule number 7.6 (IV))

The details of the public shareholding as at 31st December are given below.

	2017		2016	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Public Shareholding	19,316,361	38.63	19,328,462	38.66

	2017		2016	
	Shareholders	% on Total No. of Shareholders	No. of Shares	% on Total No. of Shareholders
Number of Shareholders	3,422	99.71	3,463	99.71

## 7. Directors' Shareholding (Rule number 7.6 (V))

The details of the Directors' Shareholding at the beginning and at the end of the year are given below

Name of the Director	No. of Shares as at 31st December 2017	No. of Shares as at 31st December 2016
Mrs. M A R C Cooray - Chairperson	18,035	18,035
Mr. S C Ratwatte	14,666	14,666
Mr. J A P M Jayasekera	83,057	83,057
Mr. D P N Rodrigo	180	180
Mrs. S N Wickramasinghe	52,500	52,500
Dr. S Selliah	100,000	100,000
Mr. A G R Dissanayake	100	Not Applicable
Mr. D P Lokuarachchi - Managing Director	Nil	Nil
Mr. D R Abeyesuriya* (Appointed w.e.f. 01st January 2018)	Not Applicable*	Not Applicable
Mr. K Balasundaram (Retired w.e.f. 22nd December 2017)	Not Applicable	10,000
Mr. N H T I Perera (Resigned w.e.f. 27th April 2017)	Not Applicable	100

\*Mr. D R Abeyesuriya does not hold any shares of the Company

## 8. Material foreseeable risk factors of the Company (Rule number 7.6 (VI))

Information pertaining to material foreseeable risk factors is given on the Risk Management Report from pages 104 to 115.

## 9. Material issues pertaining to employees and industrial relations of the Company (Rule number 7.6 (VII))

The Company did not encounter any material issues pertaining to employees and industrial relations during the year.

## 10. Company's Land Holdings and Investment Properties (Rule number 7.6 (VIII))

The Company does not hold any land or investment properties as of the Reporting Date.

## Share Information Contd.

### 11. Stated Capital (Rule 7.6 (IX))

The number of shares representing the Company's Stated Capital is given below.

Stated Capital	- Rs: 1,171,875,000
Number of Shares	- 50,000,000
Class of Shares	- Ordinary Shares
Voting Rights	- One vote per Ordinary share

### 12. Shareholdings

#### a) Distribution and Composition of Shareholding (Rule number 7.6 (X))

There were 3,432 registered shareholders as at 31st December 2017 (2016-3,473). The distribution and composition of shareholders as per the above rule are given as follows:

Shareholding	Resident			Non-Resident			Total		
	No. of Share-holders	No. of Shares	% on Total No. of Shares	No. of Share-holders	No. of Shares	% on Total No. of Shares	No. of Share-holders	No. of Shares	% on Total No. of Shares
1 – 1,000 Shares	2,056	623,878	1.24	9	2,634	0.01	2,065	626,512	1.25
1,001 – 10,000 Shares	1,184	4,173,427	8.34	12	56,316	0.11	1,196	4,229,743	8.45
10,001 – 100,000 Shares	133	3,679,663	7.36	7	274,325	0.55	140	3,953,988	7.91
100,001 – 1,000,000 Shares	28	8,993,757	17.99	1	203,000	0.41	29	9,196,757	18.40
Over – 1,000,000 Shares	2	31,993,000	63.99	0	0	0.00	2	31,993,000	63.99
<b>Total</b>	<b>3,403</b>	<b>49,463,725</b>	<b>98.92</b>	<b>29</b>	<b>536,275</b>	<b>1.08</b>	<b>3,432</b>	<b>50,000,000</b>	<b>100.00</b>

#### b) Analysis of Shareholders

##### i. Resident/Non-Resident

	31st December 2017			31st December 2016		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	3,403	49,463,725	98.92	3,448	49,693,686	99.37
Non-Resident	29	536,275	1.08	25	306,314	0.63
<b>Total</b>	<b>3,432</b>	<b>50,000,000</b>	<b>100.00</b>	<b>3,473</b>	<b>50,000,000</b>	<b>100.00</b>

##### ii. Individual /Institutional

	31st December 2017			31st December 2016		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,326	10,551,593	21.11	3,363	10,284,555	20.57
Institutional	106	39,448,407	78.89	110	39,715,445	79.43
<b>Total</b>	<b>3,432</b>	<b>50,000,000</b>	<b>100.00</b>	<b>3,473</b>	<b>50,000,000</b>	<b>100.00</b>

### 13. Share Performance (Rule number 7.6 (XI))

The details relating to the share performance are given below.

	2017	2016	2015	2014	2013
Number of Transactions	2,433	1,288	1,808	3,111	1,778
Number of Shares Traded	2,507,543	1,587,252	1,201,027	4,937,695	4,589,817
Value of Shares Traded (Rs.)	167,015,023	98,598,781	103,016,431	373,672,883	242,310,103
Market Capitalisation (Rs. Mn.)					
HNB Assurance PLC	3,625	2,940	3,730	4,175	2,625
CSE	2,899,291	2,745,406	2,937,998	3,104,863	2,459,897
Dividend per share (Rs.)	6.00	5.00	2.00	3.75	3.25
Dividend payment (Rs. Mn.)	300	250	100	187.5	162.5
Dividend payout (%)	41.38	41.67	23.39	45.79	41.77
Basic Earnings per share (Rs.) - Group	18.20	12.95	3.95	8.35	7.78
Basic Earnings per share (Rs.) - Company	14.50	12.00	8.55	8.19	7.78
Net Asset Value per share (Rs.) - Group	75.93	53.94	45.68	48.28	42.26
Market Price per share (Rs.) - Company					
Highest	74.40	72.90	93.50	98.00	57.00
Lowest	52.00	53.00	69.40	52.20	47.00
Year end (VWA)	72.50	58.80	74.60	83.50	52.50
P/E Ratio (Times)	3.98	4.54	18.89	10.00	6.75

### 14. Valuation of Property, Plant and Equipment (Rule number 7.6 (XII))

The Company uses the Cost Method as the accounting policy for maintaining records of Property, Plant and Equipment and the market value of such assets is considered not materially different to the book value. Details relating to the changes in the Company's fixed assets are given on Note 4 to the Financial Statements on pages 282 to 286.

### 15. Increase in the Stated Capital (Rule number 7.6 (XIII))

The Company did not raise funds to increase its Stated Capital during the year.

### 16. Employee Share Option Scheme (Rule number 7.6 (XIV))

There is no 'Employee Share Ownership Scheme' in the Company.

### 17. Disclosures pertaining to the Corporate Governance (Rule number 7.6 (XV))

Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c, and 7.10.6 c of Section 7 of the rules are given in the Corporate Governance Report on pages 94 to 96.

### 18. Related Party transactions (Rule number 7.6 (XVI))

There were no individual transactions exceeding the limit of 10% of the Equity or 5% of the total assets during the year with any related party of the Company. However, all related party

transactions at aggregate level have been disclosed under Note 42 to the Financial Statements on pages 346 to 350.

### 19. Non-recurrent Related Party transactions (Rule number 9.3.2 (a))

There were no non-recurrent related party transactions exceeding the aggregate limit of 10% of the Equity or 5% of the Total Assets. All related party transactions at aggregate level have been disclosed under Note 42 to the Financial Statements on pages 346 to 350.

### 20. Recurrent Related Party Transactions (Rule Number 9.3.2 (b))

There were no recurrent related party transactions exceeding the aggregate limit of 10% of the Gross Written Premium.



## Share Information Contd.

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The Company carried out transactions with the Government of Sri Lanka and its related entities, where the aggregate amounts of transactions have exceeded 10% of the Company's Gross Written Premium. Government of Sri Lanka has considered as a related entity of the Company considering the significant influence it has on the ultimate parent company, Hatton National Bank PLC. The terms and conditions of transactions carried out with the Government of Sri Lanka and its related entities were similar to those applicable to the general public. Details of transactions with the Government of Sri Lanka and its related entities are given on page 350 under Note 42.2.e to the Financial Statements.

### **23. Implementation of SLFRS 9 - Financial Instruments, SLFRS 15 - Revenue from Contracts with Customers and SLFRS 16 - Leases**

Details of the implementation process and the impact to the Group from proposed SLFRS 9 - Financial Instruments, SLFRS 15 - Revenue from Contracts with Customers and SLFRS 16 - Leases are given on pages 272 and 273 under Note 3 to the Financial Statements.

### **21. Report by the Related Party Transactions Review Committee (Rule Number 9.3.2 (c))**

Please refer the Related Party Transactions Review Committee report on pages 224 and 225.

### **22. Confirmation by the Directors on the Compliance with Related Party Transactions Rules (Rule Number 9.3.2 (d))**

Please refer page 243 for the confirmation by the Directors on compliance with the rules pertaining to Related Party Transactions.

# Compliance Summary

## Annual Report disclosure requirements as per the Companies Act, No. 07 of 2007

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Relevant section in this Annual Report
Nature of the business of the Company and its subsidiary	Section 168 (1) (a)	Please refer page 237
Signed Consolidated Financial Statements of the Group for the accounting period completed	Section 168 (1) (b)	Please refer page 258
Auditors' Report on Consolidated Financial Statements of the Group	Section 168 (1) (c)	Please refer page 257
Changes in Accounting Policies made during the accounting period - Group and the Company	Section 168 (1) (d)	Please refer page 238
Particulars of entries in the Interests Register of the Company during the accounting Period	Section 168 (1) (e)	Please refer page 243
Remuneration and other Benefits paid to the Directors of the Company and its subsidiary during the accounting period	Section 168 (1) (f)	Please refer page 243
Total amount of Donations made by the Company	Section 168 (1) (g)	Please refer page 238
Information on the Directorate of the Company during and at the end of the accounting period	Section 168 (1) (h)	Please refer page 241
Amounts payable to the Auditor as audit fees and fees for other services rendered to the Company and its subsidiary during the accounting period as a separate Disclosure	Section 168 (1) (i)	Please refer page 245
Auditors' relationship or any interest with the Company and its subsidiary	Section 168 (1) (j)	Please refer page 245
Annual Report of the Board signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Please refer page 247

## Disclosure requirements as per schedule – H of the Code of Best Practice on Corporate Governance issued by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka

Subject		Reference	Relevant section in this Annual Report
Annual Report	Chairman and CEO	A.2.1 and A.5.7	Please refer pages 64 and 69
	Board Balance	A.5.5	Please refer page 68
	Nomination Committee	A.7.1	Please refer page 70
	Appointment of New Directors	A.7.3	Please refer page 71
	Appraisal of Board Performance	A.9.3	Please refer page 72
	Board Related Disclosures	A.10.1	Please refer page 73
	Disclosure of Remuneration	B.3 and B.3.1	Please refer page 76
	Major and Material Transactions	C.3 and C.3.1	Please refer page 84

## Compliance Summary Contd.

Subject		Reference	Relevant section in this Annual Report
	Audit Committee	D.3.4	Please refer page 90
	Code of Business Conduct and Ethics	D.4.1 and D.4.2	Please refer page 90
	Going Concern	D.1.5	Please refer page 86
	Communication with shareholders	C.2.2, C.2.3, C.2.4, C.2.5, C.2.6, C.2.7	Please refer pages 78 to 83
B. Remuneration Committee Report	Members of Remuneration Committee	B.1.3	Please refer page 74
C. Directors' Report	Directors' Report	D.1.2	Please refer page 85
D. Financial Statements	Financial Statements	D.1.3	Please refer page 85
	Related Party Transactions	D.1.7	Please refer page 86
E. Management Report	Management Report	D.1.4	Please refer page 86
F. Corporate Governance Report	Corporate Governance Report	D.5.1	Please refer page 92
G. Audit Committee Report	Audit Committee Report	D.3.3	Please refer page 90
H. Statement on Internal Control	Statement on Internal Control	D.1.3 and D.2.3	Please refer pages 85 and 87
I. Sustainability Reporting	Sustainability Reporting	G.1 to G.1.7	Please refer page 93

### Important Colombo Stock Exchange (CSE) / Shareholder Communications During 2017

Nature of Information	Date in 2017
Dividend announcement to the CSE	9th February 2017
Submission of unaudited interim financial statements for the year ended 31st Dec 2016 to the CSE	15th February 2017
Circulation of unaudited interim financial statements for the year ended 31st Dec 2016 to shareholders	17th February 2017
Publication of unaudited financial statements for the year ended 31st Dec 2016 in the print media (Daily FT)	20th February 2017
Submission of audited Annual Report for the year ended 31st Dec 2016 to the CSE	06th March 2017
Circulation of audited Annual Report for the year ended 31st Dec 2016 to shareholders	07th March 2017
Annual General Meeting (AGM)	29th March 2017
Announcement to the CSE on the resignation of Mr. N H T I Perera from the Board	28th April 2017
Submission of unaudited interim financial statements for the 01st quarter ended 31st Mar 2017 to the CSE	09th May 2017
Circulation of unaudited interim financial statements for the 01st quarter ended 31st Mar 2017 to shareholders	16th May 2017
Publication of unaudited interim financial statements for the 01st quarter ended 31st Mar 2017 in the print media (Daily FT)	17th May 2017
Announcement to the CSE on the appointment of Mr. Deepthi Lokuarachchi as the Managing Director	29th May 2017
Submission of unaudited interim financial statements for the 02nd quarter ended 30th June 2017 to the CSE	09th August 2017

Nature of Information	Date in 2017
Circulation of unaudited interim financial statements for the 02nd quarter ended 30th June 2017 to shareholders	15th August 2017
Publication of unaudited interim financial statements for the 02nd quarter ended 30th June 2017 in the print media (Daily FT)	16th August 2017
Announcement to the CSE on the appointment of Mr. A G R Dissanayake to the Board	25th September 2017
Submission of unaudited interim financial statements for the 03rd quarter ended 30th September 2017 to the CSE	06th November 2017
Circulation of unaudited interim financial statements for the 03rd quarter ended 30th September 2017 to shareholders	07th November 2017
Publication of unaudited interim financial statements for the 03rd quarter ended 30th September 2017 in the print media (Daily FT)	09th November 2017

#### Details of regulatory returns submission and payments of the Company/Group

Information	Frequency of Submission	Compliance Status
<b>Insurance Regulatory Commission of Sri Lanka (IRCSL)</b>		
Annual Fee	Annually	✓
CESS Payment	Quarterly	✓
<b>Colombo Stock Exchange (CSE)</b>		
Listing Fee	Annually	✓
<b>Department of Inland Revenue</b>		
Income Tax Payment and Return	Annually	✓
PAYE Tax Payment	Monthly	✓
PAYE Tax Return	Annually	✓
Value Added Tax (VAT) Payment	Every 15 days	✓
Value Added Tax (VAT) Return	Quarterly	✓
Stamp Duty Payment and Return	Quarterly	✓
Nation Building Tax (NBT) Payment	Monthly	✓
Nation Building Tax (NBT) Return	Quarterly	✓
Economic Service Charge (ESC)	Quarterly	✓
Return on Dividends	Annually	✓
<b>Central Bank of Sri Lanka (CBSL)</b>		
EPF Payment and Return	Monthly	✓
<b>Employees' Trust Fund Board</b>		
ETF Payment and Return	Monthly	✓
<b>Registrar General of Companies</b>		
Annual Accounts	Annually	✓
Annual Returns	Annually	✓
Change of Directors and Company Secretary (Form 20)	As required	✓
<b>National Council for Road Safety</b>		
Contribution to Road Safety Fund Payment	Monthly	✓

## Compliance Summary Contd.

Information	Frequency of Submission	Compliance Status
Commissioner of Motor Traffic		
Luxury and Semi Luxury Tax Payment	Monthly	√
National Insurance Trust Fund (NITF)		
Crop Insurance Levy	Quarterly	√

√ - Complied      X - Not Complied

Regulatory reports submitted to IRCSL during 2017 are given below.

Submissions to IRCSL	Date of Submission		Deadline set by IRCSL
	HNB Assurance PLC	HNB General Insurance Limited	
Annual Audited Financial Statement for the year ended 31st December 2016	6th March 2017	6th March 2017	31st May 2017
Annual Statutory Returns for the year ended 31st December 2016	31st May 2017	31st May 2017	31st May 2017
Circular 29 Auditor's Compliance Certificate	31st May 2017	31st May 2017	31st May 2017
Risk Assessment Report	31st October 2017	31st October 2017	31st October 2017
Quarterly Returns and Compliance Certifications			
31st December 2016 (4th Quarter)	15th February 2017	15th February 2017	15th February 2017
31st March 2017 (1st Quarter)	15th May 2017	15th May 2017	15th May 2017
30th June 2017 (2nd Quarter)	15th August 2017	15th August 2017	15th August 2017
30th September 2017 (3rd Quarter)	15th November 2017	15th November 2017	15th November 2017
Statement of Reinsurance Arrangements	31st January 2017	31st January 2017	31st January 2017
Actuarial Report and Abstracts	31st May 2017	31st May 2017	31st May 2017
Management Letter issued by the External Auditors for year ended 31st December 2016	31st May 2017	31st May 2017	31st May 2017



# Our Business Formula

## MANAGEMENT DISCUSSION AND ANALYSIS

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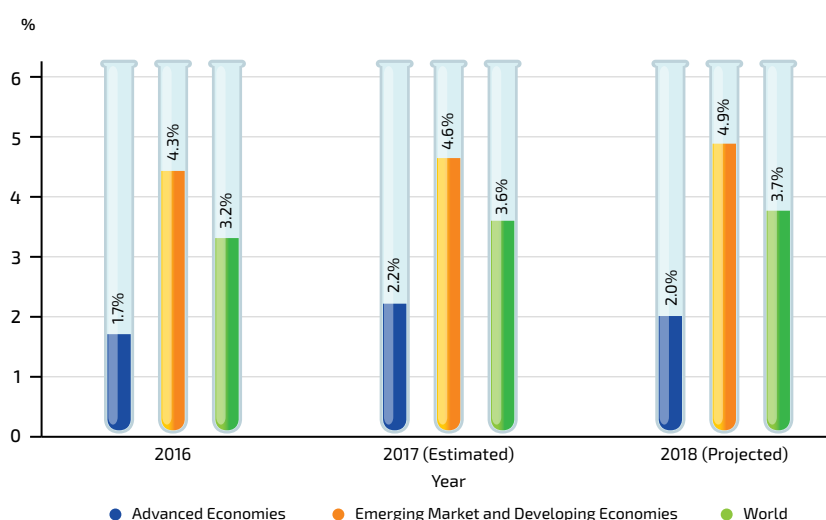
# Key Trends in Our Operating Environment

## Political and Macroeconomic Drivers

### Global Economy

The global economy which remained sluggish in 2016 showed signs of improvement in 2017 with an estimated growth of 3.6% in comparison to the 3.2% growth recorded in the previous year. The upward trend that economic activities indicated in the first half of 2017 in particular contributed to this growth. Economic recoveries experienced in Europe, Japan, China and Russia fuelled this upward trend, largely offsetting the slowdown in economies such as the United Kingdom and India.

### Global Real Gross Domestic Product Growth



### Emerging Markets

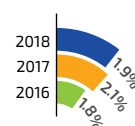
Emerging markets and developing economies showed signs of improvement with a growth of 4.6% in 2017 in comparison to the growth rate of 4.3% recorded in 2016. Inflation rate too indicated a marginal drop from 4.3% in 2016 to 4.2% in 2017. The increase in capital inflow that continued for ten consecutive months slowed down during the latter part of the year largely as a result of the interest rate hike by US Federal Reserve.

### Advanced Economies

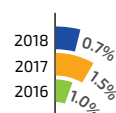
#### United States



#### Euro Area

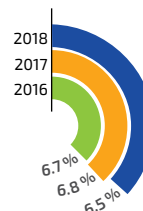


#### Japan

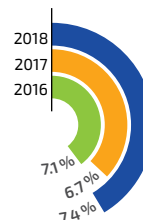


### Emerging Market and Developing Economies

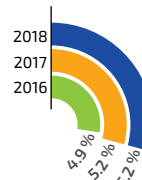
#### China



#### India



#### ASEAN 5



### Asian Economy

Driven by trade expansions, the estimated growth outlook for developing Asia in 2017 indicated a growth rate of 6%. Moreover, the Asian region succeeded in maintaining the inflation rate at 3.2% lower than the global rate. However, the growth projection for South Asia in 2017 saw a drop from 6.8% to 6.6% due to the sluggish growth expansion recorded in India.

● 2016 ● 2017 - Estimated ● 2018 - Projected

Source: International Monetary Fund

## Sri Lanka

In 2017, Sri Lankan economy witnessed numerous economic reforms brought forth in a bid to address the prevalent economic imbalances in the country. The economic reforms brought forward were aimed at improving the negative status quo areas such as fiscal deficit, credit growth, inflation, foreign reserves, balance of payment and foreign exchange. The Government introduced tax revisions during the year under review and passed a new Inland Revenue Act which will fully come in to effect from April 2018. In view of the heavy foreign debt repayments due in 2018 and 2019, the Central Bank of Sri Lanka (CBSL) showed a keen interest in improving the official foreign reserves during 2017. As at the year-end, CBSL was able to improve its gross official reserves to US\$ 7.3 Billion from US\$ 6.0 Billion a year ago through dollar buying, sovereign bond issues and syndicated loans.

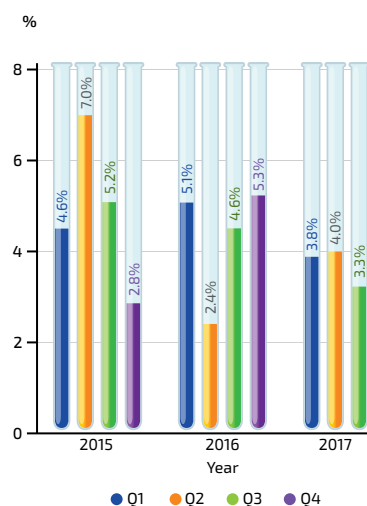
Furthermore the Government placed a key interest on increasing Foreign Direct Investments (FDIs) especially through partnerships. FDI inflow of the first eleven months of the year grew by 93% when compared to the previous year to reach US\$ 766 Million and this growth was mainly due to the low FDIs' recorded in the previous year. During the year Sri Lanka attracted FDIs' mainly from China and India which accounted for 35% and 16% respectively from the total FDIs. In addition, the country received the third tranche of US\$ 167.2 Million from the total US\$ 1.5 Billion of Sri Lanka's IMF Extended Fund Facility.

Also, during the first ten months of the year, the Government revenue as a percentage of estimated GDP increased to 10.4% and the fiscal deficit as a percentage of GDP decreased to 4.9% up from 5.4% in the previous year.

## Gross Domestic Product (GDP)

The country's GDP as at the end of first nine months of 2017 recorded a 3.7% growth rate, indicating a restrained growth when compared to the 4.0% GDP growth rate recorded at the end of the first nine months of 2016. Volatile weather conditions such as the prolonged drought experienced in parts of the island and heavy floods experienced during the year, weakened growth in the agricultural sector which contributed to weak growth in performance. Reduction in disposable income and political instabilities further hampered the GDP growth. However, the industrial and services sectors recorded a slight expansion, mainly driven by the increase in construction activities coupled with the expansion in mining and quarrying activities.

GDP Growth 2015 - 2017

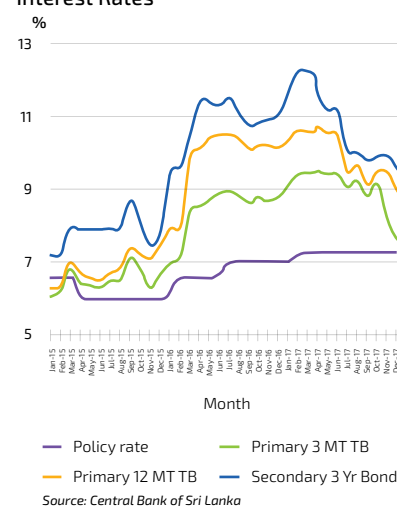


The agriculture sector performance further dropped to (3.2%) during first nine months of 2017 when compared to the (2.7%) growth in 2016, meanwhile, industry and services sectors respectively recorded slow growth rates of 4.5% (2016 : 5.8%) and 4.2% (2016 : 4.0%) during first nine months of 2017.

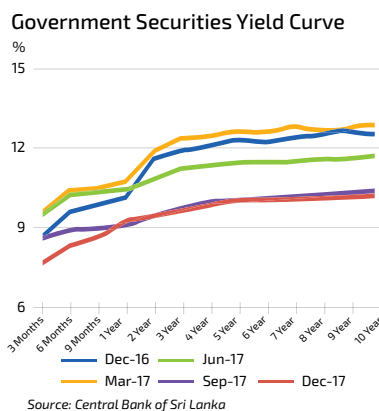
## Interest Rate

In March 2017 the CBSL tightened its monetary policy by increasing the policy rates by 25 basis points. This remains the only policy rate adjustment experienced during the year with the gradual slow down recorded in the country's credit growth. During the year, 12 months Treasury Yield decreased by 127 bps to reach 8.90% from 10.17% . This positive indicator resulted from the favourable response of both local and foreign investors following the economic reforms that took place during the latter part of the year.

Interest Rates



## Key Trends in Our Operating Environment Contd.



### Credit Growth

The CBSL succeeded in decreasing the private sector credit growth to the desired level of 15% from 21% recorded a year ago driven by deceleration of private sector credit during the latter part of the year. However the lending rates did not decrease even though the treasury yield decreased drastically.

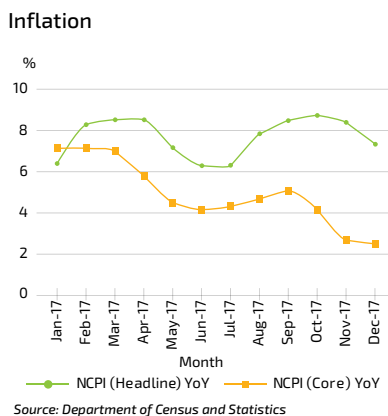
Considering the successful implementation of economic reforms and the improvement in various macroeconomic indicators achieved during the year, S&P international credit rating agency revised Sri Lanka's credit outlook from negative to stable with a grade "B+"

### Inflation Rate

Inflation, as measured by the change in the National Consumer Price Index (NCPI) (2013=100), was at 7.3% in December 2017 on YoY basis. The increase in prices of the items in the Food category due to the supply shocks experienced in the aftermath of adverse weather conditions caused the YoY inflation to drastically increase in the second half of the year.

The lower base effect in the price index in the previous year also resulted in contributing to the higher inflation rate that occurred during the second half of this year.

The NCPI Core inflation, which reflects the underlying inflation in the economy excluding the food items, continued to follow a declining trend. As such, the NCPI Core inflation decreased to 2.7% in December 2017 on YoY basis.



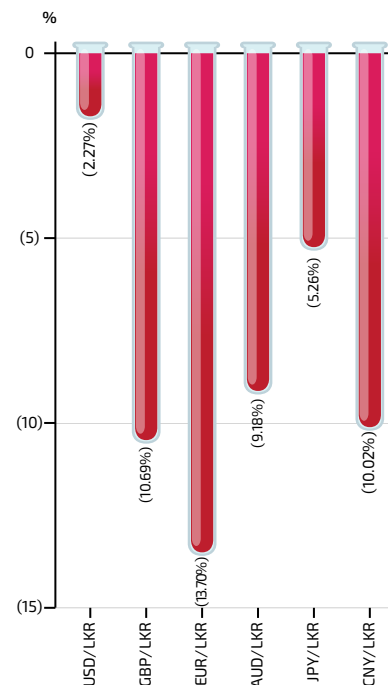
### Exchange rate

During the year, the Sri Lankan Rupee depreciated largely against most of the major currencies. However, due to the weakening of the US Dollar in a global context, the Sri Lankan Rupee posted a relatively moderate depreciation rate of 2.3% against the USD.

Given the CBSL's stance of not defending the Rupee anymore, these depreciation levels were very much expected by the market.

In view of the cross currency exchange rate movements, the Sri Lankan Rupee depreciated against the Sterling Pound by 10.69%, the Euro by 13.70%, the Japanese Yen by 5.26% and the Australian Dollar by 9.18% during this period.

### Exchange Rates Movement - 2017 (YTD)



### External Sector

Export earnings during first eleven months of 2017 grew by 9.4% YoY to USD 10,340.6 Million mainly driven by higher earnings from industrial exports, reflecting the increase in garment exports to the USA and the EU markets along with earnings from agricultural exports which continued to increase by October 2017. Meanwhile, cumulative import expenditure for the first eleven months reached USD 18,931.3 Million with a growth of 9.0% YoY. This growth was mainly supported by the increase in crude oil prices and increase in rice imports to fulfill the shortage of rice in the domestic market. The trade deficit during the first eleven months of 2017 expanded to USD 8,590.6 Million from USD 7,916.0 Million recorded in the corresponding period of 2016. On a cumulative basis, tourist arrivals and earnings from tourism increased by 3.2% YoY. Workers' remittances continued to decline significantly by 7.3% YoY on a cumulative basis as at November 2017.

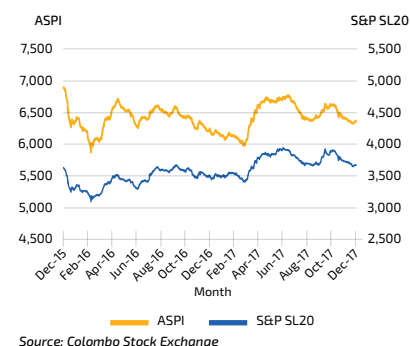
## Stock Market Performance

The Colombo Stock Exchange (CSE) recorded a moderate growth for the year. All Share Price Index (ASPI) and S & P SL20 grew by 2.26% and 5.01% respectively as a result of the contrasting sentiments between the dismal local investor confidence and high participation of the foreign investors. The total market capitalization increased to Rs. 2,899 Billion from Rs. 2,745 Billion in 2017 while both P/E and PBV ratios dropped from 12.37 and 1.42 times to 10.60 and 1.31 times in 2017. During the year, the CSE attracted Rs. 18.5 Billion in terms of foreign inflows which is one of the highest levels recorded in the market history. The slow economic growth and moderate earnings of

most counters as well as policy inconsistencies contributed to decrease the interest levels of local investors in equity investments. However, the plantations and banking and finance sectors performed well during 2017.

During the year there were five new companies listed through IPOs in the CSE as well as a number of rights issues were carried out mostly by the listed banks.

ASPI and S&P SL 20 Performance

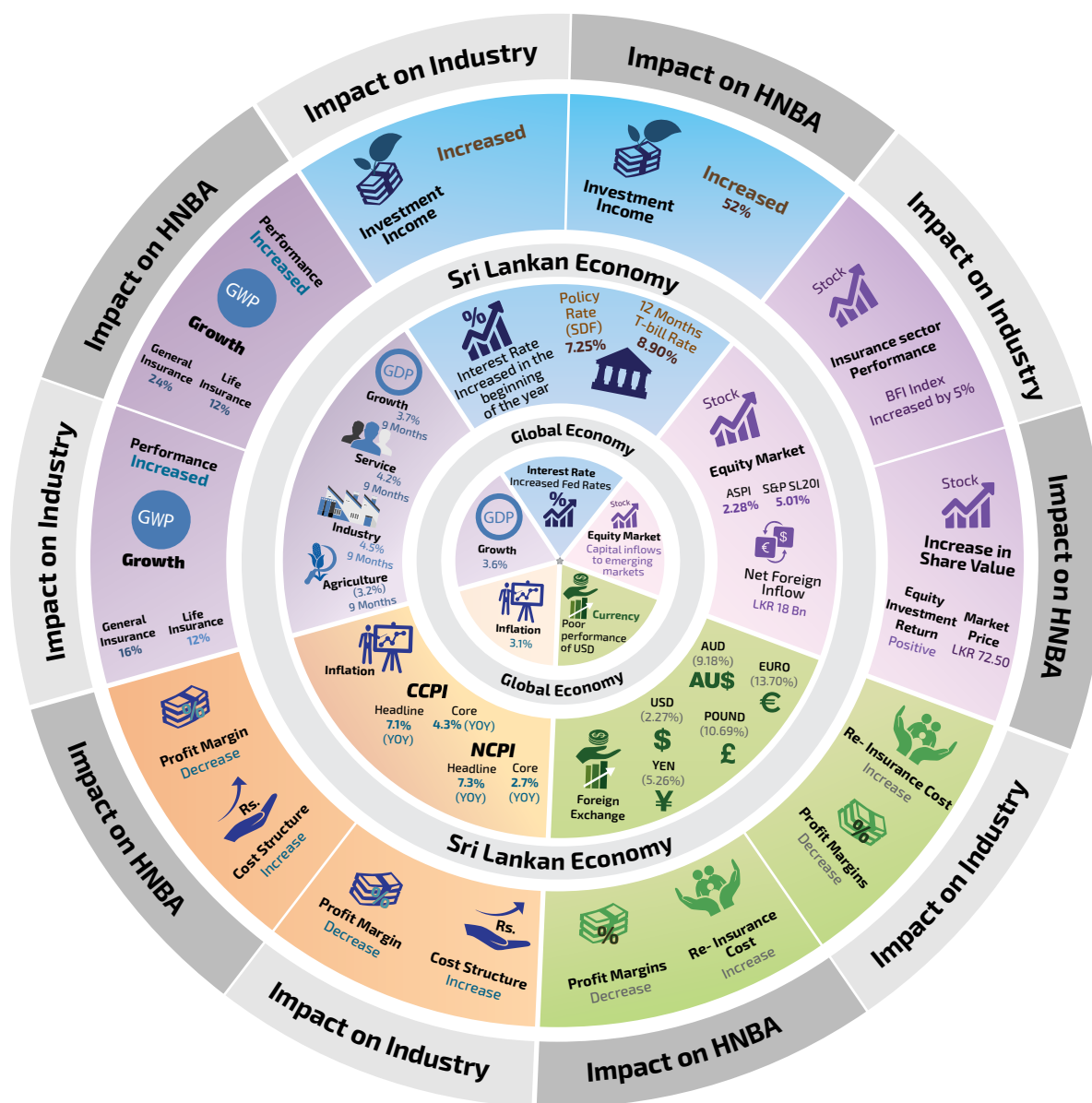


## Future Outlook

Macro-Economic Indicator	Future Outlook
Gross Domestic Product	Economic growth is expected to increase to 5.5% as per the CBSL expectations. However, we believe that the economic growth will be around 5%.
Interest Rate	Interest rates are expected to remain at current low levels at least till the end of 2018 in order to support satisfactory growth in the economy.
Credit Growth	We expect the CBSL to maintain credit growth at current levels.
Inflation Rate	Inflation will be maintained at a single digit level. Further, we expect a slight reduction in the inflation rate during the latter part of the year as a result of the base effect.
Exchange Rate	The CBSL will hold on to its current stance on the Rupee, where it will not defend the currency at the expense of foreign reserves. The CBSL will allow managed depreciation of the currency to facilitate international trade of the country.
External Sector	Regaining GSP+ facility from the European market and the economic recovery in most of Sri Lanka's trading partners will create a positive impact on the country's exports and the positive momentum of FDIs will continue through Government partnerships with foreign investors.
Stock Market Performance	The new Inland Revenue Act which will come in to effect from April 2018 would have a significant impact on earnings of some of the sectors and lead to a moderate growth in the equity market.

## Key Trends in Our Operating Environment Contd.

### Macro-Economic Impact on Insurance Industry and HNBA



## Social Drivers

In spite of the commendable growth levels experienced in the recent past, Sri Lanka's Insurance Industry has yet to realize its full potential.

- Per capita income of the country is on the rise with increased GDP creating a demand for insurance
- Reduced unemployment rates, boom in the housing and construction industry and urbanisation creates opportunities for General Insurance Industry
- Rapid increase in the aging population (age above 65 years) and the noted increase in Non – Communicable Diseases (NCDs) give rise to the demand for health insurance
- Popularity of risk based insurance products among generation Y given the increased complexities in life styles
- Technology driven products which appeal to the millennial generation

## Competitive Drivers

The competition in the Insurance Industry is intensifying day by day with market consolidation and all players targeting the same customer base due to low insurance penetration.

- General Insurance business will face stiff competition with the trend of consolidation of insurance companies who will possess high reinsurance capacities

- Technological advances are changing the business models of the players in the industry. Emergence of online brokerage firms, offering of online products and enhanced customer access to information further contribute to profoundly intensify competition
- Heavy price competition among insurance players in the market can be harmful to the industry as a whole. This phenomenon is particularly evident in the Motor Insurance segment as well as Mortgage Reducing Policies

## Technological Drivers

Rapid and intense transformations in the technological environment continue to force companies to rethink their business models and the way they do business.

- New technologies are reshaping the entire value creation process of companies and the way in which products are delivered to customers as well as customer appetite. Consumers look for personalisation, convenience and security as the main value drivers
- Mega technology trends such as digital eco systems, rise of fintechs, cloud computing, big data analytics, artificial intelligence is transforming the business environment
- Given the changing demographics of the country, technological factors will become crucial elements in driving the Insurance Industry forward

## Environmental Drivers

Current realities of the world call for environmental conservation and sustainable development to take prominence in all aspects of business in order to create lasting value for all stakeholders.

- The country experienced a series of natural catastrophes such as floods, droughts and cyclones during the year which disrupted human lives and caused heavy property damage. These in turn had a major impact on the Insurance Industry
- Natural catastrophes contributed to the rise of inflation rates through the direct impact imposed on the agriculture sector
- Consumers are increasingly conscious about the impact created by businesses on the environment and how businesses contribute to sustainable development

**The competition in the Insurance Industry is intensifying day by day with market consolidation and all players targeting the same customer base due to low insurance penetration**



# Key Trends in Our Operating Environment Contd.

## Regulatory Drivers

The Company operates in a highly regulated environment and the Management always ensures strict compliance with rules, regulations and best practices applicable to its operations. The regulatory framework provides relevant laws, regulations and best practices for companies to carry out their business operations at accepted levels to all stakeholders. HNB Assurance Group is governed mainly by the following rules and regulations;

- The Regulation of Insurance Industry Act, No. 43 of 2000, and amendments thereto, coupled with other regulations issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL), primarily regulate the Insurance Industry in Sri Lanka
- Listing Rules and regulations issued by the Colombo Stock Exchange
- Regulations issued by the Securities and Exchange Commission of Sri Lanka
- Inland Revenue Act and other regulations issued by the Department of Inland Revenue
- The Auditing & Accounting Standard Monitoring Act, and
- other laws/ regulations applicable to a Sri Lankan corporate entity

A key Group Strategy involves the adaptation of regulatory changes at the earliest and changing the internal environment to meet the new requirements.

Key changes in the regulatory environment during 2017 are discussed below;

### Compliance with Regulations and Guidelines

#### Shift to the Risk Based Capital (RBC) Framework

The Group successfully switched to the Risk Based Capital Framework, replacing the previous Solvency Framework in 2016.

HNB Assurance recognised a one-off surplus of Rs. 354 Million as of 01st January 2016 as a result of rule change from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) of liabilities. IRCSL has mandated that one off surplus to be maintained in the Life Insurance Fund without transferring/distribution of any part of the One-off surplus until specific instructions are issued. Insurance Association of Sri Lanka has officially requested from IRCSL to allow insurance companies to transfer/distribute One-off Surplus. As per the new RBC rules, every insurer shall maintain a minimum Capital Adequacy Ratio of 120% and maintain a minimum Total Available Capital of Rs. 500 Million, calculated as per the guidelines given in the rules. Accordingly, the Capital Adequacy Ratios of HNB Assurance PLC (HNBA) and HNB General Insurance Limited (HNBGI) were recorded at 358% and 178% respectively, as at 31st December 2017. Total Available Capital of HNBA and HNBGI stood at Rs. 6,038.4 Million and Rs. 945.7 Million respectively by the year end.

### Regulation of Insurance Industry (Amendment) Act, No. 23 of 2017.

During the year under review, the Regulation of Insurance Industry Act, No. 43 of 2000 was amended through the Regulation of Insurance Industry (Amendment) Act, No. 23 of 2017. The amendment brought the following two main changes that will affect HNB Assurance PLC and HNB General Insurance Limited.

#### 1. Exemptions to the requirement of insurers to be listed on a licensed stock exchange

As per section 52 (1) of the Regulation of Insurance Industry Amendment Act, No. 03 of 2011, all insurers were required to be listed on a Stock Exchange licensed under the Securities and Exchange Commission of Sri Lanka. Accordingly, the Company's fully owned subsidiary HNB General Insurance Limited too was required to be listed on the Stock Exchange before 31st December 2017. However, the Regulation of Insurance Industry (Amendment) Act, No. 23 of 2017 has provided an exemption on this requirement for local subsidiary insurance companies of parent companies who are listed on a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka Act, No. 36 of 1987. Therefore, HNB General Insurance Limited can apply for this exemption.



2. The restriction on insurance agents of an insurer from working for another insurer has been amended to impose the restriction only on agents that work for insurers who carry out the same class of insurance business.

Previously the insurance agents of an insurer could not work for another insurer. Therefore, agents who were in composite insurance companies were adversely affected by this regulation after the regulation on segregation came into effect. Accordingly, agents of HNB Assurance PLC who were involved in Life and General Insurance sales had to select one class of insurance business after segregating the companies. However, with the amendment to this regulation, insurance agents of HNB Assurance PLC will be able to carry out sale of general insurance under HNB General Insurance Limited as well.

### Procedure on Management of Insurance Funds -Long Term Insurance Business

During the year, the Insurance Commission of Sri Lanka introduced procedure on management of insurance funds with the objective of ensuring the proper attribution of assets and returns of assets, liabilities and expenses through the proper segregation of insurance funds. Accordingly, the Company has taken necessary steps to comply with the relevant procedures.

### Guidelines on Unclaimed Benefits of Long Term Insurance Business

The IRCSL issued guidelines on handling the money that have become due and payable to an insured by an insurer on the maturity or otherwise of any long-term insurance policy. Currently, insurers have adopted different methods of handling such unclaimed benefits by long-term insurers. Therefore, the objective of the said guidelines is to have a common standard on the maintenance/application of the unclaimed benefits.

The proposed guidelines are mostly in line with the current practice adopted by the Company. However, as given in the guidelines, the Company has to give access to the details of the unclaimed benefits to the public through the Company's website. Therefore, the Company now fully complies with this guideline.

### Compliance with Colombo Stock Exchange (CSE) Listing Rules

#### Minimum Public Holding Applicable to Listed Public Companies

During 2017, the CSE introduced enforcement rules on minimum public holding due to non-compliance. HNB Assurance PLC had consistently maintained its minimum public shareholding well within the regulations set by the Colombo Stock Exchange. The Company's public shareholding over the last six years is given in the following table.

Year	Public Shareholding	
	%	No. of Shareholders
2017	38.63	3,422
2016	38.66	3,463
2015	39.21	3,514
2014	39.14	3,467
2013	39.76	3,662
2012	39.86	3,773

### Foreign Account Tax Compliance Act (FATCA)

As required in the Foreign Account Tax Compliance Act (FATCA), HNB Assurance PLC has registered with the US Internal Revenue Service (IRS).

As per the FATCA, the Company is required to provide to the IRS, the details of customers who are US citizens. In order to comply with this requirement, the Company redesigned its documents to capture this information when issuing new insurance policies. The Company's FATCA registration details are given below,

FATCA ID : QVSWYL  
GIIN : QVSWYL.99999.  
SL.144

## Proposed amendments of Budget 2018 and New Inland Revenue Act No, 24 of 2017

New Inland Revenue Act will be effective from 01 April 2018; a new method has been introduced to tax the Life Insurance Company profits. It is a complete change from 'I – E' basis and the Companies will be taxed on the following basis;

- The surplus distributed to shareholders from the life insurance policyholders fund, as certified by the Appointed Actuary, taxed at the Rate of 28% (Non-participating fund/business)
- The Investment Income of the shareholder fund minus any expenses incurred in the production of such income taxed at the Rate of 28%
- The surplus (bonus) distributed to a life insurance Policyholder taxed at the Rate of 14% (participating Policyholders fund/business)

Further, the Government has proposed following key changes in addition to the above changes;

- Notional Tax Credit (NTC) has been withdrawn on the Interest income of Government Securities.
- Debentures will be liable to Withholding Tax (WHT) of 5% and entitled to claim credit on taxes withheld on interest income.

- WHT scope has been expanded to cover the following payments which are currently not subject to WHT:

- Service fee to a resident individual who is not an employee of the payer with a source in Sri Lanka as a commission or brokerage to a resident insurance, sales or canvassing agent and amount exceeding Rs.50,000 per month subject to 5% of WHT
- Pays a service fee or Insurance premium with a source in Sri Lanka to a non-resident subject to a 14% of WHT

- Unutilized losses can be carried forward only up to 6 years and the 35% restriction on Total Statutory Income (TSI) has been withdrawn in the proposed law.
- A tax of 10% has been introduced on capital gains realized on investment assets.
- Deemed dividend tax has been removed.
- Time bar provisions for raising an assessment have been extended to 4 years from the date of filing a return while the Appeal should be determined within ninety days.

## Changes in the Accounting Standards

### SLFRS 9 : Financial Instruments

This will have a significant impact on the Group financials. The Group has conducted a gap analysis and will use the deferral option given to insurance Companies to adopt the standard on 01 January 2021.

### IFRS 17 : Insurance Contracts

This will have a significant impact on the Group financials. However, Sri Lankan Accounting standards setting body, CA Sri Lanka has not issued the corresponding standard in the Sri Lankan context. The Group will commence a gap analysis in 2018.

**The Company operates in a highly regulated environment and the Management always ensures strict compliance with rules, regulations and best practices applicable to its operations.**

# Capital Management Reports

## OUR CAPITALS

The six capitals form the base of our stakeholder value creation process. The way we mix these capitals to create sustainable value for our shareholders and all other stakeholders is our winning formula for success. The ensuing Capital Management Reports are concise narratives of how we create that right blend.

**Financial & Manuf. Capital**  
Page 136-145

**Human Capital**  
Page 146 -157

**Social & Relationship Capital**  
Page 158 -176

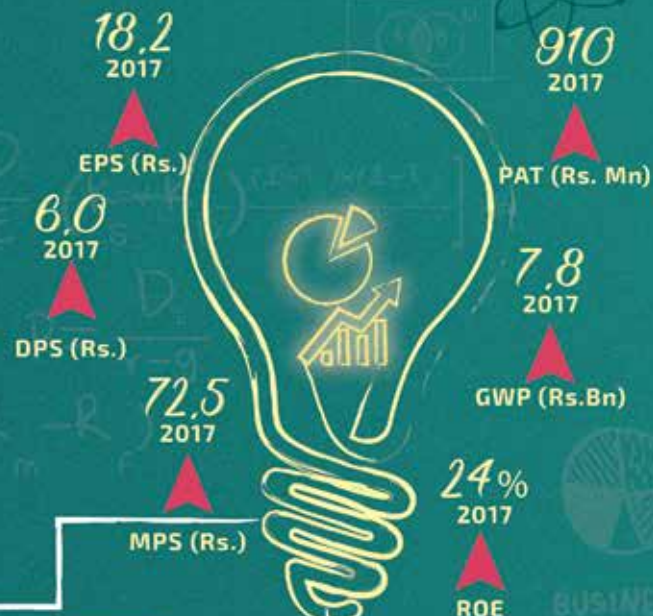
**Intellectual Capital**  
Page 177 - 181

**Natural Capital**  
Page 182 - 183

# Financial Capital

## Key Concerns of Investors

- High competition in the market and potential loss of revenue
- Revenue growth in volatile economic conditions and cost management
- Sustainable return on the investments made



## Expectations

### Of the Investor

- Sustainable growth in wealth through dividends and share price
- Sustainable continuation of the business operation

### Of the Company

- Adequate levels of capital and equity to take advantage of market opportunities
- Effective risk management
- Continuous support from the investors

Investment Management

Our Financial capital is the economic resources we possess in terms of the funds invested by our shareholders and the internal cash flow generated by the Group. Manufactured capital incorporates material goods, tools, technology and infrastructure that the Group owns.

## Our Winning Formula

The single seed that our shareholders bestowed on us by providing investment capital flourished further, deriving nutrients from the winning combination of our other capitals to grow into a resilient tree, capable of withstanding the elements and bearing fruit for our

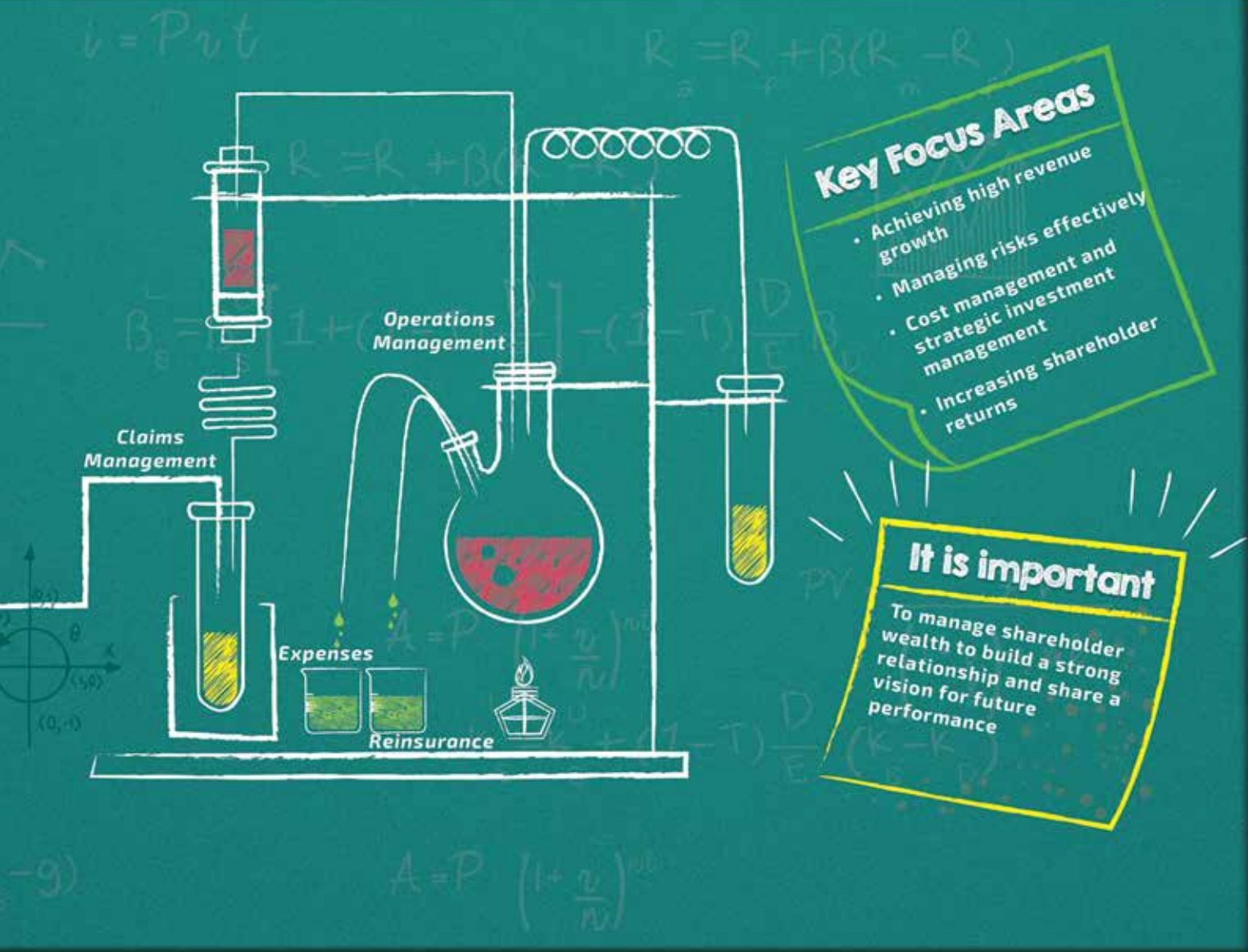
owners, our providers of capital. Hence, we focus on delivering sustainable value for our capital providers consistently and not only in the immediate future but also in the long term. Our winning formula to generate the best possible financial value addition for our stakeholders including revenue generation in the form of premiums, management of claims and expenses in combination with robust investment management.

## Challenging Year

At the commencement of the year 2017, we set our financial aspiration high to outperform the industry in premium growth and deliver a Return on Equity (ROE) not less

than 24%. The year turned out to be one rife with various macro-economic and other challenges. Slower economic growth, increasing inflation and dampened credit growth made Life insurance unattractive, while lower vehicle registrations saw General Insurers fighting for a slow growing market. Severe floods that occurred twice during the year further eroded the margins of General Insurance sector due to the high volume of claims in numbers and value. Towards the second half of the year, yields started to fall pressuring our Investment Income targets and increasing our Life Insurance Fund liabilities.





## Robust Performance

In spite of the multitude of challenges, the Group succeeded in achieving a premium income of Rs. 7.8 Billion with a 17% growth and a ROE of 24%.

Both our premium income and asset base doubled compared to five years ago. The strong growth in premium income, prudent underwriting practices, expense management and investment management strategies were key to delivering desired results. What follows is the detailed review of how we delivered these results.

## Our Financial Performance

### Gross Written Premium Growth

The Gross Written Premium (GWP) is the core revenue of insurance business. GWP of the Group grew by 17% reaching a value of Rs. 7.8 Billion during the year under review in comparison to the Rs. 6.7 Billion generated during the previous year. It is noteworthy that we have outperformed the industry which grew by 14% as per the latest information available.

This achievement was a result of the 12% growth in the Life Insurance segment and the 24% growth in the General Insurance segment.

General Insurance GWP growth outperformed the industry which grew by 16% while Life Insurance was on par with the industry growth.

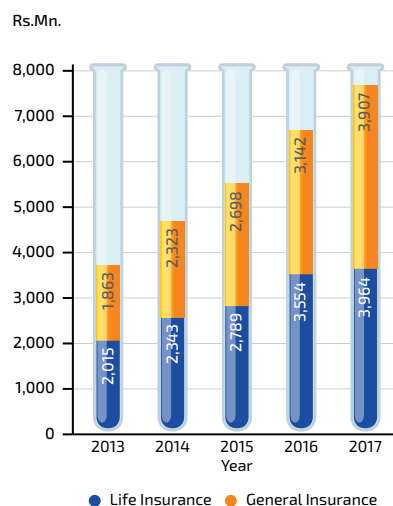
Life Insurance business contributed Rs. 3.96 Billion GWP (2016: Rs. 3.55 Billion), driven primarily by the steady growth in Endowment Policy Premiums. Focused effort of driving sales enabled growth in endowment business despite the rise in inflation in the country. Lower private sector credit growth dampened growth in Mortgage Reducing Policies whilst declining interest rates made investment type policies unattractive.

## Capital Management Reports Contd.

Nevertheless, the Company successfully overcame these adverse environmental effects through sales strategies for Advisor and Bancassurance Channels to grow fund based and protection based regular premium endowment business.

General Insurance business generated a GWP of Rs. 3.91 Billion (2016: Rs. 3.14 Billion) with over 70% of the GWP coming from Motor Insurance business while Fire Insurance business was the highest contributor from the Non-Motor segment. Focused effort in acquiring new retail and corporate business as well as strong focus on retention of profitable business could be cited as the key to growth in General Insurance GWP.

### Gross Written Premium



Please refer page 186 for review of Life Insurance GWP

Please refer page 194 for review of General Insurance GWP

### Reinsurance Outflow

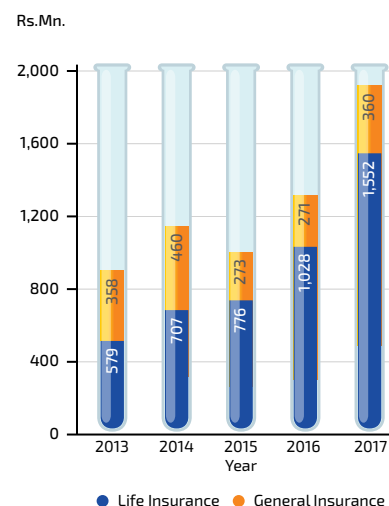
Reinsurance outflow is the payment made by us to reinsurers for sharing our risk. Rs. 1.1 Billion, which accounts for 14% of the Group GWP, was ceded to reinsurers by the Group during the year. This outflow marked an increase of 25% compared to the Rs. 877.7 Million ceded in 2016. This was mainly due to the 27% increase in General Insurance reinsurance cost incurred which accounted for 83% of the total reinsurance cost. Consequent to the two major floods that occurred in the country in 2017, foreign reinsurers imposed an increase in the Excess of Loss (XOL) reinsurance premium which was the key reason for the increase in reinsurance cost of General Insurance business.

### Net Earned Premium (NEP)

In 2017, the Group recorded a NEP of Rs. 6.4 Billion against the Rs. 5.6 Billion recorded in 2016 marking a growth of 14%. Life Insurance accounted for 59% of the total NEP with a value of Rs. 3.8 Billion (2016: Rs. 3.4 Billion) and General Insurance accounted for the remaining 41% which is a value of Rs. 2.7 Billion (2016: Rs. 2.2 Billion). NEP to GWP ratio decreased to 82% compared to 84% in 2016 due to the higher reinsurance outflow and the higher transfer to unearned premium reserves as a result of an increase in premium growth during the year.

### Investment and Other Income

#### Investment and Other Income



Investment and Other income of the Group grew by 47% recording a value of Rs. 1.9 Billion as opposed to the Rs. 1.3 Billion recorded in 2016. HNBA contributed to 82% of the Investment and Other income while HNBGI brought in the balance.

The highest contribution for investment and other income during the year was interest and dividend income which contributed Rs. 1.7 Billion. (2016: Rs. 1.2 Billion). The Group investment strategy was well supported by the increased funds from both Life and General Insurance businesses while high interest rates during the first half of the year also boosted interest income growth.

Investment and Other Revenue (Rs. Mn)	2017	2016	Growth
Interest and Dividend income	1,693	1,180	43%
Net realised gains	33	(29)	214%
Net unrealised gains	10	(6)	250%
Fees, commission and other income	176	154	14%
<b>Total</b>	<b>1,912</b>	<b>1,299</b>	<b>47%</b>



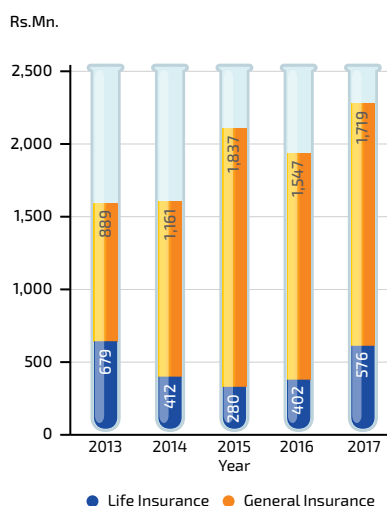
The Group capitalised on the falling interest rates and equity market towards the latter part of the year by realising Rs. 33.1 Million gains through sale of Treasury securities and quoted shares while Rs. 9.7 Million unrealised gains were also recorded from quoted investments held at fair value through profit or loss. This contrasts significantly with the Rs. 35.6 Million losses incurred on investments in 2016. The investment and other income of HNBA grew by 52% while the same grew by 32% in the case of HNBGI when compared to 2016.

Fee, Commission Income and Other Income of the Group, comprising primarily of policy fees, fund management fees, profit share commission from Reinsurers and sundry income, grew by 14% during the year posting a value of Rs. 175.8 Million (2016: Rs. 153.8 Million). Although a significant drop was seen in profit share commissions from Reinsurers due to the high volume of claims which arose from the two flood situations, growth in the business volumes increased fee income significantly to record an overall growth.

### Net Claims and Benefits

The Group incurred Rs. 2,293.4 Million as net claims and benefits to customers compared to the Rs. 1,947.6 Million in 2016 marking a 18% growth. General Insurance Claims accounted for 75% of the total net claims with HNBGI incurring Rs. 1,718.8 Million (2016: Rs. 1,546.6 Million) as net claims while the balance was incurred by HNBA which amounted to Rs. 575.6 Million (2016: Rs. 401.7 Million).

### Net Claims and Benefits



Risk based underwriting and weeding out of unprofitable business helped HNBGI to curtail the growth in net claims to 11% despite two flood situations affecting the customer base during the year. This growth mainly arose from Motor and Fire classes. Further, HNBGI reduced its Net Claims to Net Earned Premium ratio to 64% from 69% in 2016 which is a notable achievement.

Net claims and benefits of Life Insurance increased by 43% due to a large volume of maturity claims as well as an increase in surrender payments incurred during the year. Net Claims (with maturities) to Net Earned Premium ratio of HNBA increased to 15% from 12% in 2016, while Net Claims (excluding maturities) to Net Earned Premium ratio remained at 9% as the previous year.

### Operating Expenses

The Group recorded an 11% increase in Underwriting and Net Acquisition Cost which amounted to Rs. 1,028.8 Million (2016: Rs. 922.8 Million) incurred as commissions and incentives to generate premium income net of reinsurance commission. Nevertheless the growth was maintained below the GWP growth of 17%. Nearly 80% of the cost was incurred by Life Insurance business, which has a higher commission structure.

Operating, Administration and Other related costs, which consist of staff costs, administration and establishment expenses including depreciation, selling expenses and other costs, increased by 17% reaching a value of Rs. 1,888.2 Million (2016: Rs. 1,611.9 Million). Focus on strengthening sales staff and developing employees increased staff costs while shifting our primary place of business to a more customer friendly location increased establishment expenses which were the key reasons for the increase in operating and administration expenses. Operating, Administration and Other related costs to NEP ratio was at 30% (2016 : 29%).

HNBA Group GWP Growth

17%

Industry GWP Growth  
Life & General

14%

## Capital Management Reports Contd.

### Profit Before Tax (PBT)

The Group recorded a Profit Before Tax of Rs. 927.1 Million marking a 31% growth over the Rs. 705.5 Million recorded during the previous year. The Company accounted for 78% of the Group PBT, recording Rs. 725.7 Million and marking an 11% growth over the Rs. 656.6 Million recorded in 2016. Surplus transfer from the Life Insurance Fund increased by 12% to Rs. 518.6 Million (2016: Rs. 461.1 Million) which is the main source of profit of the Company. The surplus was calculated by the Consultant Actuary following his valuation of the Life Insurance Fund after keeping due allowances for liabilities and bonuses to Policyholders. Growth in GWP, Investment Income, and diligent expense management strategies led to the increase in the surplus from the Life Insurance Fund.

Our subsidiary, HNBGI marked an impressive growth of 312% in PBT and contributed Rs. 201.4 Million to the Group PBT (2016: Rs. 48.9 Million). Effective execution of strategies to grow GWP from profitable lines, expense management and investment

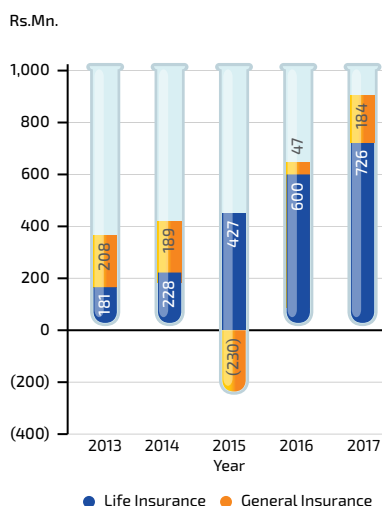
strategies could be cited as reasons for the superlative performance.

### Taxation

The Group recorded an Income tax expense of Rs. 17.3 Million against the Rs. 58.1 Million tax expense in 2016.

### Profit After Tax (PAT)

#### Profit After Tax - Group

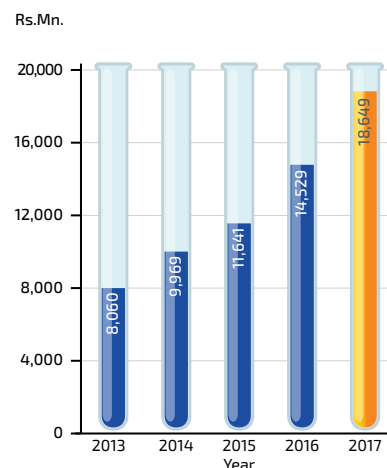


The Group recorded a Profit After Tax of Rs. 909.8 Million with a growth of 41% against the Rs. 647.4 Million recorded in 2016. HNB Assurance contributed Rs. 725.7 Million (2016: Rs. 600.1 Million) with a growth of 21% while the subsidiary contributed Rs. 184.1 Million (2016: Rs. 47.3 Million) with an impressive growth of 289%.

### Our Financial Position

#### Asset Base

#### Total Assets - Group



The Group was able to increase its asset base to Rs. 18.6 Billion (2016: Rs. 14.5 Billion) by the end of the financial year. This marked a growth of 28% compared to 2016 and an increase of over two folds compared to 2013. Contributing to this milestone, the Asset Base of HNB Assurance PLC grew by 26% reaching a value of Rs. 15.4 Billion (2016: Rs. 12.2 Billion) and the Asset Base of HNBGI grew by 26% reaching a value of Rs. 4.4 Billion (2016: Rs. 3.5 Billion).

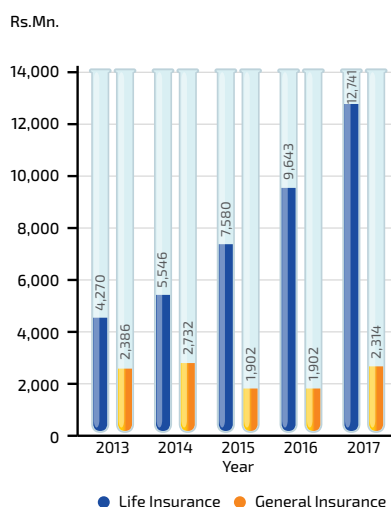
#### Financial Investments

Financial Investments, which accounts for 81% of the total Asset Base of the Group grew by a healthy 30% surpassing the Rs. 15.1 Billion mark (2016: Rs. 11.5 Billion). Financial Investments of the Company increased by 32% to Rs. 12.7 Billion (2016: Rs. 9.6 Billion) and the investments of HNBGI grew by 22% to a value of Rs. 2.3 Billion (2016: Rs. 1.9 Billion).



Growth in premium income and prudent claims and expense management strategies ensured a sizable flow of funds for investment resulting in the growth of Financial Assets

#### Financial Investments - Group



Financial investments held in the Loans and Receivables category comprising term deposits, listed debentures and repurchase agreements increased to 56% of total financial investments (2016: 46%). Investments in assets classified as Available For Sale, consist primarily of treasury bonds, decreased to 42% of the total (2016: 51%). The shift was the result of the Group increasing investments in term deposits, as risk free yields started to fall during the second half of the year. Approximately 1% of the total financial investments are in equity investments classified as Fair Value through Profit or Loss while another 1% is in Treasury Bonds classified as Held to Maturity.

Constant measures are taken to invest in the best financial investment mix remaining mindful of Asset Liability Management

(ALM), counterparty risks, concentration risk and applicable regulations including such regulatory measures implemented by RII Act and the IRCSL. Thus, we ensure that we give the optimum returns to both shareholders and policyholders.

A more detailed analysis of our Financial Investments can be read on pages 199 to 202 while steps taken to minimise investment risk is detailed on page 201.

#### Reinsurance Receivable

Reinsurance receivable value of the Group increased by 15% during 2017, reaching a value of Rs. 569.8 Million against Rs. 494.7 Million recorded the previous year. HNBGI recorded a reinsurance receivable of Rs. 504.8 Million and HNBA recorded a reinsurance receivable of Rs. 65.0 Million with growth rates of 15% and 19% respectively. The main reason for the 15% rise in HNBGI was due to the increase in claims on account of natural calamities experienced during the year. These accounted for 89% of the total Reinsurance Receivable value.

#### Loans to Life Policyholders and Premium Receivable

Loans given to Life Policyholders increased by 35% reaching a value of Rs. 162.3 Million at the end of the financial year in comparison to Rs. 120.4 Million recorded the previous year.

High GWP generation during the year resulted in premium receivable from customers marking a growth of 26%, reporting a value of Rs. 786.3 Million (2016: Rs. 623.3 Million).

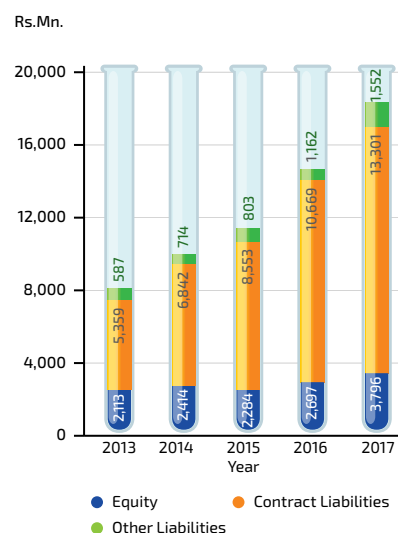
The growth is mainly driven by the 26% increase in reinsurance receivable of HNBGI which contributed Rs. 778.8 Million (2016: Rs. 616.5 Million) accounting for 99% of the receivable balance.

**Financial Investments, which accounts for 81% of the total Asset Base of the Group grew by a healthy 30% surpassing the Rs. 15 Billion mark**

#### Capital Structure and Capital Adequacy

Insurance Contract Liabilities, Equity and Other Liabilities are the main sources of funding of our Asset Base. The contribution made by Insurance Contract Liabilities for the capital structure stood at 71%, while Equity and Other Liabilities contributed 21% and 8% respectively.

#### Capital Structure



## Capital Management Reports Contd.

### Insurance Contract Liabilities

Insurance Contract liabilities are maintained to meet future obligations to policyholders. Life Insurance and General Insurance Contract Liabilities as at 31st December 2017 grew by 25% and 24% respectively in comparison to the end of the previous year.

Life Insurance Contract liabilities crossed the Rs. 10 Billion mark reaching a value of Rs. 10.9 Billion (2016: Rs. 8.7 Billion). The valuation of the Life Insurance Contract Liabilities and the Liability Adequacy Test (LAT) of Life Insurance was carried out by our Consultant Actuary, Mr. Hassan Scott Ordien, of Actuarial Partners Consulting Sdn Bhd. Given the results of LAT, it was concluded that the Company has maintained adequate provisions to meet future obligations to policyholders, thereby meeting the requirements of SLFRS – 4, Insurance Contracts.

More details of Life Insurance Contract Liability is presented on page 309 and the report of the Consultant Actuary is presented on page 254.

General Insurance Contract Liabilities reached a value of Rs. 2.4 Billion (2016: Rs. 1.9 Billion). Mr. Matthew Maguire of NMG Consulting carried out the valuation of the General Insurance Contract Liabilities and the LAT. It was concluded that HNBGI has made adequate provisions in Unearned Premium (UEP), Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) reserves to meet future obligations.

Further, through the LAT it was concluded that HNBGI has adequate provisions to meet future obligations of policyholders well in line with the requirements of SLFRS – 4, Insurance Contracts.

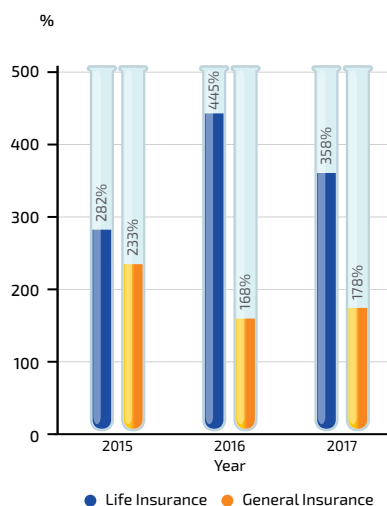
More details of General Insurance Contract Liability can be read on page 312 and the report of the Consultant Actuary can be read on page 255.

### Equity

The equity of the Group showed an impressive growth with the improved profitability of HNBA and HNBGI and reached a value of Rs. 3.8 Billion against Rs. 2.7 Billion recorded in 2016.

### Capital Adequacy Ratio (CAR) and Total Available Capital

#### Capital Adequacy Ratio (CAR)



The CAR signifies ability in absorbing risks relative to the capital position. As per the Risk Based Capital Rules published by the IRCSL in 2016, Sri Lankan Insurers are required to maintain its Capital Adequacy Ratio (CAR) above

120% to be considered solvent. Further, regular monitoring of solvency is done by the regulator if CAR falls below 160%. In addition, insurers are required to maintain a minimum Total Available Capital (TAC) of Rs. 500 Million.

Both HNBA and HNBGI were able to maintain CARs well above the stipulated minimum regulatory requirement recording 358% and 178% respectively as at 31st December 2017 (2016: 445% and 168%). This is above the industry average as per the latest information available from the IRCSL which stands at 328% for Life Insurers and 174% for General Insurers.

TAC of HNBA and HNBGI stood at Rs. 6,038.4 Million and Rs. 945.7 Million respectively as at 31st December 2017 compared to Rs. 5,274.7 Million and Rs. 745.5 Million as at the end of 2016.

Life CAR  
**358%**

General CAR  
**178%**


## Compliance to Determination 14

Determination 14 issued by the IRCSL regulates the investments made out of Life Fund in Life Insurance and technical reserves of General Insurance. Companies must maintain investments in assets approved as per the Determination to be equal to or greater than 100% of the Life Fund / Technical Liabilities at all times. As of 31st December 2017, both companies comfortably maintained 100% of Life Fund / Technical Liabilities in approved assets.

Further, the Determination also specifies that Life Insurers must invest at minimum 30% of the Life Fund in Government Securities and for General Insurers at least 20% of the Technical Reserves in Government Securities. Investments in Government Securities of HNBA and HNBGI were 48 % and 36% respectively as of 31st December 2017.

## Resources not Reflected in Statement of Financial Position

Statement of Financial Position reflects assets and liabilities which can be reliably measured in monetary terms. However, as a service oriented company assets which cannot be measured in monetary terms such as skilled employees, efficiencies arising from systems and processes, brand value and relationships with business partners, our parent HNB and customers, contribute significantly to our overall enterprise value. In addition, our credit rating of A Lka' by Fitch Lanka Limited is another of our vital strengths. Combined, such resources form the intellectual capital of the Company.

 A detailed discussion on intellectual capital is presented on page 177 to 181.

## Changes to the Reporting Framework

The Group has not opted for an early adaptation of any new accounting standards effective for the accounting periods after 31st December 2017. The following new accounting standards which have been issued will have an impact on the financials of the Group once they become effective.

### Changes to the Reporting Framework

Standard	Effective date	Comment
SLFRS 9 : Financial Instruments	01 January 2018	This will have a significant impact on the Group financials. The Group conducted a gap analysis and opted to use the deferral option given to insurance companies and adopt the standard on 01 January 2021 Option given to Insurance Companies to differ till 2021.
SLFRS 15: Revenue Contracts with Customers	01 January 2018	Applications related to SLFRS 4 – Insurance Contracts is not covered in this standard. Therefore this may not have a significant impact on insurance transactions. However, there could be an impact on other revenue transaction with the implementation of this standard. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application.
SLFRS 16 – Leases	01 January 2019	This will introduce a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard. The Group is currently assessing the potential impact on its consolidated financial statements resulting from the application.
IFRS 17 : Insurance Contracts	01 January 2021 Internationally	This will have a significant impact on the Group financials. However, CA Sri Lanka the country's Accounting standard devising body, has not issued the corresponding standard in the Sri Lankan context. The Group will commence a gap analysis in 2018.

## Capital Management Reports Contd.

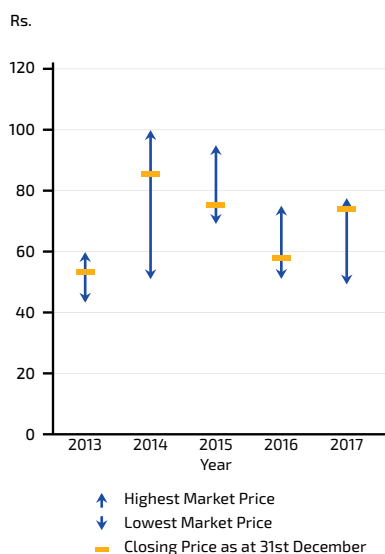
### Value Creation to Our Investors

HNB Assurance shares are listed on the Colombo Stock Exchange under the ticker 'HASU'. As of 31st December 2017, the Company had 3,432 ordinary shareholders (2016: 3,473) and the entire share capital is in the form of ordinary voting shares. HASU is a liquid share which traded 216 days out of the 242 market days. Return to shareholders takes the form of dividends and share price appreciation.



### Share Price Appreciation

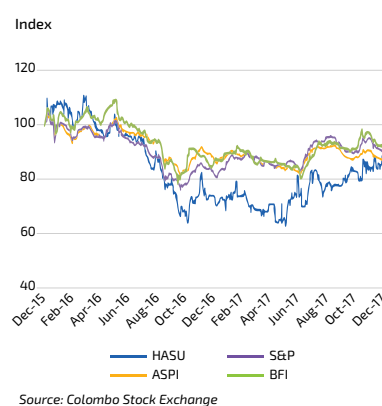
#### Share Price Fluctuation



Our share performed exceptionally well during the year given the backdrop of moderate performance

of the overall market. HASU gained by 23% during the year to reach Rs. 72.50 as at the year ended 2017 from Rs. 58.50 at the previous year. The market capitalization of HASU increased to Rs. 3.6 Billion from Rs. 2.9 Billion during the year 2017.

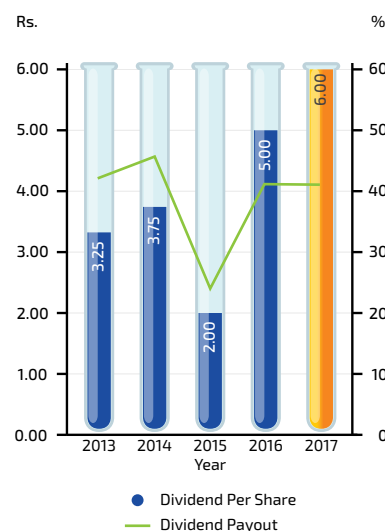
#### HASU Performance vs Market



### Attractive Dividends

The Board of Directors declared an interim dividend of Rs. 6 (2016: Rs. 5) per share for the year 2017 and this would translate to a pay-out of 41%. The total pay-out is Rs. 300 Million compared to Rs. 250 Million declared and paid out for the previous year, representing an increase of 20%.

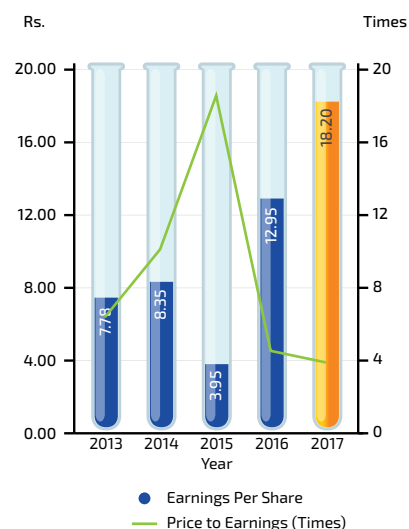
#### Dividend per Share vs Dividend Payout



### Improved Earnings Per Share (EPS)

The EPS for the year under review was Rs. 18.20 (2016: Rs. 12.95) which translates to a growth of 41% with the improved profitability of the Group. Improved bottom-line performance of the Group and increased share price has slightly reduced the Price to Earnings value to 3.98x from 4.54x in 2016.

#### EPS vs PE

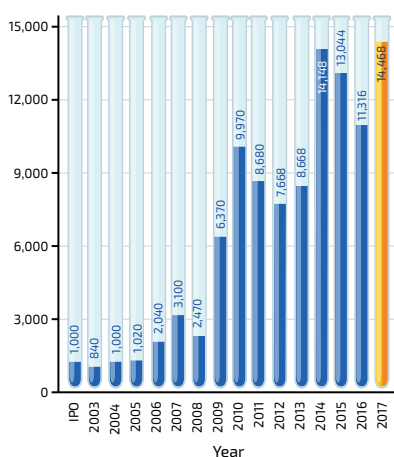




## Value Added to Initial Shareholders

A long-term investor who purchased HASU shares at a total investment of Rs. 1,000/- at the IPO in 2003, would have seen the value of the position grow to Rs. 14,468/- as of 31st December, 2017 with the HASU price appreciation and dividends collected over a period of 14 years. This in turn corresponds to an annual effective return of 19.5% over the same period.

Rs. 1,000/- Invested at HASU IPO  
Rs.



Further details on HASU can be found on Share Information note on page 116 to 120.

## Snapshot of our financial results

	2017 (Rs. Mn)	2016 (Rs.Mn.)	Growth	Target Achievement	Comment
GWP	7,821	6,657	17%	●	Growth supported by the growth of 12% in Life Insurance and 24% in General Insurance
NEP	6,392	5,598	14%	●	Lower growth compared to GWP with the high outflow of RI premium
Investment Income	1,736	1,145	52%	●	High growth with reduction in interest rates during latter part of the year and improved equity market performance
Benefits and Claims Paid	2,179	1,967	11%	●	Increase driven by high maturity and surrender claims in Life Insurance and Motor claims in General Insurance
Profit After tax	910	647	41%	●	Impressive growth with the adoption of sustainable business strategies
Total Assets	18,649	14,529	28%	●	Growth mainly driven by the increase in investments assets which accounts for 81% of the asset base
Financial Investments	15,055	11,545	30%	●	Increase in funds under management with growth in GWP inflow and Investment Income
Shareholder Equity	3,796	2,697	41%	●	Equity grown with the increased profitability of the Group
Insurance Contract Liabilities – Life Insurance	10,916	8,748	25%	●	Driven by growth in GWP and prudent expense management strategies
Contract Liabilities – General	2,385	1,922	24%	●	Growth in line with the 24% increase in GWP

● <90% Achieved    ● 90% - 100% Achieved    ● >100% Achieved

## Manufactured Capital

In our business model manufactured capital includes the investments made in infrastructure which assist the business activities. We have identified this to be a very important aspect of our business model and take constant measures to improve the infrastructure facilities supporting our business activities. Following table illustrates the manufactured capital owned by the Group;

	Cost (Rs.Mn)	Carrying value (Rs.Mn)
Office Equipment	65	18
Furniture, Fittings and Fixtures	160	76
Motor Vehicles	11	-
IT Equipment	217	76
Long Term Lease Premises	All premises on long term lease agreements	

# Human Capital

## It is important

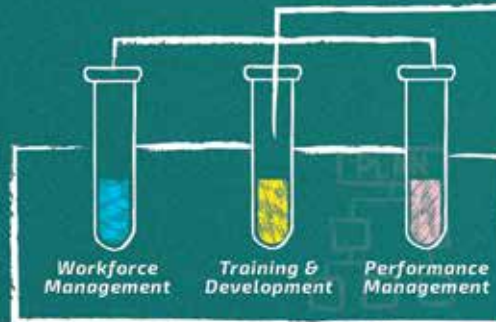
As we believe Human Capital is the driving force of our value creation process

## Key Focus Areas

- Attracting and retaining the best talent
- Diversity of the work force
- Building capabilities through training and development
- Building leaderships through succession planning
- Strong human resource governance

## Key Concerns of Employees

- Continuity of leadership
- Attraction and Retention of skilled resources
- Improved productivity of employees
- Diversity management



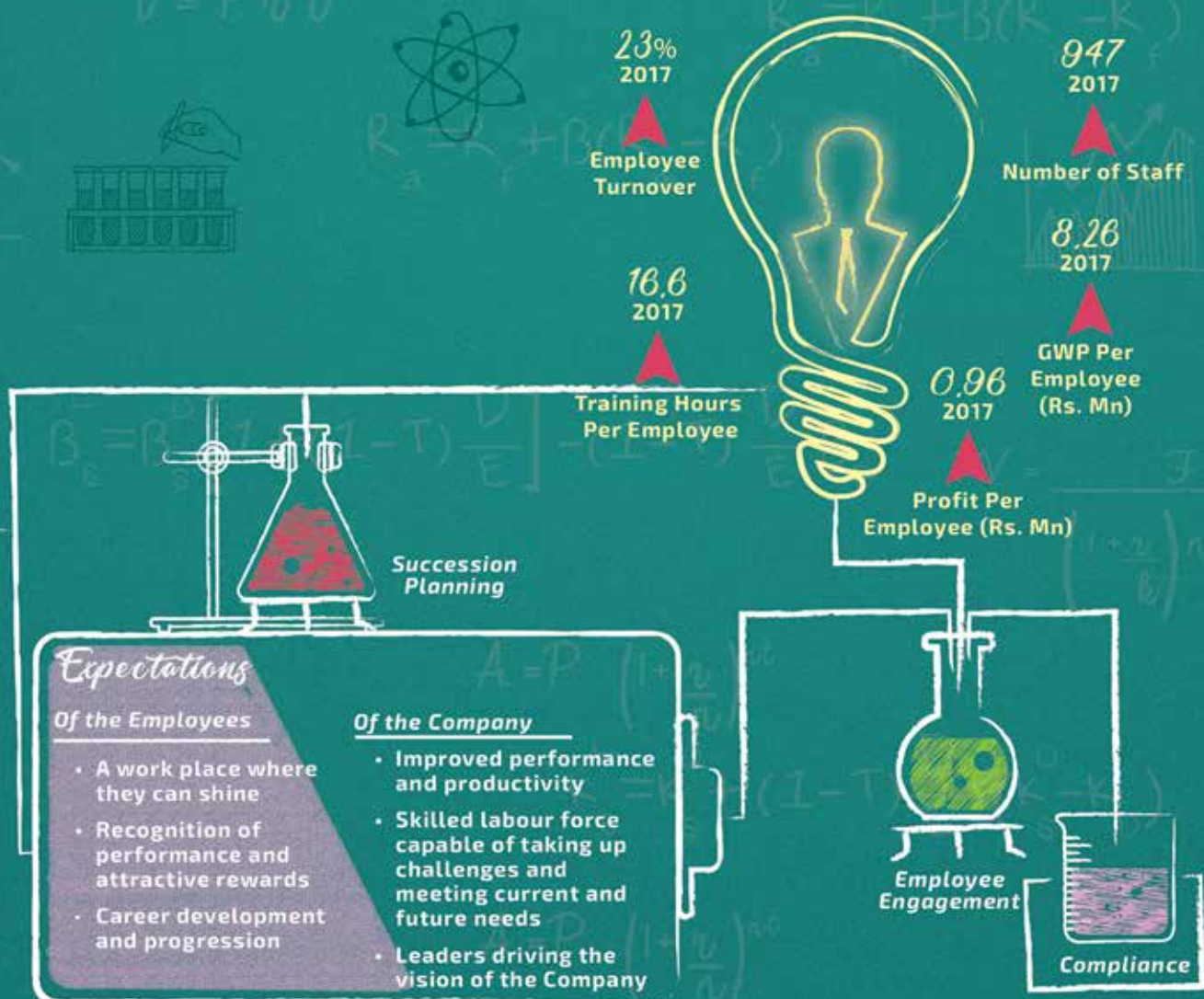
## The Winning Strategy

Our multi-talented employees form the differentiating factor of our winning formula and acts as the driving force behind our success. We believe that it is our employees who translate our strategy into positive and desired outcomes. Capable and engaged employees serve our customers better thus enhancing our reputation.

Human capital is the core of our value system and hence we take well-strategized and constant measures to attract, retain and develop talent while encouraging diversity within our workforce. Moreover, we ensure that we provide them an inclusive and inspiring workplace to excel at what

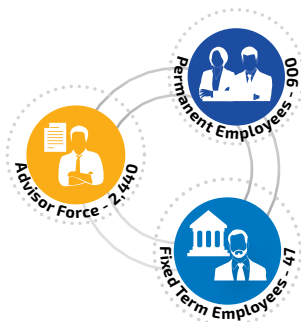
they do and in turn contribute to the success of the Company. We invest on enhancing the knowledge, skills and capabilities of our employees through training and development activities and employee engagement activities. Thus, our best effort is put into creating a place where our people can shine.





## Our Human Capital Strength

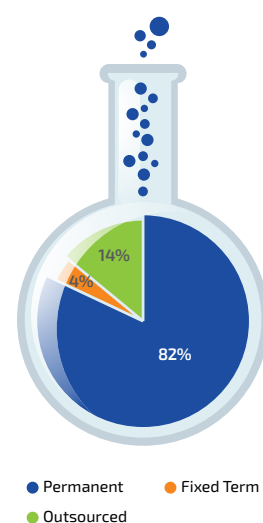
Our human capital strength which witnessed a 5% increase in 2017, comprise 947 employees (2016: 903), with 900 permanent employees (2016: 816) and 47 fixed term contract staff (2016: 87).



Each of these individuals contributes their knowledge, skills and experience to create our winning formula of delivering the

best value to our stakeholders. In addition, 159 outsourced workers contribute as casual workers, interns, and janitorial staff and security officers. Both employees and outsourced staff are full time workers. The Group also obtains the services of 2,440 insurance advisors for sale of our products. As agents of the Group, these individuals are not considered as employees and are covered separately under Business Partners on page 168. It must be noted that the information presented other than Employment by Contract Type Graphs, do not consider outsourced employees.

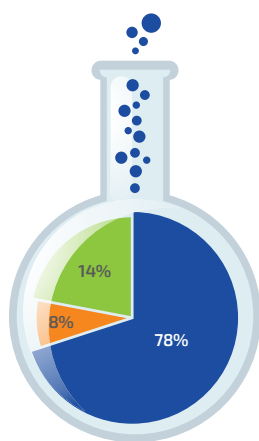
Employment by Contract Type (2017)





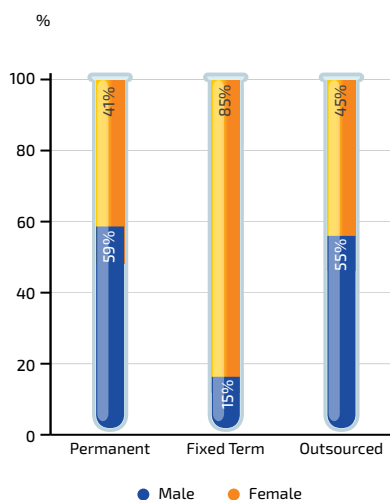
## Capital Management Reports Contd.

Employment by Contract Type (2016)



● Permanent ● Fixed Term  
● Outsourced

Employment Contract by Gender (2017)



● Male ● Female

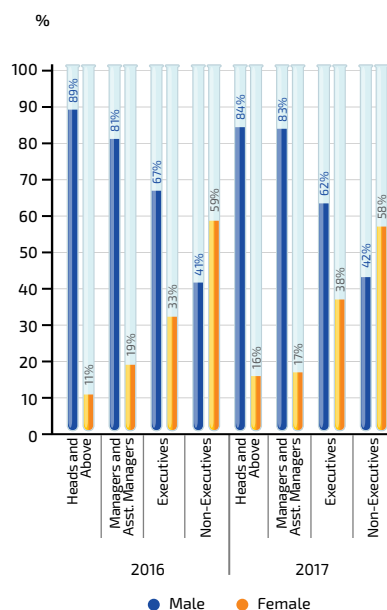
### Diversity and equal opportunity

Fostering diversity as a corporate strength is an integral part of our corporate values and we believe that this particular value steers us towards success. We are an equal opportunity employer and our employment opportunities are provided to individuals around the country irrespective of their gender, sexual orientation, ethnicity, religion, race or any other social factor. The Group's gender composition, male and female, was maintained at 57% and 43% respectively in 2017 and showed no change from 2016.

We provide employment opportunities to individuals residing across the island and 39% of our total employees are located outside the Western province. A significant proportion of our employees have been with us for a considerable period, with 38% of our staff working for over 4 years with us. The Group has also maintained a balance in terms of employee age, with 48% of our staff being below 30 years while 50% of the employees are between 30 to 50 years of age.

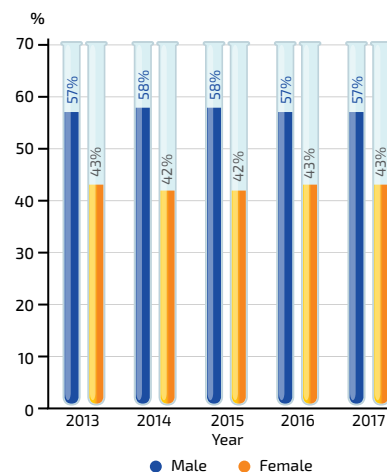
The extent to which we promote diversity in the workplace can be illustrated through following graphs.

Employees by Staff Category and Gender



● Male ● Female

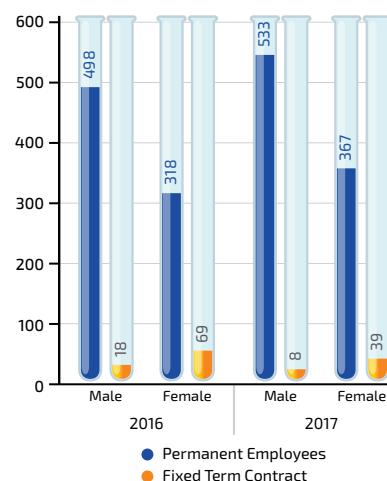
Gender Composition



● Male ● Female

Employees by Employment Contract and Gender

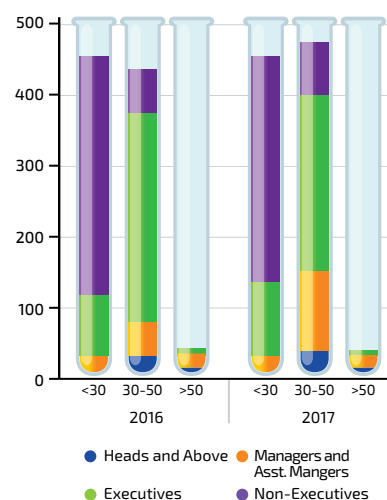
Head Count



● Permanent Employees  
● Fixed Term Contract

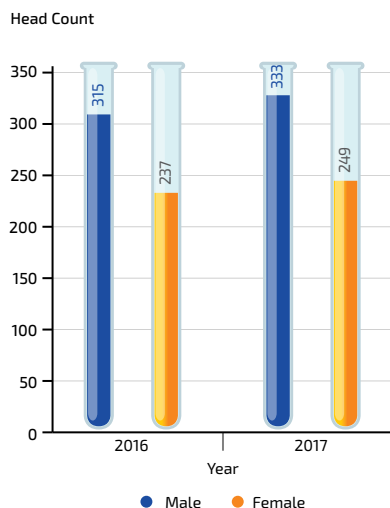
Employees by Staff Category and Age

Head Count

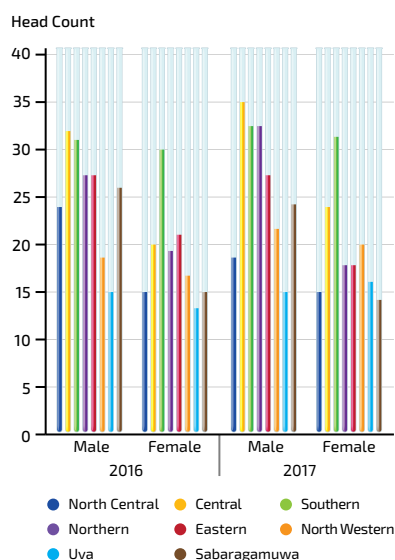


● Heads and Above ● Managers and Asst. Managers  
● Executives ● Non-Executives

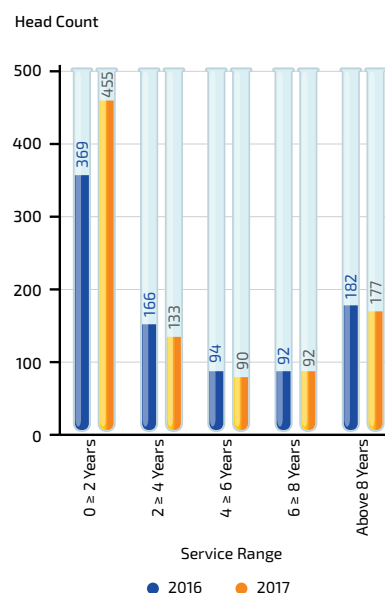
Employee Head Count - Western Province



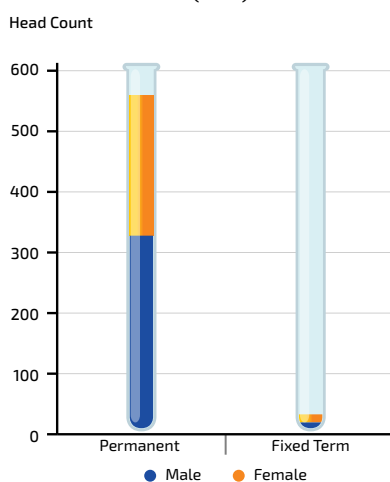
Employee Head Count - Other Provinces



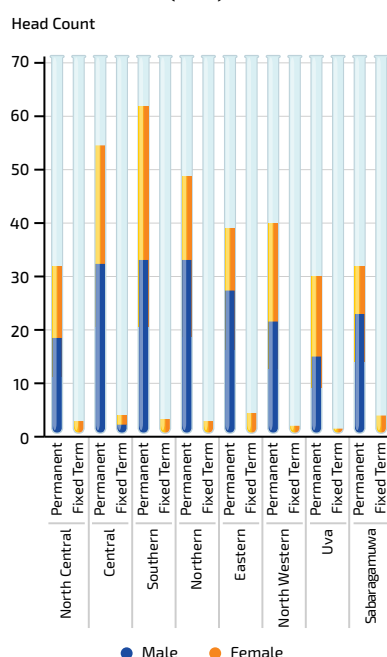
Employees by Service Range



Employees by Province, Gender and Contract - Western (2017)



Employees by Province, Gender and Contract - Other (2017)



## Talent Management

### Talent Attraction and Acquisition

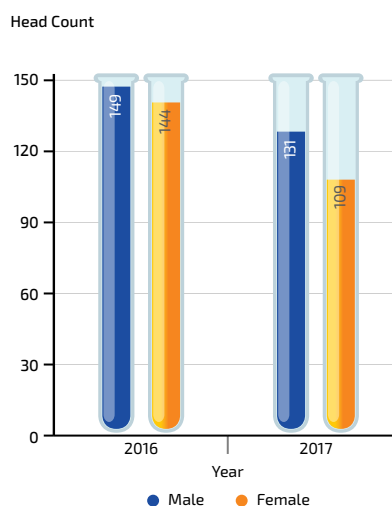
Attracting and retaining the best talent plays a vital role in the success of the Group as it has a direct link to the Group performance and achievement of our goals and objectives. Therefore, we consistently strive to attract and recruit talented individuals with the necessary skills, knowledge, capabilities and the attitudes that match our corporate culture. We recruit employees both internally and externally to fulfill our human capital requirements. First priority is given to internal candidates enabling career progress and diversity of exposure while adding value to the Group. External recruitment paves the way to infuse new ideas, skills and knowledge to the Group. External recruitment process involves mediums such as employee referral schemes, career fairs, online advertising and head hunting.

## Capital Management Reports Contd.

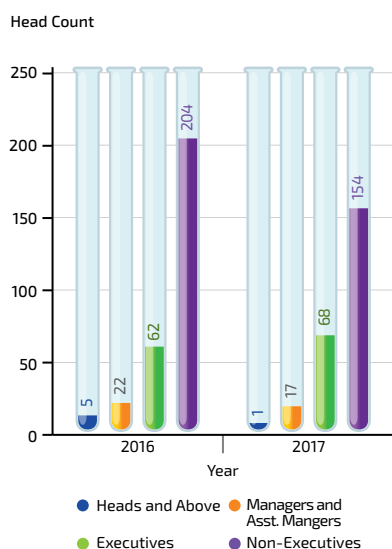
We have a rigorous recruitment process, which includes placement tests and at least two rounds of interviews where each applicant faces a fair and unbiased selection process. Involvement of line managers in the selection and interview process enables right selection for the specific requirement and direct accountability of the recruitment decision.

An analysis of new recruits is illustrated below;

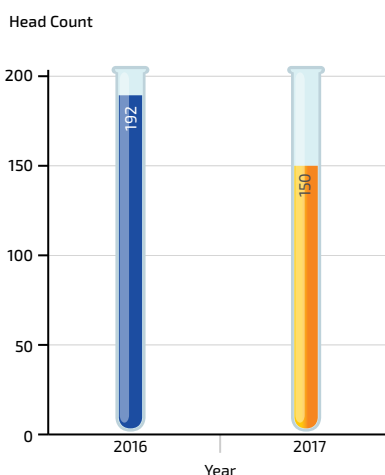
### New Recruits by Gender



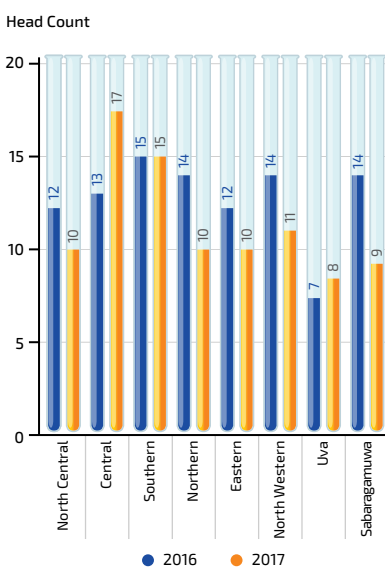
### New Recruits by Staff Category



### New recruits - Western Province



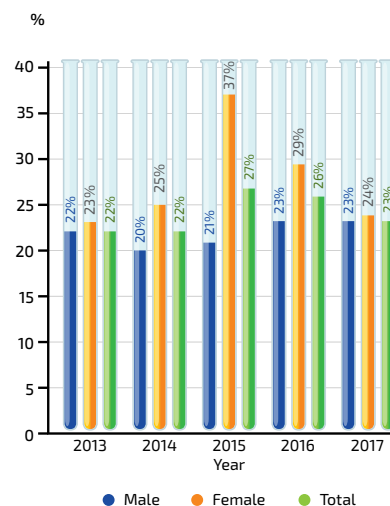
### New recruits - Other Provinces



a Group. The employee turnover rate is a good indicator of talent retention and during the year the Group was able to reduce the turnover ratio to 23% from 26% experienced during the previous year. The analysis of employee turnover given below demonstrates considerable improvement when compared to the previous year.



### Employee Turnover by Gender



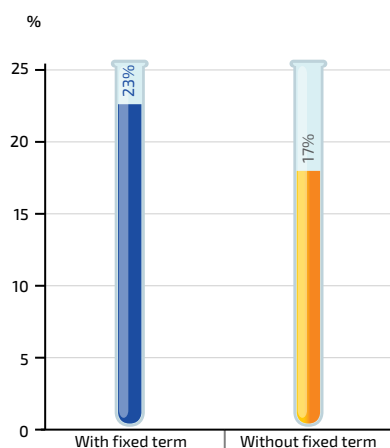
### Talent Retention

As an organization that operates in a highly competitive industry, we face enormous challenges in retaining talent within the Group.

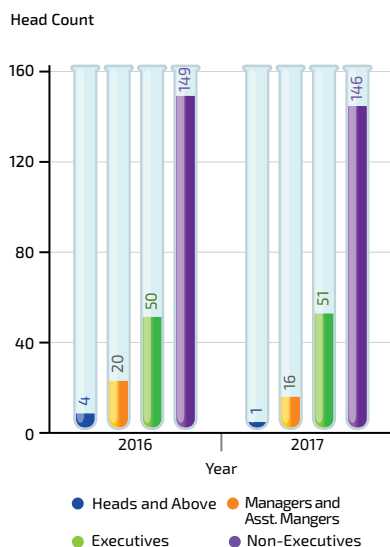
Our performance and benefit management policy, training and development activities, career advancement opportunities, employee engagement activities and non-discriminatory culture are tools used by the Group to retain employees and thereby grow as



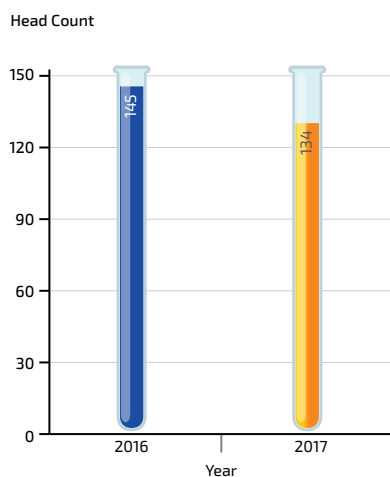
Employee turnover by contract (2017)



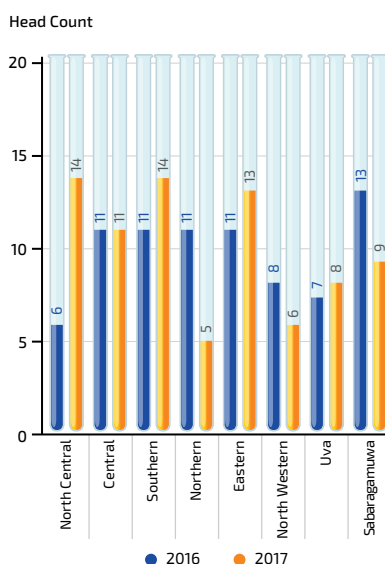
Employee Turnover by Staff Category



Employee Turnover - Western Province



Employee Turnover - Other Provinces



## Leadership Development and Skill Enhancement

At HNB Assurance we conduct various training and development programmes and succession planning programmes, placing special emphasis on enhancement of technical and soft skills of our employees to assure that all our employees are well-equipped to perform their duties to the best of their ability.

## Training and Development

Our training and development policy aims to guide our employees to acquire relevant knowledge, skills, capabilities and attitudes to achieve organizational goals and success.

This forms an integral part of our value proposition to our employees.

During the year under review we invested Rs. 7.1 Million (2016: Rs. 6.8 Million), approximately 1% of our PBT, in developing our employees. An employee was offered 16.6 training hours on average (2016: 6.6 hrs).

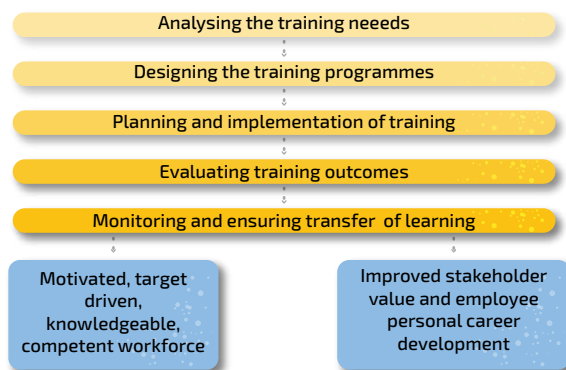
The Group initially identifies training requirements for the year during the Corporate Planning process while the training requirements of each department are identified through the annual employee performance evaluation process. The Group then proceeds to develop a comprehensive training plan for the year. Following figure illustrates our training process.



### Our Training Programmes

## Capital Management Reports Contd.

### Our Training Process



### Internal and External Trainings

Training and development programmes are offered to suit the different managerial and technical requirements, focusing on technical capabilities as well as soft skills. We use both internal and external training mechanisms to enhance the skill and competency levels of employees.

During the year we conducted 73 internal training programmes and 64 external training programmes. In-house resource persons conduct internal training sessions while two specialised training departments led by qualified and experienced trainers with specific expertise in Life and General Insurance businesses train the sales force and bancassurance officers. Each department in the Group go through outbound training programmes to enhance team spirit, leadership skills and camaraderie.

We provide our employees with external training opportunities to expose them to both local and international industry innovations and developments.

We consider professional development of each employee a key priority and take extra steps to encourage individual growth. While we reimburse examination fees of each employee upon

successful completion of the relevant academic qualification, any employee who obtains professional qualifications receive honorariums.

Further, we are a training organisation of the Institute of Chartered Accountants of Sri Lanka.

### Inductions

Each employee is offered an induction programme upon commencement of employment. Head office staff goes through a half day orientation session while branch staff engage in a three day orientation programme. A comprehensive induction programme is offered within three months of joining the Group during which each employee learns about the Company vision, mission, goal, objectives, business operations and the senior management.

### Training Programmes for Employees

	2017	2016
Internal	73	30
External	56	48
Overseas	8	8
<b>Total</b>	<b>137</b>	<b>86</b>

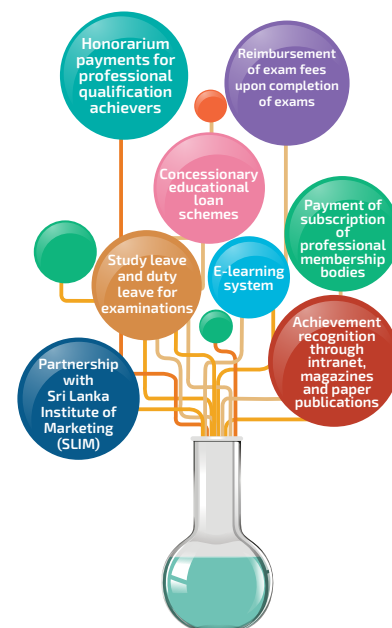
### Training Hours per Employee

	2017	2016
Heads and Above, Managers and Assistant Managers	12.2	6.5
Executives	11.0	3.6
Non-Executives	23.9	9.3
<b>Training Hours per Employee</b>	<b>16.6</b>	<b>6.6</b>

### Succession Planning

Succession planning plays a vital role in the sustainability of the business operation. It is important to identify the next level of leaders and groom them to take up responsibility and drive the company forward. During the year, we reviewed our succession plan and conducted special training programmes to enhance the knowledge and skill levels of employees identified as potential successors of managerial and key positions.

### Human Capital Value Enhancements



## Managing and Rewarding Performance

An effective performance and rewards management system is critical for the achievement of our Group goals and objectives and to support our target driven organisational culture. Individual performance objectives are set based on the strategic objectives of the Group. This approach ensures the achievement of company goals and objectives and simultaneous personal development of the individuals. It is mandatory for all permanent employees to be appraised during the annual appraisal process. Immediate supervisor and the department head conduct each employee's appraisal to ensure an impartial and an objective evaluation process.

Employees are assessed on the strength of their achievement of performance objectives set at the beginning of the year and their skills and attributes showcased during the year. The performance appraisal process evaluates technical skills, leadership and soft skills of employees thus encapsulating the overall development of the relevant employee.

The results of the performance appraisal determine increments, bonuses and promotions given to employees. No employees falling under the collective bargaining agreements are evaluated under the appraisal process of the company.

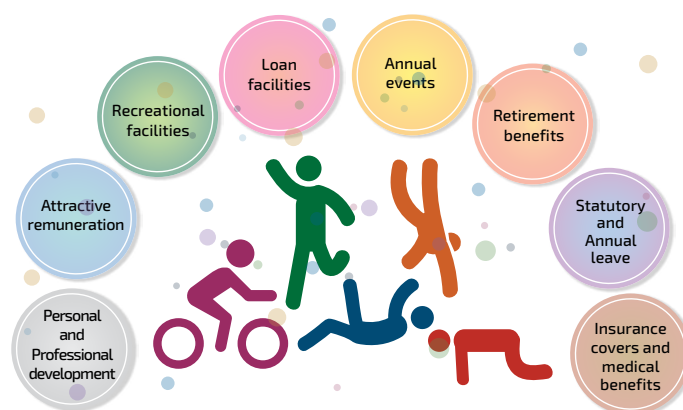
Performance and reward management process of the Group promote equitable treatment for all employees irrespective of their gender, race, religion, ethnicity or any other social variable and we ensure that there is no difference between the salary scales of male and female employees.

### Remuneration and Benefits

Our employee remuneration and benefit structure is designed to attract, reward performance and retain employees. Our total remuneration and benefit package includes a fixed component and a variable component. The fixed component includes salaries and allowances while the variable components include bonuses and other monetary and non-monetary benefits. As an equal opportunity employer, the ratio of basic salary of male and female

employees is 1.1 at all employment categories and our entry level salaries are above the minimum wage as per local regulations. Annual salary increments, bonuses and promotions of all employees are based exclusively on Company performance and individual performance appraisal results. Increments, bonuses and promotions are reviewed and approved by the Human Resources and Remuneration Committee and the Board of Directors.

We ensure that all out sourced employees are recruited through reputed labour supplying organisations and service companies, in the case of security officers and janitors and that the employers adhere to the minimum wages as per local regulations. The benefits offered to fulltime permanent employees of the Group is illustrated below.



*Benefits Given to Our Permanent Employees*

## Capital Management Reports Contd.

### Recognising the Best Performance

Recognizing performance is a motivational factor which stimulates greater dedication and performance excellence. In view of this, we recognize and reward, our best performing employees at the 'Chairman's Excellence' ceremony each year and the best sales personnel are recognised at the annual sales convention. In addition, foreign tours and other monetary and non-monetary rewards are awarded to top performers in distribution and sales.

As a new initiative in 2017, we conducted a monthly staff recognition scheme where one staff member from each division was chosen as the 'Employee of the month'.



Chairman's Awards winners of HNB Assurance PLC



Chairman's Awards winners of HNB General Insurance Limited



Winner of HNB Assurance PLC sales convention



Winners of HNB General Insurance Limited sales convention

### Employee Benefit Schemes

#### Defined Contribution Plans

We contribute to two mandatory defined contribution plans, namely: the Employee Provident Fund (EPF) and the Employee Trust Fund (ETF), on behalf of all our employees, as per the Act, No. 15 of 1958 and Act, No. 16 of 1980 and subsequent amendments. We contribute 12% of the gross salary of the employee to EPF and 3% to ETF. All relevant payments are made on time to the regulatory bodies.

#### EPF/ETF Contribution by the Group

	2017 Rs. Mn.	2016 Rs. Mn.
EPF	66.97	56.33
ETF	17.42	14.08

#### Defined Benefit Plans

According to the Payment of Gratuity Act, No. 12 of 1983, all employees who have served the Group for more than five years are entitled to a gratuity payment which is calculated as half month basic salary for each year of service. The gratuity valuation of the Group was done by Smiles Global (Pvt) Limited using the Projected Unit Credit (PCU) method.

#### Gratuity Liability of the Group

	2017 Rs. Mn.	2016 Rs. Mn.
Opening Liability	90.43	81.00
Additional Provision During the Year	30.54	24.14
Actuarial Gain/ (Loss) during the plan year	(12.55)	(2.88)
Payments during the year	(7.44)	(11.83)
Closing liability	126.08	90.43

## Engaging with Our Employees

Engaging with our employees improves two way communication between organisation and our staff, enabling both parties to recognise expectations and duties, leading to mutual benefit. Formal communications are made through electronic and verbal forms. Email and Company intranet are used most frequently to issue notices to staff while employee handbook, code of ethics etc. have also been made available through the intranet. Annual staff conference is a key engagement event where all employees get together. Further, management meetings, department meetings, regional meetings and sales meetings are conducted at agreed upon periods.

We practice an 'open door' culture where employees are always encouraged to talk to any member of the management at any time and raise their concerns or present their ideas. Constant measures are taken to communicate with our employees on the major decisions taken by the management and obtain their views on such decisions, promoting employee inclusiveness.

Departmental outbound trainings, branch outings and activities organised by the staff welfare society are events where informal engagement takes place. Figure below illustrates our engagement mechanisms in greater detail.



**Our Employee Engagement Mechanisms**



*HNBA/HNBGI King and Queen 2017*



*Inaugural HNBA/HNBGI Dinner Dance*



*Training to groom our staff members*



## Capital Management Reports Contd.

### Human Resource Governance and Compliance

Human Resource functions of the Group are overseen by the Human Resources and Remuneration Committee, a standing subcommittee of the Board of Directors. The Human Resource department takes the lead role in implementing all strategies related to employees and bears the responsibility of improving the process of employee value creation. Ethical conduct and compliance of rules and regulations applicable are vital aspects of our human resource operations and constant measures are taken to ensure that all our employee related activities are conducted in the most ethical manner while adhering to applicable rules and regulations. Going a step further, the top management and the HR department monitor key performance indicators which assess the effectiveness of the processes in place to enhance employee value creation on a regular basis.

### Code of Conduct and Whistle Blowing

We have built a corporate culture where all employees value ethical conduct of behaviour promoting integrity in the work that they execute. We do not tolerate any corruptive behaviour in the work place and all employees are expected to adhere to following policies developed by the Group in relation to ethical conduct.

- Staff Handbook
- Code of Ethics
- Whistleblowing Policy
- IT Security Policy
- Procurement policy and Procedure
- Share Dealings Code for Employees

As a result of strict adherence to high standards of ethical conduct, no incident of corruption was reported within the Group during the year.

The whistleblowing policy of the Group promotes timely response of employees with regard to any fraudulent activity that they notice in the work place. No employee is discriminated against for raising their voice and the utmost level of confidentiality of the person is ensured by the members of the senior management.

In addition to voluntary adherence to different policies and procedures of ethical conduct, we also adhere to all mandatory rules and regulations of governing labour practices in Sri Lanka. The responsibility of ensuring adherence to all applicable rules and regulation are monitored by the members of the senior management, HR department and the Risk and Compliance department on a monthly basis and reported to the Human Resource and Remuneration Committee and the Audit Committee. During the year under review, no material fines or monetary sanctions were imposed on us on matters related to non-compliance.

### Resignation, Termination and Transfer of Employees

An employee who wishes to resign from his/her duties during a period should do so by adhering to the terms and conditions of the employment contract. For further reference of employees, a clear policy of resignation, termination and transfer of employees has been made available in the Human Resource Manual of the Company. The compulsory retirement age of all permanent cadre employees is 55 years of age.

All employees leaving the organisation on a voluntary basis are required to face an exit interview conducted by the Human Resource Department. This is a mechanism put in place to obtain objective feedback on the employee experience. The feedback received is shared with the senior management and is used for future improvement of employee engagement and motivation. Termination of employees can be done for reasons specified in the Human Resource Manual and the Group ensures the prescribed mechanisms are followed when terminating the service of employees.

Transfer of employees within departments, branches or parent (HNB Assurance PLC) and subsidiary (HNB General Insurance Limited) is accommodated, based on availability of vacancies and employee requests. All transfers are done with the consent of employees.



## Labour Practices

We encourage protection of human rights in all business dealings and the Group does not employ any child labour, forced labour or compulsory labour. We ensure non-discrimination in employment practices across the organisation abiding by all relevant rules and regulations governing the Human Resource practices in the country. We also have a Code of Ethics strictly followed by all employees ensuring best practices across all business functions. All employees recruited by us are over 18 years of age and during the year no cases of discrimination, violation of human rights and employment of child labour or forced/compulsory labour were reported at HNBA/HNBGI or at any of the suppliers that we deal with.

## Grievance Handling

The Group has a formal grievance handling policy which is communicated in English, Sinhala and Tamil languages to address any grievance brought forward by employees and all employees are encouraged to voice their concerns related to any employment matter. The open door policy of the Group paves the path for early identification of employee grievances and enables the management to provide immediate solutions to the concerns raised by employees. The formal responsibility of handling grievances lies with the Manager - Human Resources, Heads of Divisions and all Managers of the organisation. During the year, minor grievances were raised by employees and all raised concerns were resolved successfully by relevant responsible parties.

## Health and Safety and Work Environment

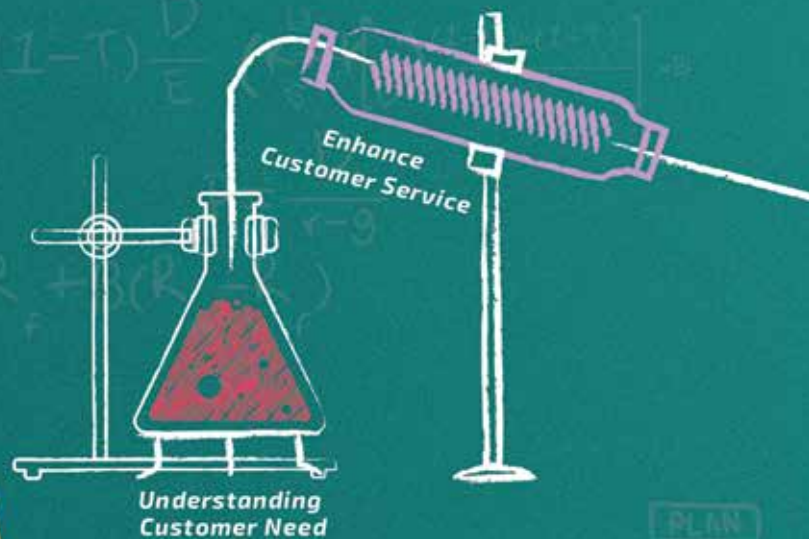
We at HNB Assurance provide a safe (injury free) working environment that is conducive to growth to ascertain that our employees are able to thrive and succeed in their day to day operations and aspire towards further progress without hindrances relating to health and safety. These high standards are applicable at both Head Office and branch level. At the HNB Assurance PLC Head Office each department has an appointed warden to look into matters relating to employee health and safety. Furthermore, each department and branch is equipped with a first aid box to meet minor injuries and illnesses of employees. The Company also provides a comprehensive medical cover for both in-house and out-door medical treatments to all permanent and fixed term contract employees.

# Customer Relationship Management

**It is important**  
Satisfied customers are vital for growth and sustainability of the business

**Key Concerns of Customers**

- Access to products and services which satisfies their needs and wants
- Efficient service levels and wide reach
- Protection of customer rights



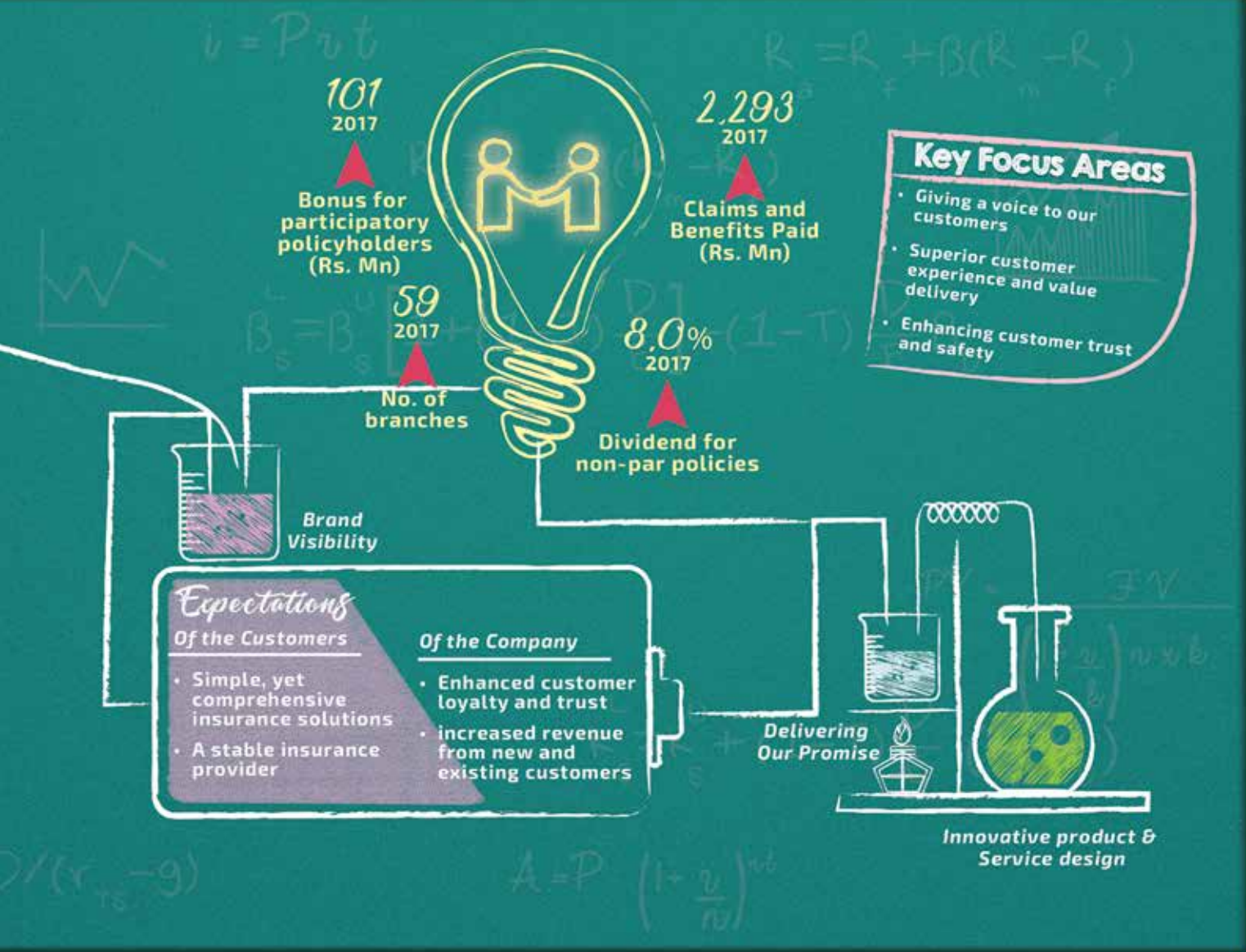
The core of our business strategy is built on our customers and their needs. Mindful of this fact, we have implemented numerous strategic initiatives over the past 16 years to ensure the fulfillment of our customer expectations. These initiatives built a solid platform for the Company and helped our customers to grow and foster mutual trust and enduring loyalty. At the core of our business endeavours lie a singular focus on customer centricity and a commitment to providing superior financial protection and a truly meaningful customer experience.

## Our Winning Formula

As we continue to strengthen our position in a highly competitive industry, customers remain a critical component in our value creation formula. During the year, in line with rapidly evolving technological innovations and customer sophistication, we brought in more dynamic customer focused strategies to cater to the changing market dynamics. The adoption of these initiatives gratified our customers through enhanced service quality and authenticity while articulating the distinctive value of our service.

## Voice of Our Customers

Our primary objective of a superlative customer service is to understand the needs and expectations of our customers. The Customer Relationship Management process that we have set up ensures continuous dialogue with customers to identify their changing requirements. This mechanism was built upon our fundamental belief that customer loyalty depends largely on ascertaining the emotional and rational needs of our customers.



### Market Research

During the year under review we carried out a number of market perception studies and analysis to gain insights into the needs of our customers. By analyzing the results of these studies, we were able to identify the gaps in our current service standards, the behavioural and psychological changes of our customers, their attitude towards our product offerings and the level of satisfaction of our customers, thereby enabling our proposition to be more attuned and in sync with changing customer needs.

### Customer Feedback

Our customer feedback retrieval mechanism incorporates the use of digital platforms as well as a person to person information gathering processes. While we welcome and encourage feedback from customers on social media platforms such as Facebook, Twitter, YouTube and WordPress Blogs, our field teams engaged with customers on a personal level during island-wide ground-level promotional activities to obtain insights.

### Customer Experience and Value Delivery

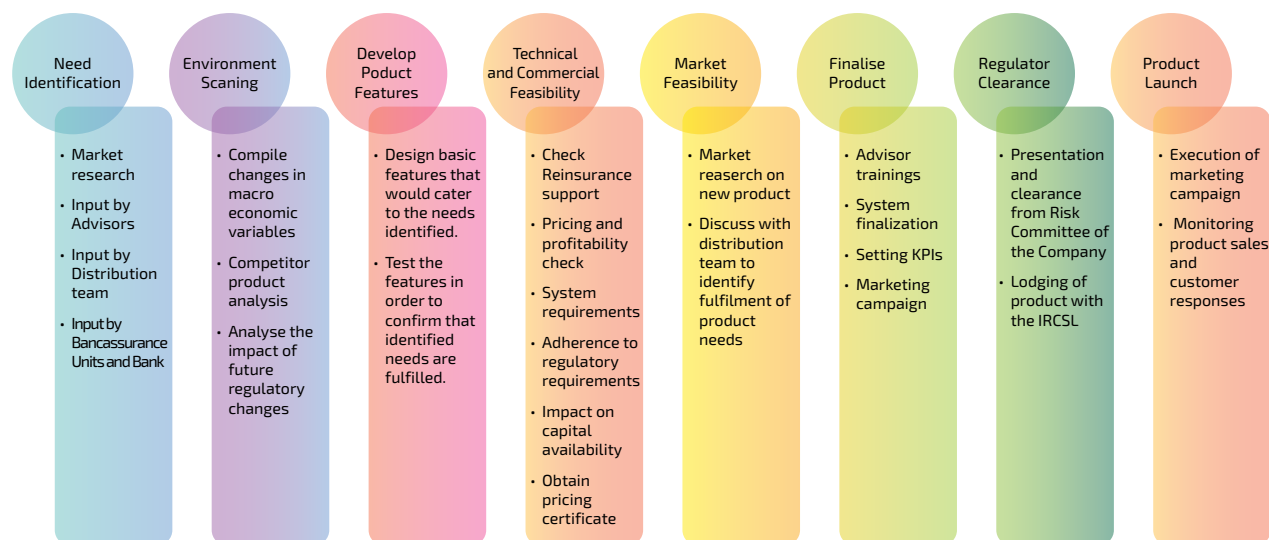
#### Innovation and Product Design

Product enhancement is an important component of business growth and customer responsiveness in the competitive Insurance Industry, especially with the macro forces weighing in. Our product development is done by a product development team comprising senior level representatives from Distribution, Actuaries, IT and Finance professionals.

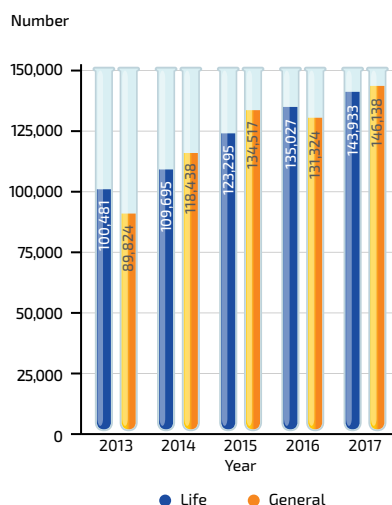


## Capital Management Reports Contd.

### Our Product Development Process



Number of Policies



During the year our product development team introduced several product enhancements designed to provide comprehensive benefits to customers, such as introduction of medical reimbursement on existing products. Further, a new investment product was offered to cater to the rising savings need of our clientele.

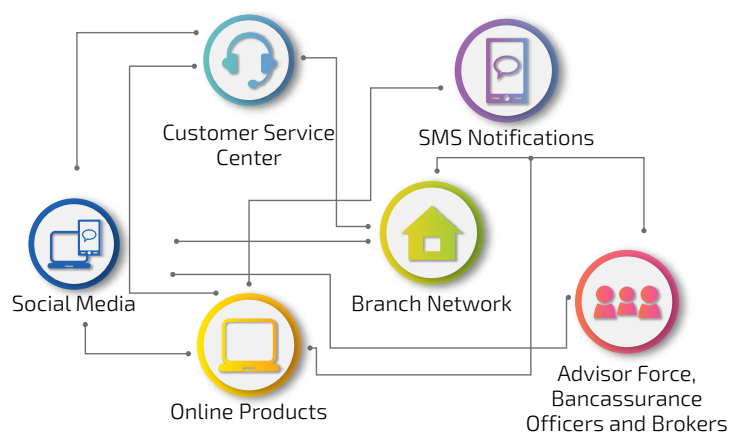
### Balanced Distribution Model

We cater to different types of customers who wish to satisfy their various protection needs. Therefore, it is vital to have a balanced distribution model that enhances customer interaction and increase customer reach.

### Touch Points

We interact with our customers via different mechanisms enhancing the customer experience and the accessibility. Our customer touch points can be identified as follows;

### Our Customer Touch Points



# Product Portfolio

## Life Insurance

 <p><b>Pradeepa</b></p> <p>Total protection for your life</p>	 <p><b>Rashmi</b></p> <p>A policy which provides part payments with an extended life cover</p>	 <p><b>MyLife</b></p> <p>A unique insurance plan for the youth</p>	 <p><b>Ranmaga</b></p> <p>More than just a Life Insurance. Provides high financial returns in addition to protection</p>	 <p><b>MyChild</b></p> <p>The best way to secure your child's future</p>	 <p><b>RanAswanu</b></p> <p>Special policy for seasonal income earners which will never lapse or be cancelled</p>	 <p><b>MyPension</b></p> <p>A monthly guaranteed pension throughout life</p>	 <p><b>Araksha</b></p> <p>Providing pure protection for you and your family</p>
 <p><b>Loan Protection</b></p> <p>Insurance cover for people who obtain a loan from a bank or a financial institution to buy a house or a land</p>	 <p><b>MyFund</b></p> <p>A hassle-free and enjoyable retirement fund building plan</p>	 <p><b>Takaful</b></p> <p>Takaful version of the Mortgage Protection Plan is provided under the Takaful Window</p>	 <p><b>MyFreedom</b></p> <p>A guaranteed monthly income for a happy retirement</p>	 <p><b>Prime GroupLife</b></p> <p>Group Life Insurance cover for company employees and members of organisations</p>	 <p><b>eLife</b></p> <p>Online customised insurance solutions</p>	 <p><b>Scholar</b></p> <p>Ensures uninterrupted support for your child's future</p>	 <p><b>GamiPubuduwa</b></p> <p>Loan protection for Micro and Agro credit schemes</p>

## General Insurance

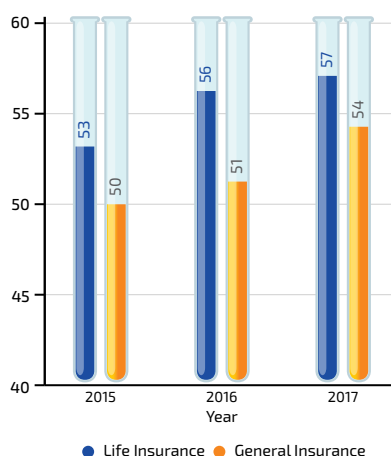
 <p><b>MotorGuard Agro</b></p> <p>A comprehensive protection for agricultural vehicles</p>	 <p><b>MotorGuard</b></p> <p>Motorguard is a product that is geared to protect you and your precious vehicle from every possible risk element</p>	 <p><b>Fire</b></p> <p>Protection against fire, riots and weather perils</p>	 <p><b>Health</b></p> <p>Reimburses the medical expenses of the employees and their families</p>	 <p><b>Workmen's Compensation</b></p> <p>Covers employer's liabilities to employees</p>	 <p><b>MyHealth</b></p> <p>A unique plan which covers hospitalisation expenses, personal accident and critical illness under one policy</p>	 <p><b>Sesatha</b></p> <p>A comprehensive shop insurance plan</p>	 <p><b>Casualty</b></p> <p>Pays for losses arising from burglary / infidelity of employees and loss of money in transit, affecting the business</p>
 <p><b>Marine</b></p> <p>Covers transportation of goods from source to destination</p>	 <p><b>Takaful</b></p> <p>All General Takaful solutions are provided from a specialised Takaful Window</p>	 <p><b>MyTravel</b></p> <p>A travel insurance policy that covers up to the age of 70 years</p>	 <p><b>MotorGuard Extra</b></p> <p>A premium Motor Insurance cover with added benefits including a free life cover</p>	 <p><b>MotorGuard Commercial</b></p> <p>A cover designed for commercial vehicles with added benefits including a free life cover</p>	 <p><b>MotorGuard Rider</b></p> <p>A cover designed for motor cyclists with added benefits including a free life cover</p>	 <p><b>Engineering</b></p> <p>Covers unforeseen damages in construction/erection projects</p>	 <p><b>MyHome</b></p> <p>A comprehensive policy that provides the right protection for your home</p>

## Capital Management Reports Contd.

### Distribution Network

As our Group seek to provide all-inclusive insurance solutions under one roof to facilitate customer convenience, our Life and General Insurance branches most often share a common location. In localities that we have identified a greater requirement for a specific business line be it Life or General, we have established standalone branches.

#### Number of Branches



Further, enhancing customer reach and accessibility, we added one new branch to our island wide distribution network during the year. Thus, our network now totals to 111 branches in 59 locations, with 57 HNBA branches and 54 HNBGI branches.

Our island wide reach through 199 bancassurance units at selected HNB branches further strengthen our distribution network

### Payment Options

Our full spectrum of payment options enables each customer to use the most convenient method to make premium payments. The following tables lists the payment methods available to our customers.

### Customer Service

As part of our unwavering commitment to enhance the quality of customer service in a timely manner, we conduct training programmes on an ongoing basis and on a need basis when required to educate Customer Service Agents, Advisors and Assessors, on interactive techniques to provide a more sincere and meaningful customer experience.

The primary objective of these initiatives was to create an excellent customer experience from the time of need identification to Policy Maturity.

In addition, technologically advanced solutions were integrated into the core business process as an impetus through which greater convenience could be offered to our customers.

### Payment Options Available to Our Customers

	Cash	Cheque	0% Interest credit card	Interbank transfers	Online payments	Standing orders	Dialog Ez Cash	Mobitel cash	HNB MoMo
HNB	✓	✓	✓	✓	✓	✓	-	-	✓
Commercial Bank	✓	✓	X	✓	✓	✓	-	-	-
BOC	✓	✓	X	✓	✓	✓	-	-	-
Sampath Bank	✓	✓	X	✓	✓	✓	-	-	-
NSB	✓	✓	X	✓	✓	✓	-	-	-
HDFC	✓	✓	X	✓	✓	X	-	-	-
Non-Bank	X	X	X	X	X	X	✓	✓	-

✓ - Option Available      X - Option Unavailable



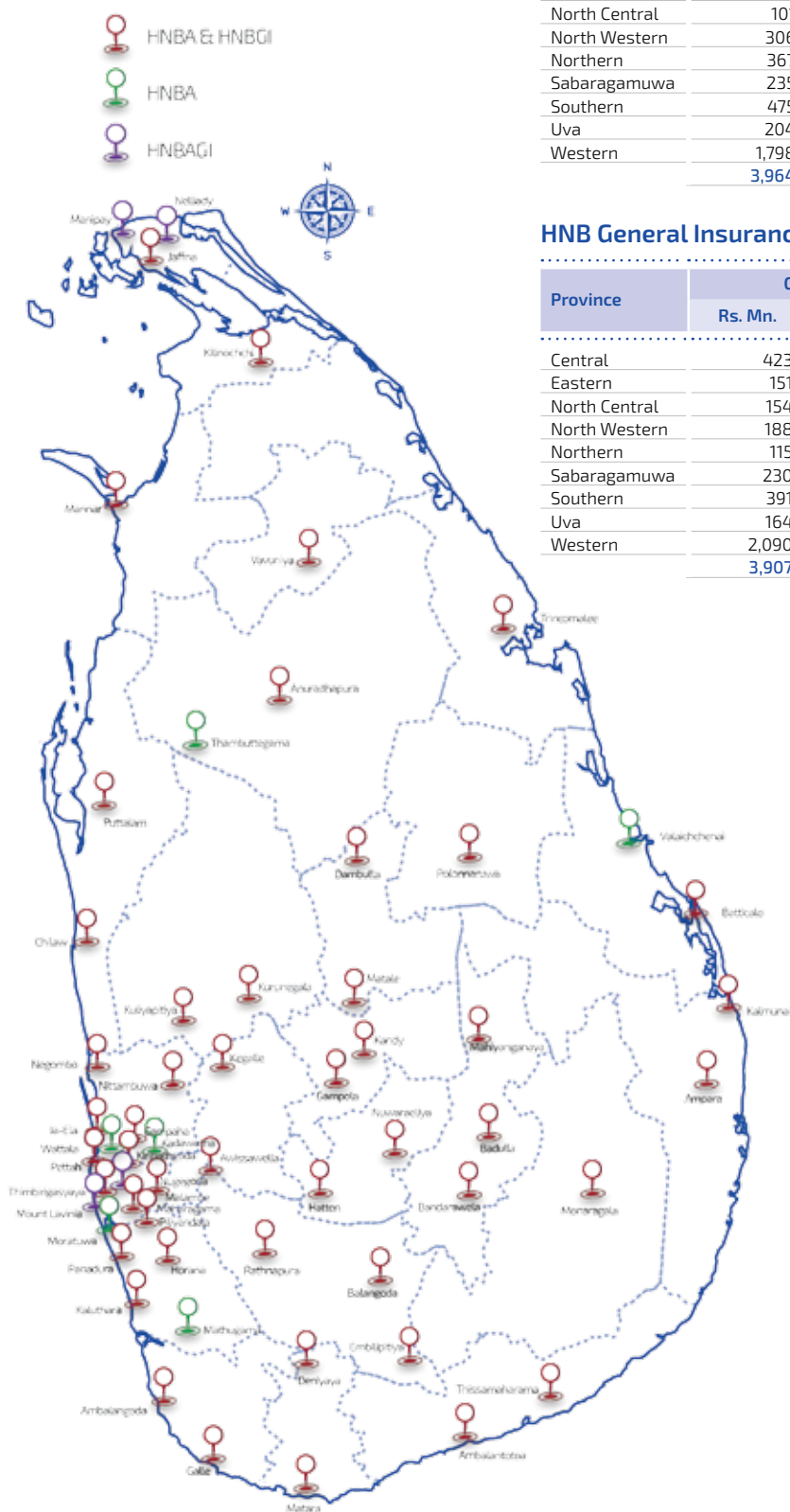
## Our Distribution Network

## HNB Assurance PLC

Province	GWP		Number of Bancassurance Units	Number of Staff	Number of Advisors
	Rs. Mn.	Contribution			
Central	270	7%	17	33	182
Eastern	208	5%	21	30	147
North Central	101	3%	9	13	60
North Western	306	8%	14	27	148
Sabarakgamuwa	367	9%	17	36	215
Southern	235	6%	12	22	154
Uva	475	12%	20	36	183
Western	204	5%	9	18	121
	1,798	45%	80	323	735
	3,964	100%	199	538	1,945

## HNB General Insurance Limited

Province	GWP		Number of Assessors	Number of Staff	Number of Advisors
	Rs. Mn.	Contribution			
Central	423	11%	6	32	58
Eastern	151	4%	3	15	37
North Central	154	4%	3	15	35
North Western	188	5%	5	15	20
Northern	115	3%	3	15	33
Sabarakgamuwa	230	6%	4	16	42
Southern	391	10%	6	29	82
Uva	164	4%	7	13	34
Western	2,090	54%	21	259	154
	3,907	100%	58	409	495



## Capital Management Reports Contd.

### Service Efficiency

Providing an efficient service to all our customers is a vital aspect of our business operations. Both Life and General Insurance segments have taken a number of initiatives to improve service efficiency and provide a better experience to all our valued customers

#### Initiatives taken by Life Insurance Segment

##### Policy Conservation and Servicing Unit

A Policy Conservation and Servicing Unit has been established to handle all activities related to Life Insurance policy servicing. The core function of this unit is to maintain a continuous line of communication with customers on matters relating to insurance solutions while also sending renewal reminder notices and handling inquiries and complaints related to all Life Insurance policy related matters.

##### ISO Certification on Claims Process

In 2017, due to high service efficiency levels maintained by the Company, we received the ISO 9001:2015 certification. This certification will no doubt make us strive to push the quality of our service standards even higher.

##### Fast Track Business Processes

During the year under review, we implemented a number of key initiatives to fast track the new business process, the policy servicing process and the claims process.

Following are the initiatives taken to fast track the process:

- Taking measures to issue cover notes within half an hour for MRP proposals
- Establishing a one day service mode for policy servicing in areas of age admission, bonus inquiries, issue of letters to various places such as embassies and banks, corrections in policy documents, address changes, and issue of surrender value certificates
- Settlements of simplified claims cases within two days

#### Initiatives taken by General Insurance Segment

##### Customer Service Centre (CSC)

We have established an all-encompassing Customer Service Centre to handle all matters related to General Insurance solutions. The Customer Service Centre which provides information related to insurance solutions, services offered by the Company and report and communicate on matters related to claims, incorporates a 24 hour call centre which has enhanced customer convenience.

##### Centralised Underwriting and Claims Process

Our centralized Insurance Underwriting and Claims process have paved the way to achieve higher levels of process and service efficiency. Consequently, we have succeeded in enhancing customer satisfaction by offering a more efficient service level.

### A Strong Assessor Network

We operate a network of 58 Assessors Island wide to attend to customer claim needs and assist them in their time of need, thus enhancing the service efficiency levels of the claims management process.

### Customer Trust and Safety

Building customer trust and ensuring customer safety is another important aspect of our Customer Relationship Management process. The relationship built with our customers is heavily dependent on the level of trust and confidence they place upon us. We take constant measures to improve customer trust and safety by adhering to the highest customer service standards and ethical values.

### Ensuring Product Safety

Products designed and developed by us conform to all applicable regulatory and voluntary codes of best practices which govern product design, development and marketing communication. We obtain clearance from the Insurance Regulator prior to launching new insurance products and this includes clearance for product features, pricing and marketing materials. As a result of our commitment to ensuring high levels of product safety, no monetary fines were imposed on us due to non-compliance of matters related to product safety during the year under review.

## Disclosure of Product Details

Our fervent belief in the right of customers to obtain information in order to make informed decisions leads us to provide relevant information required by customers through policy documents, brochures and media advertisements.

During 2017, no regulatory concerns were raised with regard to any product and no fine was imposed on non-compliance of laws and regulations concerning product information and labeling.

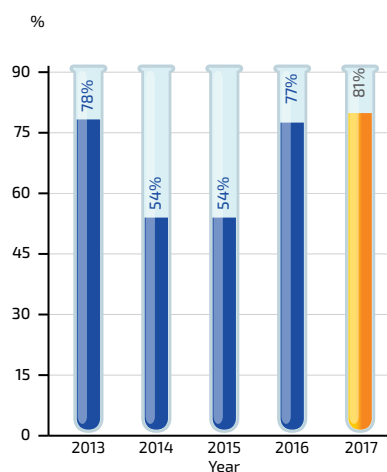
## Attending to Customer Complaints

Our customer complaints and grievance handling framework involves a Policy Conservation Unit to handle inquiries and issues related to Life Insurance matters, a Customer Grievance Units to handle grievances related to Advisors of Life and General Insurance and Life and General Insurance Claims Panels to handle grievances related to claims settlement.

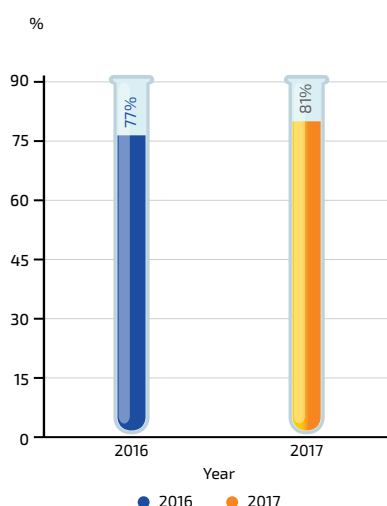
All Life Insurance related complaints are centralized to the Life Policy Servicing Unit whilst General Insurance related complaints are monitored by Customer Relations Center. Any complaint can be lodged via email, letters, and our 24 hour hotline or else with a face-to-face meeting with a customer relations representative. We maintain an up-to-date complaints register and monitor the progress of each complaint on a on going basis. Moreover, each respective unit is tasked with maintaining a high complaint resolution rate as a Key Performance Indicator of the

performance level of that particular unit. Striving continuously to enhance customer experience we investigate and provide solutions to any complaint or grievances put forward by our customers on a timely basis and work towards minimizing the negative experience of customers.

### Customer Complaints Resolved



### Life Advisor Complaints Resolved



## Micro Insurance Policies

3,522<sub>2017</sub>  
3,889<sub>2016</sub>

## Protecting the Privacy of Customers

We are well-aware that any breach of customer confidence with regard to information provided will damage the trust and loyalty that they have built on us. Therefore, we employ extra care and focus on protecting all customer related information. Given below are the steps taken to ensure customer information security.

- Strict access controls on all systems carrying customer data
- IT data security policy and employee handbook
- Customer privacy protection trainings to advisor force

These measures ensure that our employees conform to the highest levels of customer information security while our advisor force is required to adhere to a high level of caution with regard to protecting information. In addition, during the year we revisited all our customer privacy protection measures, enhanced existing controls and communicated the revised controls to all employees dealing with sensitive customer information.

During the year under review no complaints were received regarding violation of customer privacy.

## Protecting the Underprivileged

As a trusted entity in the Insurance Industry, we believe in treating all market segments fairly and equally.

Therefore, we have introduced Micro Insurance and Ran Aswanu products to provide protection to the low income earning customer segment.

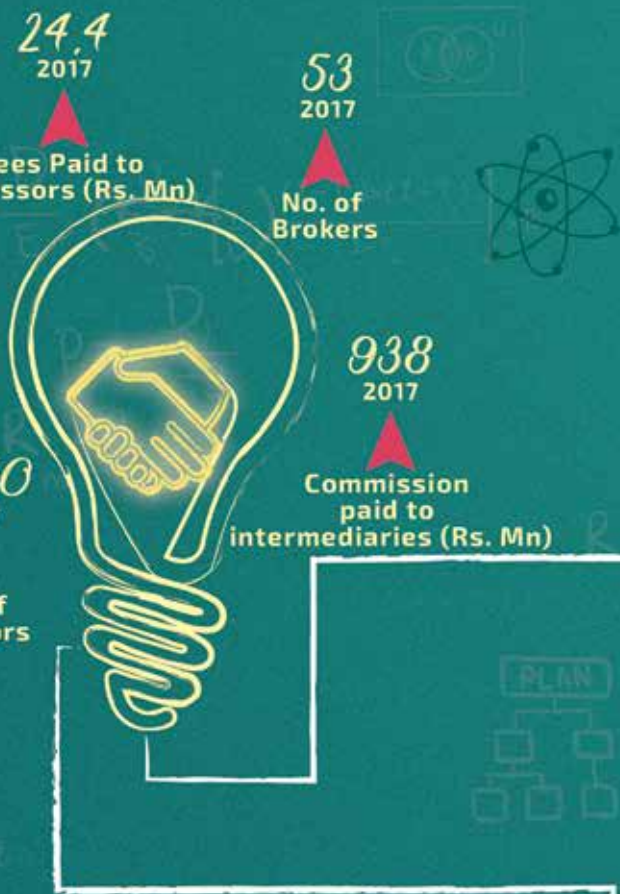
# Business Partners

**Key Concerns of Business Partners**

- High standards in goods and services provided
- Ethical conduct of business partners

**Key Focus Areas**

- Maintaining high standards in partner relationships
- Building long term relationships with partners



Business partners are an essential element of our relationship capital. Being a crucial component of our value chain, the effectiveness of our mutual relationship becomes a key determinant of the ultimate value we generate to all our stakeholders. The robust solidarity we have created with our partners, employees and stakeholders deliver an appealing value proposition to our customers.

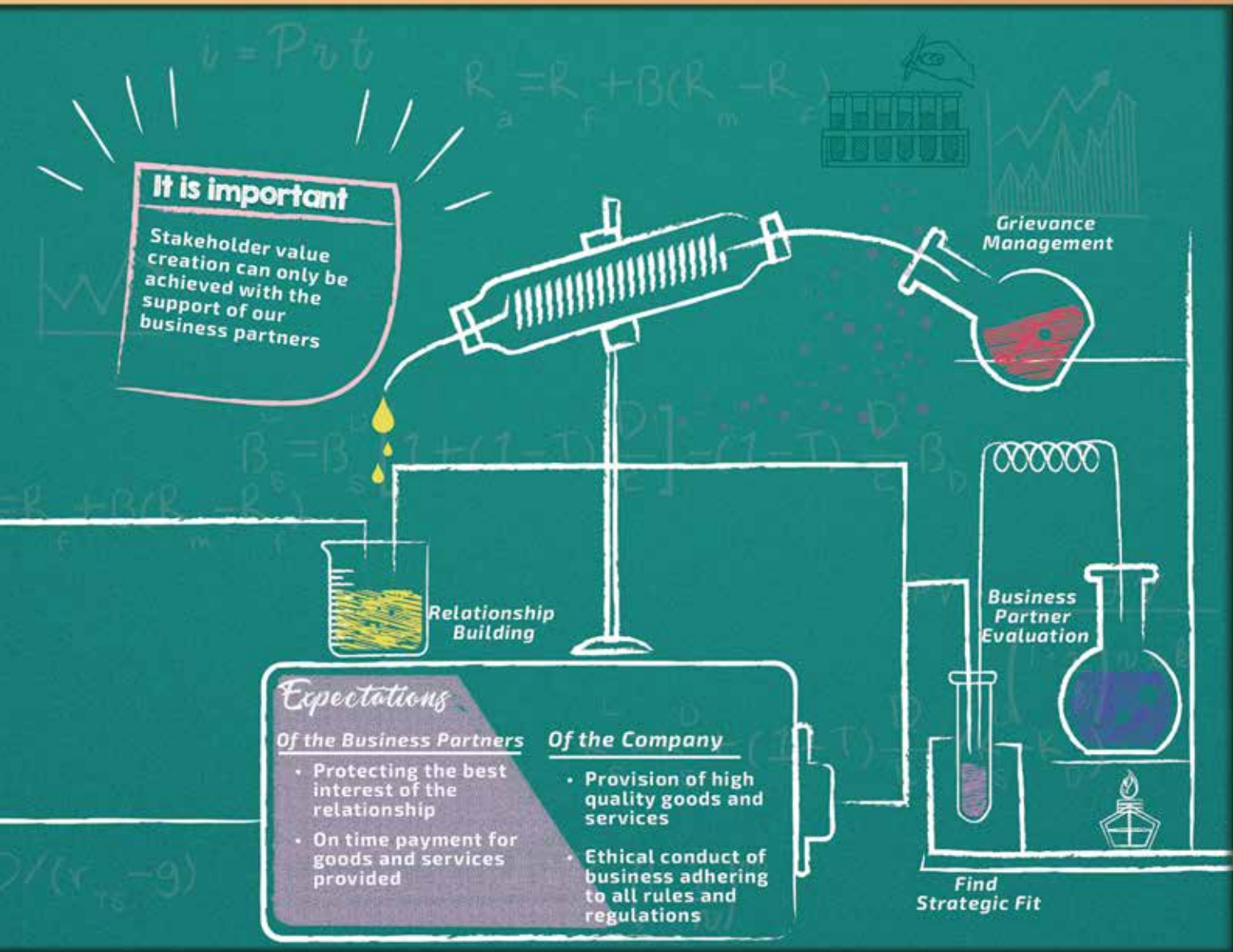
## Our Winning Formula

Parties at various stages of our upstream supply chain, such as the panel of Reinsurers who provides the financial strength to accept risks, assessors, garages and laboratories who aid us in servicing our customers and partners in the financial markets with whom we invest our funds, are all invaluable components of our value creation process. Downstream our skilled advisor force, bancassurance network and insurance brokers, who form and maintain the link between us and our customers, form the linchpin of our value chain.

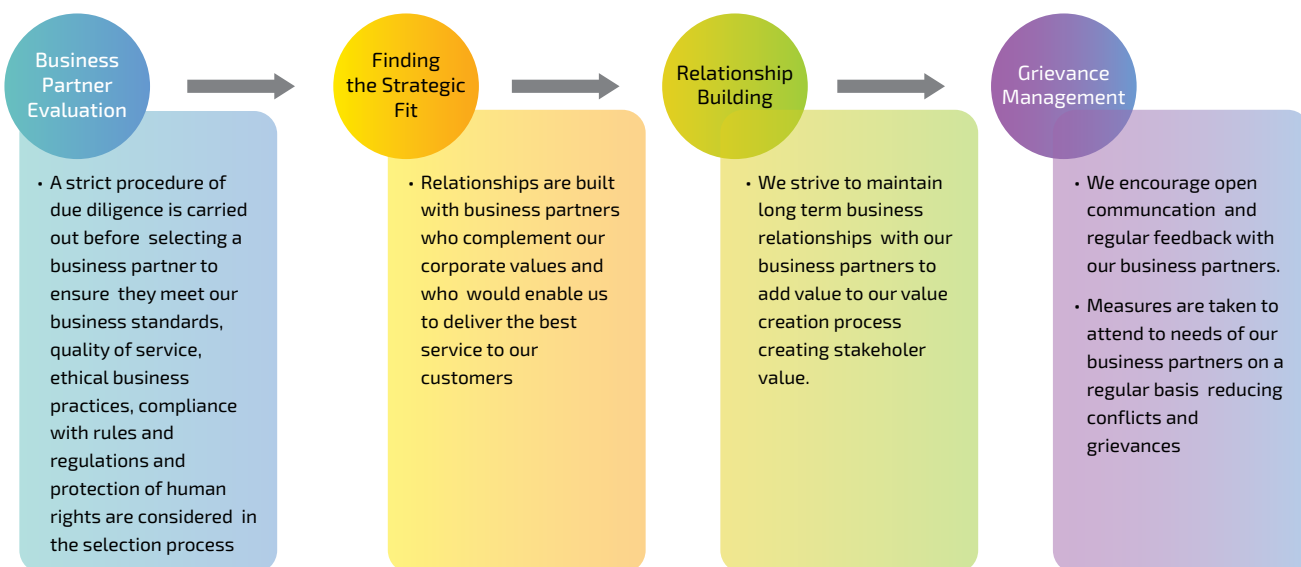
## Business Partner Management Process

Maintaining mutually beneficial relationships with reputed business partners that conduct business operations in an ethical and a sustainable manner is a crucial factor in upholding excellent service standards. Our Business Partner Management Process assists us to nurture and manage our relationships with various entities and create a win-win situation for all.



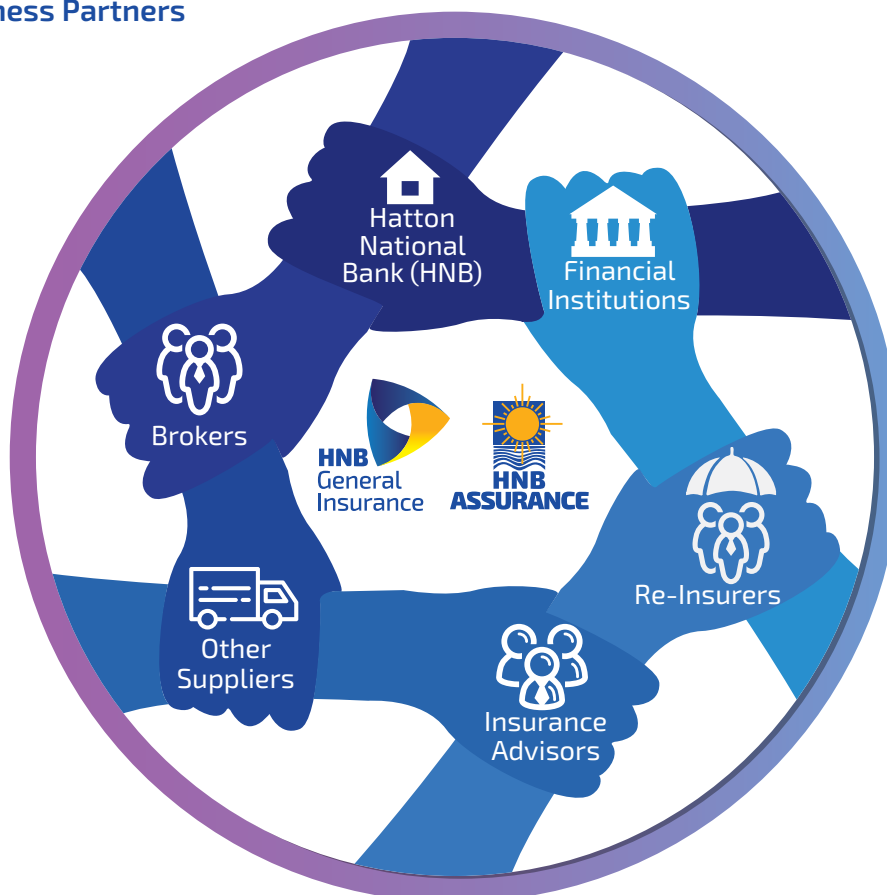


### Our Business Partner Management Process



## Capital Management Reports Contd.

### Our Key Business Partners



#### Insurance Advisors

The Company's Advisor Force is the direct link between us and our valued customers. Therefore, the Company takes great care in training, directing and scrutinising our Advisors, to ensure a superlative service to customers. We make a conscious effort to ensure that the advisors are kept up to date on the affairs and products of the Company. In addition, we take continuous steps to maintain the competencies of our sales staff to satisfy the anticipated outcome in terms of quality and quantity.

Our Advisor Force has consistently driven our sales, enabling us to reach our customers and satisfy their needs in a prompt and a responsible manner. They are a key component of our winning formula who have made an immense contribution towards bringing the business to where it is today. The commitment, dynamism and the strength of our team of 2,440 individuals have acted as a key contributory factor to our performance excellence. Providing an exceptional service level to customers is the key to gaining competitive advantage and ensuring continuous sustainability of our profitability.

#### Key events during the year 2017

- The Company recognized the achievements of our advisor force at the Annual Sales Convention where exceptional performers received recognition as well as laptops, tabs and foreign tours to Bangkok, Dubai, Bali, Vietnam and Europe
- Top performers in the Advisor force were absorbed into the Permanent cadre of the Company
- The Company produced 37 MDRT winners and 01 NASCO winner during the year





HNBA MDRT Day - 2017



SLJM NASCO Award - 2017



MDRT Conference 2017 Orlands, Florida

### Hatton National Bank (HNB)

Our parent company, HNB, continued to engage with us as one of our leading business partners. The relationship with HNB is a key element in gaining a competitive advantage in the industry. This strong relationship enabled us to capitalize on the Bank's branch network and to form links with its wide array of customers.

The top management of both the Company and HNB possesses a solid understanding of the scope for mutual value addition. In recognition of the support rendered to us by HNB branches, we continue to organize mid-year and year-end award ceremonies for HNB Management and Bancassurance staff during which we honour and reward branches that perform exceptionally well. In addition, we amplified the engagement with HNB during the year by increasing the frequency of visits to Bank branches and organizing events to reinforce the fellowship with HNB. We further extended our support by providing sponsorships to various events conducted by HNB, at branch level.

In 2017 we took several initiatives to increase collaboration with HNB Grameen, a subsidiary of HNB. We're confident that this relationship will facilitate group synergies and benefit the HNB group as a whole.

Mindful of the fact that the stability of our business model relies upon the understanding we maintain with the HNB group, we will continue our efforts to build on this relationship in future as well.

### Reinsurers

The Insurance Industry is built on the practice of accepting and managing risks. We often undertake risks that are beyond our financial faculty and absorption capacity based on the strength and the backing of reinsurers. In the aftermath of the floods that affected several regions in the country in 2017, reinsurers provided efficacious support towards us to settle the large volume of claims liabilities.

In the aftermath of natural calamities, we carried out in depth deliberations with our reinsurance panel to arrive at terms beneficial to both parties, which improved our strategic partnership with a number of prominent global reinsurance providers.

Moreover, the strength and capacity of our reinsurers assisted the Group in securing fresh business opportunities of considerable volume. Consequently, the unwavering support we received from reinsurers in combination with the exertion of the sales staff and the assistance of other institutes combined, gave us a year which saw a healthy growth in the top line.

Our dedication to maintain a high standard of business operations leads us to build relationship with reinsurers who possess a rating above 'A' from Standard and Poor or equivalent rating from AM Best.

## Capital Management Reports Contd.



*Award ceremony for  
HNB Branches - 2017*

### Brokers

Our network of Insurance brokers is another key category within our portfolio of business partners that continues to play a crucial role in the value generation process of our business model. To safeguard ethical standard and the trust of our customers, we took measures to engage only with brokers registered with the Insurance Regulatory Commission of Sri Lanka (IRCSL).

During the year under review, HNBGI organized several product training sessions for the benefit of our brokers with special focus being placed upon Online Motor Packages.

Several broker companies were given the opportunity to issue quotations on behalf of HNBGI in order to provide our customers with an efficient and timely service. Striving to achieve greater efficiency and professionalism, HNBGI organized regular training programmes for employees of broker companies to educate them on the technical aspects and procedures of the Company. In addition, we carried out events to build fellowship with our broker channel, which in turn improved coordination with our internal staff.

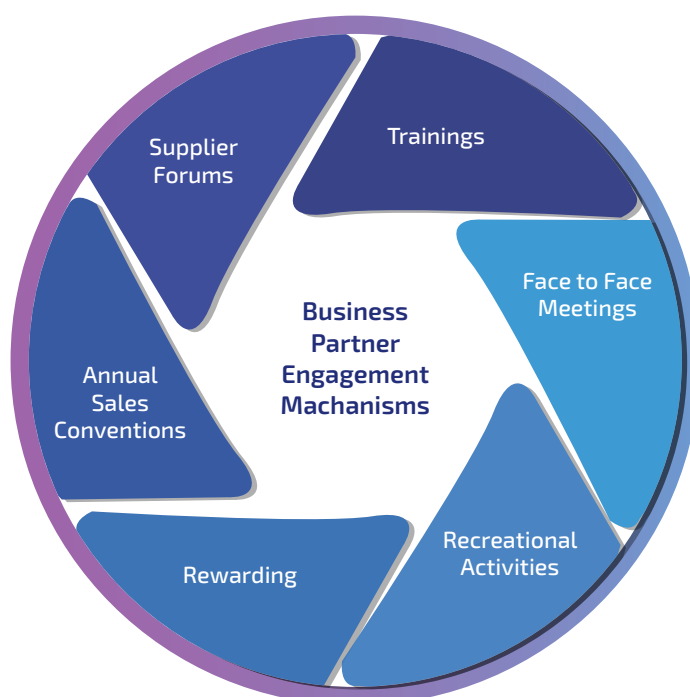
In recognition of the fact that monetary rewards encourage our brokers to enhance their performance level, we continue to take various initiatives to improve their monetary returns.

### Financial Institutions

We work closely with a number of banks, finance companies and primary dealers to facilitate and carry out operations of the Group such as placement of financial investments, issuance of cheques, fund transfers, over draft facilities and foreign currency conversions etc.

During the year under review, we continued to maintain a dialogue with the aforementioned parties on improving service standards and negotiating additional services, two factors that would benefit all parties by improving operational convenience of HNBA and providing additional business opportunities to the financial institutions.

These alliances pave the way towards achieving a sustainable working partnership, which is a key component of our Winning Formula.

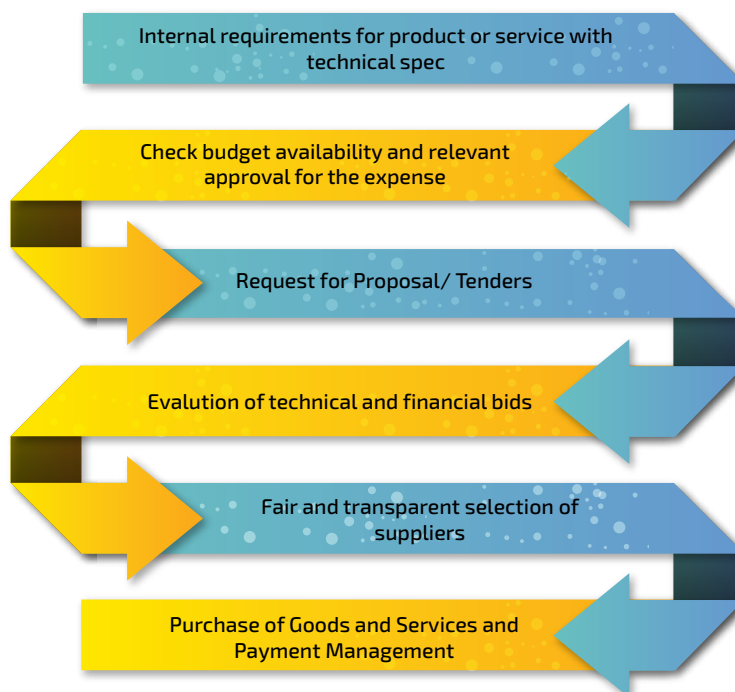


## Suppliers

Our suppliers play an important role in the value creation process of the Company. Hence, we are actively engaged in bringing in new suppliers into the registered list of suppliers each year. We have streamlined the procurement process to ensure a more transparent and accountable service to both our suppliers and the Group.

During the year under review, we provided training to the procurement team at the ISMM (Institute of Supplier & Material Management), to enhance knowledge and instill ethical practices to enhance transparency in procurement activities. Procurement process was further strengthened by establishing procedures, guidelines and committees for procurement management.

### Our Procurement Process



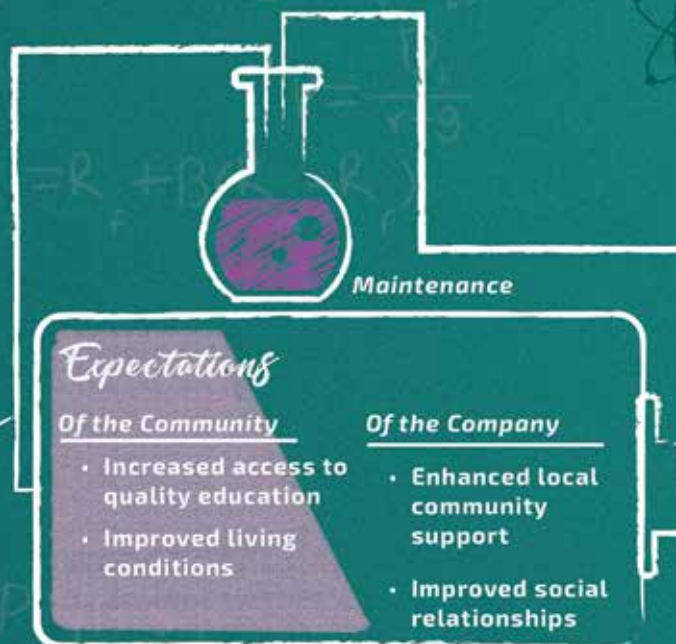
# Community Engagement

## Key Concerns of Community

- Impact made on the community from business operation
- Solutions for key social challenges of education and health and well being

## It is important

It is our responsibility to uplift the local community while achieving business growth support of our business partners



Taking care of our community and their needs have become the cornerstone of the Company's corporate strategy. The Company makes use of every opportunity to support our community. During the year 2017, we implemented and completed a number of community enrichment projects which resulted in making a positive impact on the lives of individuals belonging to those communities.

## Our Winning Formula

Our community engagement strategy focus on health and well-being, education and community upliftment. During the year under review, we carefully evaluated the requirements of each area and identified entities that stood to benefit the most from our involvement and support. The selection mechanism involves the CSR Committee which reviews all project proposals received before reaching a consensus on the projects in which the Company should invest resources. Following initial investment, we ensure that each investment made by the Company is put to good use through obtaining frequent feedback on the effectiveness of the projects implemented.

## Health and Wellbeing

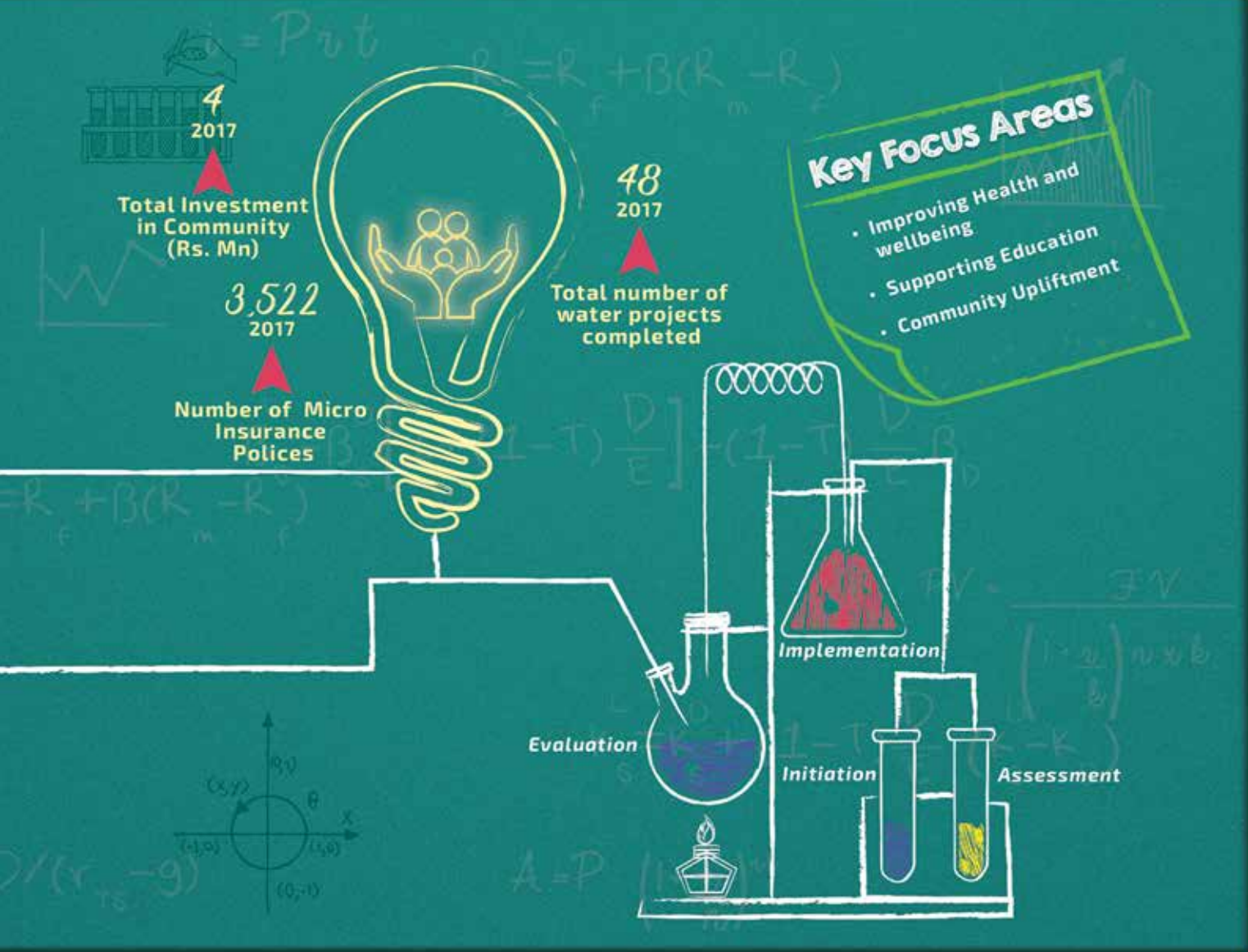
### Suwathi Diwiyata Magak

Striving to educate the general public on a number of topics related to health and well-being, we continued the Suwathi Diwiyata Magak programme.



A step in a healthy direction





This programme focused on providing assistance as well as educating the general public on a number of topics related to healthcare. In line with the main focus of Suwathi Diwiyata Magak, we organized a number of outdoor events including fitness sessions and medical check-ups.

### Healthy Living Symposiums

The Company joined hands with the College of Community Physicians of Sri Lanka for the second consecutive year and sponsored a series of health symposiums conducted in various parts of the country. These health symposiums provided valuable insights and knowledge to the general public on a number of topics related to health and well-being such as child health and maternity care.

### Blood Drive

The Annual Blood Donation Camp of HNBA conducted in association with the National Blood Bank was held for the 12th consecutive year at the Head Office complex of HNBA. Amongst 248 participants, 194 donors qualified for this worthy cause.



*A drop that saves lives*

### Empowering women

In keeping with the Company's wish to empower women, we provided financial assistance to an event organized by the Colombo Round Table in order to build a facility to accommodate young women who have faced sexual, psychological and physical abuse. This facility is well-equipped to accommodate 15 women for a period of 3 months and provides vocational and social skills training as well as career guidance and placement.

## Capital Management Reports Contd.



*To the aid of mothers to be*

In the aftermath of the floods that occurred in May 2017, the Company extended support to fifty affected expectant women stationed at emergency camps in the Matara District by providing packs of essential items.

### Provision of Bedside Lockers

During the course of the dengue epidemic that occurred in 2017, the Company provided 20 bedside lockers to the District General Hospital in Negombo which is known to be the main secondary hospital in the Gampaha District. Even though the premise is only capacitated to serve 580 persons at a time, the hospital accommodates approximately 925 patients on a daily basis.



*Comfort to the Convalescents*

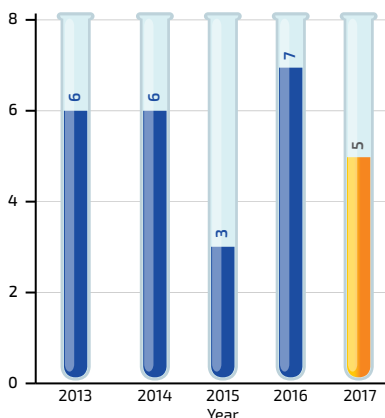
### Provision of High Flow Nasal Cannula Therapy Device

A High Flow Nasal Cannula Therapy Device will be donated to the Pediatric Intensive Care Unit of the Lady Ridgeway Hospital. This device will be used to aid critically ill children with respiratory difficulties. The device assists patients to improve oxygenation, decrease the patient's work of breathing and serve as an alternative to more invasive forms of treatment such as mechanical ventilation.

### Water Stewardship

Continuing the Water Stewardship initiative, the Company donated purified drinking water systems to schools located in areas where kidney disease is most prevalent in the country. During the year, purified drinking water systems were installed at Katupathwawa Primary School in Nochchiyagama, Halambagaswewa Secondary School in Anuradhapura, Peddogama Secondary School in Mahawa and Mahatorawa Secondary School in Nanneriya. Over 1,088 students benefited from this initiative.

#### Number of Water Projects



### Katupathwawa Primary School

This school is located in the Anuradhapura District, 5 Km away from the Nochchyagama town. The school educates approximately 60 students where 08 teachers conduct classes from grade 1 to 5. The Company took the initiative to install a purified drinking water system with a tube-well in the school premises.



*Water, water everywhere, now for me to drink*

### Halambagaswewa Secondary School

Located 32 Km away from the sacred city of Anuradhapura, Halambagaswewa Secondary School currently provides education to 78 students while 11 teachers are engaged in conducting classes. The Company took the initiative to install a purified drinking water system in the school premises.



*Water, now crystal clear*



### Peedogama Secondary School

This school is located 32 km away from the Mahawa Town in the North Central Province with 87 students and 15 teachers. The school conducts classes from grade 1 to 11. The Company installed a reverse osmosis system in the school premises in order to provide purified drinking water.

### Mahatoruwa Secondary School

This school is situated in the North Central province, 28 km away from Maho. The school educates 113 students with 16 teachers conducting classes. The Company installed a reverse osmosis system within the school premises.



*We thirst no more*

### H / Kanumuldeniya North Navodya School/ - Pallekanda, Walasmulla

This school provides education for 750 students and is located in Pallekanda, Walasmulla in Hambantota District. Students in this school do not have access to clean drinking water during the rainy season as the water well fills up with unclean rain water. The Company made a donation to renovate the water well and provide the children with access to clean drinking water.

## Supporting Education

### School Rehabilitation Programme

The school rehabilitation project initiated by the Colombo Plan International Society focuses on developing infrastructure of underprivileged schools located in Anuradhapura and Trincomalee Districts. The Company provided financial assistance to Pulmodai AS-Safa Primary School which educates 23 students while 05 teachers look over their education.

### Scholarship to Students of the University of Colombo

The Company contributed to a project organized by the Alumni Organization of the University of Colombo to provide scholarships to 100 University students in need.

### A /Thammennakulama Vidyalaya/ – Thammennakulama, Neriyaikulama

This school provides education for 58 students from Grade 1 to 5 and is located in Thammennakulama area of Neriyaikulama, Madewachchiya. The school possesses 5 Personal Computers to facilitate students to learn Information Technology. However, the computer laboratory building did not provide adequate support to conduct proper classes or protect the devices from harm. The Company donated material required to renovate the computer laboratory.

### Donation to Akkarepattu Sinhala Vidyalaya

A financial donation was made to the Akkarepattu Sinhala Vidyalaya to support academic achievements of the students.

## Community Upliftment

### Places of Worship

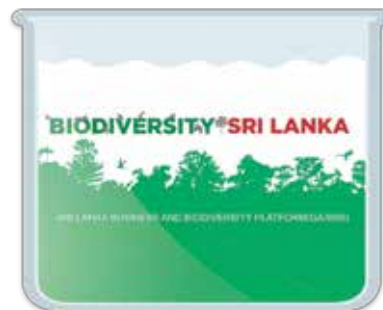
The Company made cash donations to 4 religious places within Colombo city limits and 4 religious places in other areas of the country representing the 4 major religions observed in Sri Lanka.



*To the greater glory*

## Environment

In line with our environmentally conscious outlook, the Company continued to be a member of the Bio-Diversity Sri Lanka association and extended our support towards a number of activities carried out by the association during the year.



*Protecting our mother nature*

## Capital Management Reports Contd.

### Differently-Abled

Supporting the endeavors of the visually impaired persons in Sri Lanka, a financial donation was made to the Blind Musical Orchestra which showcased multiple talents of the visually handicapped.

### Sports

Uplifting the winning spirit and encouraging young champs, HNBA proudly sponsored the Sri Lanka Deaf Cricket Team for the 3rd Asia Deaf Cricket Cup which was held in Hyderabad, India. The Sri Lanka Deaf Cricket Team emerged Runners Up of this tournament.



*Those who see the sound of victory*

Encouraging young talent, the Company donated sports equipment to a number of students in the Galle district.



*When no goal is beyond me*

### Arts and Culture

Honouring the contribution of prominent individuals in the entertainment industry of the country, the Company recognized several artists of the golden era. Accordingly, tokens of appreciation were presented to late Prince Udaya Priyantha, a well-known singer, Bertu Gunethilake, a well-known comedian in the country, Chandrani Gunewardena, a renowned singer, and Piyadasa Athukorala, a musician who excelled in playing the 'Sitar'.



*Felicitating veteran artist  
Ms. Chandrani Gunawardena*



*Felicitating veteran musician  
Mr. Piyadasa Athukorala*

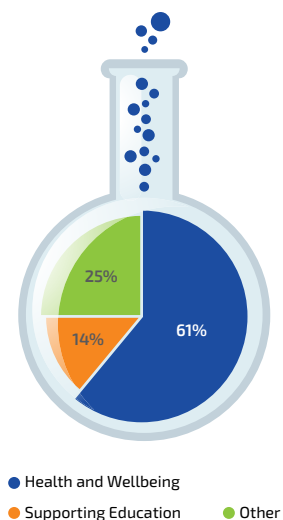


*Felicitating veteran comedian  
Mr. Bertu Gunathilake*

### Community

Striving to provide support to those in dire need of help, the Company provided financial assistance to uplift the wellbeing of the families and children of the imprisoned. The project was initiated by the Prisoners Welfare Association of Sri Lanka.

Investment in Community (2017)



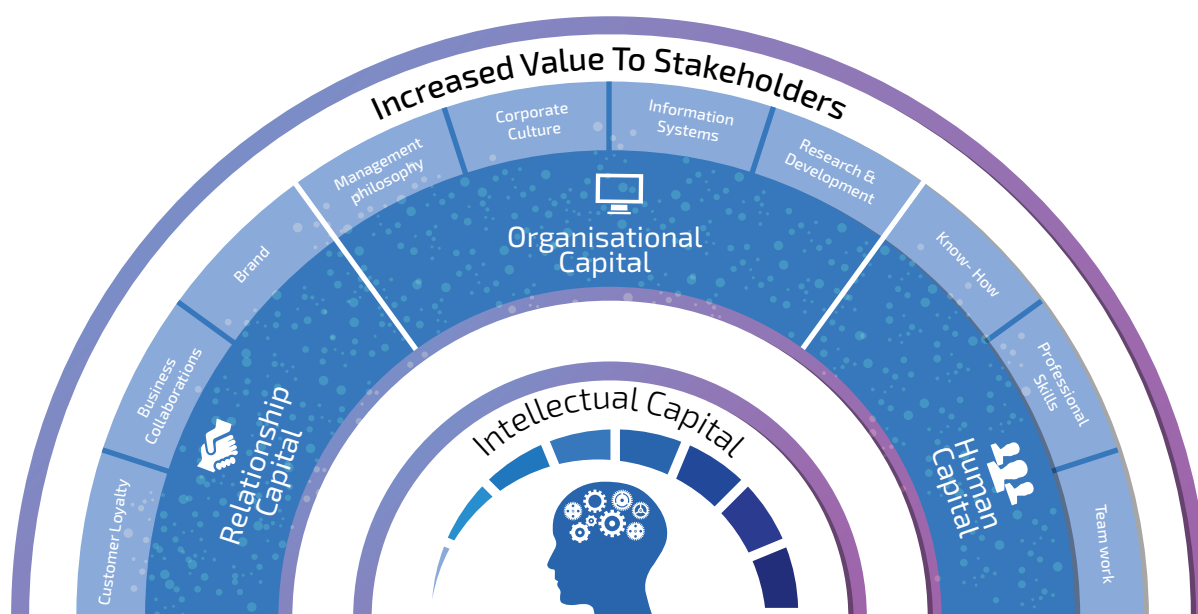
## Intellectual Capital

Our intellectual capital is a combination of various intangible business assets that form an integral part of business operations. The strategic vision that steers us to create, shape and update the Company's intellectual capital calls for a winning formula that enables an on-going process of managing, developing and changing the dimensions of our intellectual assets.

### Our Winning Formula

The essence of our intellectual capital is the tactical combination of relationship capital, organisational capital and human capital which in combination with the relationships we have built with our stakeholders form the intellectual wealth of HNBA.

The winning formula that drives our intellectual capital to create enhanced value for stakeholders consists of the structures, systems and processes we have put in place along with the skills and knowledge of our employees. Thus far, this amalgamation of various strategies has contributed to enriching our intellectual capital allowing the Company to secure substantial value.



### Relationship Capital

The elements of our formulated relationships with customers, business partners as well as our brand value form an integral part of our intellectual capital.

### Brand

Our brand image which is a cumulative amalgamation of the reputation of HNB Assurance PLC and HNB General Insurance Limited as well as our association with one of the leading commercial banks in Sri Lanka, Hatton National Bank is a main business asset that forms a significant part of our intellectual capital.

Both HNB Assurance PLC and HNB General Insurance Limited are rated 'A' (lka) for Insurer Financial Strength Rating and Long Term Rating, with a stable outlook, by Fitch Ratings Lanka Limited. The rating assigned to us signifies our financial strength and strong claim paying ability which creates customer confidence in us and enhances our brand value.

## Capital Management Reports Contd.

### Awards and Accolades

The Company received a multitude of awards and accolades from various entities signifying the extent of our brand value and our ability to create enhanced stakeholder value.

#### Gold Award – Insurance Sector Companies: 53rd CA Sri Lanka Annual Report Awards 2017



HNB Assurance Group seized the Gold Award in the Insurance Sector Companies Category at the 53rd Annual Report Awards Ceremony, organized by the Institute of Chartered Accountants of Sri Lanka for its 2016 integrated annual report, themed '15 Years of Delighting Our Stakeholders'.

#### Gold Award - 'Takaful Window/Unit of the Year : Islamic Finance Forum of South Asia



The Islamic Insurance Unit of HNBGI was acclaimed with the Gold Award for 'Takaful Window/Unit of the Year' at the Islamic Finance Forum of South Asia. Amongst many nominees from India, Pakistan, Maldives and Bangladesh.

#### Winner - Micro-Insurance Leader Category - Fintelekt



HNB Assurance PLC was adjudged as the winner under the category of 'Micro-insurance Leader - Life Insurance Award 2017' at Fintelekt Insurance Awards of Sri Lanka 2017.

#### Merit Award – CMA Excellence in Integrated Reporting Awards



HNB Assurance PLC was awarded with a Certificate of Merit Award for the 2016 Annual report at the CMA Excellence in Integrated Reporting Awards 2017 organised by the Certified Management Accountants of Sri Lanka.

#### ISO Accreditation



Life Insurance claims process was accredited with the ISO 9001:2015 certification on the claims process further establishing the high process efficiencies and standards maintained by the Company.

#### Silver Award - NASCO Awards: Sri Lanka Institute of Marketing



HNB Assurance PLC's (HNBA) representative, K. M. Dulish won the Silver Award for the category of Sales Executives and Sales Supervisors of Life Insurance at the National Sales Congress (NASCO) organized by the Sri Lanka Institute of Marketing (SLIM).



For the 5th consecutive year, the Company has been included in the prestigious LMD Top 100 Brands in Sri Lanka, with a brand value of



## Customer Loyalty

Our innate capacity to inspire and retain customer loyalty is substantiated by the expansive customer base we cater to in both Life and General Insurance business. This is further evidenced through our strong renewal retention ratio and premium persistency ratios.



## Business Collaborations

Our effective collaborations with business partners such as the Advisor force exceeding 2,400, Bancassurance network spanning 199 locations, panel comprising A and above rated re-insurers, insurance brokers and financial institutions, as well as other suppliers enables us to enhance our customer services and add value to relationship capital.

## Organisational Capital

Our organisational capital comprises of a value-driven culture, sound management processes and controls, good governance structure and information systems that binds together and drives our business operations.


## Value Driven Culture

Our corporate culture is built on a strong foundation of integrity and transparency, creating a friendly platform conducive to innovation, ingenuity and a purposeful desire to strive for excellence, consequently adding value to all aspects of business activities.

## Sound Management Processes and Controls

Our robust and well-structured management processes and internal controls steers forward our business operations in manner that increases value created on behalf of our stakeholders. We constantly strive to enhance the efficiency levels of our processes as evidenced by the ISO 9001: 2015 certification we won in 2017 for our Life claims process. During the year under review we also reviewed all policies and made changes where necessary.

Further, we reviewed and enhanced our internal controls during the year in order to minimize risk and safeguard stakeholder interests.

 Comprehensive descriptions of our processes and controls are detailed in the Risk management Report presented on page 104 to 115, the Audit Committee Report appearing on page 215 to 220 and the Annual Report of the Board of Directors presented on page 235 to 247.




## Capital Management Reports Contd.

### *Our Value Driven Culture*




### Governance and Compliance

Our governance structure, illustrated on page 52, focuses on operating a business model that encourages ethical conduct of behaviour and a profound commitment to stakeholder interest protection. Our Board of Directors and Management adhere to the well-established governance structure and ensure that all decisions and actions taken by them are in the best interest of shareholders and other stakeholders.

 The Corporate Governance Report on page 52 to 103 further illustrates our good governance endeavours.

We at HNB Assurance ensure compliance to all rules and regulations applicable to our business processes and we place utmost importance on building a compliant culture with regard to all activities that we carry out.

 The Compliance summary on page 121 to 124 provides further details about the Company's governance practices and compliance status.

### Information Systems

The Group uses a core insurance application, finance system, actuarial system, portfolio management system and other ancillary systems for the smooth and efficient functioning of our operations. During the year under review we automated several manual processes to increase efficiency.

### *Our Management Processes and Controls*







## Human Capital


Yet another key component of our intellectual capital formula, human capital adds value to the Group's business operations and paves the way towards viable growth. Our talent management practices guarantee that our employees consistently possess the skills, knowledge, expertise and industry know-how to execute their collective and individual responsibilities in an efficient and an effective manner to generate value to themselves as well as the Group.

### Know – How

At HNBA, our culture is such that employee know-how of each functioning unit is shared with each unit member equally. Further, tacit knowledge is documented in procedure manuals which all employees are mandated to follow. Knowledge sharing sessions are organised at department levels during which staff with fresh or specialised knowledge share their know-how with their department members.

### Work- Related Knowledge

Our employees are provided with proper training and development opportunities to enhance their knowledge related to their work responsibilities on a regular basis ensuring that they possess sound technical knowledge on their specific areas of expertise. During the year under review, training hours per employee increased to 16.6 hours.

 Further details of employee training sessions and resources utilized during the year are illustrated on page 151 to 152 of the Human Capital Report.

### Professional Skills

We encourage our employees to obtain professional qualifications related to their area of work ensuring that they are moulded into professionals who can drive the vision of the Company. While duty and study leave are granted for professional exams, examination fees are reimbursed upon successful completion. HNB Assurance is also a training partner of the CA Sri Lanka.

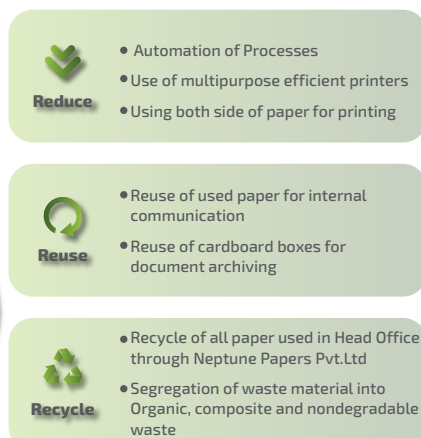
## Capital Management Reports Contd.

### Natural Capital

Far-reaching changes in weather patterns such as floods, prolonged droughts and storms caused by environmental disturbance negatively impacts the Insurance industry. Therefore, the correlation between environmental preservation and sustainable growth of the Insurance business is a vital area of interest to the Group. Our commitment to environmental protection stems not only from this key concern for business growth but also from a sense of duty to contribute to the overall well-being of the planet that nurtures us all. We have employed a number of proven strategies to minimize the negative impact our business operations have on the environment. These strategies strive to manage our usage of electricity, fuel and water while reducing the waste we produce during the course of business operations. In short, we consistently look to conduct our business activities in an eco-friendly manner in order to safeguard the environment.

#### Our Winning Formula

Our winning formula for environmental preservation endeavours incorporate the 3R strategy which manages the Group's input and output in terms of natural resources with steady focus on the 'Go Green' movement.



#### Our Responsible Consumption Patterns

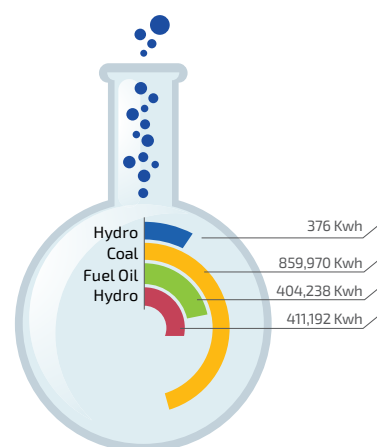
Responsible consumption is at the heart of sustainable business practices and our Group has consciously built a work culture that practices and promotes responsible consumption at all levels of business operations.

- The IT department virtualised the servers replacing multiple server machines with a single server machine reducing the electricity consumed during the period.
- Use of energy saving LED bulbs.
- Monitoring electricity consumption to save energy.

#### Electricity Consumption

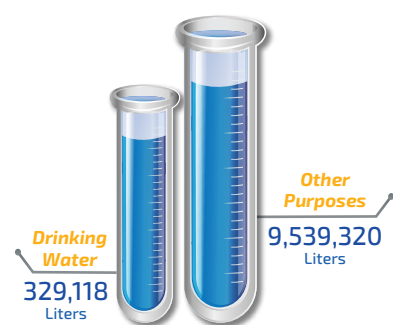
Our day-to-day business operations depend on electricity and we comprehend the magnitude of the need to consume this resource in a responsible manner. Accordingly, we have implemented several steps to reduce wastage and switch to alternate energy sources whenever possible.

- Our Head Office premises uses solar power to generate part of electricity for usage.
- During the year we took the initiative to automatically shut down computers used in the branch network after 6.00 pm to save energy.



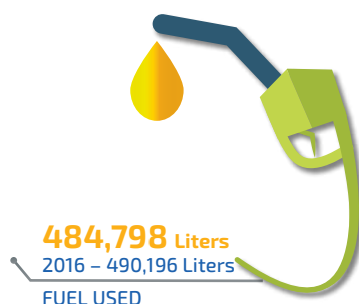
## Water Consumption

Although our water consumption is limited to drinking and sanitary purposes, we have taken measures to reduce wastage and switch to more environmentally friendly methods of sourcing water. While we source water used for sanitary purposes from the National Water Supply and Drainage Board, we have also adopted a rainwater harvesting system at Head Office Premises to reduce our dependency on more conventional sources. The Group's drinking water supply utilizes tube wells to source water. In addition to adopting the above mentioned methods to minimize our impact on natural water sources, we ensure that our water discharge causes no harm to the environment.



## Fuel Consumption

The Group's fuel consumption comprises business travelling activities as well as daily commutes of our sales personnel and employees. In line with our commitment to reduce fuel consumption, we have adopted a cost reimbursement system which sets a predetermined maximum fuel limit.



## Waste Management

We have identified that the main form of waste generated as a result of our business operations tend to be paper. We have already set up mechanisms to create a 'paperless' work environment albeit facing difficulties due to the nature of our business. In addition, we use the 3R concept to further reduce waste generated within the Group.

## Product Responsibility

Going beyond our commitment to responsible resource management and waste reduction, we extended our contribution to creating a more sustainable approach to preserving the environment by introducing environmentally responsible products to our portfolio.

During 2017 we sold 5,430 Insurance policies for hybrid vehicle category which generated an income of Rs. 393 Million.

## Awareness Building

Striving to further embed a sense of responsibility towards eco-friendly practices and responsible behaviour amongst our employee base, we conduct awareness building activities periodically to engage our workforce in a meaningful discussion and change negative and negligent perceptions about each individual's role in protecting natural resources.

## Compliance

No fines or sanctions were imposed on the Company for non-compliance with environmental laws and regulations during the year. This further establishes our responsible behaviour towards the environment.

## Savings Achieved in 2017



# Life Insurance Review

## PROFIT AFTER TAX (Rs.)

**600** Mln 2016 **726** Mln 2017

Adoption of sustainable business strategies enabled us to improve profitability

## SURPLUS TRANSFER (Rs.)

**461** Mln 2016 **519** Mln 2017

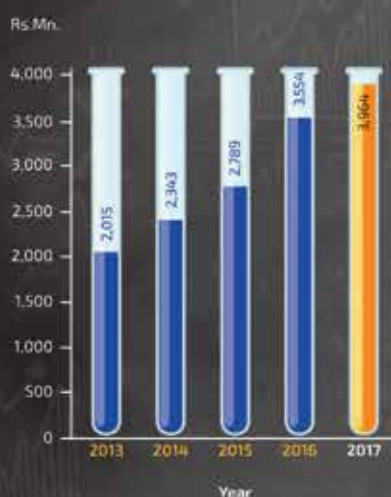
Focus on selling Profitable Products and effective investment management increased the surplus transfer

## MARKET SHARE

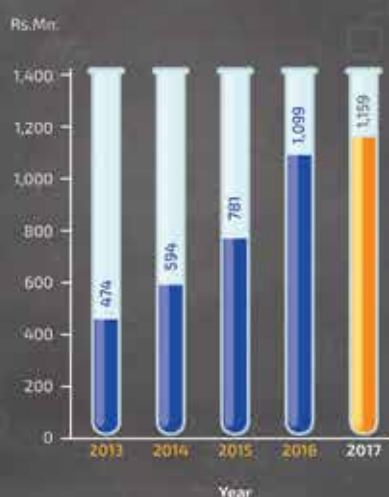
**5.6%** 2016 **5.6%** 2017

We were able to retain our market share in the Life Insurance industry

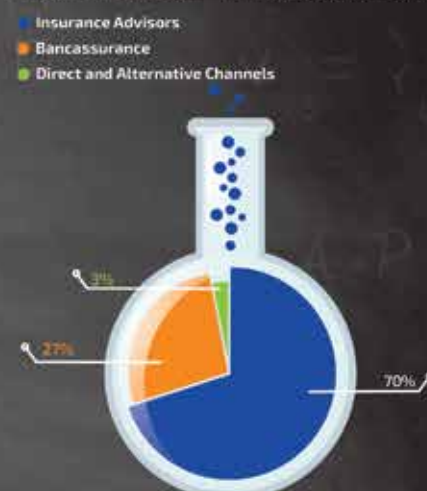
## Gross Written Premium - Life Insurance



## New Business Premium (NBP)



## Channel-wise GWP - Life Insurance (2017)



Providing protection for every stage of human life from infancy to old age, HNBA offers customers a comprehensive range of life insurance solutions. An insurer rated A lka' by Fitch Ratings Lanka Limited and backed by our parent Group, Hatton National Bank PLC, we stand strong and well-poised to provide coverage to all those who come under our wings. The year 2017 was a year of transition and change during which unsettled economic environment and regulatory changes compelled all Life Insurance companies to review their strategies.

However, during the year HNB Assurance PLC was able to grow its top-line by 12% recording a GWP of Rs. 3,963.6 Million (2016: Rs. 3,554.1 Million) and achieve a Profit After Tax of Rs. 725.7 Million (2016: Rs. 600.1 Million).

## A challenging Environment

The country experienced slow economic growth and increased cost of living affected the purchasing power of the households. This negatively affected the demand for life insurance products which are by nature unsought goods. The

increase in interest rates had a more positive effect on investment type products while low credit growth reduced overall demand for housing loans impeding growth in Mortgage Reducing Policies.

From a regulatory stance, we faced numerous challenges. The proposed changes in tax rules, residue effects of changing to the Risk Based Capital Regime last year and concerns over the impending changes in the financial reporting arena; new accounting standards SLFRS 09 and IFRS 17 which will come in to effect in the near future

### NUMBER OF POLICIES

**135,027** 2016  
**143,933** 2017

Constant training and development of our staff and advisors supported us to attract new customers

### LIFE FUND (Rs.)

**8.6 Bn** 2016  
**10.8 Bn** 2017

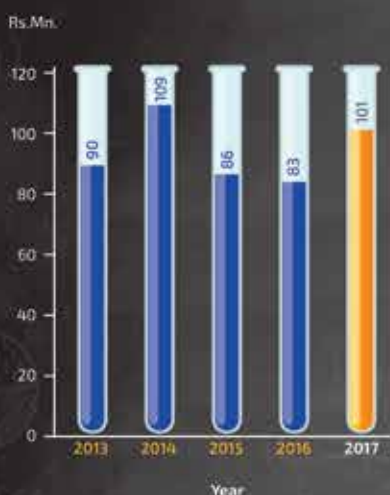
Increase in new business and renewal business premium increased the fund

### DIVIDEND FOR POLICYHOLDERS (Rs.)

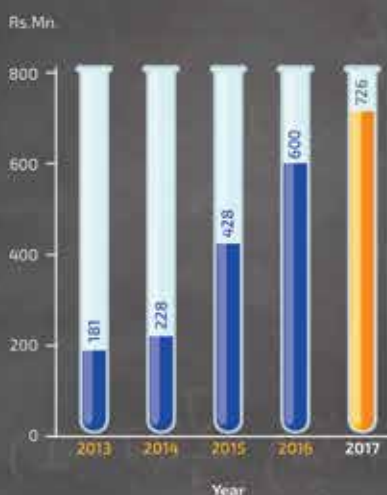
**160 Mm** 2016  
**249 Mm** 2017

Fund management and expense management strategies increased the dividend amount

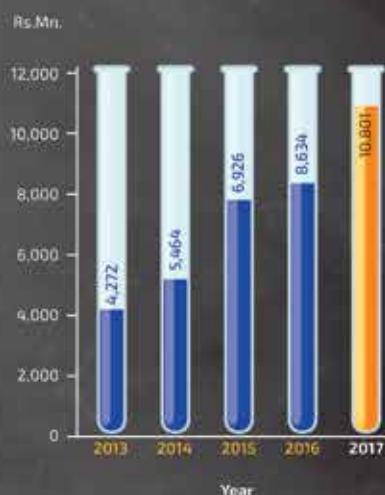
### Bonus to Life Policyholders



### Profitability - Life Insurance (PAT)



### Life Insurance Fund



are some of the biggest challenges that the Company faced.

HNB Assurance PLC monitors the changes in the external environment to identify the current and potential effects that the changing elements can have on our business performance. Through in depth market analysis, we identified following challenges and opportunities as significant factors that affect our business performance.

### Key Opportunities

- The rise of certain epidemics which contributes to grow the demand for health related insurance. The Country's aging population which creates opportunities for long term health insurance products
- Potential for increased market share with low penetration in the Life Insurance Industry

### Key Risks and Challenges

- Sluggish economic growth and low purchasing power of households that negatively affects the demand for insurance
- Volatility in interest rates which affects the Investment Income and the demand for Life Insurance products
- Proposed changes in tax definitions which would reduce returns to policyholders and shareholders



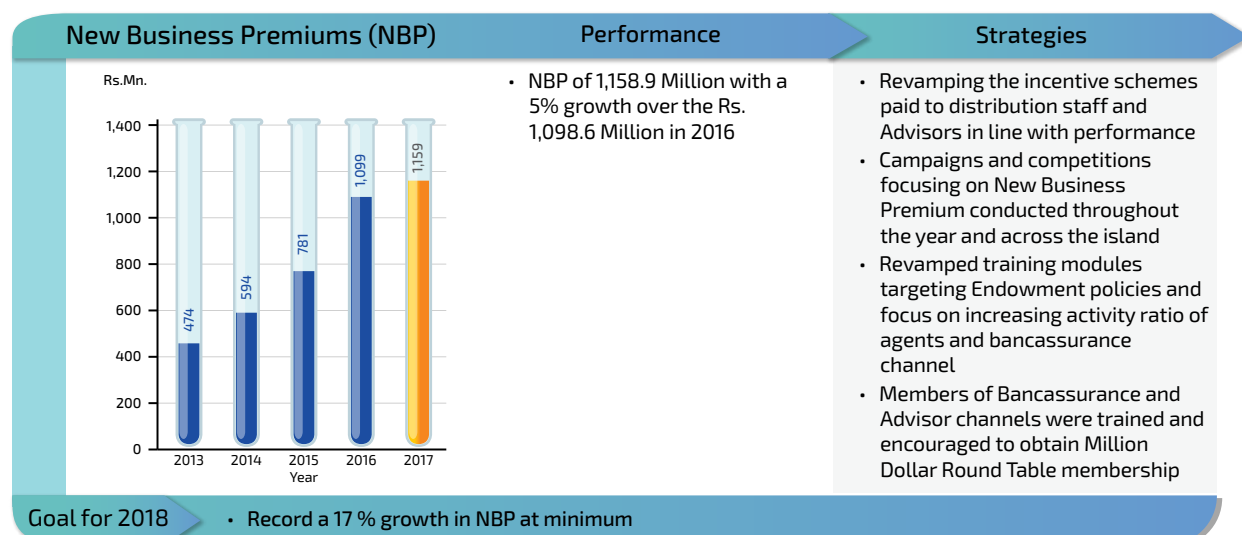
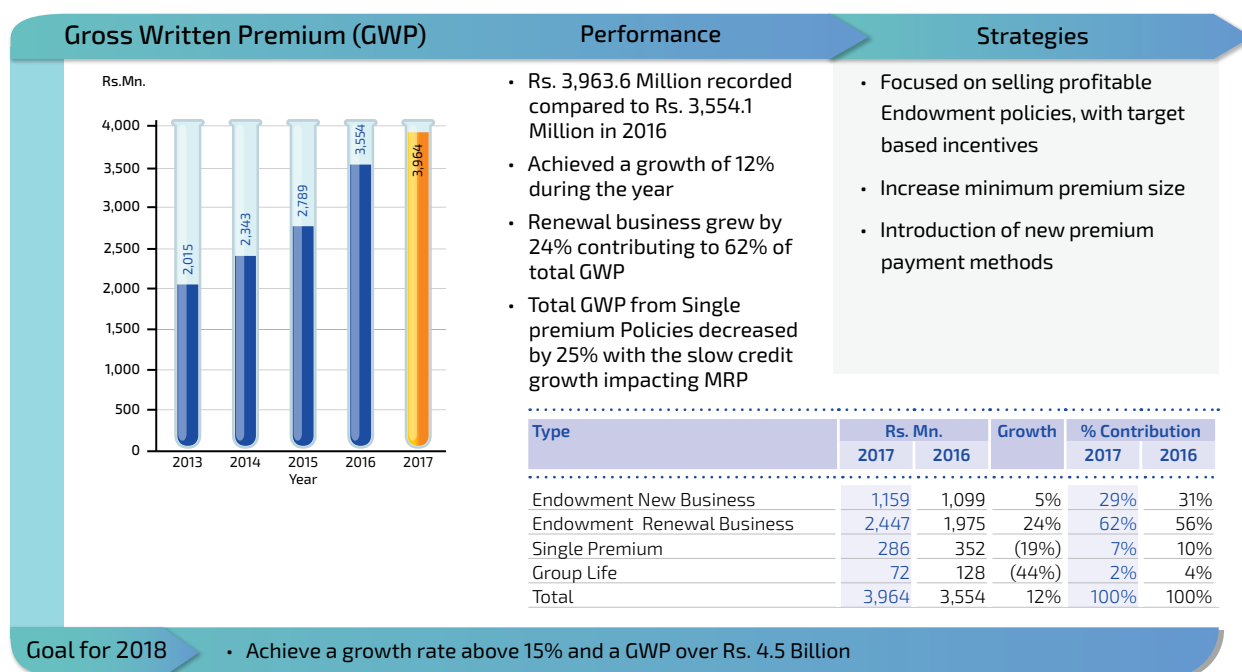
## Life Insurance Review Contd.

### Our Performance against the Industry

In 2017, the growth of HNB Assurance PLC slowed down to 12% when compared to last year but was on par with the industry growth of 12%. However, the Company was able to remain as the 6th largest Life Insurance provider in the country with a market share of 5.6%.

	2017	2016	2015	2014	2013
Industry (Mn.)	71,449	63,495	53,586	44,650	40,873
HNBA (Mn.)	3,964	3,554	2,789	2,343	2,015
Market Share	5.6%	5.6%	5.2%	5.2%	4.9%
Growth (Industry)	12%	19%	20%	9%	10%
Growth (HNBA)	12%	27%	19%	16%	34%
Rank	6	6	6	6	7

### Our Performance

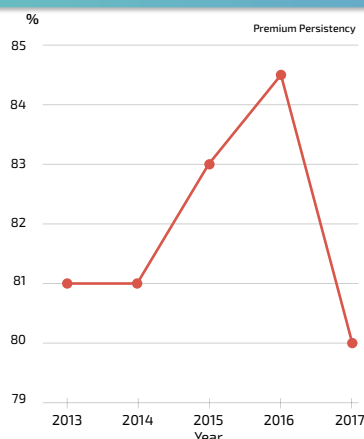




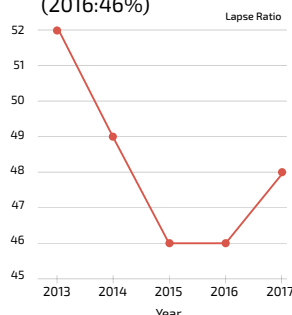
## Premium Persistency and Lapse Ratio

## Performance

## Strategies



- Despite our efforts premium persistency reduced to 80% (2016: 84.5%) and first year lapse ratio increased to 48% (2016: 46%)



- Expansion of the policy conservation unit to focus on Renewals to reduce lapses

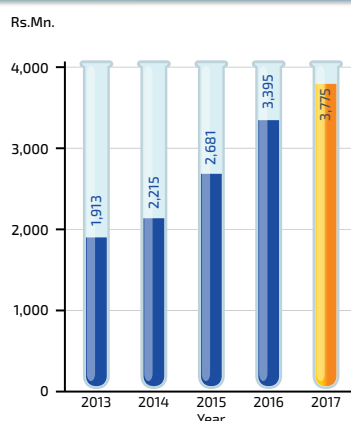
## Goal for 2018

- Explore new methods of reducing lapses

## Net Earned Premium (NEP)

## Performance

## Strategies



- NEP of Rs. 3,774.5 Million in comparison to Rs. 3,395.0 Million in 2016
- Maintained 11% growth inline with topline growth

- Strategies to increase GWP as discussed above
- Negotiating better reinsurance terms with major reinsurer, Munich Re

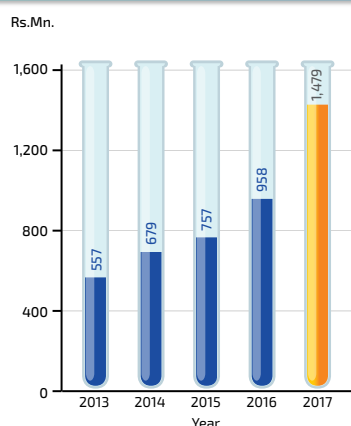
## Goal for 2018

- Improve NEP by achieving estimated growth in GWP and managing RI cost

## Investment Income

## Performance

## Strategies



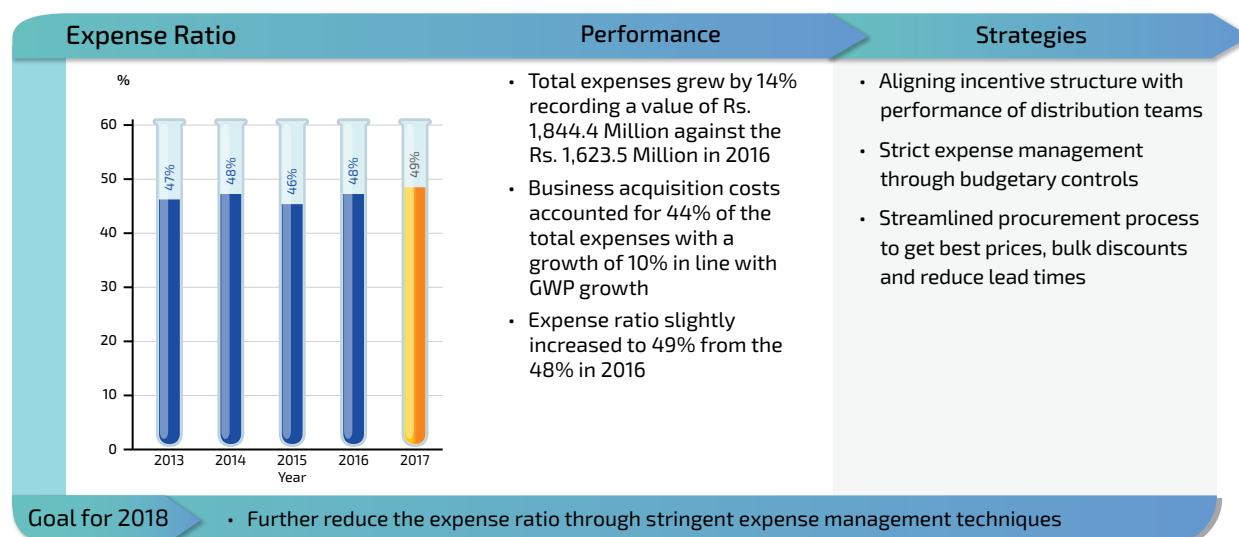
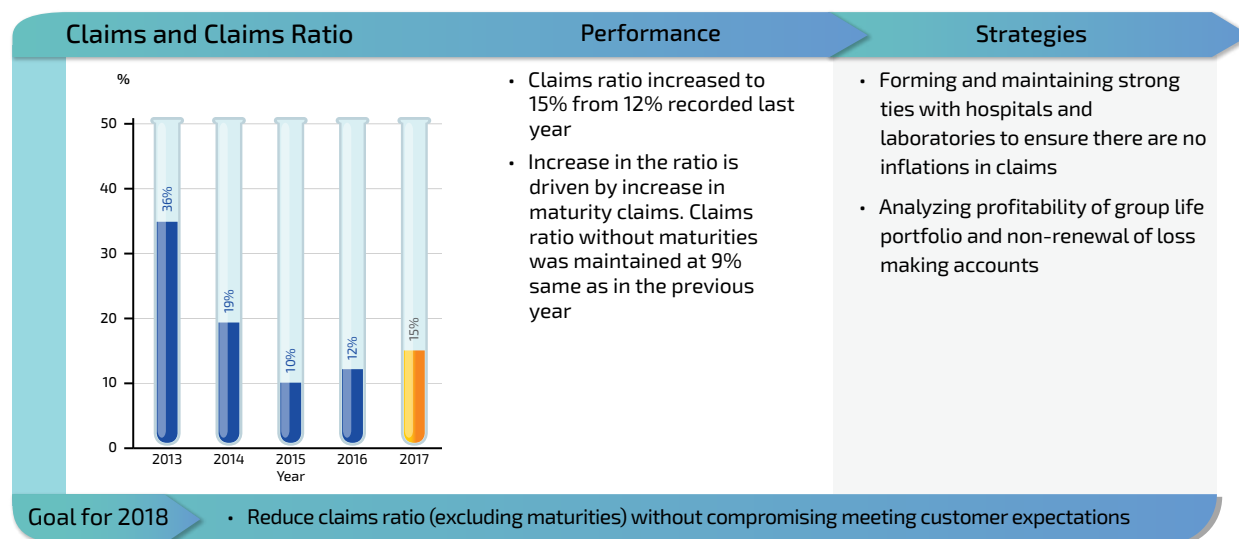
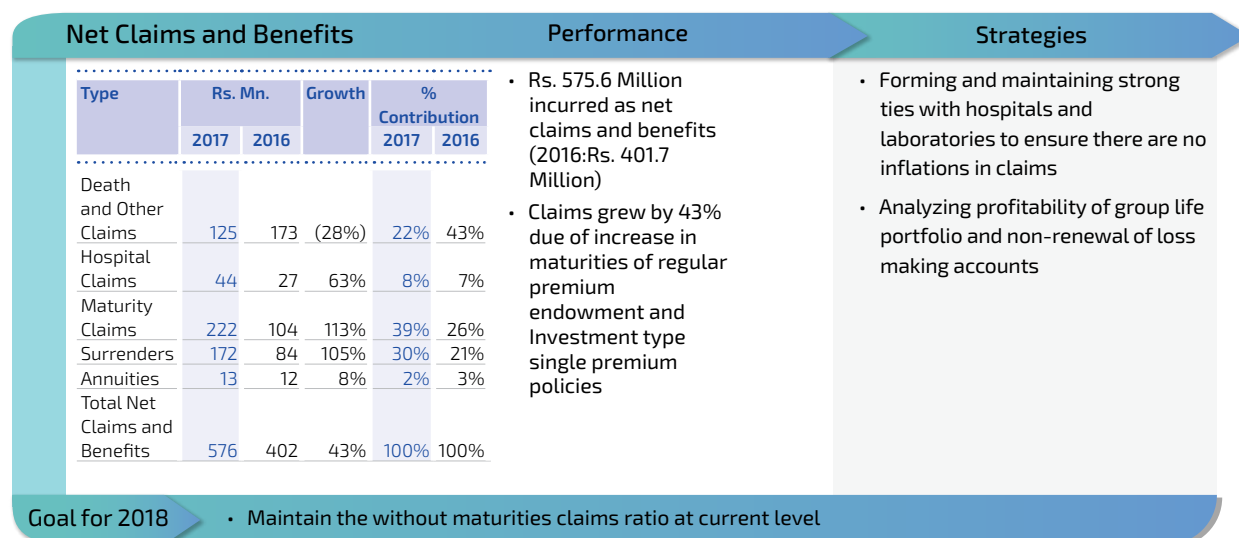
- 54% Growth in Investment Income recording a value of Rs. 1,478.5 Million compared to Rs. 957.7 Million in 2016
- Growth in income was supported by the increase in Funds Under Management from Rs. 10,119.2 Million to Rs. 13,060.6 Million during the year
- Realizing gains of Rs. 28.8 Million each on fixed income and equity (2016: realized losses of Rs. 22.4 Million).

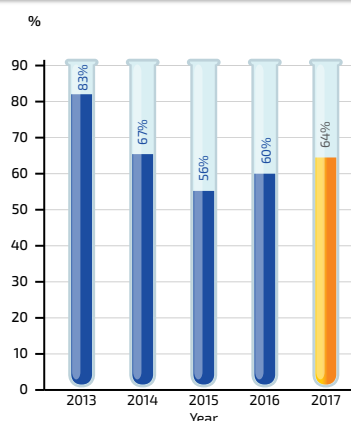
- Ensured growth in fund size, increasing GWP and improving underwriting results
- Increased the exposure to Fixed Income securities to take advantage of the increase in interest rates in the first half of the year
- Capitalized on changes in interest rates and equity market performance

## Goal for 2018

- Increase Funds Under Management and achieve a return higher than the market return

## Life Insurance Review Contd.



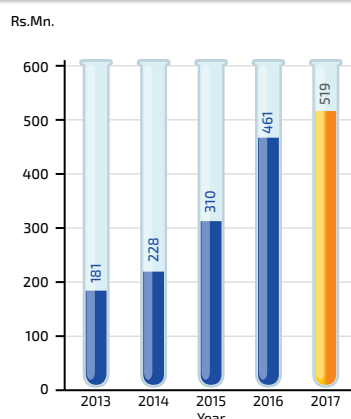
**Combined Ratio****Performance****Strategies**

- Combined ratio increased to 64% compared to 60% recorded in 2016
- Increase in ratio driven by the increase in claims cost during the year

- Maintaining both claims and expense ratios at minimum levels

**Goal for 2018**

- Reduce the combined ratio to a value lower than 60%

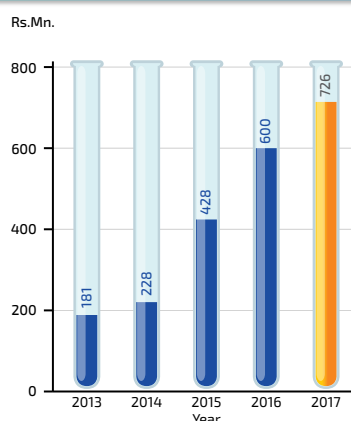
**Surplus Transfer to Shareholders****Performance****Strategies**

- Achieved a 12% increase in surplus transfer from Life Insurance Fund of Rs. 518.6 Million (2016: Rs. 461.1 Million) despite increase in liability due to decrease in interest rates

- Increasing minimum premium size
- Analyse product profitability and reprising products, focus on selling profitable product
- Expense management strategies
- Prudent and effective investment management strategies

**Goal for 2018**

- Grow profitable businesses and introduce profitable new products

**Profitability****Performance****Strategies**

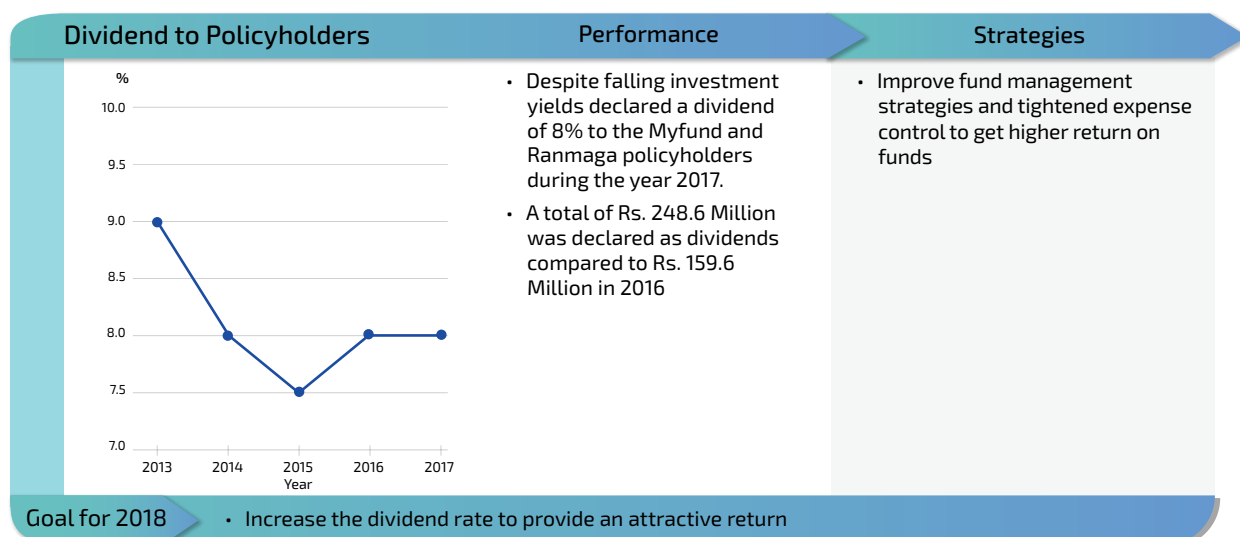
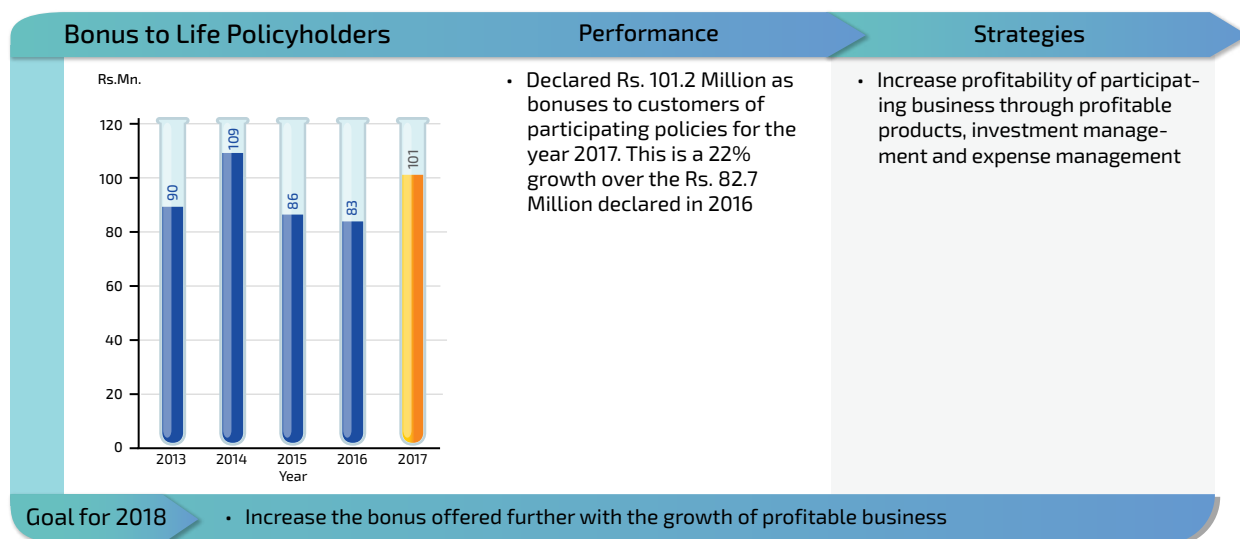
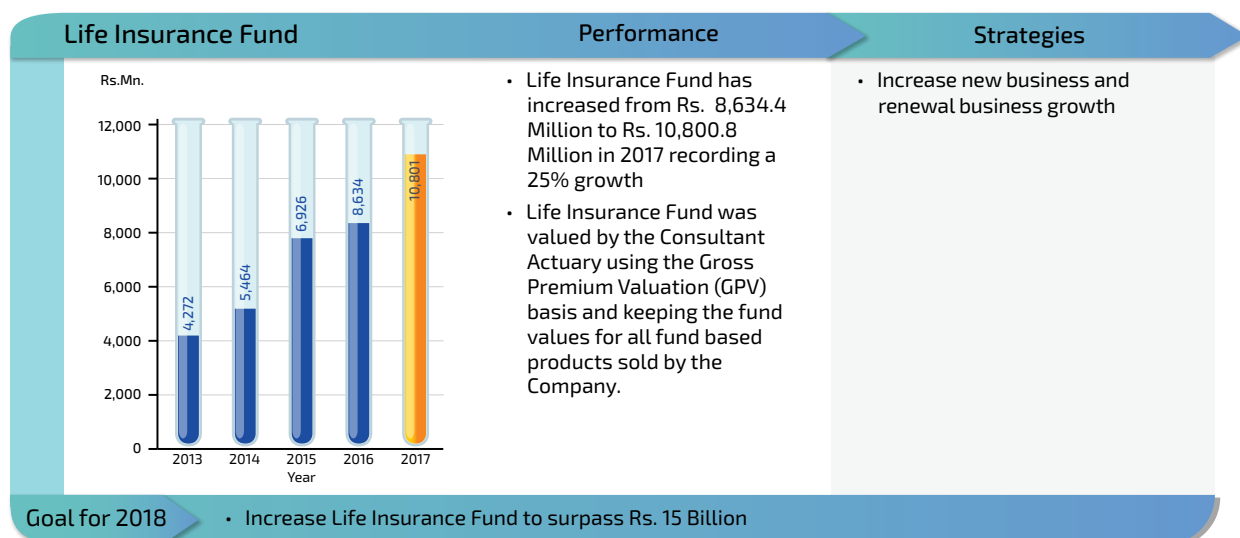
- Profits from shareholders fund increased by 49% to Rs. 207.1 Million (2016: 139.0 Million)
- Profit After tax grew by 21% recording a value of Rs. 725.7 Million oppose to Rs. 600.1 Million recorded in 2016

- Increase shareholder and policyholder wealth through adoption of sustainable business strategies

**Goal for 2018**

- Further improve the profitability to maximise shareholder returns

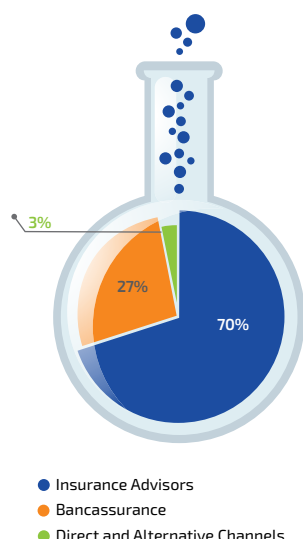
## Life Insurance Review Contd.



## Performance of Our Distribution Channels

Distribution channels play a key role in achieving our GWP growth. The support of our distribution team remains the linchpin of our growth process. During 2017, HNB Assurance PLC opened one branch to further establish customer service excellence while operating 199 bancassurance units.

### Channel-wise GWP - Life Insurance (2017)



Channel	2017 GWP (Rs. Mn.)	2016 GWP (Rs. Mn.)	Growth %	Reasons
Insurance Advisors	2,771	2,377	17%	Advisor channel generated a GWP accounting for a 70% of the total GWP, thus remaining as the primary channel in the Company. During the year 2017, the Company further strengthened the channel by recruiting 602 new Advisors. In addition, the Company enriched the existing Advisors by offering training programmes. Accordingly, in 2017 many training programmes were conducted focusing on personality development. In addition, various competitions and activities were launched in a timely manner to motivate the Advisors and to maintain the winning momentum.
Bancassurance	1,060	981	8%	Bancassurance channel grew by 8% and contributed by a 27% to the total GWP with the continuous support of HNB.
Direct and Alternative Channels	133	196	(32%)	Increased focus on Insurance Advisor and Bancassurance channels resulted in a decline in the Direct and Alternative channels when compared to the previous year. However, the Company will be taking necessary measures to improve this channel with new recruitment strategies and distribution strategies.
<b>Total</b>	<b>3,964</b>	<b>3,554</b>		

## Future Outlook

Life Insurance segment performed well during the year under review and we expect to continue the upwards trend in the performance both in terms of GWP and profitability adding value to all our stakeholders.

The Company will focus on growing the top-line through the progression of new business and renewal of business while improving customer satisfaction. The Company would shift its focus towards protection oriented products in future to meet the changing needs of the customers

in the market place. We also plan to introduce many new products to our customers to cater to their changing insurance needs and further improve customer satisfaction and customer loyalty.

Action would also be taken to further improve the productivity Agency Channel and develop the Bancassurance Channel and other alternative business channels to strengthen our overall distribution channel.

The Company would leverage on technological advancements to improve business processes and customer experience and thereby increase customer satisfaction levels. Focus would also be given to adopt lean management practices to identify non-value adding activities and improve efficiency levels of the processes across the organisation to minimise cost and improve profitability of the operations.

# General Insurance Review

## MOTOR : NON - MOTOR MIX

**71:29** **73:27**  
2016 2017

More focus was given to maintain a balanced business mix to improve profitability

## MOTOR CLAIMS RATIO

**69%** **62%**  
2016 2017

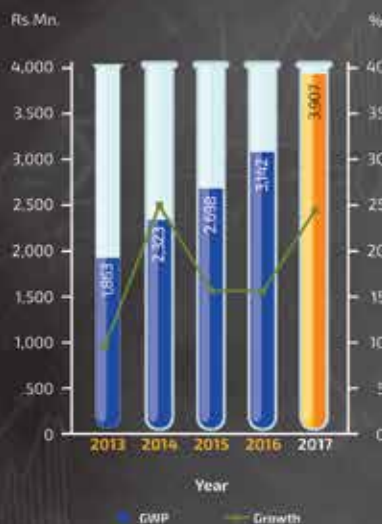
Pricing and underwriting based on risk enabled notable improvement in the ratio

## TAKAFUL GWP (Rs.)

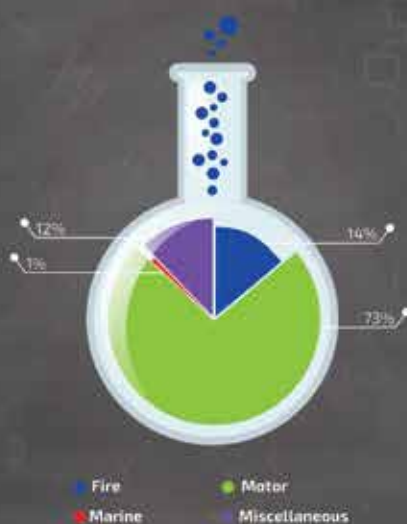
**301** **455** *lacs*  
2016 2017

Contribution made by Takaful arm has increased significantly improving the overall topline

### Gross Written Premium - General Insurance



### Class-Wise GWP - General Insurance (2017)



### Re-Insurance vs. GWP



HNB General Insurance Limited (HNBGI) caters to the General Insurance needs of customers providing Motor, Fire, Engineering, Marine, Medical and Miscellaneous insurance products, operating with a 'A lka' rating awarded by Fitch Ratings Lanka Limited. The Company's reinsurer panel comprise of reinsurers rated BB or above by reputed international rating agencies.

In spite of macro-economic and other external challenges, HNBGI performed well in 2017, generating a Gross Written Premium (GWP)

of Rs. 3.9 Billion for the year (2016 - Rs. 3.1 Billion) and a Profit After Tax of Rs.184.1 Million (2016- Rs.47.3 Million). During 2017, HNBGI maintained its claims ratio at a healthy level of 64% (2016-69%) as well as a combined ratio of 102% (2016-107%).

## A Challenging Environment

Global insurers are expected to respond and continuously focus their attention on generating efficiencies from technological platforms and using social media and other channels to target new customer segments. In addition,

with increased mergers and acquisitions insurers as well as reinsurers respond to price competition by creating greater economies of scale.

During the year General Insurance segment underwent a difficult period due to the two large-scale floods that occurred, putting pressure on accident and property damage claim volumes. Moreover, successive catastrophes had a negative impact on reinsurance terms and conditions.



### NUMBER OF POLICIES

**131,324** 2016 **146,138** 2017

with the new pricing structure and increase in average premium the policy count has reduced slightly

### CAPITAL ADEQUACY (CAR)

**168%** 2016 **178%** 2017

Improved the CAR with prudent business underwriting strategies

### MARKET SHARE

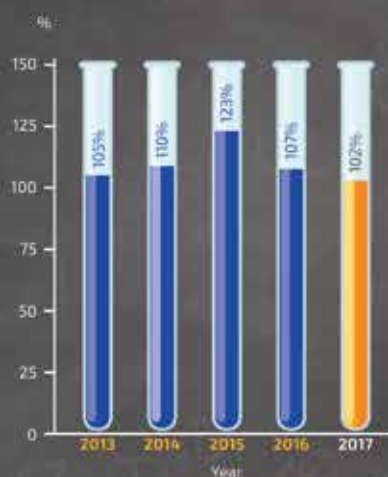
**4.1%** 2016 **4.4%** 2017

Above industry growth in our topline contributed to the increased market share

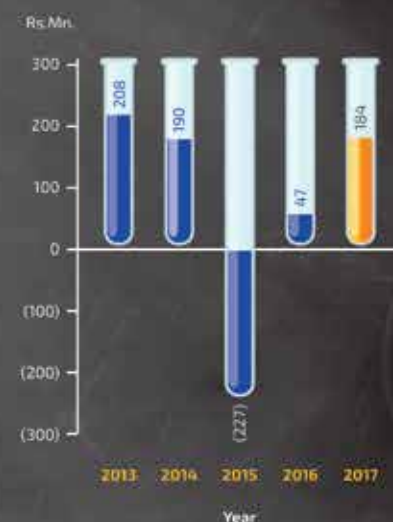
### Class-wise Claim Ratio - General Insurance



### Combined Ratio - General Insurance



### Profit After Tax - General Insurance (PAT)



The dengue epidemic which prevailed in the Country was also a major contributory factor to the challenging environment as it affected claims of the medical class.

In 2017, the General Insurance Industry grew by 16% (2016 : 14%) with motor business contributing 63% (2016: 65%) to the overall GWP. Overall reinsurance cost has marginally decreased during last five years mostly as a result of the growing motor segment, which inherently entails that insurance companies retain a significant part of the risk a without passing it on to the reinsurer.

HNBGI conducts continuous market condition analysis in order to identify changes in the environment and determine the way in which those changes affect our business operations. We have identified the following opportunities and threats in the external market, which would have a direct impact on our business performance.

#### Key Opportunities

- Growth in infrastructure development and the construction industry in the country creates opportunities for the non-motor insurance segment

- Increasing sales of low engine capacity vehicles creates opportunities for the motor – insurance segment
- The demand for insurance increasing with the amplified likelihood for natural catastrophes gives rise to greater penetration and market share
- Increasing demand for emerging risks such as cyber-crime, Directors and Officers Liability, Professional Indemnity, etc increase the demand for insurance products
- Penetration by the use of technological platform linked with social media

## General Insurance Review Contd.

### Key Risks and Challenges

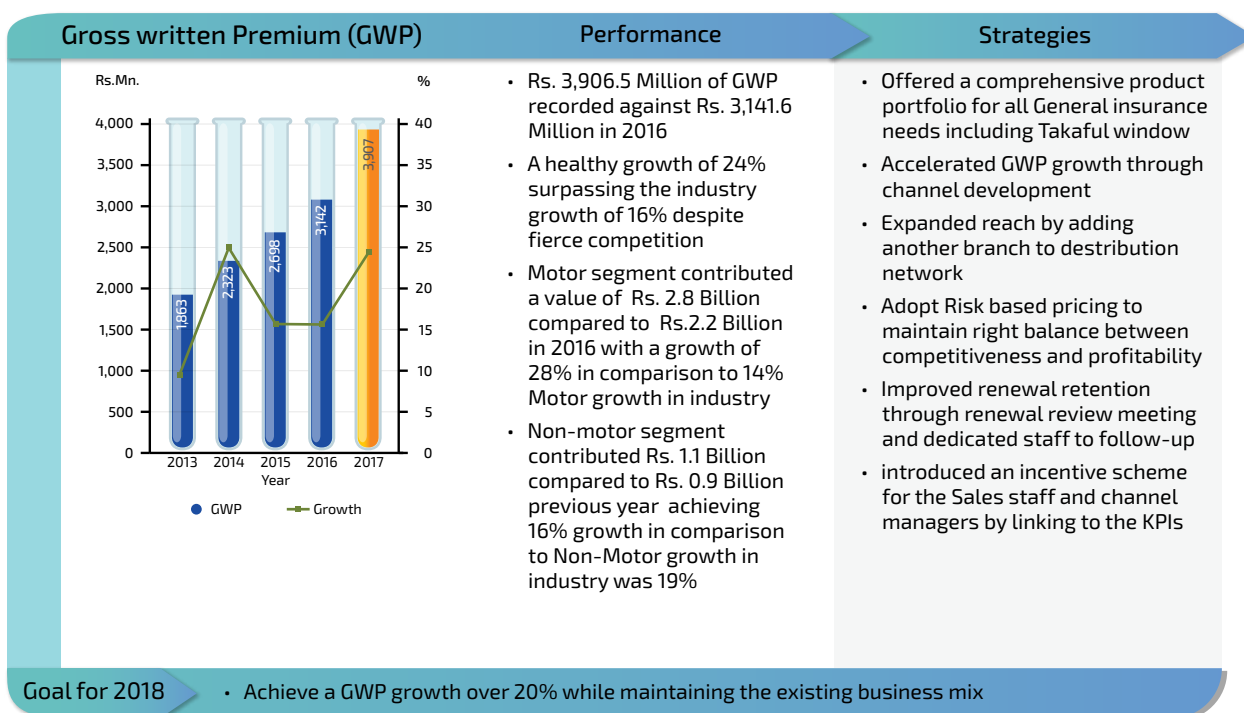
- Slow down in vehicle imports and registration
- Slow economic growth and decreasing purchasing power will affect the demand for insurance
- Increased risk exposure from natural catastrophes will have significant impact on the claims expenses
- Increase in motor vehicle spare part prices with the depreciation of the exchange rate would increase the claims cost
- Possible increase in reinsurance cost with the changes in the tax structure of the industry
- Fierce competition among players created by mergers and acquisition

### Our Performance against the Industry

During the year under review, HNBGI surpassed the industry growth rate of 16% and achieved a significant top-line growth of 24%. Market share grew to 4.4% from the 4.1% captured in 2016. The following table compares the performance of HNBGI against that of the country's General Insurance Industry.

GWP	2017	2016	2015	2014	2013
Industry (Rs.Mn.)	88,924	76,791	67,387	58,439	56,236
HNBGI (Rs.Mn.)	3,907	3,142	2,698	2,323	1,863
Market Share	4.4%	4.1%	4.0%	3.9%	3.3%
Growth Industry	16%	14%	15%	4.0%	13%
Growth HNBGI	24%	16%	16%	25%	9%

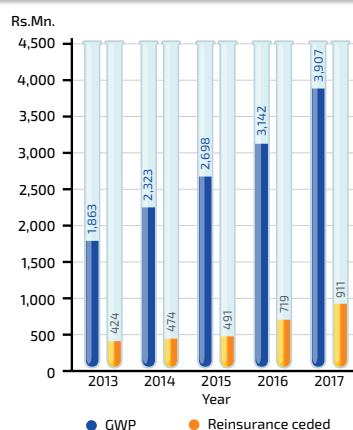
### Our Performance



## Reinsurance (RI)

## Performance

## Strategies



- RI cost increased by 27% with the increased catastrophes during the year
- Rs. 911.5 Million ceded to Reinsurers compared to Rs. 718.7 Million in 2016
- Non motor reinsurance cost grew by 25% compared to the non-motor business growth of 16%.

- Building relationships with reinsurers with strong financial position
- Negotiated favourable RI terms and conditions
- Ensure all policies are well reinsured to the Company's capacity

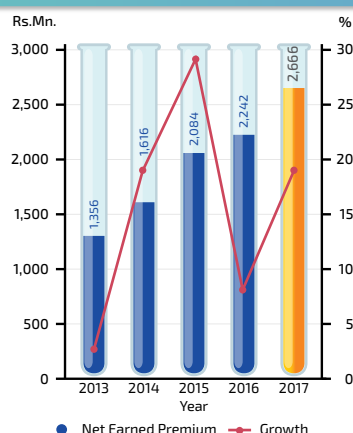
## Goal for 2018

- Negotiate favourable RI terms and conditions and reduce the cost

## Net Earned Premium (NEP)

## Performance

## Strategies



- Recorded a NEP of Rs. 2,666.2 Million compared to Rs. 2,241.8 Million in 2016
- Net Earned Premium (NEP) grew by 19%.
- Growth was driven by the strategic shift to motor segment, which carries low reinsurance cost

- Accelerated NEP growth through setting balanced monthly GWP target

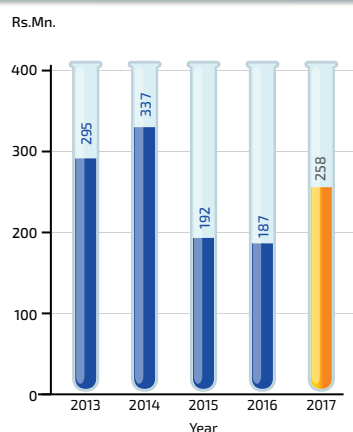
## Goal for 2018

- Further improve NEP focusing on increasing GWP and managing RI cost

## Investment

## Performance

## Strategies



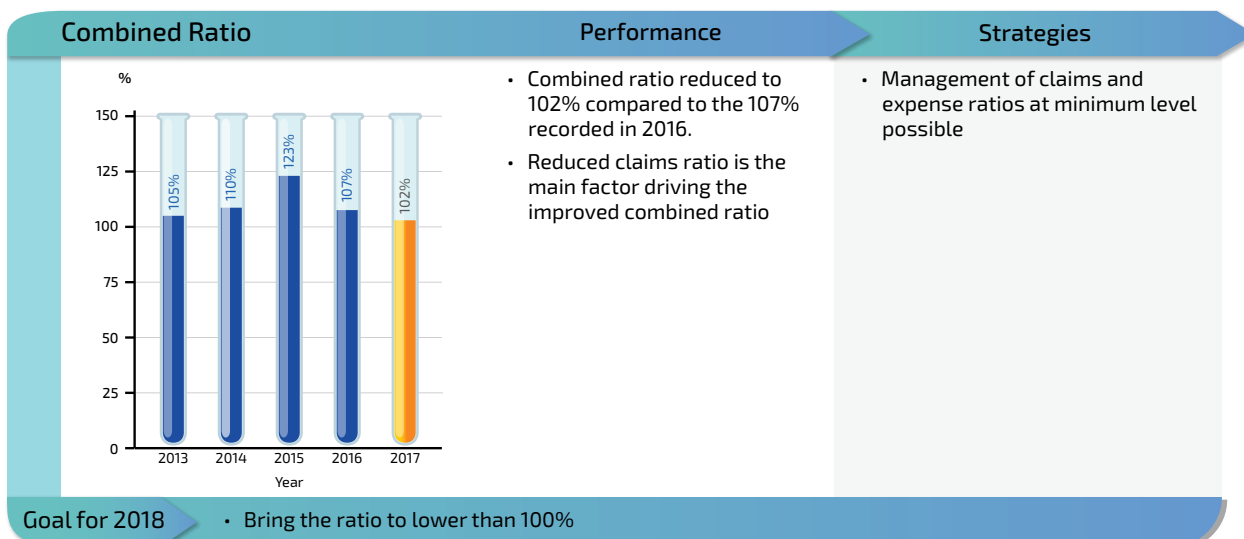
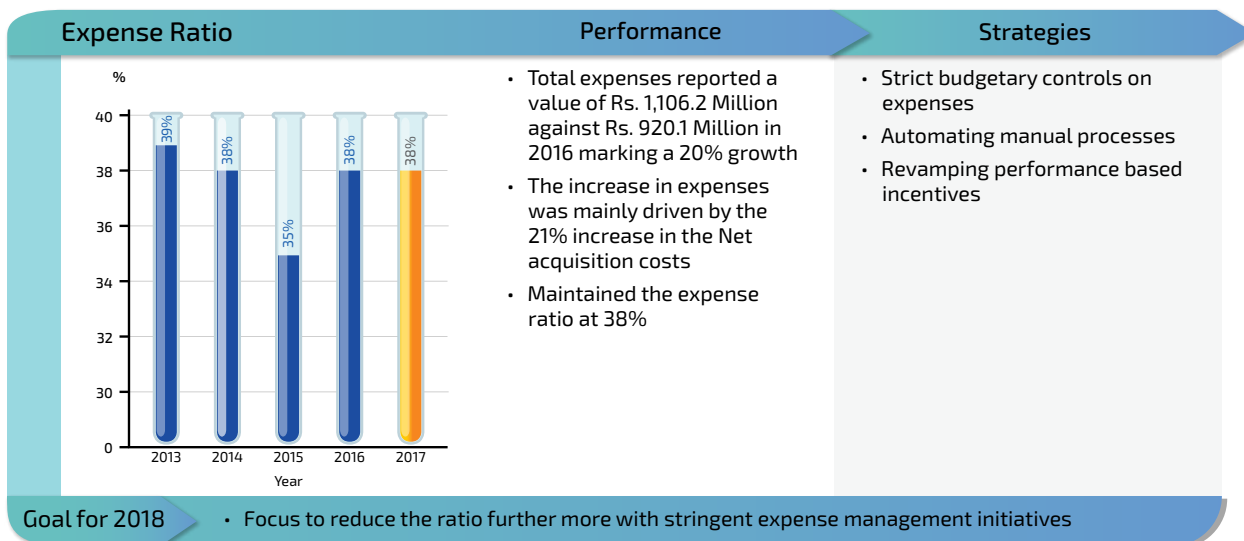
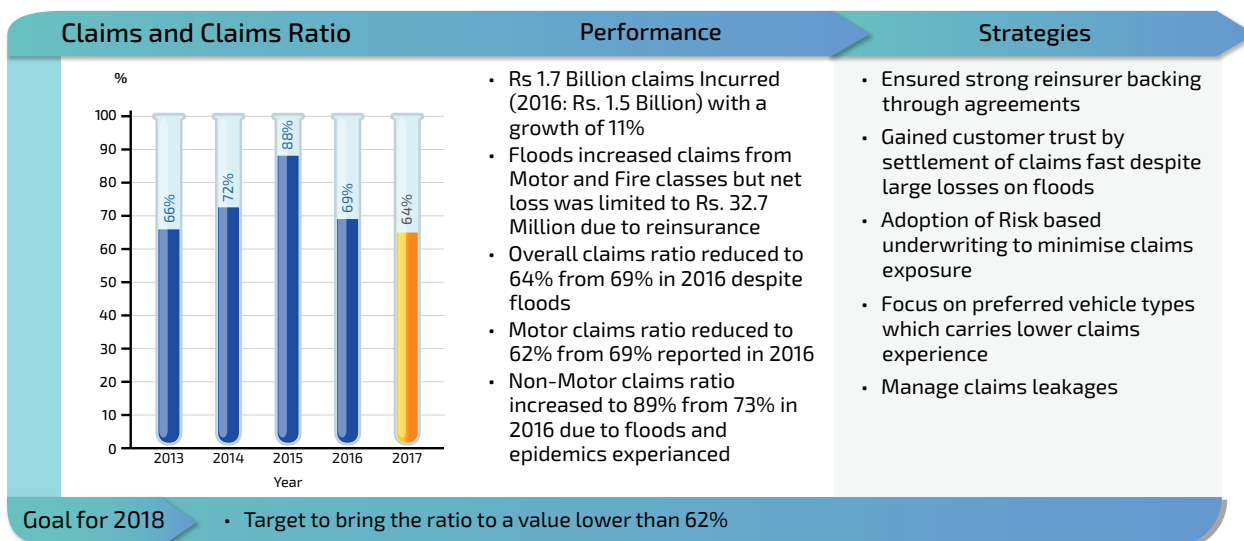
- Investment Income increased to Rs. 257.5 Million from the Rs. 186.8 Million reported in 2016
- Growth was driven by increase in funds under management by 22% during the year reaching a value of Rs.2,494.6 Million (2016: Rs. 2050.9 Million).

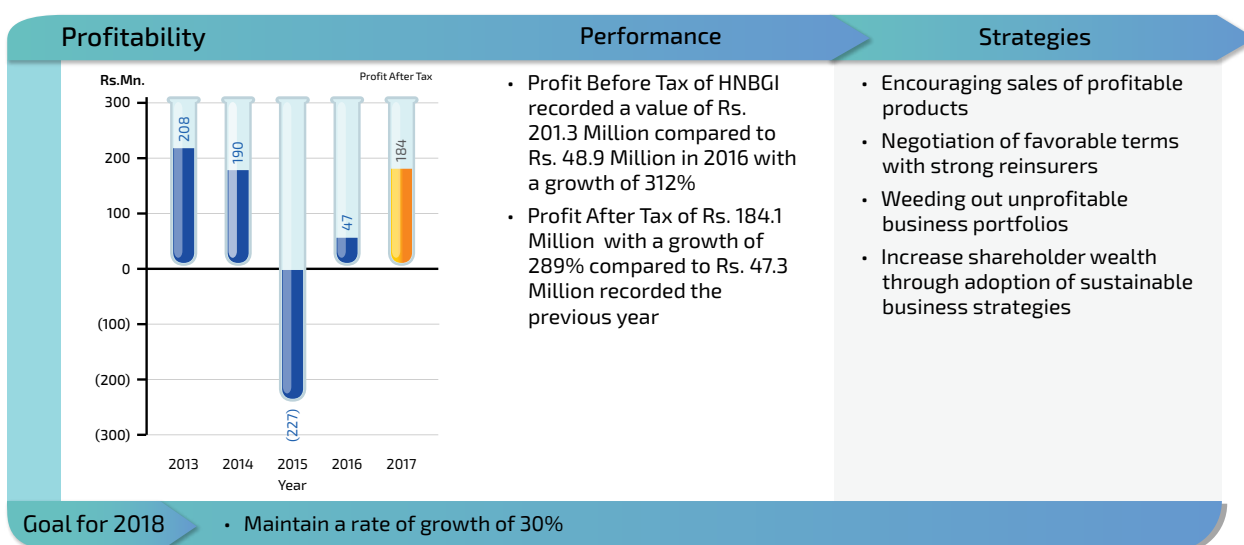
- Increased the exposure to Fixed Income securities to take advantage of the increase in interest rates
- Reduced the exposure to equity investments

## Goal for 2018

- Continuously work towards achieving a return above the market return

## General Insurance Review Contd.





## Performance of Our Distribution Channels

Achievement of the remarkable growth in GWP would not have been possible without the contribution of our distribution channels. During 2017, the contribution made by each distribution channel can be identified in the following table;

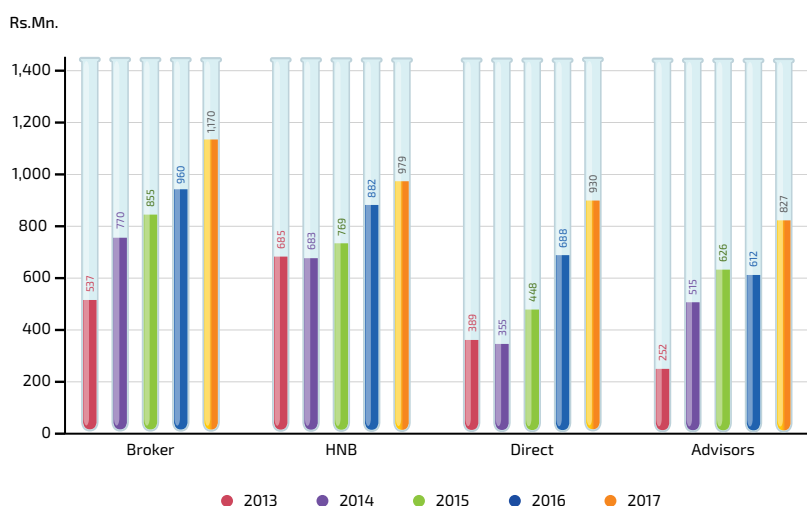
### Our Takaful Operations

Takaful window operations of HNBGI were adjudged the best Takaful Window operation in South Asia by Islamic Finance Forum of South Asia and this achievement gives HNBGI a solid competitive edge in the market. During the year, Takaful segment achieved a growth of 51% with a GWP of Rs. 455 Million (2016: Rs. 301 Million). In a noteworthy development, the contribution made by Takaful operations to the total GWP achieved was 12% against the 10% recorded in 2016.

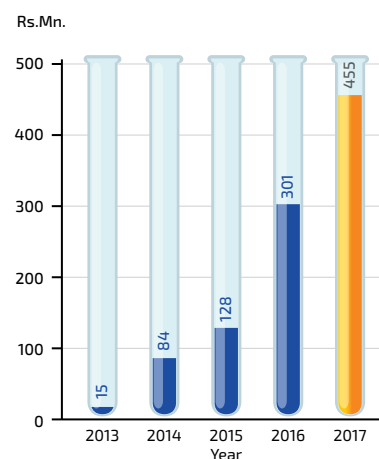
Channel	2017 GWP (Rs. Mn.)	2016 GWP (Rs. Mn.)	Growth %	Reasons
Insurance Advisors	828	612	35%	Company recruited new agents to increase count to 495 from 385 in 2016. Also during 2017, many training programs were carried out island-wide to develop skills of our Advisor force. We were able to improve the performing advisor percentage during the year.
Broker	1,170	960	22%	Broker channel continues to be the leading contributor to the top line of HNBGI. During the year HNBGI expanded the broker network by tie ups with new brokers and enhancing the relationship with existing brokers.
HNB	979	882	11%	HNB channel has continued to be a strength to HNBGI. Therefore HNBGI considers our relationship with HNB as a key element in our competitive advantage. We capitalise on the Bank's branch network in order to form links with its wide array of clients from all corners of the Island.
Direct	930	688	35%	The Direct Business Channel consists of all business derived other than the above channels. The direct channel performed well during the year exhibiting a high growth percentage, mainly due to new business avenues established with finance and leasing companies and further via our direct sales team.
<b>Total</b>	<b>3,907</b>	<b>3,142</b>		

## General Insurance Review Contd.

Channel-wise GWP - General Insurance



GWP - Non-Family Takaful



### Future Outlook

The performance of HNBGI during the year was commendable and we intend to continue the growth momentum achieved in 2017 in future years as well. Strategic plans are in place to further improve the profitability of the General Business segment while achieving sustainable growth in the top line and improving the market ranking.

HNBGI intends to focus on continuing the same business mix while concentrating on underwriting of preferred types of motor vehicles. More emphasis will be given to further reduce the claims ratio of the business and convert the business to achieve underwriting profits.

The Company will take steps to further strengthen the relationships built with our strong panel of reinsurers to obtain and maintain favourable reinsurance terms and conditions, consequently reducing the risk exposure of HNBGI.

We would also continuously work towards improving and strengthening our capital adequacy position to further fortify the financial position of business operations.

Capitalising on the competitive advantage created through Takaful Business operations, the Company will set in motion measures to further expand the Takaful operation of HNBGI and increase our market presence in the Takaful Insurance segment.

HNBGI will continue to evaluate the existing processes in line with market demands to further improve operational efficiency of the business and customer satisfaction while increasing profitability.



# Investment Review

The Group manages a Rs. 15.6 Billion fund in-house to provide maximum returns to both Policyholders and Shareholders. During the year under review, the Group withstood numerous challenges that prevailed in the external environment to record an Investment Income of Rs. 1,736.0 Million (2016: Rs. 1,144.5 Million) with a commendable growth of 52% over the previous year and a yield of 12.5% (2016:10.3%). Funds Under Management grew to Rs. 15.6 Billion (2016: Rs. 12.26 Billion) recording a 28% increase.

## A Challenging Environment

As was the case during the previous year, uncertainty of key economic variable was a major challenge in 2017 as well. The Group conducts constant analysis of such variables and the investment climate to gain the best possible investment return within the framework of legal, regulatory and voluntary boundaries.

We have identified following threats and opportunities in the external market which would have a direct impact on our business performance.

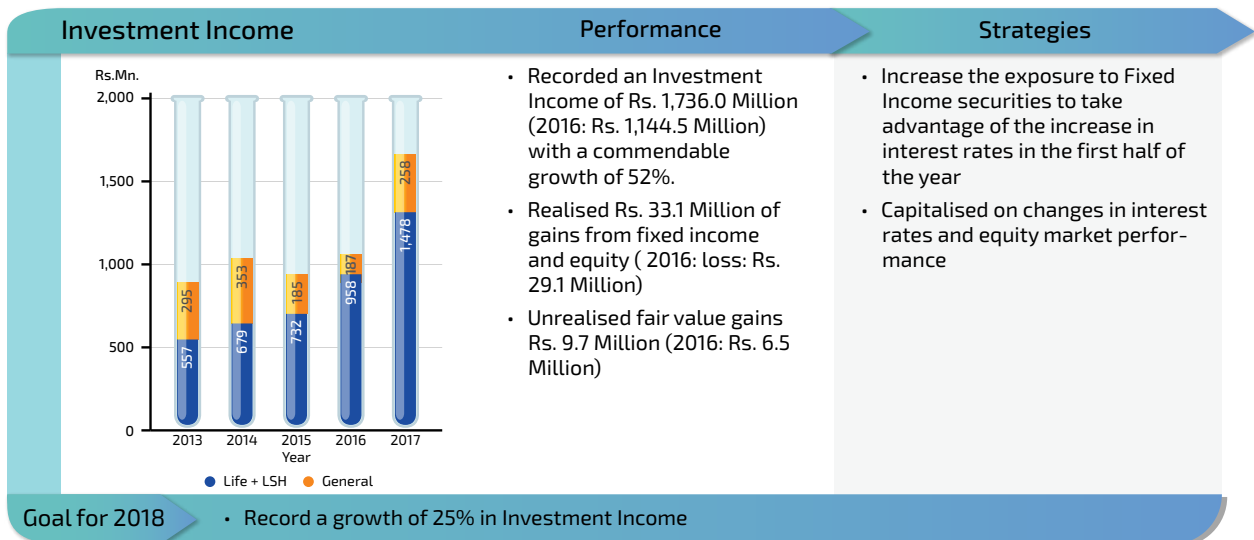
### Key Opportunities

- Introduction of FINTECHs by most of the Banking, Finance and Insurance Companies which will offer a more convenient and user friendly transaction process for customers.
- The Government was able to regain GSP+ from the EU and Hambanthota harbour was leased to a Chinese company for 70% of the ownership with the expectation of debt settlement and attracting FDIs.

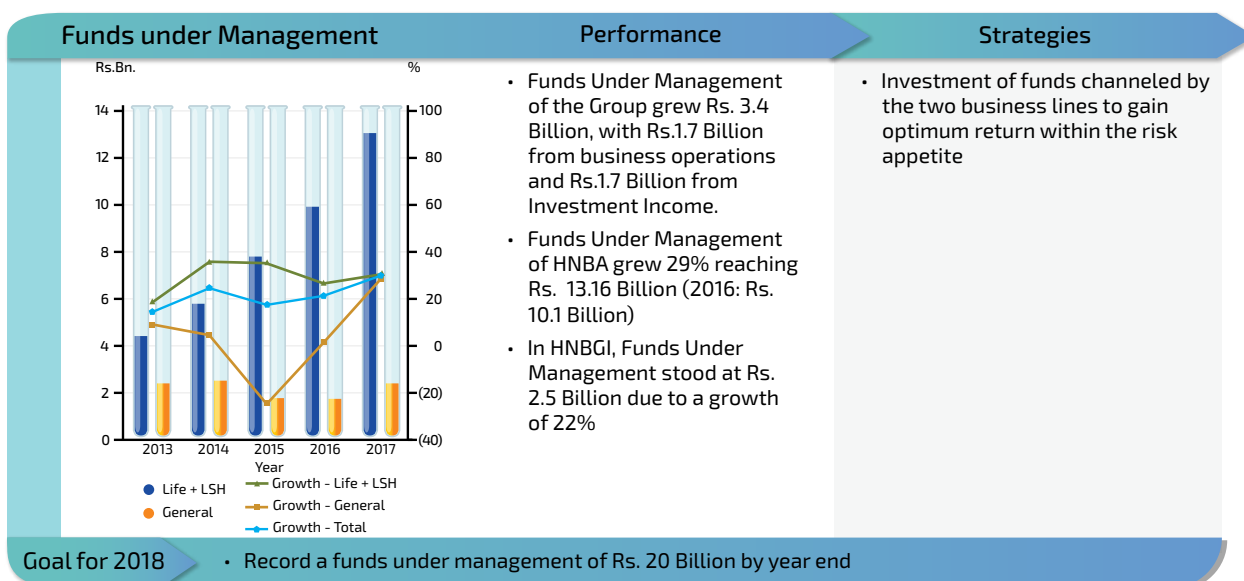
### Key challenges

- Moderate growth in the economy with GDP growth being limited to 3.7% in the first nine months of 2017
- Drop in interest rates towards the end of the year and moderate growth in the equity market.
- New regulations introduced such as Sri Lanka's new Foreign Exchange Act and Inland Revenue Act., SLFRS 09 and BASEL III will apply from 2018.

## Our Performance



## Investment Review Contd.



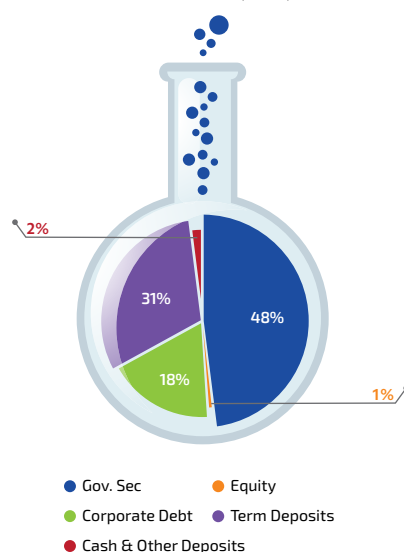
### Asset Allocation

The Group manages its asset allocation as per the Rules and Guidelines set by the Regulation of Insurance Industry Act and Rules and Regulations set by the Insurance Regulatory Commission of Sri Lanka and Investment Policies of HNBA and HNBGI. As of 31st December 2017, the Group had invested in 46.1% Government Securities (2016: 54%), 18% in corporate debt (2016: 25%), term deposits 32% (2016: 16%) and equity 1% (2016: 2%).

#### Government Securities

Given the drastic reduction in the government security yields in the latter half of the year, most of the funds were channelled through alternative investments and some treasury bonds were sold to realize capital gains within the low yield environment. Therefore, as at the year-end the exposure to Government Securities allocation of the investment portfolio reduced to 48% and 36% in Life and General Insurance segments respectively against the 56% and 42% recorded respectively in the previous year. During this process we realized Rs. 5.1 Million gains from Life Fund and Rs 1.3 Million from General Fund through bond sales.

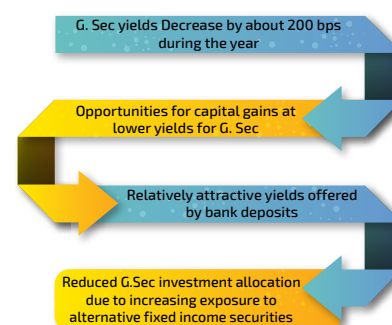
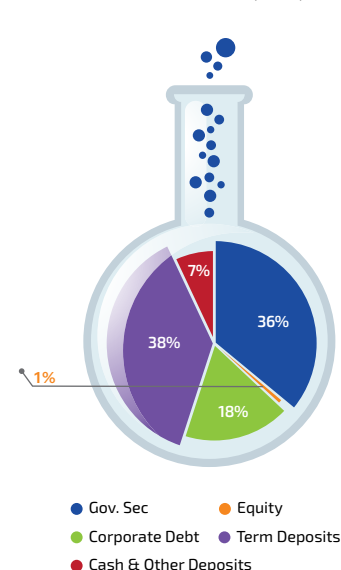
Asset Allocation - HNBA (2017)



#### Term Deposits

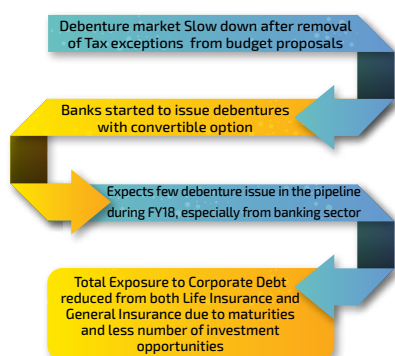
Even though a declining trend observed in the Government Securities and other fixed income securities, the interest rates offered for bank and finance company fixed deposits remained attractive. Therefore we allocated more funds for term deposit investments during FY2017. As at the year-end the exposure to Government Securities allocation of the investment portfolio amounted to 29% and 35% in Life and General Insurance funds respectively.

Asset Allocation - HNBGI (2017)



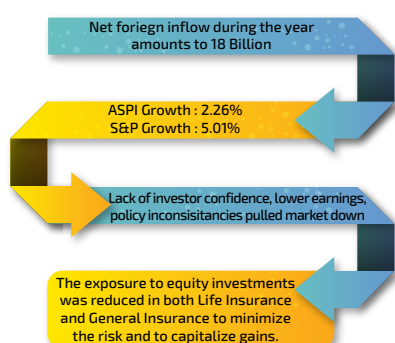
## Debt Portfolio

With the tax exemption removal of corporate debt, investments in corporate debt instruments became less attractive in yield terms. This slowed down the corporate debt market and there were only few opportunities with attractive yields. As at the year-end corporate debt represented 18% of the total fund for both Life and General Insurance funds when compared to the 25% and 26% recorded in 2016.



## Equity Portfolio

During the year, the Group recorded a realized gain of Rs. 14.2 Million through HNBA and a gain of Rs. 2.3 Million through HNBGI by the sale of equity investments. The exposure to equity investments was reduced in both Life Insurance and General Insurance Funds during the year in considering of better opportunities that prevailed in the fixed income instruments given the moderate performance of the equity market.



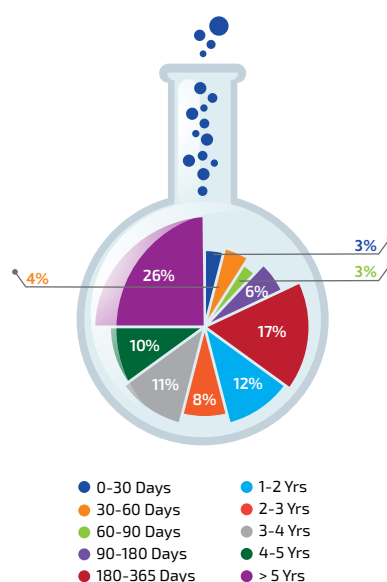
Despite the high foreign inflow of Rs. 11.8 Billion to the equity market, the market performance was subdued due to the lack of confidence of the local investors. However, our equity portfolios; HNBA and HNBGI outperformed the benchmark All Share Price Index by 7.4% & 4.27% respectively as at the end of the year.

## Maturity Mix

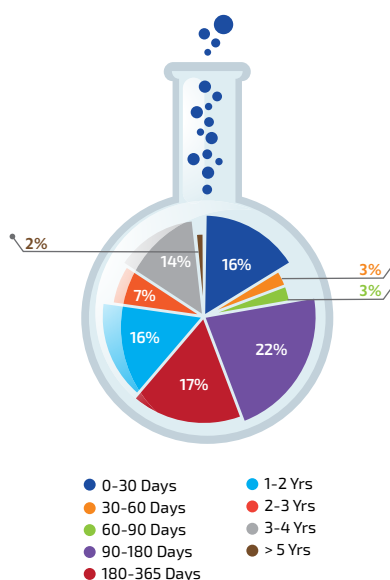
The Group focuses avidly on the maturity mix of HNBA and HNBGI maintaining them as per Asset and Liability Management (ALM). Balancing the asset and liability maturity mix plays a key role in managing the cash flows of the Company and the subsidiary as well as to maintain the Capital Adequacy Ratios at high levels.

As at the year-end 2017, 67% of the assets in the Life Insurance Fund were invested in long term investments in consideration of the long term nature of the liabilities of the Life Fund. In the case of the General Insurance fund, 60% of the portfolio was invested in short term investments in consideration of the short term nature of the General Insurance Liabilities.

### Maturity Mix - HNBA (2017)



### Maturity Mix - HNBGI (2017)

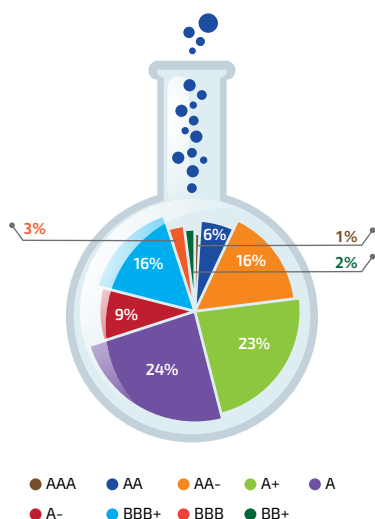


## Risk Profiles

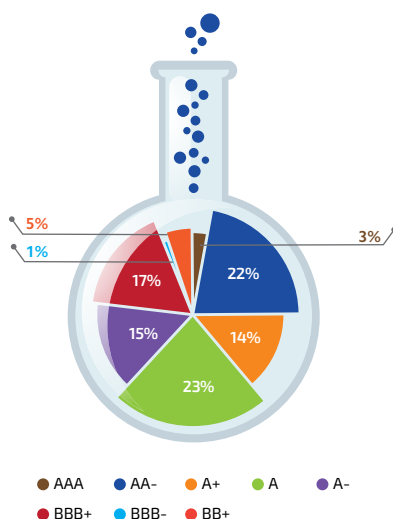
We carryout regular fundamental risk and return analyses of our investment portfolios in order to maintain the asset quality of our investment portfolios. A detailed risk and return analysis is carried out by the internal research team before new investments. High level of attention is given to the investment compliance and the external and internal investment risk guidelines are reviewed regularly and at the time of approval of new investments. Immediate corrective actions were taken if anomalies were detected.

## Investment Review Contd.

Corporate Bond Rating - HNBA (2017)



Corporate Bond Rating - HNBGI (2017)



### Future Outlook

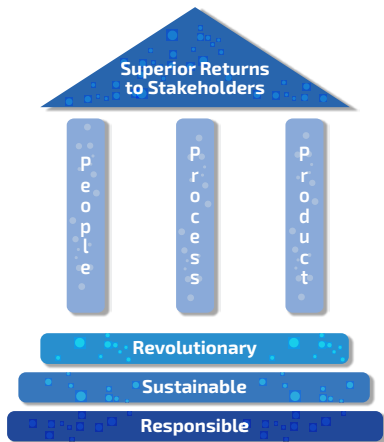
We believe the economic growth in the year 2018 will be relatively better than that of 2017. However, achieving the CBSL expected growth level of 5.5% for 2018, will not be realistic unless the interest rates prevail at current low levels during the year 2018 as well. To facilitate a faster growth, it is mostly likely that the CBSL will put effort to keep the interest rates low while maintaining credit growth and inflation at desired levels. Given this scenario, the Group will face challenges in the coming year in increasing the investment income with low yields on fixed income securities.

Our fund management strategies will be actively used in order to capitalize the rate movements within a low rate environment when increasing our investment income. We will continuously look for alternatives such as bank/finance company deposits as well as corporate debt with attractive

risk weighted returns from both primary and secondary markets.

In the coming year, the Insurance industry will face new regulatory challenge. Based on the new IFRS 9 accounting standard, impairment provisions will be made to certain asset classes. Therefore, when selecting investments, our fund managers will have to be more cautious on the CAR ratio impact as well. Given these emerging challenges for the future, we are determined to optimize the investment returns by being vigilant and prudent in drafting our investment strategies.

# Vision 2020



Our vision for 2020 seeks to deliver superior and sustainable returns to all stakeholders in a responsible manner through our collective efforts to strengthen each element of the Group's winning formula which includes people, process and products.

In striving for this goal, we will reinforce our commitment to create long-term value for all stakeholders while striking a balance between short-term and medium-term objectives of the Group

## Financial Manufactured



- Enhance the value addition for all stakeholders
- Maintain an optimum mix of long-term and short-term funds to meet policyholder liabilities and improve profitability
- Improve investment returns via investment in optimal asset and maturity mix
- Improve operational efficiency via process improvements

## Human



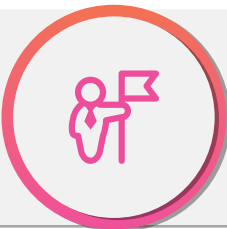
- Attract, develop and retain the best talent to enhance value generation for stakeholders
- Enhance the value of employees by providing appropriate training and development opportunities
- Groom future leaders of the Group via succession planning programmes
- Provide attractive rewards and benefits to employees
- Improve employee engagement activities and promote work-life balance

## Social and Relationship



- Develop new products to meet the changing customer needs and capture new markets
- Strengthen our relationships with business partners and build win-win partnerships
- Continue to be a responsible corporate citizen by constantly investing in community developments

## Intellectual



- Enhance brand image and reach more customer segments
- Build on group synergy through cross-selling and up-selling
- Invest on technology development to achieve operational efficiency
- Promote a knowledge building culture within the organisation and enhance human capital

## Natural



- Build a culture of environmental responsibility
- Minimise our carbon footprint by promoting green practices and managing input and output of energy resources
- Ensure long term sustainability of Mother Nature

# Sustainable Impact Created

Being a Responsible corporate citizen we consider it our duty to create positive impacts to the society and environment we operate in and we have aligned our sustainable value creation process with the Global Reporting Initiatives – G4 guidelines and also the Sustainability Development Goals of the United Nations. While our sustainable impacts are discussed throughout this report, the navigation to such disclosure is given in the GRI – G4 Content Index appearing on page 176 to 180 and the following presents the positive contribution made by us to the achievement of such Sustainability Development Goals set for 2030.



## End poverty in all its forms everywhere

- Empowering low income earning customer segments by providing protection through Micro Insurance and Ranaswanu products



## Ensure healthy lives and promote well-being for all at all ages

- Suwathi Diwiyata Magak' program launched during the year focusing on providing assistance and educating people on healthy living, quality childhood and non-communicable diseases
- Annual blood donation campaign organized to contribute to the National Blood Bank
- Collaborating with College of Community Physicians of Sri Lanka to conduct healthy living symposiums
- Provision of medical insurance covers for employees and their families



## Ensure inclusive and quality education for all and promote lifelong learning

- A financial donation was made to the Akkerepattu Sinhala Vidyalaya to support academic achievements of the students.



## Achieve gender equality and empower all women and girls

- 43% of our workforce is represented by female workers promoting gender equality





#### Ensure access to water and sanitation for all

- Continuously improve access to clean drinking water in rural areas of the country through our water stewardship programmes and during the year 5 projects were carried out to increase access to clean drinking water



#### Ensure access to affordable, reliable, sustainable and modern energy for all

- Adopting the 3R concept in energy utilisation and take steps to save energy and reduce our carbon foot print
- Use of solar power for electricity generation and rainwater harvesting for sanitation and cleaning purposes at the Head Office building



#### Promote inclusive and sustainable economic growth, employment and decent work for all

- Providing employment opportunities for 2,440 insurance advisors, 947 employees and 79 assessors improving their income levels



#### Reduce inequality within and among countries

- The island wide branch network established providing employment opportunities contributes to reducing income inequality
- Advisors recruited from across the island contributes to reducing income inequality



#### Make cities inclusive, safe, resilient and sustainable

- Empowering regional development through provision of micro insurance



#### Ensure sustainable consumption and production patterns

- Through the recycling of paper used in business operations, Company saved 1,069 litres of oil, 2,346 Kwh of electricity, 19,354 litres of water, 10 trees, 2 m<sup>3</sup> of landfill and 609 kg of greenhouse gas emission

## Sustainable Impact Created Contd.



### Take urgent action to combat climate change and its impacts

- Initiatives are in place to improve energy efficiency and increase the dependency on renewal energy sources



### Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss

- Obtaining membership of 'Bio Diversity Sri Lanka' with the pledge of protecting the environment



### Promote just, peaceful and inclusive societies

- Best practices of corporate and enterprise governance to ensure transparency of our operations
- Whistle-Blowing and anti-corruption policies ensuring zero-corruption in the Company
- Board of Directors, the highest authority of the Company is appointed by the shareholders



### Revitalize the global partnership for sustainable development

- As an Insurance Service provider every measure is taken to ensure sustainable value creation and development of the nation and the globe

# GRI Content Index for “In Accordance” – Core

GENERAL STANDARD DISCLOSURES		Page	External Assurance
STRATEGY AND ANALYSIS			
G4-1	Provide a statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	28-33	None
ORGANIZATIONAL PROFILE			
G4-3	Report the name of the organization.	9	None
G4-4	Report the primary brands, products, and services.	16	None
G4-5	Report the location of the organization's headquarters.	9	None
G4-6	Report the number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	9	None
G4-7	Report the nature of ownership and legal form.	9	None
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	163	None
G4-9	Report the scale of the organization, including:	12, 13	None
a.	Total number of employees		
b.	Total number of operations		
c.	Net sales (for private sector organizations) or net revenues (for public sector organizations)		
d.	Total capitalization broken down in terms of debt and equity (for private sector organizations)		
e.	Quantity of products or services provided	147, 148	None
G4-10			
a.	Report the total number of employees by employment contract and gender.		
b.	Report the total number of permanent employees by employment type and gender.		
c.	Report the total workforce by employees and supervised workers and by gender.		
d.	Report the total workforce by region and gender.		
e.	Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors.		
f.	Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).		
G4-11	Report the percentage of total employees covered by collective bargaining agreements.	153	None
G4-12	Describe the organization's supply chain.	18, 19	None
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including:	9	None
a.	Changes in the location of, or changes in, operations, including facility openings, closings, and expansions		

## GRI Content Index for “In Accordance” – Core Contd.

GENERAL STANDARD DISCLOSURES		Page	External Assurance
b.	Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations)	9	None
c.	Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	166-171	None
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	17, 20, 21	None
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	3	None
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization:	4	None
	Holds a position on the governance body		
	Participates in projects or committees		
	Provides substantive funding beyond routine membership dues		
	Views membership as strategic		
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17			
a.	List all entities included in the organization's consolidated financial statements or equivalent documents.	3	None
b.	Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.		
G4-18			None
a.	Explain the process for defining the report content and the Aspect Boundaries.	3-7	None
b.	Explain how the organization has implemented the Reporting Principles for Defining Report Content.		
G4-19	List all the material Aspects identified in the process for defining report content.	3-7	None
G4-20	For each material Aspect, report the Aspect Boundary within the organization, as follows:	6-7	None
	Report whether the Aspect is material within the organization		
	If the Aspect is not material for all entities within the organization (as described in G4-17), select one of the following two approaches and report either: The list of entities or groups of entities included in G4-17 for which the Aspect is not material or the list of entities or groups of entities included in G4-17 for which the Aspects is material	6-7	None
	Report any specific limitation regarding the Aspect Boundary within the organization		
G4-21	For each material Aspect, report the Aspect Boundary outside the organization, as follows:		
	Report whether the Aspect is material outside of the organization		
	If the Aspect is material outside of the organization, identify the entities, groups of entities or elements for which the Aspect is material. In addition, describe the geographical location where the Aspect is material for the entities identified	6-7	None

GENERAL STANDARD DISCLOSURES		Page	External Assurance
	Report any specific limitation regarding the Aspect Boundary outside the organization	6-7	None
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	4	None
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	5	None
STAKEHOLDER ENGAGEMENT			
G4-24	Provide a list of stakeholder groups engaged by the organization.	22-27	None
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	22-27	None
G4-26	Report the organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	22-27	None
G4-27	Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. Report the stakeholder groups that raised each of the key topics and concerns.	23-27	None
REPORT PROFILE			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	3	None
G4-29	Date of most recent previous report (if any).	4	None
G4-30	Reporting cycle (such as annual, biennial).	3	None
G4-31	Provide the contact point for questions regarding the report or its contents.	9	None
G4-32			None
a.	Report the 'in accordance' option the organization has chosen.	3	None
b.	Report the GRI Content Index for the chosen option.	3	None
c.	Report the reference to the External Assurance Report, if the report has been externally assured. GRI recommends the use of external assurance but it is not a requirement to be 'in accordance' with the Guidelines.	4	None
G4-33			None
a.	Report the organization's policy and current practice with regard to seeking external assurance for the report.		
b.	If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided.	4	None
c.	Report the relationship between the organisation and the assurance providers.		
d.	Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report.		

# GRI Content Index for "In Accordance" – Core Contd.

GENERAL STANDARD DISCLOSURES		Page	External Assurance	
GOVERNANCE				
G4-34	Report the governance structure of the organisation, including committees of the highest governance body. Identify any committees responsible for decision-making on economic, environmental and social impacts.	53	None	
ETHICS AND INTEGRITY				
G4-56	Describe the organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	10	None	
SPECIFIC STANDARD DISCLOSURES				
Material Aspects	G4-DMA and Indicators	Page	Omissions	External Assurance
Category: Economic				
Economic Performance	G4-DMA	16, 136	None	None
	G4-EC1 Direct economic value generated and distributed	16	None	None
	G4-EC3 Coverage of the organisation's defined benefit plan obligations	154	None	None
Indirect Economic Impacts	G4-DMA	172	None	None
	G4-EC7 Development and impact of infrastructure investments and services supported	172-176	None	None
Category: Environmental				
Energy	G4-DMA	182	None	None
	G4-EN3 Energy consumption within the organisation	182	None	None
Effluents and Waste	G4-DMA	183	None	None
	G4-EN23 Total weight of waste by type and disposal method	183	None	None
Compliance	G4-DMA	183	None	None
	G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	183	None	None
Category: Social				
Subcategory: Labour Practices and Decent Work				
Employment	G4-DMA	149, 150	None	None
	G4-LA1 Total number and rates of new employee hires and employee turnover by age group, gender and region	150, 151	None	None
	G4-LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	153	None	None
	G4-DMA	151 - 152	None	None
	G4-LA9 Average hours of training per year per employee by gender, and by employee category	152	None	None



SPECIFIC STANDARD DISCLOSURES				
Material Aspects	G4-DMA and Indicators	Page	Omissions	External Assurance
	G4-LA11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	153	None	None
Diversity and Equal Opportunity	G4-DMA	148	None	None
	G4-LA12 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	148,149	None	None
Equal Remuneration for Women and Men	G4-DMA	148	None	None
	G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	153	None	None
Labour Practices				
Grievance Mechanisms	G4-DMA	156, 157	None	None
	G4-LA16 Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	157	None	None
Subcategory: Human Rights				
Non-Discrimination	G4-DMA	150, 156	None	None
	G4-HR3 Total number of incidents of discrimination and corrective actions taken	157	None	None
Child Labour	G4-DMA	157	None	None
	G4-HR5 Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	157	None	None
Forced or Compulsory Labour	G4-DMA	157	None	None
	G4-HR6 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	157	None	None
Subcategory: Society				
Anti-Corruption	G4-DMA	156	None	None
	G4-SO4 Communication and training on anti-corruption policies and procedures	156	None	None
	G4-SO5 Confirmed incidents of corruption and actions taken	156	None	None
Anti-competitive Behaviour	G4-DMA	164, 165	None	None

## GRI Content Index for “In Accordance” – Core Contd.

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	G4-DMA and Indicators	Page	Omissions	External Assurance
	G4-S07 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	164	None	None
Compliance	G4-DMA	165	None	None
	G4-S08 Monetary value of significant fines and total number of non-monetary sanctions for non compliance with laws and regulations	164	None	None
Grievance Mechanisms for Impacts on Society	G4-DMA	165	None	None
	G4-S011 Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	165	None	None
Subcategory: Product Responsibility				
Product and Service Labelling	G4-DMA	164	None	None
	G4-PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	164	None	None
Marketing Communications	G4-DMA	165	None	None
	G4-PR6 Sale of banned or disputed products	165	None	None
	G4-PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	165	None	None
Customer Privacy	G4-DMA	165	None	None
	G4-PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	165	None	None
Compliance	G4-DMA	165	None	None
	G4-PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	165	None	None
Product Portfolio	G4-DMA	165	None	None
	G4-FS7 Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	165	None	None
	G4-FS8 Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	165	None	None



# Our Financial Formula

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# Financial Calendar 2018

Requirement	Achievement in 2017	Target set for 2018
Interim Financial Statements		
1st Quarter (ended 31st March)	09th May 2017	Before 15th May 2018
2nd Quarter (ended 30th June)	09th August 2017	Before 15th August 2018
3rd Quarter (ended 30th September)	06th November 2017	Before 15th November 2018
4th Quarter (ended 31st December)	14th February 2018	Before 28th February 2019
<b>Annual Report and Financial Statements to Shareholders</b>		
2016	07th March 2017	
2017		On or Before 05th March 2018
15th Annual General Meeting	29th March 2017	
16th Annual General Meeting		27th March 2018

# Report of the Audit Committee

## Charter of the Committee

The Audit Committee ('the Committee') of HNB Assurance PLC is a standing committee of the Board of Directors ('Board') appointed by and responsible to the Board.

The terms of reference of the Committee is defined in the Audit Committee Charter, which is approved by the Board and is reviewed annually. The Charter was last reviewed in December 2017.

The Committee assists the Board in fulfilling its responsibility in relation to the oversight of the financial reporting process, the system of internal controls, the audit process including internal audit and external audit and the process for monitoring compliance with laws and regulations. The Committee discharges the above duties with regard to operations of HNB Assurance PLC as well as of its fully owned subsidiary, HNB General Insurance Limited referred together as 'the Group'.

The composition, function, duties and responsibilities of the Committee are regulated by Section 7.10.6 of the Listing Rules of the Colombo Stock Exchange ('Listing Rules') and the Code of Best Practices on Corporate Governance ('Code') issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and CA Sri Lanka.

## Purpose and Responsibilities

The purpose of the Committee and its responsibilities are summarised below.

- Ensure that the financial reporting system is able to present accurate and timely financial information to the Board of Directors, Regulators and Shareholders.
- Ensure that the financial statements are prepared in accordance with Sri Lanka Accounting Standards (LKAS), Sri Lanka Financial Reporting Standards (SLFRS), Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto and other applicable laws and regulations.
- Liaise with the Board Risk Management Committee and the Management to ensure that the risk management framework of the Group is implemented effectively to mitigate risks associated with financial reporting.
- Liaise with the Related Party Transactions Review Committee to ensure that adherence to the related party transaction requirements are met as per the Listing Rules and to ensure proper disclosure of related party transactions in the financial statements.
- Review the design and implementation of internal control systems and to take steps to strengthen them where necessary.
- Ensure that the conduct of the business is in compliance with applicable laws and regulations of the country and the policies and procedures of the Company.
- Make recommendations to the Board on the appointment, re-appointment / removal of External and Internal Auditors and monitor their performance.
- Assess the independence of the External Auditors.
- Evaluate the Company's ability to continue as a going concern into the foreseeable future.



## Report of the Audit Committee Contd.

### Composition and Meetings

- The Committee comprise of three Non-Executive Directors, two of whom are Independent.
- The Chairman of the Committee, who is appointed by the Board, is a fellow member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and is also an independent Non-Executive Director.
- Composition of the Committee as at the date of signing is set out below and the profiles of each Director are given on pages 38 to 41.

Members	Appointment to Committee	Board Status		Meeting Attendance in 2017	
		Independent	Non-Executive	Attended	Eligible
J A P M Jayasekera – Chairman	11.12. 2012	Yes	Yes	6	6
A G R Dissanayake – Member	27.06.2017	No	Yes	2	3
Dr. S Selliah – Member	11.01. 2018	Yes	Yes	Not Applicable	
S C Ratwatte* (Member until 11th January 2018)	30.01.2009	No	Yes	6	6
N H T I Perera (Member until resignation on 27th April 2017)	08.01. 2016	No	Yes	1	1

\*Served as an Independent Non-Executive Director till 11th January 2018

Board Secretary functions as the secretary to the Audit Committee.

The Committee met six (6) times during the financial year under review and the attendance of the members is presented in the table above. Meeting agendas and other briefing materials were prepared and distributed in advance to the members of the Committee before each meeting. The minutes of the Committee meetings were tabled at Board meetings of HNB Assurance PLC and HNB General Insurance Limited.

Attendees by invitation:

- Mr. M O F Salieh, Independent Non-Executive Director of HNB General Insurance Limited ("HNBGI") attended the Audit Committee meeting representing HNB General Insurance Limited.
- Managing Director, Chief Financial Officer and senior management attended meetings by invitation.

- Internal Auditors, External Auditors and Consultant Actuaries attended meetings by invitation, when required. Both the External Auditors met the Audit Committee three times and the Internal Auditors met the Committee twice during the year under review.

For the effective discharge of its responsibilities, the Audit Committee is empowered to seek any information it so desires from the Management and staff of the Company/ Group or from external parties.

The Committee is also authorised to meet the Management and staff, External and Internal Auditors, Consultant Actuaries, regulators or outside counsel.

### Discharge of Responsibilities in 2017

#### Financial Reporting

The Committee, in acknowledgement of its responsibility to monitor the financial reporting process of the Group, reviewed the following areas, in consultation with External Auditors and management where necessary:

- Adequacy and effectiveness of internal control systems, financial reporting systems and processes in place to ensure accuracy and reliability of the information provided in financial statements
- Significant accounting and reporting issues
- Going concern assumption
- Developments in the financial reporting framework (Sri Lanka Accounting Standards – SLFRS/LKAS)



- Consistency of the adopted accounting policies and methods, and their compliance with the Sri Lanka Accounting Standards (LKAS) and Sri Lanka Financial Reporting Standards (SLFRS)
- Disclosure requirements and other applicable accounting and financial reporting requirements such as the Companies Act, No. 07 of 2007, Listing Rules and the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, etc.
- Annual financial statements and all four (4) interim financial statements prior to recommending the same to the Board.

In the absence of significant changes in accounting standards applicable for 2017, it is noted that there were no material changes to the Group's accounting policies in the year 2017.

## New Accounting Standards

### IFRS 17 – Insurance Contracts

The International Accounting Standards Board (IASB) issued a new accounting standard on 'Insurance Contracts' (IFRS 17) in 2017. This new accounting standard will come into effect from 01st January 2021 and the Group will be carrying out a gap analysis in 2018 with the help of an external consultant.

### SLFRS 9 – Financial Instruments

The new accounting standard on 'Financial Instruments' (SLFRS 9) will come into effect from 01st January 2018, and if adopted, it will have a significant impact on the

financial statements of the Group. However, insurance companies falling within the scope of SLFRS 4 'Insurance Contracts', are permitted to continue applying LKAS 39 'Financial Instruments : Recognition and Measurement' till 01st January 2021. Therefore, since the Group's predominant activity is issuing insurance contracts the Group will continue with applying LKAS 39 for the stand alone and consolidated financial statements of HNB Assurance PLC. Nevertheless, HNB Assurance PLC and its Subsidiary will prepare financials applying SLFRS 9 for reporting to the parent Company Hatton National Bank PLC.

During the year under review, HNB Assurance PLC Group carried out an assessment of the impact of SLFRS 9: Financial Instruments on the financial statements of the Group. Based on this assessment, the Group believes no classification change is required for financial instruments of the Group other than for equity investments classified as available-for-sale, which needs to be classified as Fair Value Through Other Comprehensive Income. However, as SLFRS 9 replaces the 'Incurred Loss' model in LKAS 39 on impairment, with a forward-looking 'Expected Credit Loss' (ECL) model. Companies will need to impair financial assets measured at amortised cost or Fair Value through Other Comprehensive Income, except for investments in equity instruments, using the ECL model. The application of the ECL model will have an impact on the financials of the Group.

## Compliance with Laws and Regulations

The Committee ensured regulatory compliance by reviewing the monthly compliance checklists prepared by the Management. These checklists have incorporated all applicable compliance submission requirements relating to the Department of Inland Revenue, Insurance Regulatory Commission of Sri Lanka (IRCSL) and Labour regulations. Further, Quarterly and Annual Returns submitted to the IRCSL are also presented to the Committee for review.

In addition, as required by the regulations issued by the IRCSL, reports from the External Auditors were obtained on the factual findings on compliance with Circular 29 and specified areas of Determination 14 and the same were filed with the regulator.

## External Audit

The Committee reviewed the external audit scope, plan and the methodology presented by the External Auditors and thereby obtained an understanding of the quality control/assurance processes adopted by the External Auditors. Discussions were carried out between the Committee, the Management and the External Auditors regarding the co-ordination of the audit effort to assure that the External Auditors have access to required information and co-operation from all employees.

## Report of the Audit Committee Contd.

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The External Auditors were given adequate access to the Audit Committee as well as to all relevant information required. The Audit Committee met the External Auditors without the presence of the Management once during the year.

Moreover, the Committee scrutinised the Report of the Auditors and Management Letter in consultation with the External Auditors and the Management and monitored the implementation of the prescribed corrective actions.

The fees payable to the statutory auditors for the interim and final audits for the financial year ended 31st December 2017 were reviewed by the Committee and recommended for approval of the Board of Directors.

### Independence of External Auditors

The Audit Committee evaluates the audit and non-audit functions of the External Auditors prior to their assignment, with the view of ensuring that the provision of such services does not impair independence or give rise to a conflict of interest.

Non-audit services provided by the External Auditors are segregated between assignments that require an independent view and other advisory services. The External auditors were only engaged with assignments that required an independent view to prevent a conflict of interest.

In this respect, the Committee received a declaration, as required under the Companies Act, No. 07 of 2007, from Messrs. Ernst & Young, confirming the absence of any relationship with the Group which may have a bearing on their Independence.

### Re-appointment of External Auditors

The Committee reviewed the performance of the External Auditors, Messrs. Ernst & Young, Chartered Accountants, during the year and recommended to the Board their re-appointment as the External Auditors of the Group for the financial year ending 31st December 2018, subject to the approval of the shareholders at the Annual General Meeting to be held on 27th March 2018.

### Internal Audit

The Committee monitors the effectiveness of the internal audit function and is responsible for approving the appointment or removal of the Internal Auditors. The internal audit function of the Group is outsourced to Messrs. KPMG, Chartered Accountants. The Committee is also responsible for reviewing and approving the internal audit plan, scope and reporting requirements of the Group annually.

During the year under review, Internal Auditors presented to the Committee, the significant issues identified during their internal audits covering several Head Office operations. The internal audit reports were also made available to the External Auditors.

The Committee is also empowered with approving the fees for the Internal Auditors on an annual basis. During the year, the Company called Request for Proposals (RFP) for the Group internal audit service for the period from April 2017 to March 2019. RFPs were called from leading accounting firms that provide internal audit services and based on the evaluation of RFPs, Messrs. KPMG were selected as the internal auditor for the Group until March 2019.

The Audit Committee met the Internal Auditors without the presence of the Management once during the year.

### Reports of External Actuaries

The Audit Committee discussed the assumptions used for valuations and their rationality, and compliance requirements, observations made during the valuation process, recommendations proposed by the Actuaries and other matters relating to the actuarial function of the Group with the independent Consultant Actuaries and the Management. The Committee reviewed the following reports from independent External Actuaries of HNBA and HNBGI.

- Actuarial valuation of the Long-Term Insurance Fund
- Certification of the Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER) of HNB General Insurance Limited

- Valuation of the Gratuity liabilities of HNB Assurance PLC and HNB General Insurance Limited

The Committee also supervised the conducting of the Liability Adequacy Tests (LAT), as required by SLFRS 4 – Insurance Contracts, with the support of Consultant Actuaries, and was able to conclude that the recorded insurance contract liabilities for both Life (HNBA) and General Insurance (HNBGI) businesses as at 31st of December 2017 were adequate. Please refer to pages 311 and 314 of the financial statements for a detailed disclosure on the LAT for 2017.

The Gratuity Valuation Report produced by the appointed Actuary (as required by LKAS 19 – Employee Benefits) was reviewed by the Committee, after considering the methodology and rationality of assumptions used. All reports produced by External Actuaries were made available for the review of External Auditors.

### Internal Control and Risk Management

The Committee reviewed the Internal Control environment of the Group through assessment of Management and audit reports as well as through discussions with Management/Auditors. The Committee supervised the implementation of the actions taken to address the gaps identified in the internal controls of the Group. (The Board's Statement on Internal Controls appears on pages 233 to 234)

The responsibility of establishing a sound risk management framework lies with the Audit Committee. The Committee conducts an evaluation on the effectiveness of the Group's risk management process through the Board appointed Risk Management Committee, which is given direct responsibility for monitoring the risk management activities of the Group. All minutes of the Risk Management Committee meetings held during the year were tabled to the Audit Committee who reviewed the same. (Please refer to the Report of the Risk Management Committee on pages 228 to 229). Further, the Audit Committee assessed reports pertaining to the internal control and risk management practices of the Group, produced by the Management and Internal and External Auditors, and supervised the implementation of the actions recommended.

### IT Risk and Control Assessment

Messrs. Ernst & Young performed a review on the general and application controls of the IT function during the year, as a part of their external audit process. The Committee reviewed the comments made by the Auditors and discussed with the Management regarding the appropriate actions required to mitigate identified risks. The internal auditors also carried out an assessment of the IT control aspect as part of their internal audit work.

### Fraud Risk

The Audit Committee makes a conscious effort to ensure that the risk of fraud is minimised. The following measures were in place to mitigate fraud risk during the year:

- The Procurement Policy, approved by the Board, is applied to all procurement activities.
- All major procurements are made through the newly formed centralized Procurement Unit with the approval of the Procurement Committees of the Group.
- The Whistle Blowing Policy enables employees to raise concerns on fraudulent activities.
- Senior Manager – Risk and Compliance, Internal Auditors and External Auditors review the processes of the Company continuously to identify and mitigate the risk of fraud.

## Report of the Audit Committee Contd.

### Governance and Whistle Blowing

The Audit Committee supervises a Whistle Blowing Policy which was implemented to encourage employees to raise their concerns in relation to any suspected wrongdoings at work - whether by the management, peers or any other employee. Employees are made aware of the same and are advised to report any suspected wrongdoing directly to the following nominated members of the Group.

- Board Chairperson
- Chairman of the Audit Committee
- Managing Director
- Manager - Human Resources

All concerns brought forward during the year under the Whistle Blowing Policy were duly investigated and appropriate actions were taken.

### Related Party Transactions Review Committee

The Board appointed Related Party Transactions Review Committee (RPT Committee), reviews the details of the related party transactions of the Group. The Committee ensures that the related party transactions of the Company are carried out in accordance with the Section 9 of the Listing rules and the Code of Best Practices on Related Party Transactions issued by the SEC .

Thus, the duty of monitoring and review of related party transactions, which was previously vested on the Audit Committee, now lies with the RPT Committee. (A detailed report of the Related Party Transactions Review Committee appears on pages 224 to 225).

### Compliance with the Listing Rules of the CSE and the Code of Best Practice on Corporate Governance

The Company fully adheres to the Corporate Governance Rules set out by Section 7.10 of the Listing Rules of the CSE and the Code of Best Practice on Corporate Governance issued jointly by the SEC and CA Sri Lanka. [Please refer pages 57 to 96 for further information]

### Performance Evaluation of the Committee

The Committee carried out a self-evaluation based on a checklist approved by the Committee. Additionally, the Executive Committee of the Company also performed an appraisal of the Audit Committee and the results of the appraisal were notified to the members of the Audit Committee. The ultimate objective of the evaluation of the Committee is to improve the effectiveness of its activities and enhance its support to the Management and the Board of Directors. Summarised results of both evaluations were tabled and discussed at Board meetings.

### Conclusion

The Committee, along with the Management, reviewed the system of Internal Controls and Risk Management procedures in the Group and actions were taken to improve the same. The Committee is satisfied with the implementation of the Group's internal controls and Risk Management Framework and that the Group's assets are adequately safeguarded. The Group's Internal and External Auditors have been effective and independent throughout the year.

The Committee is also satisfied that the application of appropriate accounting policies provide reasonable assurance that the financial statements of the Group are true and fair.



**Mahendra Jayasekera**  
*Chairman - Audit Committee*

Colombo, Sri Lanka.  
09th February, 2018.

# Report of the Human Resources and Remuneration Committee

## Charter of the Committee

The terms of reference of the Committee is defined in the HR & Remuneration Committee Charter, which is reviewed annually. The Charter defines the objectives, duties and responsibilities, composition, etc of the Committee. The HR Committee Charter outlines the strategic intent of the Company and its fully owned subsidiary in adopting HR practices which provides the employee quality service while creating a platform that would enable the employee to offer their service with trust and confidence to attain Company goals and fulfil individual aspirations.

## Key Responsibilities

- Determine and agree with the Board on the Board policy for the remuneration of the Board Non-Executive Directors, the Chairman, the CEO and other members of the senior management.
- Setting the Remuneration Policy and delegated authority to set individual remuneration packages for the Chairman, the MD/CEO, senior management and Non-Executive Directors.
- Recommend and monitor the level and structure of remuneration for all executive management officers.
- The Committee shall determine increments and bonuses payable based on recommendations submitted by the MD/CEO.
- The Committee shall provide policy direction for the Human Resource Strategy of the Company.
- Direct the human capital strategy of the Company.
- Guide, influence and shape the HR strategies and policies of the Company.

## Composition and Meetings

Composition of the Committee as at the date of signing this report is set out below and the profiles of each Director are given on pages 38 to 41.

Members	Appointment to Committee	Board Status		Meeting Attendance in 2017	
		Independent	Non-Executive	Attended	Eligible
Dr. S Selliah – Chairman (Chairman w.e.f 11th January 2018)	11.01. 2018	Yes	Yes	Not Applicable	
M A R C Cooray – Member	08.01.2016	No	Yes	7	7
D R Abey Suriya – Member	11.01. 2018	Yes	Yes	Not Applicable	
S C Ratwatte * (Member until 11th January 2018)	30.01. 2009	No	Yes	7	7
K Balasundaram (Chairman until retirement on 22nd December 2017)	11.12. 2012	Yes	Yes	7	7

\*Served as an Independent Non-Executive Director till 11th January 2018

The Board Secretary functions as the Secretary to the Committee.

Mr Faizal Salieh – Director HNBGI and the Chief Human Resources Officer of Hatton National Bank PLC attends meetings by invitation.

A brief profile of the members are given on pages 38 to 41 of the Annual Report.

The committee had 07 formal meetings during the financial year 2017.

The Managing Director/Chief Executive Officer, Chief Financial Officer and Manager – Human Resources attended all Committee meetings during the year, by invitation, except when matters pertaining to them were discussed.

The committee also invited Members of the Senior Management of the Company for meetings on a need basis. All matters discussed by the Committee during the meetings held were reported to the Board of Directors on a regular basis.

# Report of the Human Resources and Remuneration Committee Contd.

## Remuneration Principles

The remuneration policy of the Company;

- Should be reasonable, attractive, competitive and linked to individual performance, and
- Should be in line with both industry standards and the Company's performance

## Remuneration policy

The Company seeks to remunerate staff members in a manner that supports the achievement of the Company Vision, Mission and strategic objectives whilst attracting and retaining scarce skills and rewarding high levels of performance which will ensure that all staff are remunerated fairly and are treated consistently throughout their employment.

## Remuneration Package

### Employees

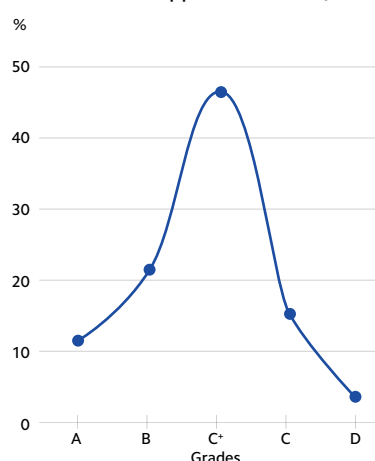
The remuneration packages of employees consist of a fixed component and a variable component. In addition, some other benefits are also available to employees as noted below.

Fixed Components	Variable Components	Other Benefits and Facilities
Basic Salary	Annual bonus for all staff	Vehicle Loans (selected categories of staff)
		Educational Loans and Education Assistance Scheme
		Professional Membership Subscription Scheme
	Incentives for Distribution Management Team, Other Sales Personnel and Bancassurance Officers	Other Loans
		Insurance Benefits
		Holiday Bungalow (selected categories of staff) and recreational facilities

## Fixed Components

Basic salary is the fixed component in the package which is based on the scope and complexity of the role and is reviewed annually. Annual performance appraisals are conducted and increments and promotions are granted purely based on results of such exercises. Distribution of performance grading in the year-end appraisal process is shown in the graph. Overall competence and performance are key factors that determine an individual's base pay.

Distribution of Appraisal Grades (2017)



## Variable Components

The main component of our variable pay is the annual bonus to employees at all levels based on individual performance as evaluated at the annual performance appraisals and the performance of the Company. In addition, the Distribution Management Team, other sales personnel in the distribution network and the Bancassurance Officers are entitled to a Incentive scheme based on achievement of business KPIs under pre-determined criteria.



### Other Employee Benefits

Benefits provided to employees include vehicle loans, educational loans, other loans, various insurance benefits including the staff health insurance cover, critical illness cover and the personal accident cover, regular health check-ups and free doctor consultations through a reputed medical services provider.

### Retirement Benefits

As per the regulatory requirements, a defined contribution plan is made available for employees where the Company contributes to EPF and ETF. In addition, employees who have completed 5 years of service are entitled for Gratuity. There are no retirement benefits to employees other than the above.

### Board of Directors

No remuneration is paid to Non-Executive Directors other than the fees paid based on their participation at Board and Sub Committee meetings. Total fees and remuneration paid to all Directors are disclosed on page 346 in this Annual Report. Non-Executive Directors are not entitled to retirement benefits.

### Key Management Personnel (KMPs)

The Committee places special emphasis on the review of performance of KMPs and the determination of their remuneration packages. Their recruitment, management development and succession planning are also areas receiving the Committee's attention.

### Share Ownership Plans for Directors and KMPs

The Company does not have a share ownership plan for Directors and KMPs.

### Directors' Shareholding

The shareholdings of Directors are provided on page 117.

### Personal Loans for Directors

No Director is entitled to Company loans.

### Committee Evaluation

A self-evaluation of the members of the Committee shall be conducted annually by the Chairman of the Committee and a summary of the results submitted to the Board.



Dr Sivakumar Selliah  
*Chairman-HR & Remuneration  
Committee*

Colombo, Sri Lanka.  
09th February, 2018.

# Report of the Related Party Transactions Review Committee

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## Charter of the Committee

The Related Party Transactions Review Committee of HNB Assurance PLC ('the Committee'), is appointed by and is responsible to the Board of Directors of HNB Assurance PLC (HNBA).

The Charter of the Related Party Transactions Review Committee clearly sets out the purpose, membership, authority, duties and responsibilities of the Committee.

The purpose of the Committee is to conduct an appropriate review of all related party transactions of HNBA and its fully owned subsidiary, HNBGI and to ensure that the Group/Company complies with the rules set out in section 09 of the Listing Rules. The primary objectives of the said rules are to ensure that the interests of the shareholders as a whole are taken into account when entering into related party transactions and to prevent Directors, Key Management Personnel (KMP) or substantial shareholders from taking advantage of their positions.

Meeting agendas and other materials are prepared and submitted in advance to the members of the Committee.

## Scope of the Committee

In order to execute duties and responsibilities assigned to the Related Party Transactions Review Committee effectively and efficiently, the Committee has been authorised to:

- Receive regular reports from the Management and have access to any information the committee deems necessary relating to its responsibilities;
- Establish policies and procedures that provide general pre-approvals to certain classes or types of related party transactions.
- Review and evaluate the terms and conditions and to determine the advisability of any related party transaction;
- Determine whether the relevant related party transaction is fair and in the best interest of the Company and its shareholders as a whole;
- Recommend to the Board what action, if any, should be taken by the Board with respect to any related party transaction;
- Obtain advice and assistance from legal, technical, financial and other advisors from within or outside the Company as deemed necessary by the Committee in order to carry out its duties;

- Form and delegate authority to Sub-Committees consisting of one or more members where appropriate, provided that the decision of such Sub-Committees shall be presented to the main Committee at its next meeting.

## Key Responsibilities

- Ensure that the Company complies with the rules listed in Section 09 of the Listing Rules.
- Review all proposed related party transactions in advance, subject to the exceptions given under Section 9.5 of the Listing Rules.
- Perform other activities related to the Charter as requested by the Board.
- Regularly report to the Board on the Committee's activities.
- Share information with the Audit Committee as and when necessary and appropriate, to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities with regard to related party transactions.

## Composition and Meetings

- The Related Party Transactions Review Committee consists of three Non-Executive Directors, two of whom are Independent.

Members	Appointment to Committee	Board Status		Meeting Attendance in 2017	
		Independent	Non-Executive	Attended	Eligible
J A P M Jayasekera – Chairman (Chairman w.e.f 11th January 2018)	27.03. 2014	Yes	Yes	4	4
A G R Dissanayake – Member	27.06.2017	No	Yes	1	2
Dr. S Selliah – Member	11.01. 2018	Yes	Yes	Not Applicable	
S C Ratwatte (Chairman/Member until 11th January 2018)	27.03. 2014	No*	Yes	4	4
N H T I Perera (Member until resignation on 27th April 2017)	09.02. 2016	No	Yes	1	1

\*Served as an Independent Non-Executive Director and Chairman till 11th January 2018

Brief profiles of the Directors representing the Committee are given on pages 38 and 41 of this Annual Report.

Senior Manager – Risk and Compliance functions as the Secretary to the Committee.

The Committee held four formal meetings during the financial year 2017. The Managing Director/ Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Senior Manager Finance attended the meetings by invitation. All matters discussed by the Committee during the course of the meetings held were reported to the Board of Directors on a regular basis.

### Review of Related Party Transactions

The Committee reviewed all related party transactions of the Company for the year 2017.

All related party transactions entered into during the year were of a recurrent, trading nature and were necessary for the day-to-day operations of the Company.

In the opinion of the Committee, the terms of these transactions were not more favourable to the related parties than those generally transacted with the public. All details of such related party transactions entered into during the year are given in Note 43 to the Financial Statements on pages 346 to 350 of this Annual Report.

The minutes of the Committee meetings were tabled at Board meetings of HNB Assurance PLC and HNB General Insurance Limited for the review of the Board of Directors.

### Policies and Procedures

The Chief Financial Officer is responsible for reporting the information set out under 'Appendix 9 A' of the Listing Rules with regard to each related party transaction proposed to be entered into by the Company with the exception of information listed in the Section 9.5 of the Listing Rules for the Committee to review and to grant approval or disapproval.

Moreover, on a quarterly basis, the Chief Financial Officer is required to report the approved related party transactions actually entered into by the Company for Committee's consideration.

### Declaration

During the year under review, the Company has complied with the related party transactions rules set out in section 9 of the Listing rules. An affirmative statement of compliance with the rules pertaining to related party transactions by the Board of Directors is included on page 243 of this Annual Report.



**Mahendra Jayasekera**  
*Chairman – Related Party Transactions Review Committee*

Colombo, Sri Lanka.  
09th February, 2018.

# Report of the Nomination Committee

## Charter of the Committee

The Nomination Committee ('the Committee') of HNB Assurance PLC ('the Company') is a committee of the Board of Directors ('Board') appointed by and responsible to the Board.

The terms of reference of the Committee are defined in the Nomination Committee Charter. The objective of the Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to the selection/appointment of new directors, re-appointment of current Directors, selection and appointment of the MD/CEO.

Responsibilities of the Committee can be outlined as follows,

- Exercise general oversight with respect to the governance of the Board of Directors.
- To ensure the implementation of the approved procedure in selecting/ appointing Directors/CEO;

- Taking into account the performance and contribution made by Directors towards the overall discharge of responsibilities of the Board and to make a recommendation on the re-election of current Directors to the Board of Directors;
- To set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO;
- To ensure Directors, CEO and the Key Management Personnel are fit and proper persons to hold office as required by the Companies Act and other applicable statutes;
- To consider and recommend from time to time the requirements of additional/ new expertise and the succession arrangements for retiring Directors and Key Management Personnel;
- To provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment; and
- To regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes;
- Review and recommend to the Board new/additional Corporate Governance Principles of the Board and any changes to such Principles taking in to account the developments in the area of Corporate Governance principles applicable for the Company locally and internationally;
- Periodically appraise the framework for assessment of Board performance and the Board self-evaluation discussion

## Composition and Meetings

- The Committee comprises three Non-Executive Directors, one of whom is Independent.
- The following Directors functioned as members of the Committee and the Committee met four (04) times during the year.

Members	Appointment to Committee	Board Status		Meeting Attendance in 2017	
		Independent	Non-Executive	Attended	Eligible
M A R C Cooray – Chairperson	01.10. 2015	No	Yes	4	4
D P N Rodrigo – Member	29.07. 2016	No	Yes	3	4
J A P M Jayasekera – Member	29.07.2016	Yes	Yes	4	4

The Board Secretary functions as the Secretary to the Committee and the Managing Director attends the meetings by invitation where necessary.

The Minutes of the Board Nomination Committee meetings are tabled at Board meetings enabling all Board members to have access to them.

### Discharge of Responsibilities in 2017

During the year the Committee reviewed its terms of reference and made changes where necessary. Another task undertaken by the Committee was the recommendation of Mr. D P Lokuarachchi, Chief Executive Officer of the Company and its subsidiary, as the Managing Director of both Companies.

The Committee also recommended Mr. A G R Dissanayake as a non-Independent, Non-Executive Director to the Boards of HNB Assurance PLC and HNB General Insurance Limited.

Mr. R Abeysuriya was recommended by the Committee as an Independent, Non-Executive Director to the Company's Board of Directors.

These recommendations were made subsequent to the resignation of Mr. N H T I Perera from the Boards of Directors of the Company and its subsidiary and also the retirement of Mr. K Balasundaram from the Board of the Company. The Committee is of the view that the new Directors will bring new knowledge and expertise to respective Boards.

Considering Ms. M Tharmaratnam's expertise in the insurance industry, the Committee recommended her as a member of the Strategy Review Committee of the Group. In January 2018, Mr. S C Ratwatte completed nine years of service in the Board of HNB Assurance PLC and consequently will be considered as a Non-Independent Director thereafter. In the light of these changes, the Committee recommended to the Board the reconstitution of the following Board Sub-Committees in compliance with regulatory and voluntary best practices while enhancing the strength of the expertise of committees.

- Audit Committee
- Related Party Transaction Review Committee
- Human Resources and Remuneration Committee

### Conclusion

The Committee is satisfied that the combined knowledge and experience of the Board matches the demands facing the Company



Rose Cooray  
Chairperson - Nomination Committee

Colombo, Sri Lanka.  
09th February, 2018.

# Report of the Risk Management Committee

## Charter of the Committee

The Risk Management Committee ('the Committee') of HNB Assurance PLC ('the Company' or 'HNBA') is a standing committee of the Board of Directors ('the Board') appointed by and responsible to the Board.

The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to the oversight of the Risk Management Framework, including significant policies and practices used in managing risks, of the Company and its fully owned subsidiary, HNB General Insurance Limited ('HNBGI').

The terms of reference of the Committee is defined in the Risk Management Committee Charter which is approved by the Board and is reviewed annually.

## Authority

In order to discharge its duties and responsibilities effectively and efficiently, the Committee has been empowered to have direct access to, and receive regular reports from, the Management and to be provided with any information relating to its responsibilities that it requests.

Moreover, the Committee has the authority to engage independent professional advisors on matters within its purview.

## Composition and Meetings

The members of the Committee possess comprehensive experience in risk management, finance, banking and business management. The details of the members of the Committee and their attendance during the year are given below:

Members	Appointment to Committee	Board Status		Meeting Attendance in 2017	
		Independent	Non-Executive	Attended	Eligible
D P N Rodrigo - Chairman	01.07.2013	No	Yes	5	6
M A R C Cooray - Member	09.10.2015	No	Yes	6	6
D R Abeyesuriya - Member	11.01.2018	Yes	Yes	Not Applicable	
M Tharmaratnam - Member	27.06.2017	Yes	Yes	2	2
D Pallewatte - Member	27.01.2017	Chief Risk Officer/ AGM Risk at Hatton National Bank PLC		5	6
K Balasundaram (Member until retirement on 22nd December 2017)	03.05.2013	Yes	Yes	6	6

Senior Manager - Risk and Compliance functions as the Secretary to the Risk Management Committee.

The Managing Director/Chief Executive Officer, Chief Financial Officer, and other Executive Committee members attended meetings by invitation.

## Responsibilities of the Committee

The following key responsibilities have been set out in the Charter;

- Review the Company's Risk Management Framework, including significant policies, processes and systems that the Management uses to manage risk exposures as well as risk measurement methodologies and approaches used for stress testing.
- Review and approve the Company's Risk Assessment Report and receive reports on the Company's adherence to significant risk limits.
- Develop a risk appetite statement for the Company and review it along with the Management by periodically assessing performance with the established risk appetite.



- Review and discuss with the Management on issues raised by Internal/External Auditors that impact upon the Risk Management Framework of the Company.
- Monitor whether the decisions relating to functions with high risks are taken in accordance with established and delegated authorities.

### Activities of the Committee During 2017

In order to discharge the above-mentioned duties and responsibilities, the Committee carried out the following activities during the year.

- Reviewed the development, implementation and maintenance of the overall Risk Management Framework, its risk appetite principles and policies, to ensure they are in line with emerging regulatory, governance, and industry best practices.
- Examined the impact to the Group from external factors, including developments in new regulations and natural disasters.
- Discussed and reviewed the actions taken on emerging and high risks faced by the Group.
- Reviewed the prepared compliance checklists and confirmed compliance with all applicable laws and regulations.

- Discussed the investment strategy and reviewed the asset and liability management policy of the Group.
- Reviewed the Key Risk Indicators (KRIs) of the Group against internal tolerance levels covering credit, reinsurance, market, operational and strategic risks facing the Company and management actions taken to address internal breaches

The minutes of the meetings were tabled at the Audit Committee meetings to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities as well as at the Board meetings of HNBA and HNBGI to update and inform the other members of the Board on the proceedings.



**Dilshan Rodrigo**  
Chairman–Risk Management Committee

Colombo, Sri Lanka.  
09th February, 2018.

# Report of the Investment Committee

## Charter of the Committee

The Investment Committee of HNB Assurance PLC ('the Committee'), is appointed by and is responsible to the Board of Directors of HNB Assurance PLC (HNBA).

The primary purpose of the Investment Committee is to assist the Board in reviewing investment policies, strategies and the performance of investment portfolios of HNBA and HNBGI. As per the Charter of the Investment Committee in furtherance of its duties, the Committee is authorized to have direct access to, and receive regular (i.e. at least quarterly) reports from the management and to request any additional information relating to its responsibilities. The Committee is also empowered to review and amend policies and programmes falling under its purview and recommend to the Board on their adoption.

## Responsibilities

The key responsibilities of the Committee are summarised below.

- Developing and formulating guidelines for the management of the investment portfolios of the Company
- Reviewing and advising on the strategies to be followed by the investment function, after evaluation of the investment portfolios
- Monitoring compliance of the investment function with applicable laws and regulations
- Monitoring compliance of the investment function with the Investment policy.
- Providing recommendations (to the Board for approval) on any changes to the Investment

Policy deemed by the Committee to be necessary,

- Evaluating and granting approval for any investment activity which requires specific approval of the Committee as per the Investment Policy
- Evaluating the performance of investments already made, through a periodic comparison of actual returns with expected returns
- Regularly reporting to the Board on the Committee's activities
- Reviewing and assessing the adequacy of the Charter annually, and recommending any proposed changes to the Board for approval
- Performing other activities under the Charter, as requested by the Board

## Composition and Meetings

- The Investment Committee consists of five members, two of whom are Independent

Members	Appointment to Committee	Board Status		Meeting Attendance in 2017	
		Independent	Non-Executive	Attended	Eligible
S C Ratwatte – Chairman	11.12. 2012	No	Yes	3	4
S N Wickramasinghe – Member	09.01.2014	No	Yes	4	4
Dr. S Selliah – Member	31.10. 2014	Yes	Yes	4	4
A G R Dissanayake – Member	27.06.2017	No	Yes	4	4
M A Tharmaratnam – Member	06.01. 2017	Yes	Yes	4	4

All members possess expertise in a number of relevant areas including, but not limited to, investments, risk management, fund management and finance.

The Chief Financial Officer functions as the Secretary to the Investment Committee.

## Attendees by Invitation

- The Managing Director, Chief Investment officer, Chief Actuary, Senior Manager – Risk and Compliance, Senior Manager – Finance and the management of the Investment Division attended meetings

The Committee met on four (04) occasions during the year 2017 with the objective of discussing the performance of the investment portfolios of the Group, as well as to dispense advice and guidance on the formulation and implementation of investment strategies.

Meeting agendas and other briefing materials were prepared and distributed in advance to the members of the Committee.

In order to keep the Board of Directors updated as to the proceedings of the investment function of the Group, minutes of the Investment Committee meetings were tabled at each Board meeting immediately following a meeting of the Investment Committee. Guidance and advice of the Board of Directors were bestowed upon the investment function continuously throughout the year.

Moreover, the Committee maintained regular dialogue with the management, discussing matters as and when they arose, in order to identify the optimum course of action that should be embarked upon.

### Activities Carried out During the Year

- At each quarterly meeting, the Committee reviewed the details of the macro - economy, the investment strategy and the performance of each investment portfolio of the Group presented by the management. Extensive discussions were held on economic, political, social and other conditions that could impact the performance of the Group's investment returns, and the investment strategy was structured upon agreements reached during such discussions.
- The Committee discussed the effect that the 'Guidelines on Investment for Insurance Companies' ('Guideline') issued by the Insurance Regulatory Commission of Sri Lanka which came into effect from November 2017 had on the Group.
- The Investment Policies of HNB Assurance PLC and HNB General Insurance Limited were reviewed and amended during the year to keep the Policy up to date with the 'Guideline' and other internal and external developments. Improvements and revisions were made to the practices of the Group where necessary to comply with the Guidelines.
- Apart from the scheduled meetings, the Committee also maintained constant dialogue with the management throughout the year, discussing matters as and when they arose. Any issues that needed the attention of the Investment Committee were promptly attended to and solutions reached, through close communication between the Investment Committee and the management.
- The Committee provided guidance on maximising investment returns while working within the Group's investment risk appetite to simultaneously ensure the achievement of budgeted income and adherence to all internal guidelines and external regulations.
- The Committee also reviewed areas such as asset allocation, maturity mix and asset and liability management of the funds.
- Regular and strict scrutiny was maintained throughout the year in relation to compliance with applicable criteria, guidelines and policies stipulated in the Companies' Investment Policies as well as with statutory rules and regulations. Senior Manager - Risk and Compliance tabled a separate report at each meeting affirming the state of compliance with all such requirements.

### Conclusion

Despite uncertain and challenging market conditions that prevailed during the year as well as increases in administrative time due to recent changes made by the regulatory authorities, the Committee is of the opinion that HNBA and HNBGI recorded an excellent performance by managing its investment portfolios to surpass set targets, while operating within the regulations applicable and the framework prescribed by the Investment Policies of the companies.



**Sarath Ratwatte**  
*Chairman - Investment Committee*

Colombo, Sri Lanka.  
09th February, 2018.

# Report of the Strategy Review Committee

## Charter of the Committee

The terms of reference of the Committee are defined in the Strategy Review Committee Charter, which is reviewed annually. The main purposes of the Committee involve closely reviewing and monitoring the implementation of the three year strategic plan of the Group/Company, keeping the Board informed about the progress of such implementations and making timely recommendations that are deemed necessary to ensure the early arrest of any unhealthy developments with regard to the businesses of both HNB Assurance PLC ('HNB A') and HNB General Insurance Limited ('HNBGI').

## Key Responsibilities

- Review the front burner document containing materially significant short term activities, change of processes etc.
- Interaction with identified KMPs responsible for implementation of each activity.
- Identifying and monitoring the implementation of medium and long term strategies.
- Review and make recommendations to the Board on the forecast made on KPIs.

- Updated the Board regularly regarding the implementation and achievements against each target.
- Continuous reviewing of the strategic plan developed for the next three years.

## Composition and Meetings

The Committee held 09 formal meetings during the financial year 2017. Members of the Senior Management attended meetings by invitation on a need basis. All matters discussed by the committee during the meetings held were reported to the Board of Directors on a regular basis.

Members	Appointment to Committee	Board Status		Meeting Attendance in 2017	
		Independent	Non-Executive	Attended	Eligible
M A R C Cooray –Chairperson	08.01. 2016	No	Yes	9	9
D P Lokuarachchi – Member	02.05.2016	No	No	7	9
Dr. S Selliah – Member	08.01. 2016	Yes	Yes	9	9
M O F Salieh – Member	08.01. 2016	Yes	Yes	9	9
M Tharmaratnam – Member	27.06. 2017	Yes	Yes	3	3
A G R Dissanayake - Member	27.06. 2017	No	Yes	3	3
N H T I Perera – Member (Resigned w.e.f 27th April 2017)	08.01. 2016	No	Yes	1	4

Chief Investments and Strategy Officer functions as the Secretary to the Committee.



Rose Cooray  
Chairperson - Strategy Review Committee

Colombo, Sri Lanka.  
09th February, 2018.

# Board's Statement on Internal Control

## Responsibility

The Board of Directors ('the Board') are responsible for the adequacy and effectiveness of the internal control and risk management mechanism in place at HNB Assurance PLC, ('the Company') and its fully owned subsidiary, HNB General Insurance Limited. The Group has in place a comprehensive system of internal controls, covering risk management and financial, organisational, operational and compliance controls. However, as with the inherent limitations of any system, such systems of internal control are designed to manage, rather than to eliminate risks that may impede the achievement of the Company's objectives. In this light, the system of internal controls can only provide reasonable, but not absolute, assurance against material misstatement of financial information and records; or against financial loss or fraud.

The Board has established an on-going process for identifying, evaluating and managing significant risks faced by the Group as well as for enhancing the system of internal controls in response to changes in the business environment or regulatory guidelines. This process is put in place for the year and is reviewed periodically by the Board through its Audit and Risk Management Committees, supported by the Internal Auditors. The Board, with the assistance of its Sub-Committees, reviewed deficiencies identified in internal controls during the year and took appropriate actions to improve the control environment.

The Management assists the Board in implementing the policies and procedures on risk and control by identifying and assessing the risks faced by the Company and in the design, operation and monitoring of suitable internal controls to mitigate these risks.

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting policies, principles and regulatory requirements.

## Process of Reviewing the Internal Control System on Financial Reporting

The key features of the process that has been established to review the adequacy and integrity of the system of internal controls with respect to financial reporting are as follows:

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of the Group's daily operations and that they are in accordance with the corporate objectives, strategies, annual budget, approved policies and business direction.

- The Group has outsourced its internal audit function to Messrs. KPMG. The Internal Auditors check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis, using samples and rotational procedures and highlight significant findings with regard to any area of non-compliance. Audits are carried out covering main areas of the operations and branches island-wide to provide an independent and objective report. The frequency of such audits are determined by the level of risk assessed while the annual audit plan is reviewed and approved by the Audit Committee. Internal Auditors report their findings to the Audit Committee and their reports are discussed at Audit Committee meetings.
- The Audit Committee reviews internal control issues identified by the Internal Auditors, the External Auditors, regulatory authorities and the Management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope and quality of internal audits. The minutes of the Audit Committee meetings are tabled at Board meetings for the information of the Board.

## Board's Statement on Internal Control Contd.

- Further details of the activities undertaken by the Audit Committee of the Group are set out in the Report of the Audit Committee on pages 215 to 220.
- A Risk Management Committee has been established to assist the Board to oversee the Risk Management Framework of the Group. The Management has prepared a Risk Register identifying all key risks faced by the Group as well as existing and proposed controls to mitigate such identified risks. This Risk Register has been shared with the Internal Auditors to ensure compliance with existing controls and to prepare the internal audit plan focusing on the significant risks faced by the Group.
- Key Risk Indicators (KRIs) have been identified for all major operations of the Group and a KRI report is prepared monthly. A summary of the KRI report is included in the Risk Dashboard and presented to the Risk Management Committee.
- The Risk and Compliance Department follows up on audit recommendations and ensures that the recommendations are implemented. A report is tabled at each Audit Committee meeting by the Risk and Compliance Department on the progress of implementing the actions agreed upon by the Management.

- A compliance checklist covering all applicable laws and regulations is signed-off by the Management monthly and is tabled at Audit Committee meetings. Compliance reports prepared by the Senior Manager - Risk and Compliance are also presented to the Audit Committee, Risk Management Committee and the Investment Committee on a regular basis. A monthly report to the Board is submitted by the Senior Manager - Risk and Compliance on the Group's compliance with applicable laws and regulations.
- Procedure checklists have been prepared for Life Insurance operations, finance related activities and the operations of the Company's fully owned subsidiary HNB General Insurance Limited (HNBGI), covering key control aspects. These checklists are prepared monthly and any deviations noted in the checklists are reported to the Audit Committee.

The preparation of Financial Statements for external purposes was done in accordance with Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), Companies Act, No. 07 of 2007 and the Regulation of Insurance Industry Act, No.43 of 2000 and subsequent amendments thereto.

By order of the Board,



**Mahendra Jayasekara**  
*Chairman – Audit Committee*



**Rose Cooray**  
*Chairperson*

Colombo, Sri Lanka.  
09th February, 2018.

### Confirmation

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Group has been designed to provide reasonable assurance regarding the reliability of financial reporting.



# Annual Report of the Board of Directors

Annual Report of the Board of Directors and Statement of Compliance of the Contents of the Annual Report as required by Section 168 of the Companies Act No. 07 of 2007.

## 1. Preface

The Board of Directors of HNB Assurance PLC ('the Company') takes pleasure in presenting this Annual Report on the affairs of the Company and the Group, together with the Audited Financial Statements of the Company and the Consolidated Financial Statements of the Group for the year ended 31st December 2017 and the Auditors' Report on those Financial Statements.

These Financial Statements conform to all relevant statutory requirements including Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, the Companies Act, No. 07 of 2007, the Listing Rules of the Colombo Stock Exchange (CSE) and other Rules and Regulations of the Insurance Regulatory Commission of Sri Lanka (IRCSL), and Best Practices on Corporate Governance.

## 1. 1 Review and Approval

This Report was reviewed and approved by the Board of Directors of the Company on 09th February 2018 and appropriate number of copies of the Annual Report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory deadlines.

## 2. General

HNB Assurance PLC was incorporated on 23rd August 2001 as a limited liability company under the Companies Act, No. 17 of 1982. Subsequently the Company re-registered as per the requirements of the Companies Act, No. 07 of 2007 on 09th August 2007 and operates under the Company Registration Number, PQ 108. In November 2003, ordinary shares of the Company were listed on the Main Board of the Colombo Stock Exchange (CSE).

During 2017, Fitch Ratings Lanka Ltd had re-affirmed HNB Assurance PLC's and its fully owned subsidiary HNB General Insurance Limited's National Long-Term Ratings and National Insurer Financial Strength Ratings at A (lka) with a stable outlook.

## Registered Office and Principal Place of Business

The Company is domiciled in Sri Lanka. The registered office of the Company is situated at No. 479, T B Jayah Mawatha, Colombo 10 and the principal business place of the Company is located at No. 30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03.

As required by the Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Annual Report prepared for the year ended 31st December 2017:

## Annual Report of the Board of Directors Contd.

Reference to the Companies Act	Information Required to be Disclosed as per the Companies Act No. 07 of 2007	Reference from the Annual Report of the Board of Directors
Section 168 (1) (a) (i)	The nature of the business of the Company or any of its subsidiaries.	section 3.2 on page 237
Section 168 (1) (b)	Financial statements for the accounting period completed and signed in accordance with section 151, and any group financial statements for the accounting period completed and signed in accordance with section 152.	section 3.4 on page 237
Section 168 (1) (c)	Auditors' Report on the Financial Statements of the Group and the Company.	section 3.6 on page 238
Section 168 (1) (d)	Accounting Policies of the Group and the Company and any changes therein.	section 3.7 on page 238
Section 168 (1) (e)	Particulars of the entries made in the Interests Registers of the Company and its Subsidiary during the accounting period.	section 11.6 on page 243
Section 168 (1) (f)	Remuneration and other benefits paid to Directors during the accounting period.	section 11.7 on page 243
Section 168 (1) (g)	Total amount of donations made by the Group during the accounting period.	section 5 on page 238
Section 168 (1) (h)	Names of the persons holding office as Directors of the Company and the subsidiary as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the Company and the subsidiary during the accounting period	section 11.1 on page 241 section 11.2 on page 242
Section 168 (1) (i)	Disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Company and the subsidiary.	section 21 on page 245
Section 168 (1) (j)	Auditors' relationship or any interest with the Company and the Subsidiary.	section 21 on page 245
Section 168 (1) (k)	Acknowledgement of the contents of this Report/Signatures on behalf of the Board of Directors.	section 29 on page 247
Section 168 (2)	A company that is required to include group financial statements in its annual report shall include those in relation to its subsidiaries, the information specified in paragraphs (b) to (j) of subsection (1).	All requirements in relation to the subsidiary operations have also been covered under relevant sections
Section 168 (3)	The annual report of a company need not comply with of paragraph (a) and paragraphs (d) to (j) of subsection (1), if all shareholders agree in writing that it need not do so. Any such agreement shall be noted in the annual report.	Not Applicable. The Company complies with paragraph (a) and (d) to (j) of subsection (1)

### 3. Review of Business

#### 3.1 Vision, Mission and Corporate Conduct

Vision and Mission of the Company are given on page 10 of this Annual Report.

The Company carries out its business activities in achieving the Vision Mission by adhering to the highest ethical standards and conforming to the Company's Values stated on page 10. The Company's Code of Business Conduct and Ethics are also considered critical in achieving the Vision and Mission, which has been made available to all employees via intranet and they are required to abide by this.

#### 3.2 Principal Business Activities

There were no changes in the principal business activities of the Company and the subsidiary during the year under review. HNBA continued to engage in Life Insurance business as their principal business activity and HNBGI continued to conduct General Insurance business as their principal business activity.

HNBA and HNBGI also provide Takaful Insurance products within the framework of main business activities. These Takaful business operations are structured as 'window units' and considered a part of the Company's/Group's operations for both financial and regulatory reporting purposes.

#### 3.3 Review of Business of the Group and the Company

The 'Chairperson's Message on pages 28 to 33 the 'Managing Director's Review on pages 34 to 37, and the 'Management Discussion and Analysis' on pages 126 to 206, together with the Audited Financial Statements on pages 258 to 375 provide an overall review of business performance and the state of affairs of the Group and the Company together with important events that took place during the year as required by the Section 168 (1) (a) of the Companies Act No. 07 of 2007 and the recommended best accounting practices.

#### 3.4 Financial Statements of the Company and Group

The Financial Statements are prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS/ LKAS) and they also provide information as required under the Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, Rules and Regulations of the Insurance Regulatory Commission of Sri Lanka, Listing Rules of the Colombo Stock Exchange (CSE) and Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

Financial Statements for the year ended 31st December 2017 which appear on pages 258 to 375 are duly signed by the Chief Financial Officer and two Directors of the Company as per Sections 168 (1) (b) and 151 and 152 of the Companies Act No. 07 of 2007. These statements form an integral part of the Annual Report of the Board of Directors.

#### 3.5 Director's Responsibility for Financial Reporting

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company and the Group to reflect a true and fair view of the operations and the state of affairs.

Directors are of the view that these Financial Statements appearing on pages 258 to 375 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act, No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, the Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practices on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Statement of Directors' Responsibility for Financial Reporting is given on pages 249 to 251 which forms an integral part of this report.

# Annual Report of the Board of Directors Contd.

## 3.6 Auditors' Report

External Auditors of the Company and the Group, Messrs, Ernst and Young, carried out an audit on the Financial Statements of the Company and the Consolidated Financial Statements of the Group for the year ended 31st December 2017 and their report on those Financial Statements are given on page 257 of this Annual Report as required by Section 168 (1) (c) of the Companies Act, No 07 of 2007. This too forms an integral part of this report.

## 3.7 Significant Accounting Policies and Changes during the Year

The significant accounting policies adopted in the preparation of the Financial Statements and changes to significant accounting policies if any, in the preparation of the Financial Statements are given on pages 264 to 273 as per the Section 168 (1) (d) of the Companies Act, No. 07 of 2007.

## 4. Future Developments

The Company and Group intend to expand their reach within Sri Lanka to provide more convenient services to their customers and further strengthen the overall position in the insurance industry through numerous strategies. These are discussed in detailed in the 'Chairperson's Message' on pages 28 to 33, the 'Managing Director's Review' on pages 34 to 37, and the Management Discussion and Analysis on pages 126 to 206, as required by Section 168 (1) (a) of the Companies Act, No. 07 of 2007.

## 5. Donations

The Company made donations amounting to Rs. 300,000 in terms of the Resolution passed at the Annual General Meeting. Details of the donations undertaken by the Company have been provided below in accordance with Section 168 (1) (g) of the Companies Act No. 07 of 2007

### Religious Places

Donations amounting to Rs. 100,000 were made to eight religious places around the country representing four prominent religions of the country.

### Schools

#### A /Thammennakulama Vidyalaya – Thammennakulama, Neriyaikulama

A donation amounting to Rs.130,000 was made to renovate the Computer Laboratory building of the school which was operating without a proper ceiling and windows to protect the computers in the laboratory.

#### H /Kanumuldeniya North Navodya School – Pallekanda, Walasmulla

A donation amounting to Rs. 70,000 was made to renovate the water well of the school and provide clean drinking water for the children in the school.

## 6. Gross Written Premium

Revenue of the Group was Rs. 7.8 Billion (2016: Rs. 6.7 Billion) with a Gross Written Premium of Rs. 3.96 Billion (2016: Rs. 3.55 Billion) of the Company. Note 25 to the Financial Statements appearing on page 319 provides a segmental analysis of the Gross Written Premium.

## 7. Profits and Appropriations

### 7.1 Performance of the Group and the Company and Transfers to Reserves

Net Profit from Group amounted to Rs. 910 Million (2016: Rs. 647 Million) to which the Company contributed with a Net Profit of Rs. 726 Million (2016: Rs. 600 Million) and the details of the appropriation of profit are given below.

For the year ended 31st December	Group		Company	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Profit Before Taxation (PBT)	927,027	705,521	725,665	656,642
Income Tax Reversal/(Expenses)	(17,275)	(58,108)	-	(56,512)
Profit for the Year	909,752	647,413	725,665	600,130
Unappropriated Profit Brought Forward	1,721,675	1,174,262	1,897,936	1,397,806
Profits Available for Appropriation	2,631,427	1,821,675	2,623,601	1,997,936
Dividends Paid	(250,000)	(100,000)	(250,000)	(100,000)
Unappropriated Profit Carried Forward	2,381,427	1,721,675	2,373,601	1,897,936

## 7.2 Dividends on Ordinary Shares

The Directors declared an interim dividend of Rs. 6.00 per share (2016: Rs. 5.00 final dividend) which will be paid partly out of dividends received and partly out of exempt/taxable profits of the Company. Dividends to be paid out of profits will be subject to withholding tax. This dividend will be paid on 05th March 2018 to holders of issued and paid-up ordinary shares of the Company, as at the close of business on the 20th of February 2018.

Board of Directors was satisfied that the Company would meet the solvency test immediately after the distribution of the interim dividend of Rs. 6.00 in terms of Section 56 (3) of the Companies Act No. 07 of 2007 and the Statement of Solvency prepared by the Board was audited by our External Auditors Messrs. Ernst & Young in terms of Section 56 (2) of the Companies Act No. 07 of 2007

## 7.3 Reserves

Transfers to/from reserves of the Group/Company are shown in the Statement of Changes in Equity appearing on page 260 and 261. A summary of the same is given below.

As at 31st December	Group		Company	
	2017 Rs. '000	2016 Rs. '000	2017 Rs. '000	2016 Rs. '000
Retained Earnings	2,381,427	1,721,675	2,373,601	1,897,936
Available For Sale Reserves	30,685	(7,152)	17,415	(1,465)
Other Reserves	(10,760)	1,790	(9,884)	(1,886)
Life Policyholders' Available For Sale Reserve Fund	223,272	(191,131)	223,272	(191,131)
Total	2,624,624	1,525,182	2,604,404	1,703,454

## Annual Report of the Board of Directors Contd.

### 7.4 Provision for Taxation

Under the prevailing tax rules of the Country, the Company and its subsidiary were taxed at the corporate tax rate of 28%. Accordingly, income tax expense of the Subsidiary, HNBGI, amounted to Rs.35 Million (2016: Rs. 3.3 Million). As given in the Note 38 to the Financial Statements, the deferred tax asset recognized in the General Insurance business due to the probable extent that future taxable profits available is Rs. 18 Million (2016: Rs. 1.7 Million).

HNB Assurance PLC has accumulated a tax loss of Rs. 5,111 Million as at 31st December 2017 and this would result in a deferred tax asset of Rs. 1,431 Million (2016: Rs. 1,225 Million) in the absence of the transitional provisions to claim brought forward tax losses against future taxable income no Deferred tax asset is recognised in the financial statements until such provisions are finalized and published by the Department of Inland Revenue.

Both HNBA and HNBGI pay one percent of their profit after tax for a year of assessment to the National Insurance Trust Fund (NITF) as a crop insurance levy in compliance with section 14 of the Finance Act No. 12 of 2013. In 2017, the total amount paid from the Group was Rs. 7.7 Million.

### 7.5 Provisions, Liabilities and Capital Commitments

The Directors have taken all reasonable steps to ensure that adequate provisions were made for all known liabilities and commitments.

Accordingly, both the Company and the Subsidiary made provisions for all capital expenditure approved for the year without any exception. Further, adequate provisions have been made for unearned premiums and Claims Outstanding, including provisions for Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) in HNB General Insurance Limited with consultation of an Independent Actuary. Certification by the Independent Actuary is given on page 255.

Life Fund, the liability towards the policyholders, which stood at Rs. 10.8 Billion, was also valued by a Consultant Actuary and the relevant report is given on page 254. Other Liabilities of the Company/ Group have been duly recognised and reported in the Financial Statements.

At the year end, there were no capital expenditure approved by the Board and contracted, for which no provision has been made in the Financial Statements (2016 – NIL).

### 7.6 Contingencies

In the opinion of the Directors, and in consultation with the Company Lawyers, litigations currently pending against the Group and the Company would not have a material impact on the reported financial results.

All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

### 8. Intangible Assets and Property, Plant and Equipment

Total Capital expenditure incurred by the Company and the Group on acquisition of property, plant and equipment and intangible assets amounted to Rs. 62 Million and Rs. 80 Million, respectively (2016: Company Rs.90 Million and Group Rs. 111 Million). Carrying value of property, plant and equipment and intangible assets of the Company and Group amounted to Rs. 177 Million and Rs. 227 Million respectively.

Further information on Property, Plant & Equipment and Intangible Assets of Company and Group are given in Notes 4 and 5 to the Financial Statements on pages 282 to 288.

Following the initial recognition, property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses and intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

### 9. Financial Investments

The financial investments held by the Company and the Group mainly comprises of Financial Instruments. As at 31st December 2017 Financial Investments of the Company and Group amounted to Rs. 12,741 Million and Rs. 15,055 Million respectively (2016 - Rs. 9,643 Million and Rs. 11,545 Million). The details of the financial investments are given in Note 6 to the Financial Statements on pages 288 to 299.



## 10. Stated Capital and Reserves

There were no changes in the stated capital of the Company during the year 2017, and the amount recorded was Rs. 1,171,875,000 comprising 50,000,000 ordinary shares. (2016: Stated Capital - Rs. 1,171,875,000, No. of Shares - 50,000,000).

The total retained earnings of the Company and the Group as at 31st December 2017 amounted to Rs. 2,374 Million and Rs. 2,381 Million respectively.

Further details on the movement of reserves are shown in the Statement of Changes in Equity on page 260.

## 11. The Board of Directors

### 11.1 Information on Directors of the Company and the Group and Directors Meetings

The Board of HNB Assurance PLC consists of 9 members and the Board of HNB General Insurance Limited consists of 6 members.

List of names of the members of the Board and the members resigned from the directorships during the year 2017 are given below and brief profiles of the members appear on page 38 to 41.

Information related to the number of Board meetings held during the year and the attendance of each Director at such meetings are also given below. Attendances of each Director at Board Sub-Committees are available in each respective committee report.

### HNB Assurance PLC (HNBA)

Name of Director	Director Since	Board Status		Meeting Attendance in 2017	
		Independent	Non-Executive	Attended	Eligible
M A R C Cooray – Chairperson	06.07.2015	Non-Independent	Non-Executive	12	12
D P Lokuarachchi	26.05.2017	Non-Independent	Executive	06	07
S C Ratwatte	30.01.2009	Non-Independent	Non-Executive	12	12
J A P M Jayasekera	03.12.2012	Independent	Non-Executive	11	12
D P N Rodrigo	01.07.2013	Non-Independent	Non-Executive	07	12
S N Wickramasinghe	02.10.2013	Non-Independent	Non-Executive	12	12
Dr S Selliah	17.06.2014	Independent	Non-Executive	10	12
A G R Dissanayake	27.06.2017	Non-Independent	Non-Executive	03	05
D R Abey Suriya	01.01.2018	Independent	Non-Executive	Not Applicable	
K Balasundaram (Retired on 22nd December 2017)	03.12.2012	Independent	Non-Executive	11	12
N H T I Perera (Resigned on 27th April 2017)	08.01.2016	Non-Independent	Non-Executive	04	05

### HNB General Insurance Limited (HNBGI)

Name of Director	Director Since	Board Status		Meeting Attendance in 2017	
		Independent	Non-Executive	Attended	Eligible
M A R C Cooray – Chairperson	03.06.2015	Non-Independent	Non-Executive	12	12
D P Lokuarachchi	26.05.2017	Non-Independent	Executive	06	07
D P N Rodrigo	21.12.2015	Non-Independent	Non-Executive	08	12
M O F Salieh	22.04.2014	Independent	Non-Executive	12	12
M Tharmaratnam	01.09.2016	Independent	Non-Executive	10	12
A G R Dissanayaka	27.06.2017	Non-Independent	Non-Executive	05	05
N H T I Perera (Resigned on 27th April 2017)	21.12.2015	Non-Independent	Non-Executive	03	05

# Annual Report of the Board of Directors Contd.

## 11.2 New Appointments, Retirement and Resignations

Following Directors were newly appointed to the Board of Directors of HNB Assurance PLC and HNB General Insurance Limited in terms of Article 92 of the Articles of Association of the Company

Name of Director	Date of Appointment	Company	Independent	Non-Executive
D P Lokuarachchi	26.05.2017	HNBA/HNBGI	Non-Independent	Executive
A G R Dissanayaka	27.06.2017	HNBA/HNBGI	Non-Independent	Non-Executive
D R Abeyesuriya	01.01.2018	HNBA	Independent	Non-Executive

Mr. N H T I Perera, a Non-Independent Non-Executive Director of both HNB Assurance PLC and HNB General Insurance Limited, resigned from the Directorships with effect from 27th April 2017

Mr. K Balasundaram held the directorship of HNBA till age 70 and retired from the position since 22nd December 2017. His retirement complies with Sections 210 and 211 of the Companies Act.

## 11.3 Retirement and Re-election of Directors

Dr. Sivakumar Selliah retires by rotation at the AGM and offered for re-election under Article 86 of the Articles of Association of the Company and Mr. A G R Dissanayake and Mr. D R Abeyesuriya retire at the AGM under Article 92 of the Articles of Association of the Company and offer themselves for re-election under the said Article.

## 11.4 Appraisal of Board Performance

Performance of the Board of Directors was reviewed through a self-assessment questionnaire and the responses were shared among all Board members. Suggestions to further improve the performance of the Board that arose from these self-assessment questionnaires were discussed in detail and adopted as appropriate.

The Secretary to the Board and the top management continuously follow up on the progress of implementing such agreed actions.

## 11.5 Board Sub-Committees

Apart from the Board Meetings, 7 Board Sub-Committees have been appointed conforming to the corporate governance standards of the Listing Rules of the Colombo Stock Exchange (CSE) and industry

best practices to enforce and ensure strong internal controls on certain affairs of the Company. Following Sub-Committees operated during the year;

- Audit Committee
- Human Resource and Remuneration Committee
- Nomination Committee
- Risk Management Committee
- Related Party Transactions Review Committee
- Investment Committee
- Strategy Review Committee

## 11.5.1 Reports of Sub-Committees

The table below provides references to the Reports of Board Sub-Committees.

Committee	Page Numbers
Audit Committee	215 to 220
Human Resource and Remuneration Committee	221 to 223
Nominations Committee	226 to 227
Risk Management Committee	228 to 229
Related Party Transactions Review Committee	224 to 225
Investment Committee	230 to 231
Strategic Review Committee	232

## 11.6 Interest Register and Interest in Contracts or Proposed Contracts

As required by Section 168 (1) (e) of the Companies Act No. 07 of 2007, the Company and its Subsidiary maintain Interest Registers. All Directors have made declarations of their interests in other companies conforming to Sections 192 (1) and 192 (2) of the Companies Act, No. 07 of 2007 and they are recorded in the Directors' Interest Register.

Directors also refrain from voting on any contract or matter in which they have a material interest as a practice of good governance during the course of business.

The information related to Directors' interest in contracts is given on pages 248 of the Financial Statements and Note 42 to the Financial Statements presents complete disclosure on Related Party Transactions, which forms an integral part of the Annual Report of the Board of Directors.

The Directors' Interest in shares have not changed between 31st December 2017 and 09th February 2018, the date of this report. Further, complying to Section 119 (1) (d) of the Companies Act No. 07 of 2007, The Interest Register has been made available at the Registered office for inspection by shareholders or their authorized representatives.

The share ownership of Directors is disclosed in the table below.

Name of Director	No. of shares held as at 31st December	
	2017	2016
M A R C Cooray – Chairperson	18,035	18,035
D P Lokuarchchi	Nil	Not Applicable
S C Ratwatte	14,666	14,666
J A P M Jayasekera	83,057	83,057
D P N Rodrigo	180	180
S N Wickramasinghe	52,500	52,500
Dr S Selliah	100,000	100,000
A G R Dissanayake	100	Not Applicable
D R Abeyesuriya	Not Applicable	Not Applicable
K Balasundaram (resigned w.e.f. 22nd December 2017)	Not Applicable	10,000
N H T I Perera (resigned w.e.f. 27th April 2017)	Not Applicable	100

## 11.7 Directors' Remuneration

Details regarding Directors' fees and emoluments, including post employment are given in Note 36 of the Financial Statements as per the requirements of Section 168 (1) (f) the Companies Act, No. 07 of 2007. Further, Directors are not entitled to obtain any loan from the Company and no remuneration is paid to Non-Executive Directors other than the fees paid on attendance at Board and Board Sub-Committee meetings.

## 12. Related Party Transactions

Related Party Transactions Review Committee has been formed in accordance with provision of Section 9 of the Listing Rules of CSE and according to Section 9.3.2 (d) of the Listing Rules to review the related party transactions of the Company and the Board confirms that the Company has complied with all requirements pertaining to Related Party Transactions.

The Directors have disclosed transactions, if any, with related parties, in terms of Sri Lanka Accounting Standard (LKAS) 24-Related Party Disclosures, which has been adopted in the preparation of these Financial Statements, and such transactions disclosed by the Directors are given in Note 42 to the Financial Statements on pages 346 to 350, which forms an integral part of this report.

# Annual Report of the Board of Directors Contd.

No related party transaction exceeded the limits of 10% of equity or 5% of total assets requiring immediate disclosure to CSE and a separate disclosure in the Annual Report under Section 9.3.2 of the Listing Rules.

## 13. Share Information

### 13.1 Information on earnings, dividends, net assets and market value

Information related to earnings, dividends, net assets, market price per share, and share trading as per the CSE listing rules are given on pages 116 to 120. Ratios relating to dividends, net assets, market price per share are presented on Investor Information on page 389.

### 13.2 Distribution Schedule of Shareholding

The distribution and analysis of shareholding is given on page 118 of this Annual Report. As at 31st December 2017, HNB Assurance PLC had 3,422 registered ordinary shareholders (2016 – 3,473).

### 13.3 Major Shareholders

Information of the top 20 shareholders and the percentage held by each shareholder as at 31st December 2017 is presented on page 116 with comparable information as at 31st December 2016.

Hatton National Bank PLC holds 59.99% (2016: 59.99%) shares of HNB Assurance PLC. Mrs. Rose Cooray, Director of HNB, Mr. Dilshan Rodrigo, Chief Operating Officer of HNB, Mr. Rajive Dissanayake, Chief Strategy Officer/Assistant General Manager – Strategy and Mrs. Siromi Wickramasinghe represent the main shareholder on the Company's Board.

## 14. Employee Share Ownership/Option Plans

The Company does not have any employee share ownership/option plans.

## 15. Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government and related institutions, the Insurance Regulatory Commission of Sri Lanka, and the employees, by the Company and its Subsidiary, have been made on time or provided for where relevant.

## 16. Compliance with Laws and Regulations

To the best knowledge of the Directors, the Company and its Subsidiary have complied with applicable rules and regulations, and has not acted in contravention of any rule or regulation of the country's laws and regulations. Further, the Group, Company and the Subsidiary have submitted all statutory returns and other required details to the relevant authorities on or before the due dates.

A compliance checklist is signed-off every month by responsible officers and reported to the Boards of HNBA and HNBGI, the Audit Committee and the Risk Management Committee, while a report on the Company's compliance with important compliance requirements is tabled at Board Meetings monthly.

## 17. Risk Based Capital (RBC) Compliance

The Company and its Subsidiary has fully complied with all RBC compliance requirements since the introduction of the RBC regime in January 2016. Both HNB Assurance PLC and HNB General Insurance Limited have been able to maintain the Capital Adequacy Ratio (CAR) above the minimum requirement of 120% from the inception of the regime. At the end of the financial year 2017, HNB Assurance PLC recorded a CAR of 358% and HNB General Insurance Limited recorded a CAR of 178%.

## 18. Equitable Treatment of Shareholders

All shareholders irrespective of the number of shares owned by them are treated equally and the Company recognises the right of all shareholders to obtain information. Further establishing this principle, the Chairperson's Message, the CEO's Message, the Statement of Financial Position, the Statement of Profit and Loss and Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity are available in Sinhala and Tamil languages to our shareholders on request. This is also made available through our Company website.

## 19. Going Concern

After necessary assessments the Board of Directors is satisfied that the Company and the Subsidiary has adequate resources to continue its operations in to the foreseeable future. Further, during strategic planning of the Company and the Subsidiary the Board of Directors has reviewed the future opportunities and risks, cash flow requirements, capital expenditure requirements and solvency position and has not encountered any material factors that would restrict the future business plans. Therefore the financial statements of Company and the Group have been prepared on the basis of going concern.

## 20. Risk Management and System of Internal Controls

The Board of Directors considers that strong internal controls are an essential part of management of the business and is committed to maintaining financial, operational and risk management controls over all its activities.

Ultimate responsibility of Company's/ Group's system of internal controls and risk management is vested with the Board of Directors. Therefore the Board continuously monitors all business aspects through the Risk Management Committee and the Audit Committee along with the support of the Internal Auditors of the Company to ensure a high level of compliance.

The Board is of the view that the system of internal controls in place provides reasonable assurance regarding the reliability of the financial reporting and preparation of Financial Statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Board has issued a report on the internal control mechanism of the Company which appears on Board Statement on Internal Controls on pages 233 to 234.

Further details of these aspects are discussed in the Governance Report, Audit Committee Report and Risk Management Report available on pages 51 to 103, pages 215 to 220, pages 228 to 229 respectively.

## 21. Appointment of Auditors and their Remuneration

The Financial Statements for the year ended 31st December 2017 have been audited by Messrs, Ernst & Young and their report on the Financial Statements which form an integral part of the Annual Report of the Board of Directors is given on page 257 of this Annual Report.

The expenses incurred in respect of Audit fees and expenses and Audit related fees during the year are given in Note 36 to the Financial Statements on page 330 as required by Section 168 (1) (i) of the Companies Act, No. 07 of 2007.

Based on the declaration provided by Messrs Ernst & Young and as far as the Directors are aware, the Auditors do not have any relationship with or interest in the Company and the Subsidiary which would impair the Auditors' independence within the means of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report, thus comply with Section 168 (1) (j) of the Companies Act, No. 07 of 2007.

The retiring Auditors Messrs, Ernst & Young have signified their willingness to continue to function as the Auditor to the Company and the Subsidiary. A resolution to reappoint Messrs Ernst & Young as auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting of HNBA Assurance PLC and HNB General Insurance Limited to be held on March 27th, 2018 for shareholder approval.

Report of the Audit Committee provides more information on appointment of auditors, Independence of auditors and the provision of Non-Audit services.

# Annual Report of the Board of Directors Contd.

## 22. Events occurring after the date of the statement of financial position

The payment of an interim dividend of Rs. 6.00 per share for the year ended 31st December 2017 (2016: final dividend of Rs. 5.00 per share) is to be approved at the Annual General Meeting to be held on 27th March 2018. More information with respect to the dividend is given on Note 44 on page 373.

Except for the above-mentioned events, no material events that require adjustments to or disclosure in the Financial Statements have occurred after the reporting date.

## 23. Corporate Governance Directors' Declarations

The Directors declare that;

- a) all applicable laws and regulations have been complied with by the Company, in conducting its business activities,
- b) the Directors have disclosed all material interests in contracts involving the Company and have refrained from voting on matters in which they were materially interested,
- c) the Company has made all endeavours to ensure that all shareholders have been treated equitably,
- d) the business is a going concern with supporting assumptions or qualifications as necessary, and

- e) a review of internal controls, covering financial, operational and compliance controls, and risk management, has been conducted, and a reasonable assurance of their effectiveness and successful adherence has been obtained.

The Board of Directors is committed to maintain an effective corporate governance structure and processes, and to be compliant with all relevant rules, regulations and best practices on corporate governance, extending beyond regulatory requirements. As a Company listed on the main board of the CSE, HNB Assurance is fully compliant with the rules on corporate governance under the Listing Rules, and in addition, the Company is in compliance with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Corporate Governance report presented on pages 51 to 103 provides further details on the best practices adopted in the Company.

## 24. Environment Protection

The Company has been not involved in any activity that is harmful or hazardous to the environment. Relevant policies and practices have been kept in place from the inception of the Company to ensure that business operations carried out in the Company do not have a negative impact on the environment. Further, in the process of selecting business partners to engage with, the Company considers if their reputation also falls in line with this thinking.

Activities carried out by the Company/Group to protect the environment and promote environment friendly practices are described in detail on pages 182 to 183.



## 25. Human Resources

Human resource is the key value creator which supports the achievement of strategic objectives of the Company/Group. Therefore policies have been adopted to attract, recruit and retain the best talent and these policies are constantly revised in order to remain competitive in the market. The Company is an equal opportunity provider and no discrimination is done based on any social variable.

Specific measures taken with regards to Human Resources can be read on the Report on Human Resources and Remuneration Committee given on pages 146 to 157.

## 26. Whistle Blowing Policy

All employees of the Company and the Subsidiary have been communicated with a formal Whistle Blowing Policy and employees are encouraged to raise their concerns in relation to any wrongdoings regarding the management and the Board. The confidentiality of all employees raising concerns are ensured at all times and this enables any member of the Company to raise issues with the management and the Board, in order to identify possible risks faced by the Company, at an early stage.

However, no serious concerns were raised through the Whistleblowing Policy during the year.

## 27. Code of Conduct and Ethics

A Code of Conduct and Ethics for Directors has been introduced with the intention of providing guidance on recognising and handling areas of ethical issues, information on how to report unethical conduct and to help foster a culture of openness and accountability. Details of the Code of Conduct and Ethics are presented on pages 90 to 92.

As confirmed in the Chairperson's Statement on pages 28 to 33 there has been no violation of the Code of Conduct of the Company by any Director or any member of the corporate management of the Company during the year.

Code of Business Conduct and Ethics has been adopted for all the employees and has mandated that it should be followed without exception. During the year under review no significant violations on the Code were observed, except for a few insignificant incidents at the operational level of the organization and appropriate actions were taken to ensure conformity.

## 28. Annual General Meeting

The sixteenth Annual General Meeting of the Company will be held at the Auditorium on Level 22 of "HNB Towers", at No. 479, T B Jayah Mawatha, Colombo 10, on the 27th day of March 2018 at 10.00 in the forenoon. The Notice of the Annual General Meeting is on page 392 of the Annual Report.

## 29. Acknowledgement of the Content of the Report

As required by Section 168 (1) (k) of the Companies Act, No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this Annual Report.

By order of the Board,



Sitari Jayasundara  
Board Secretary



Mahendra Jayasekera  
Director



Rose Cooray  
Chairperson

Colombo, Sri Lanka.  
09th February, 2018.

# Directors' Interest in Contracts with the Group/Company

Related party disclosures as per the Sri Lanka Accounting Standard -LKAS 24 'Related Party Disclosures' are detailed in Note 42 to the Financial Statements on pages 346 to 350 of this Annual Report.

In addition, Group/Company carries out the transactions in the ordinary course of business on an arm's length basis with entities where no significant influence is exercised by the Chairperson or a Director of the Company is the Chairperson or a Director of such entities.

Name of the Company	Name of the Director	Name of Transaction	Insurance Segment	2017 Rs.'000	2016 Rs.'000
Lanka Ceramics PLC	Dr Sivakumar Selliah	Insurance Premium	HNBGI	1,019	920
	J A P M Jayasekara	Claims Incurred	HNBGI	384	103
Horana Plantation PLC	Dr Sivakumar Selliah	Claims Incurred	HNBGI	-	26
Softlogic Holding PLC	Dr Sivakumar Selliah	Insurance Premium	HNBGI	-	458
Ceylon Investment PLC	M A R C Cooray	Insurance Premium	HNBGI	-	59
Vydexa (Lanka) Power Corporation (Pvt) Ltd	Dr Sivakumar Selliah	Insurance Premium	HNBGI	1,295	-

# Directors' Responsibility for Financial Reporting

This statement sets out the responsibility of the Directors in relation to the Financial Statements of HNB Assurance PLC ('the Company') and the Consolidated Financial Statement of the Company and its subsidiary HNB General Insurance Limited (together referred as 'the Group'), prepared in accordance with the provisions of the Companies Act, No. 07 of 2007.

The Directors have also obtained an independent and objective view of the members of the Audit Committee in relation to the Financial Statements and further details on this is presented in the Report of the Audit Committee appearing on pages 215 to 220. The responsibilities of the External Auditors in relation to the Financial Statements/ Consolidated Financial Statements are set out in the Report of the Auditors, given on page 257 of the Annual Report.

As per Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act, No. 07 of 2007, the Directors are responsible for ensuring that the Company and the Group prepare Financial Statements, which give a true and fair view of the financial performance and the financial position of the Company and the Group at end of each financial year and place them before a general meeting. Accordingly, the Company and the Group Financial Statements prepared for the financial year ended 31st December 2017 appear on pages 258 to 375 of this Annual Report.

The Financial Statements comprise the Statement of Financial Position as at 31st December 2017, the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended and Notes to the Financial Statements.

Further, the Board of Directors confirms that the Financial Statements of the Company and the Consolidated Financial Statement of the Group give a true and fair view of:

- The state of affairs of the Company and the Group as at the date of the statement of financial position; and
- The financial performance of the Company and the Group for the financial year ended 31st December 2017.

## Compliance Report

The Board of Directors also confirms that;

- a) Appropriate accounting policies have been selected and applied in a consistent manner when preparing the Financial Statements/ Consolidated Financial Statements appearing on pages 258 to 375.
- b) Reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected and material departures, if any, have been disclosed and explained in the Financial Statements/Consolidated Financial Statements and accompanying Notes.

c) The Financial Statements/ Consolidated Financial Statements for the year ended 31st December 2017, prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the applicable regulatory requirements including Sri Lanka Accounting Standards (SLFRS/LKAS), Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43, of 2000 and subsequent amendments thereto, Listing Rules of the Colombo Stock Exchange (CSE) and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

d) As required by the Section 148 (1) of the Companies Act, the Company and the Group keep accounting records which correctly record and explain the Company's/ Group's transactions and enable the financial position of the Company/Group to be determined with reasonable accuracy at any time while enabling the preparation of the Financial Statements in accordance with the Companies Act, No. 07 of 2007 and ensuring that these statements can be readily and properly audited.

## Directors' Responsibility for Financial Reporting Contd.

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- e) Appropriate steps have been taken to ensure that the Company/Group maintains proper books of accounts and the financial reporting system is reviewed through the Audit Committee. Financial records of the Company/Group have been reviewed by the Board at their regular meetings and the Interim Financial Statements of the Company/Group have been reviewed and recommended by the Audit Committee and have then been approved by the Board of Directors prior to release to the shareholders and public.
- f) The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.
- g) Steps have been taken to establish and maintain a system of internal controls to provide reasonable assurance of the reliability of financial reporting, effectiveness and efficiency of the operations, safeguarding of the assets of the Company/Group, compliance with applicable laws and regulations, and prevention and detection of frauds and other irregularities. Directors' Statement on Internal Control is given on pages 233 to 234.
- h) The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments including taxes and duties due to all relevant regulatory and statutory authorities which were payable by the Company/Group as at the reporting date have been paid or where relevant provided for.
- i) As required by the Section 56 (2) of the Companies Act, No. 07 of 2007, the Board of Directors based on the information available is satisfied that the Company will immediately after the distribution of dividends satisfy the solvency test, in accordance with the Section 57 of the Companies Act, No. 07 of 2007, and has obtained a certificate from the External Auditors, prior to declaring an interim dividend of Rs. 6.00 per share for this year, to be paid on 05th March 2018.
- j) As required by the Sections 166 (1) and 167 (1) of the Companies Act, No. 07 of 2007 and Rule 7.5 (a) and (b) on Continuing Listing Requirements of the Colombo Stock Exchange (CSE), the Board of Directors have prepared this Annual Report in time and will ensure that a copy thereof is sent to every shareholder of the Company, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD - Rom containing the Annual Report within the stipulated period of time.
- k) In accordance with the 'Code of Best Practice on Corporate Governance' issued jointly by the CA Sri Lanka and the SEC, the Board of Directors after considering the financial position, operating conditions, regulatory environment and other factors required to be addressed, has established that it has reasonable expectations that the Company and the Group have adequate resources to continue in operation to justify applying the 'Going Concern' basis in preparation of these Financial Statements/ Consolidated Financial Statements.
- l) As required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act, No. 07 of 2007, the Chief Financial Officer has certified that the Financial Statements of the Company/Group are in compliance with the requirements of the Companies Act, No. 07 of 2007. Further, as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act, No. 07 of 2007 and other regulatory requirements the Financial Statements of the Company/Group have been signed by two Directors of the Company on 09th February 2018.

m) The Consolidated Financial Statements of the Group and the Financial Statements of the Company have been provided to the Company's External Auditors, Messrs Ernst & Young, who were appointed in terms of the Section 158 of the Companies Act, No. 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting held on 29th March 2017. The External Auditors have been provided with every opportunity to carry out whatever reviews and sample checks on the system of internal controls they may consider appropriate and necessary to express their independent audit opinion on the Financial Statements of the Company and the Consolidated Financial Statements of the Group. The Financial Statements thus made available to them by the Board of Directors along with all the financial records, related data and minutes of shareholders' and Directors' meetings have been examined by the External Auditors who have expressed their opinion which is given on page 257.

In view of that the above; the Board of Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By order of the Board



Sitari Jayasundara  
*Board Secretary*

Colombo, Sri Lanka.  
09th February, 2018.

# CEO's and CFO's Responsibility Statement

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The Financial Statements of HNB Assurance PLC ('the Company') and the Consolidated Financial Statements of the Company and its subsidiary HNB General Insurance Limited (together referred as 'the Group') as at 31st December 2017 are prepared in compliance with the;

- Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- The requirements of the Companies Act, No. 07 of 2007,
- The Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto,
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995,
- Listing rules of the Colombo Stock Exchange (CSE) and;
- The Code of best practice on corporate governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).

The accounting policies used in the preparation of the Financial Statements are in compliance with Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka and are consistently applied unless otherwise stated in the notes accompanying the Financial Statements.

Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and the External Auditors of the Group. Comparative information has been reclassified wherever necessary to comply with the current year's presentation.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to these Financial Statements were made on a prudent and reasonable basis to ensure that the Financial Statements reflect in a true and fair manner, the form and substance of transactions as well as to ascertain that the state of affairs of the Company/Group is reasonably presented.

To warrant this, the Company has taken proper and sufficient care in implementing a system of internal controls to provide reasonable assurance of the reliability of financial reporting, effectiveness and efficiency of the operations, safeguarding of the assets of the Company/Group, compliance with applicable laws and regulations, and prevention and detection of frauds and other irregularities which is reviewed, evaluated and updated on an on-going basis.

We have evaluated the internal controls and procedures of the Group for the financial period under review and are satisfied to the best of our knowledge that there were no significant deficiencies and weaknesses in the design or operation of the Internal Controls and Procedures.

We confirm that based on our evaluations, there were no significant deficiencies and material weaknesses in the design or operation of internal controls and no significant frauds reported that involves the Management or other employees of the Company/Group.

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

The Financial Statements were audited by Messrs. Ernst & Young, Chartered Accountants, the Independent Auditors and the report issued by them is given on page 257. Prior approval for the audit and non-audit services provided by them were obtained by the Audit Committee to ensure such provision of services does not impair the objectivity of the Independent Auditors.



The Audit Committee of the Company meets periodically with the Internal Auditors and the External Auditors to review, the Audit plan, the manner in which these auditors are performing their responsibilities, and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

We confirm that the Company has complied with all applicable laws, regulations, and guidelines and that there are no material litigations pending against the Company other than those arising in the normal course of conducting insurance business.

In addition, taxes, duties and all statutory payments due by the Company as at the reporting date have been paid or where relevant accrued.



**Indika Perera**  
*Chief Financial Officer*



**Deepthi Lokuarachchi**  
*Managing Director / Chief Executive Officer*

Colombo, Sri Lanka.  
09th February, 2018.

# Report of the Life Actuary

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Actuarial Partners Consulting Sdn Bhd  
formerly known as Mercer Zainal Consulting Sdn Bhd  
Suite 17.02 Kenanga International  
Jalan Sultan Ismail  
50250 Kuala Lumpur, Malaysia  
603 2161 0433 Fax 603 2161 3595

9<sup>th</sup> February 2018

To the Shareholders of HNB Assurance PLC.

## ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER 2017

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December 2017. We hereby certify that, in our opinion,

- 1) Proper records have been kept by the Company, which are appropriate for the purpose of the actuarial valuation of the liabilities of the Long Term Insurance Fund;
- 2) Adequate and proper reserves have been provided as at 31 December 2017, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date;
- 3) As at 31 December 2017, the Company maintained a Capital Adequacy Ratio of 358% calculated as per the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Board of Sri Lanka as required under the Regulation of Insurance Industry Act No. 43 of 2000. This is well above the minimum Capital Adequacy Ratio of 120% as per the same rules;
- 4) We carried out a Liability Adequacy Test ("LAT") for Long Term Insurance fund as at 31 December 2017 as required by SLFRS 4 - Insurance Contracts and the assets are sufficiently adequate as compared to liabilities under the LAT.

A handwritten signature in black ink, appearing to read "Hassan Scott Odierno".

Hassan Scott Odierno  
Actuary

# Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claim Reserve

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31 January 2018



To the shareholders of HNB General Insurance Ltd

## HNB General Insurance Ltd 31 December 2017 Net IBNR and LAT Certification

I hereby certify that the Central Estimate of IBNR provision of LKR63,967,420 including CHE is adequate in relation to the Claim Liability of HNB General Insurance Ltd as at 31 December 2017, net of reinsurance (undiscounted). This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate to meet the future liabilities, including the claims handling expenses, in respect of the Company's incurred claims obligations as at 31 December 2017, in many but not all scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). I hereby certify that the UPR provision of LKR1,627,289,945 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of HNB General Insurance Ltd as at 31 December 2017, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles.

I have relied upon information and data provided by the management of the above Company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonableness of the data.

A handwritten signature in black ink, appearing to read 'M Maguire', is positioned above the printed name.

Matthew Maguire  
Fellow of the Institute of Actuaries of Australia (FIAA)  
For and on behalf of NMG Financial Services Consulting  
Dated 31 January 2018

# Content

## Welcome to Our Financials 2017

### Section 01

This section delivers key Financial Statements relating to financial performance, position and cash flows of the Group and the Company which comprises the following :

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### Section 02

This section delivers the highlights and analysis of financial performance which comprises the following :

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### Section 03

This section delivers a description of reporting entity, principal activities of Company and Subsidiary entity and identification of Financial Statements and authorisation which comprises the following :

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### Section 06

This section delivers segmental results relating to financial performance, position and cash flows of the Life Insurance business and General Insurance business which comprises the following :

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### Section 07

This section delivers specific accounting policies and financial notes.

All details notes and accounting policies are disclosed from page 282 to 375 and relevant index of references for each note disclose in page 274.

# Independent Auditors' Report



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
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Colombo 10  
Sri Lanka

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HNB ASSURANCE PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of HNB Assurance PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiary ("Group"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal controls as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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

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

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

### Opinion

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

### Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

- a) The basis of opinion, scope and limitations of the audit are as stated above.
- b) In our opinion:
  - we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company,
  - the financial statements of the Company give a true and fair view of its financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards, and
  - the financial statements of the Company and the Group comply with the requirements of Section 151 and 153 of the Companies Act No. 07 of 2007.

As required by Section 47(2) of the Regulation of Insurance Industry Act, No.43 of 2000, as far as appears from our examination, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Regulatory Commission of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

9 February 2018  
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekara FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principal T P M Ruberu FCA FCCA

A member firm of Ernst & Young Global Limited

## Statement of Financial Position

As at 31st December,	Note	Page No.	Group		Company	
			2017	2016	2017	2016
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets						
Property, Plant and Equipment	4	282	169,620	161,362	119,078	112,151
Intangible Assets	5	286	57,841	60,882	57,841	60,882
Deferred Tax Assets	38	332	64,098	52,922	-	-
Financial Investments	6	288	15,054,910	11,544,575	12,741,015	9,642,596
Investment in Subsidiary	7	299	-	-	1,150,000	1,150,000
Loans to Life Policyholders	8	300	162,285	120,441	162,285	120,441
Reinsurance Receivables	9	301	569,778	494,726	65,010	54,814
Premium Receivables	10	302	786,319	623,294	7,488	6,805
Other Assets	11	304	1,036,846	770,674	764,256	575,676
Insurance Contract - Deferred Expenses	12	306	105,287	74,951	-	-
Cash and Cash Equivalents	13	307	641,950	625,527	352,307	476,572
Total Assets			18,648,934	14,529,354	15,419,280	12,199,937
Equity and Liabilities						
Equity Attributable to the Equity Holders of Parent						
Stated Capital	14	307	1,171,875	1,171,875	1,171,875	1,171,875
Retained Earnings	15	308	2,381,427	1,721,675	2,373,601	1,897,936
Available For Sale Reserve	16	308	30,685	(7,152)	17,415	(1,465)
Other Reserve	17	308	(10,760)	1,790	(9,884)	(1,886)
Life Policyholders' Available For Sale Reserve Fund	18	308	223,272	(191,131)	223,272	(191,131)
Equity Attributable to the Equity Holders of Parent			3,796,499	2,697,057	3,776,279	2,875,329
Non-Controlling Interest			-	-	-	-
Total Equity			3,796,499	2,697,057	3,776,279	2,875,329
Liabilities						
Insurance Contract Liabilities - Life Insurance	19	309	10,915,858	8,747,856	10,915,858	8,747,856
Insurance Contract Liabilities - General Insurance	20	312	2,384,906	1,921,567	-	-
Employee Defined Benefit Liabilities	21	314	126,083	90,433	73,875	50,883
Current Tax Liabilities	22	317	34,598	3,300	-	-
Reinsurance Creditors	23	317	353,042	287,895	90,650	39,395
Other Liabilities	24	318	896,288	781,246	529,862	486,474
Bank Overdraft	13	307	141,660	-	32,756	-
Total Liabilities			14,852,435	11,832,297	11,643,001	9,324,608
Total Equity and Liabilities			18,648,934	14,529,354	15,419,280	12,199,937

The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements. These Financial Statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.



**Indika Perera**  
Chief Financial Officer

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

Signed and on behalf of the Board;



**Rose Cooray**  
Chairperson

Colombo, Sri Lanka.  
09th February, 2018.



**J. A. P. M. Jayasekara**  
Director



# Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31st December,	Note	Page No.	Group		Company		Change	
			2017	2016	2017	2016	Group	Company
			Rs.'000	Rs.'000	Rs.'000	Rs.'000	%	%
Gross Written Premium	25	319	7,821,468	6,656,694	3,963,642	3,554,078	17	12
Premium Ceded to Reinsurers	26	320	(1,100,573)	(877,713)	(189,093)	(159,050)	25	19
Net Written Premium			6,720,895	5,778,981	3,774,549	3,395,028	16	11
Net Change in Reserves for Unearned Premium	27	321	(328,818)	(181,102)	-	-	82	-
<b>Net Earned Premium</b>	28	321	<b>6,392,077</b>	<b>5,597,879</b>	<b>3,774,549</b>	<b>3,395,028</b>	<b>14</b>	<b>11</b>
<b>Other Revenue</b>								
Interest and Dividend Income	29	322	1,693,191	1,180,085	1,442,073	987,959	43	46
Net Realised Gains / (Losses)	30	324	33,128	(29,119)	28,789	(22,435)	214	228
Net Fair Value Gains / (Losses)	31	325	9,704	(6,461)	7,653	(7,793)	250	198
Fees and Commission Income	32	326	129,099	128,798	61,494	62,858	0.2	(2)
Other Income	33	326	46,735	25,019	24,958	11,017	87	127
<b>Total Other Revenue</b>			<b>1,911,857</b>	<b>1,298,322</b>	<b>1,564,967</b>	<b>1,031,606</b>	<b>47</b>	<b>52</b>
<b>Net Income</b>			<b>8,303,934</b>	<b>6,896,201</b>	<b>5,339,516</b>	<b>4,426,634</b>	<b>20</b>	<b>21</b>
<b>Net Benefits, Claims and Expenses</b>								
Net Insurance Benefits and Claims Paid	34	327	(2,178,556)	(1,966,759)	(563,628)	(387,829)	11	45
Net Change in Insurance Claims Outstanding	35	329	(114,850)	19,114	(11,923)	(13,848)	(701)	(14)
Change in Contract Liabilities - Life Fund	19	309	(2,166,427)	(1,708,285)	(2,166,427)	(1,708,285)	27	27
Other Operating and Administration Expenses	36	330	(1,839,018)	(1,572,964)	(1,018,770)	(886,845)	17	15
Underwriting and Net Acquisition Costs	37	331	(1,028,872)	(922,881)	(822,715)	(748,051)	11	10
Other Insurance Related Costs			(49,184)	(38,905)	(30,388)	(25,134)	26	21
<b>Total Benefits, Claims and Other Expenses</b>			<b>(7,376,907)</b>	<b>(6,190,680)</b>	<b>(4,613,851)</b>	<b>(3,769,992)</b>	<b>19</b>	<b>22</b>
<b>Profit Before Taxation</b>			<b>927,027</b>	<b>705,521</b>	<b>725,665</b>	<b>656,642</b>	<b>31</b>	<b>11</b>
Income Tax Expenses	38	332	(17,275)	(58,108)	-	(56,512)	(70)	(100)
<b>Profit for the Year</b>			<b>909,752</b>	<b>647,413</b>	<b>725,665</b>	<b>600,130</b>	<b>41</b>	<b>21</b>
<b>Other Comprehensive Income, Net of Related Tax Items that are or may be reclassified to Profit or Loss</b>								
- Net Change in fair value of Available For Sale Financial Assets			489,495	(153,476)	461,179	(147,913)	419	412
- Realised (Gains) / Losses transferred to Income Statement	30	324	(30,485)	14,466	(27,896)	11,614	(311)	(340)
- Net Change in fair value of Available For Sale Financial Assets transferred to Life Policyholders Available For Sale Reserve Fund	18	308	(414,403)	134,781	(414,403)	134,781	(407)	(407)
- Related Tax	38	332	(6,770)	1,825	-	-	(471)	-
<b>Items that will never be reclassified to Profit or Loss</b>								
Actuarial (Losses) / Gains on Defined Benefit Plans	21	314	(12,550)	2,883	(7,998)	153	(535)	(5,327)
<b>Total Other Comprehensive Income for the year, Net of Related Tax</b>			<b>25,287</b>	<b>479</b>	<b>10,882</b>	<b>(1,365)</b>	<b>5,179</b>	<b>897</b>
<b>Total Comprehensive Income for the year</b>			<b>935,039</b>	<b>647,892</b>	<b>736,547</b>	<b>598,765</b>	<b>44</b>	<b>23</b>
<b>Profit attributable to:</b>								
Equity Holders of the Parent			909,752	647,413	-	-	41	-
Non-Controlling Interest			-	-	-	-	-	-
<b>Profit for the Year</b>			<b>909,752</b>	<b>647,413</b>	<b>-</b>	<b>-</b>	<b>41</b>	<b>-</b>
<b>Total Comprehensive Income Attributable to:</b>								
Equity Holders of the Parent			935,039	647,892	-	-	44	-
Non-Controlling Interest			-	-	-	-	-	-
<b>Total Comprehensive Income for the year</b>			<b>935,039</b>	<b>647,892</b>	<b>-</b>	<b>-</b>	<b>44</b>	<b>-</b>
<b>Earnings Per Share</b>								
Basic Earnings Per Share (Rs.)	39	335	18.20	12.95	14.51	12.00	41	21
Dividend Per Share (Rs.)	40	336	-	-	6.00	5.00	-	20

The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements.

# Statement of Changes in Equity - Group

For the year ended 31st December 2017,	Stated Capital	Retained Earnings	Available For Sale Reserve	Other Reserve	Life Policy holders' Available For Sale Reserve Fund	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01st January 2016 (a)	1,171,875	1,174,262	(4,748)	(1,093)	(56,350)	2,283,946
<b>Total Comprehensive Income for the year</b>						
Profit for the Year (b)	-	647,413	-	-	-	647,413
<b>Other Comprehensive Income for the Year, Net of Related Tax</b>						
Net Change in fair value of Available For Sale financial assets	-	-	(137,185)	-	-	(137,185)
Net Change in fair value of Available For Sale financial assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	134,781	-	-	134,781
Actuarial Gains on Defined Benefit Plans	-	-	-	2,883	-	2,883
<b>Total Other Comprehensive Income for the year (c)</b>	-	-	(2,404)	2,883	-	479
<b>Total Comprehensive Income for the year (d = b+c)</b>	-	647,413	(2,404)	2,883	-	647,892
Net Change in fair value of Available For Sale financial assets transferred from Available For Sale Reserve	-	-	-	-	(134,781)	(134,781)
<b>Transactions with owners recorded directly in equity</b>						
<b>Distributions to owners of the Parent</b>						
Dividend Paid to equity holders - for 2015 (Note 40)	-	(100,000)	-	-	-	(100,000)
<b>Total Distributions to owners of the Parent (e)</b>	-	(100,000)	-	-	(134,781)	(234,781)
<b>Balance as at 31st December 2016 (a+d+e)</b>	1,171,875	1,721,675	(7,152)	1,790	(191,131)	2,697,057
<b>Balance as at 01st January 2017 (f)</b>	1,171,875	1,721,675	(7,152)	1,790	(191,131)	2,697,057
<b>Total comprehensive income for the year</b>						
Profit for the Year (g)	-	909,752	-	-	-	909,752
<b>Other Comprehensive Income for the Year, Net of Related Tax</b>						
Net Change in fair value of Available For Sale financial assets	-	-	452,240	-	-	452,240
Net Change in fair value of Available For Sale financial assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(414,403)	-	-	(414,403)
Actuarial Losses on Defined Benefit Plans	-	-	-	(12,550)	-	(12,550)
<b>Total Other Comprehensive Income for the year (h)</b>	-	-	37,837	(12,550)	-	25,287
<b>Total Comprehensive Income for the year (i = g+h)</b>	-	909,752	37,837	(12,550)	-	935,039
Net Change in fair value of Available For Sale financial assets transferred from Available For Sale Reserve Fund	-	-	-	-	414,403	414,403
<b>Transactions with owners recorded directly in equity</b>						
<b>Distributions to owners of the Parent</b>						
Dividend Paid to equity holders - for 2016 (Note 40)	-	(250,000)	-	-	-	(250,000)
<b>Total Distributions to owners of the Parent (j)</b>	-	(250,000)	-	-	414,403	164,403
<b>Balance as at 31st December 2017 (f+i+j)</b>	1,171,875	2,381,427	30,685	(10,760)	223,272	3,796,499

Stated Capital represents 50 Million Ordinary Shares as at 31st December 2017. (2016 - 50 Million Ordinary Shares)

The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements.

# Statement of Changes in Equity - Company

For the year ended 31st December 2017,	Stated Capital	Retained Earnings	Available For Sale Reserve	Other Reserve	Life Policy holders' Available For Sale Reserve Fund	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01st January 2016 (a)	1,171,875	1,397,806	53	(2,039)	(56,350)	2,511,345
<b>Total Comprehensive Income for the year</b>						
Profit for the Year (b)	-	600,130	-	-	-	600,130
<b>Other Comprehensive Income for the Year, Net of Related Tax</b>						
Net Change in fair value of Available For Sale financial assets	-	-	(136,299)	-	-	(136,299)
Net Change in fair value of Available For Sale financial assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	134,781	-	-	134,781
Actuarial Gains on Defined Benefit Plans	-	-	-	153	-	153
<b>Total Other Comprehensive Income for the year (c)</b>	-	-	(1,518)	153	-	(1,365)
<b>Total Comprehensive Income for the year (d = b+c)</b>	-	600,130	(1,518)	153	-	598,765
Net Change in fair value of Available For Sale financial assets transferred from Available For Sale Reserve	-	-	-	-	(134,781)	(134,781)
<b>Transactions with owners recorded directly in equity</b>						
<b>Distributions to owners of the Company</b>						
Dividend Paid to equity holders - for 2015 (Note 40)	-	(100,000)	-	-	-	(100,000)
<b>Total Distributions to owners of the Company (e)</b>	-	(100,000)	-	-	(134,781)	(234,781)
<b>Balance as at 31st December 2016 (a+d+e)</b>	1,171,875	1,897,936	(1,465)	(1,886)	(191,131)	2,875,329
<b>Balance as at 01st January 2017 (f)</b>	1,171,875	1,897,936	(1,465)	(1,886)	(191,131)	2,875,329
<b>Total comprehensive income for the year</b>						
Profit for the Year (g)	-	725,665	-	-	-	725,665
<b>Other Comprehensive Income for the Year, Net of Related Tax</b>						
Net Change in fair value of Available For Sale financial assets	-	-	433,283	-	-	433,283
Net Change in fair value of Available For Sale financial assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(414,403)	-	-	(414,403)
Actuarial Losses on Defined Benefit Plans	-	-	-	(7,998)	-	(7,998)
<b>Total Other Comprehensive Income for the year (h)</b>	-	-	18,880	(7,998)	-	10,882
<b>Total Comprehensive Income for the year (i = g+h)</b>	-	725,665	18,880	(7,998)	-	736,547
Net Change in fair value of Available For Sale financial assets transferred from Available For Sale Reserve	-	-	-	-	414,403	414,403
<b>Transactions with owners recorded directly in equity</b>						
<b>Distributions to owners of the Company</b>						
Dividend Paid to equity holders - for 2016 (Note 40)	-	(250,000)	-	-	-	(250,000)
<b>Total Distributions to owners of the Company (j)</b>	-	(250,000)	-	-	414,403	164,403
<b>Balance as at 31st December 2017 (f+i+j)</b>	1,171,875	2,373,601	17,415	(9,884)	223,272	3,776,279

Stated Capital represents 50 Million Ordinary Shares as at 31st December 2017. (2016 - 50 Million Ordinary Shares)

The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements.

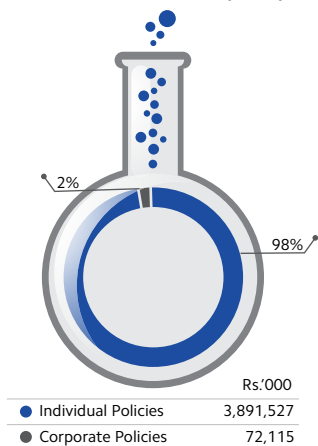
## Statement of Cash Flows

For the Year Ended 31st December,	Note	Page No.	Group		Company	
			2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
<b>Cash Flow From Operating Activities</b>						
Profit Before Taxation			927,027	705,521	725,665	656,642
<b>Adjustments for :</b>						
Interest Income	29	322	(1,684,689)	(1,166,369)	(1,435,151)	(976,943)
Dividend Income	29	322	(8,502)	(13,716)	(6,922)	(11,016)
Amortisation of Intangible Assets	5	286	18,937	20,107	18,937	20,107
Depreciation of Property, Plant and Equipment	4	282	51,770	44,878	36,142	31,708
Provision for Employee Benefits	21	314	30,540	24,142	18,028	13,984
Net Realised (Gains) / Losses	30	324	(33,128)	29,119	(28,789)	22,435
Net Fair Value (Gains) / Losses	31	325	(9,704)	6,461	(7,653)	7,793
(Gains) / Losses on Sale of Property, Plant and Equipment	33/36	326/330	(5,584)	3,763	(5,934)	2,592
			<b>(713,333)</b>	<b>(346,094)</b>	<b>(685,677)</b>	<b>(232,698)</b>
Net Change in Operating Assets	A		(548,793)	(787,055)	(241,501)	(130,454)
Net Change in Operating Liabilities	B		2,796,294	2,447,424	2,262,645	1,806,015
<b>Cash Flows from Operating Activities</b>			<b>1,534,168</b>	<b>1,314,275</b>	<b>1,335,467</b>	<b>1,442,863</b>
Gratuity Paid	21	314	(7,440)	(11,827)	(3,397)	(8,156)
Economic Service Charge (ESC) Paid			(16,919)	(10,250)	-	-
<b>Net Cash Generated From Operating Activities (a)</b>			<b>1,509,809</b>	<b>1,292,198</b>	<b>1,332,070</b>	<b>1,434,707</b>
<b>Cash Flows from Investing Activities</b>						
Net Acquisition of Investment Securities			(2,767,527)	(1,937,075)	(2,425,152)	(1,920,005)
Interest Received			1,443,722	1,079,377	1,231,609	880,938
Dividend Received			9,100	13,625	7,483	10,858
Acquisition of Intangible Assets	5	286	(15,896)	(35,804)	(15,896)	(35,804)
Acquisition of Property, Plant and Equipment	4	282	(64,943)	(75,393)	(46,196)	(53,895)
Proceeds from the Sale of Property, Plant and Equipment			10,498	1,670	9,061	1,551
<b>Net Cash Used in Investing Activities (b)</b>			<b>(1,385,046)</b>	<b>(953,600)</b>	<b>(1,239,091)</b>	<b>(1,116,357)</b>
<b>Cash Flows from Financing Activities</b>						
Dividend Paid	40	336	(250,000)	(100,000)	(250,000)	(100,000)
<b>Net Cash Used in Financing Activities (c)</b>			<b>(250,000)</b>	<b>(100,000)</b>	<b>(250,000)</b>	<b>(100,000)</b>
<b>Net (Decrease) / Increase in Cash and Cash Equivalents (a+b+c)</b>			<b>(125,237)</b>	<b>238,598</b>	<b>(157,021)</b>	<b>218,350</b>
Cash and Cash Equivalents at the beginning of the Year			625,527	386,929	476,572	258,222
<b>Cash and Cash Equivalents at the end of the Year</b>	13	307	<b>500,290</b>	<b>625,527</b>	<b>319,551</b>	<b>476,572</b>
<b>Notes to the Cash Flow Statement</b>						
<b>A. Change in Operating Assets</b>						
Increase in Deferred Expenses			(30,336)	(9,016)	-	-
Increase in Loans to Life Policyholders			(41,844)	(27,949)	(41,844)	(27,949)
Increase in Reinsurance Receivables			(75,052)	(353,372)	(10,196)	(20,545)
Increase in Premium Receivables			(163,025)	(277,378)	(683)	(1,213)
Increase in Other Assets			(238,536)	(119,340)	(188,778)	(80,747)
<b>Net Change in Operating Assets</b>			<b>(548,793)</b>	<b>(787,055)</b>	<b>(241,501)</b>	<b>(130,454)</b>
<b>B. Change in Operating Liabilities</b>						
Increase in Other Liabilities			99,806	175,356	43,388	63,391
Increase in Insurance Contract Liabilities - Life Insurance			2,168,002	1,740,776	2,168,002	1,740,776
Increase in Insurance Contract Liabilities - General Insurance			463,339	375,302	-	-
Increase in Reinsurance Creditors			65,147	155,990	51,255	1,848
<b>Net Change in Operating Liabilities</b>			<b>2,796,294</b>	<b>2,447,424</b>	<b>2,262,645</b>	<b>1,806,015</b>

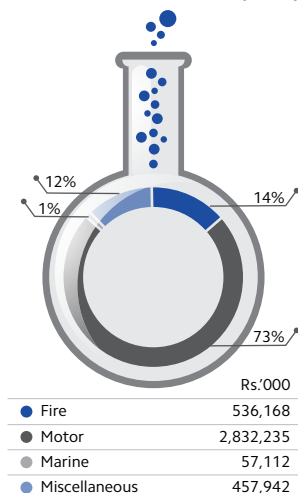
The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements.

# Performance Highlights

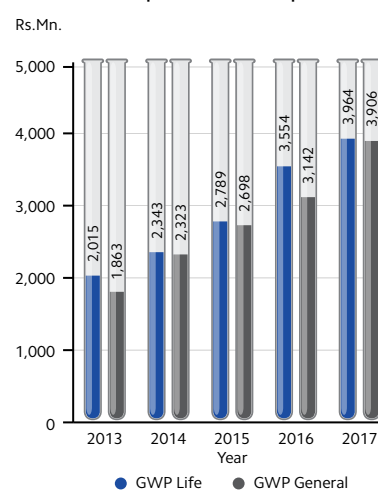
GWP - Life Insurance (2017)



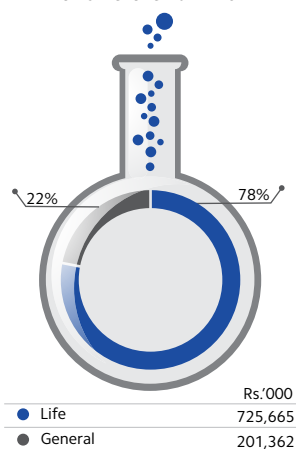
GWP - General Insurance (2017)



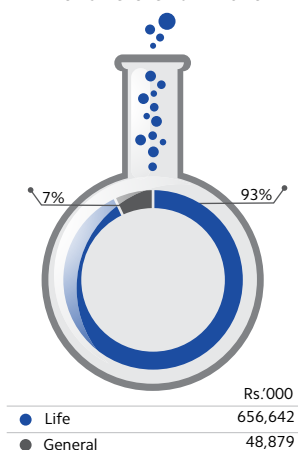
Revenue Composition - Group



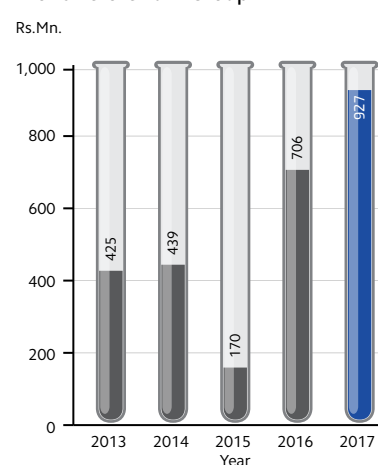
Profit Before Tax - 2017



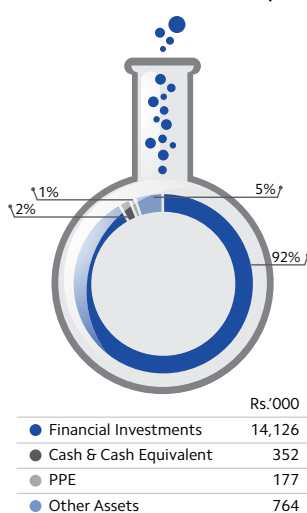
Profit Before Tax - 2016



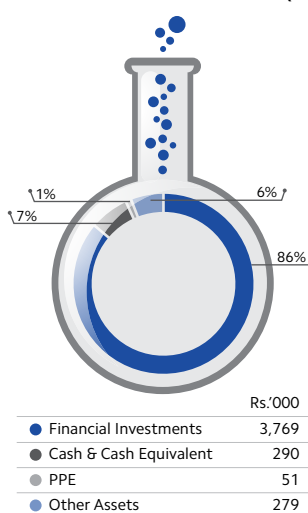
Profit Before Tax - Group



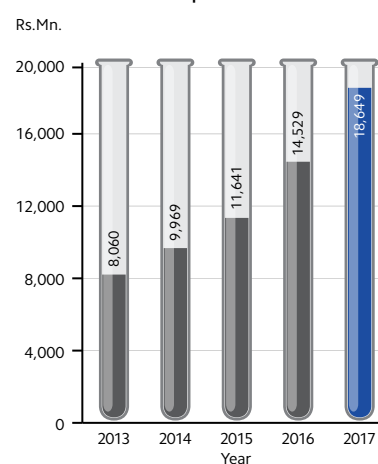
Total Assets - Life Insurance (2017)



Total Assets - General Insurance (2017)



Total Assets - Group



## HNB Assurance PLC

Integrated Annual Report 2017

# Accounting Policies and Notes to the Financial Statements

## 1. CORPORATE INFORMATION

This section gives a description of the reporting entity, the principal business activities of the Company and Group entities and the identification of Financial Statements and its authorisation.

### 1.1 Reporting Entity

HNB Assurance PLC ("the Company") is a Listed Company incorporated on 23rd August 2001 with limited liability and domiciled in Sri Lanka. The registered office of the Company and its subsidiary is situated at No. 479, T B Jayah Mawatha, Colombo 10 and the principal place of business is situated at Iceland Business Centre, No.30, Sri Uttarananda Mawatha, Colombo 03. The Ordinary Shares of the Company are listed on the Colombo Stock Exchange (CSE). The Company is regulated under the Insurance Industry Act, No. 43 of 2000 and amendments thereto.

For further information please refer the 'Inner Back cover' of this Annual Report.

### 1.2 Consolidated Financial Statements

The Consolidated Financial Statements for the year ended and as at 31st December 2017, comprise "the Company" referring to HNB Assurance PLC as the holding Company and "the Group" referring to HNB Assurance PLC and its fully owned subsidiary HNB General Insurance Limited.

### 1.3 Date of authorisation for issue

The Financial Statements for the year ended 31st December 2017, were authorised for issue by the Board of Directors on 09th February 2018.

### 1.4 Principal Activities and Nature of Operations

The principal activities of the Company and its Subsidiary are as follows,

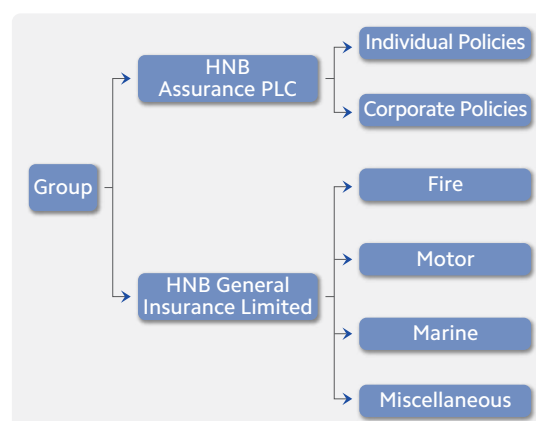
#### The Company

HNB Assurance PLC primarily involves in Life Insurance Business providing Life Insurance solutions for both individual and corporate customers.

Life Insurance is a protection against financial losses that would result from an insured event adversely affecting the insured. In such situations, the nominated beneficiary receives the proceeds and is thereby safeguarded from financial impacts of the insured event. The benefit paid by a life insurer is consideration for premium payments made by the insured.

#### Fully Owned Subsidiary

HNB General Insurance Limited primarily involves in General Insurance business providing General Insurance solutions for both individual and corporate customers. Insurance other than 'Life Insurance' falls under the category of General Insurance. Fire, Motor, Marine and Miscellaneous insurance are the main categories under General Insurance.



### 1.5 Parent Entity and Ultimate Parent Entity

The Group's holding entity is HNB Assurance PLC. In the opinion of the Directors, the Group's ultimate parent undertaking and controlling party is Hatton National Bank PLC which is a Licensed Commercial Bank incorporated in Sri Lanka. The Financial Statements of the parent and subsidiary have a common financial year which ends on December 31st.

### 1.6 Responsibility for Financial Statements

The Board of Directors is responsible for preparation and presentation of these Financial Statements as per the provisions of the Companies Act, No. 7 of 2007, the Sri Lanka Accounting Standards, regulation of Insurance Industry Act, No.43 of 2000 and the listing rules of Colombo Stock Exchange. The responsibility of the Directors in relation to the Financial Statements is set out in detail in the statement of Directors' responsibility report in the Annual Report. (Refer page 249)

### 1.7 Number of Employees

The staff strength of the Group as at 31st December 2017 is 947 (2016 - 903).



## 2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The Consolidated Financial Statements are prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS) and they also provide information as required under the Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, Rules and Regulations of the Insurance Regulatory Commission of Sri Lanka, Listing Rules of the Colombo Stock Exchange (CSE).

The Consolidated Financial Statements include the following components:

- a Statement of Financial Position providing the information on the financial position of the Group and the Company as at the year end (Refer page 258);
- a Statement of Profit or Loss and Other Comprehensive Income providing the information on the financial performance of the Group and the Company for the year under review (Refer page 259);
- a Statement of Changes in Equity-Group depicting all changes in Shareholders' equity (Refer pages 260);
- a Statement of Changes in Equity-Company depicting all changes in Shareholders' equity (Refer pages 261);
- a Statement of Cash Flows providing the information to the users, on the ability of the Group and the Company to generate cash and cash equivalents and the needs of entities to utilise those cash flows (Refer pages 262); and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 264 to 375).

### 2.1.1 Basis of Measurement

The Consolidated Financial Statements have been prepared on an accrual basis and under the historical cost convention except for the following material items in the Financial Statements.

Item	Basis of measurement	Note No.	Page reference
Financial instruments at Fair Value Through Profit or Loss	at fair value	6.4	293
Available For Sale financial assets	at fair value	6.3	293
Defined benefit obligations	Actuarially valued and recognised at present value of the defined benefit obligation	21	314
Policyholders' liabilities	Actuarially determined values based on actuarial guidelines issued by IRCSL	19	309
Incurred But Not Reported / Incurred But Not Enough Reported	Actuarially determined values based on actuarial methodologies	20	312

The Group and the Company presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery of settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in the respective notes. No adjustments have been made for inflationary factors affecting the Consolidated Financial Statements.

### 2.1.2 Supplementary Statements - Statement of Financial Position of the Life Insurance Fund

Supplementary Statement of Financial Position of the Life Insurance Fund together with the notes are disclosed in pages 376 to 381 continuing the past practice which was a requirement of the Statement of Recommended Practice (SoRP) for Insurance Contracts then applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

## Accounting Policies and Notes to the Financial Statements

### 2.1.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees (LKR), which is the functional currency of the Group except as indicated. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

### 2.1.4 Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by Sri Lanka Accounting Standards LKAS 01 on Presentation of Financial Statements.

### 2.1.5 Comparative Information

The Consolidated Financial Statements provide comparative information in respect of the previous financial year. The Presentation and Classification of assets and liabilities in the financial statements of the previous financial year have been amended, where relevant for better presentation and to be comparative with those of the current year. (Note 48 of Page 375)

## 2.2 Basis of Consolidation

The Consolidated Financial Statements comprise the financial statements of the Group and its investees that are considered subsidiaries as at 31st December 2017.

### Subsidiaries

Subsidiaries are investees that the Group has control over. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

The Financial Statements of subsidiaries are prepared for the same reporting period as followed by the parent Company, using consistent accounting policies and same accounting policies were used for preparation.

Profit or Loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the Group, even if this results a deficit balance. When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

### Transactions eliminated on consolidation

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

### Loss of control

Upon the loss of control of a subsidiary, the Group de-recognises the assets (including goodwill), and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the Consolidated Statement of Financial Position. Any surplus or deficit arising on the loss of control is recognised in Profit or Loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or as an Available For Sale financial asset depending on the level of influence retained.

## 2.3 Product Classification

SLFRS 4 requires contracts written by insurers to be classified as either “insurance contracts” or “investment contracts” depending on the level of insurance risk transferred.

### Insurance contracts

Insurance contracts are those contracts under which one party (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

### Investment contracts

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

### Subsequent Classification and reclassification

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

### Product Portfolio of the Group

The Group checks all its new insurance products for compliance with SLFRS 4 at the product modelling stage and ensures that no insurance products are launched if it does not meet the above criterion. As such, all products sold by the Group are insurance contracts and therefore classified as Insurance contracts under the SLFRS 4 – Insurance Contracts. Thus, the Group does not have any investment contracts within its product portfolio as at the reporting date.

## 2.4 Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group companies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in Profit or Loss, except for differences arising on the retranslation of Available For Sale equity instruments, which are recognised in other comprehensive income.

## 2.5 Impairment of Financial Assets

### 2.5.1 Identification and measurement

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence of impairment may include:

- significant financial difficulty of the borrower or issuer,
- default or delinquency by debtor,
- It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation,
- adverse changes in the payment status of issuers or debtors in the Group, and
- In the case of equity a significant or prolonged decline in its fair value below its cost

## Accounting Policies and Notes to the Financial Statements

### 2.5.2 Impairment of financial assets carried at Amortised Cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of investment income in Profit or Loss.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Investment Income' in Profit or Loss.

The Group has not experienced any indication of impairment and thus no impairment losses were recognised during the financial year.

### 2.5.3 Impairment of financial assets carried at Available-For-Sale financial assets

For Available For Sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. If the asset is determined to be impaired, the cumulative loss is recognised in Profit or Loss in the 'Investment Income' and removed from the Available For Sale reserve.

In the case of debt instruments classified as Available For Sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in Profit or Loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Investment Income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in Profit or Loss, the impairment loss is reversed through the Profit or Loss.

#### 2.5.4 Impairment of Non Financial Assets

The carrying amounts of the Group's non-financial assets other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in Profit or Loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### 2.6 Cash Flow Statement

The Cash Flow Statement has been prepared using the Indirect Method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard LKAS 7 - Cash Flow Statements.

Interest and dividend received are classified as investing cash flows. Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

#### 2.7 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group Consolidated Financial Statements in conformity with SLFRSs/LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent Liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material judgment to the carrying amount of assets or liabilities affected in future reporting periods.

Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis and revisions to accounting estimates are recognised prospectively.

Information about critical assumptions, judgments and estimate in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

## Accounting Policies and Notes to the Financial Statements

### 2.7.1 Going Concern

The Directors have made an assessment of the company's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

### 2.7.2 Valuation of Insurance Contract Liabilities – Life Insurance

The liability for Life Insurance contracts with Discretionary Participating Features (DPF) is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used are mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to life style, which could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing Life Insurance Contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on the Company's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

### 2.7.3 Valuation of Insurance Contract Liabilities – General Insurance

The estimates of General Insurance contracts have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported and claims incurred, but not enough reported (IBNR/IBNER) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

### 2.7.4 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values. This judgment may include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of the financial instruments.

### 2.7.5 Valuation of Defined Benefit Obligation - Gratuity

The cost of defined benefit plans - Gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increments and mortality rates.

Due to the complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used by the actuary in the estimates are contained in Note 21.



#### 2.7.6 Deferred Tax Assets and Liabilities

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 38.

#### 2.7.7 Notional Tax Credit

The Company has carried out an assessment on the taxable profits in future and, according to the New Inland Revenue Act, No 24 of 2017 Company will have Taxable Profits, accordingly The Company is eligible to set off Notional Tax paid against the future tax liability. Based on this assessment no impairment provision is recognised as the Company will have adequate tax liability to utilise the Notional Tax Credit.

#### 2.7.8 Assessment of Impairment

The Group assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitate to do so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

#### 2.7.9 Provisions for Liabilities and Contingencies

The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain; and is the amount of possible outflow of

economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

The table below provides the references of this report which discusses the estimates in detail.

Significant Accounting Estimate and Judgment	Disclosure Reference	
	Note No.	Page No.
Insurance contract liabilities – Life Insurance	19	309
Insurance contract liabilities – General Insurance	20	312
Liability Adequacy Test (LAT)		
- Life Insurance	19.4	311
- General Insurance	20.7	314
Fair Value of Financial Instruments	41	337
Valuation of defined benefit obligation – Gratuity	21	314
Deferred tax assets and liabilities	38.5	334
Assessment of Impairment	2.5	267
Deferred Acquisition Cost	12	306

## Accounting Policies and Notes to the Financial Statements

### 3. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT THE REPORTING DATE

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRSs will have an effect on the accounting policies currently adopted by the Group and may have an impact on future Financial Statements which is summarised as below.

#### 3.1 SLFRS 9 - Financial Instruments

In December 2014, the CA Sri Lanka issued the final version of SLFRS 9 Financial Instruments classification and measurement which reflects all phases of the financial instruments project and replaces LKAS 39 - Financial Instruments : Recognition and Measurement. The standard introduces new requirements for

- Classification and measurement,
- Impairment,
- Hedge Accounting

SLFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

#### Temporary exemption from SLFRS 9

SLFRS 9 addresses the accounting for financial instruments and is effective for annual periods beginning on or after 1 January 2018. However, for an insurer that meets the criteria in paragraph 20B of SLFRS 9 provides a temporary exemption that permits, but does not require, the insurer to apply LKAS 39 - Financial Instruments : Recognition and Measurement rather than SLFRS 9 for annual periods beginning before 1 January 2021.

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- it has not previously applied any version of SLFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as at Fair Value Through Profit or Loss in paragraphs 5.7.1(c), 5.7.7-5.7.9, 7.2.14 and B5.7.5-B5.7.20 of SLFRS 9; and
- its activities are predominantly connected with insurance, as described in paragraph 20D, at its annual reporting date that immediately precedes 1 April 2016, or at a subsequent annual reporting date as specified in paragraph 20G of SLFRS 9.

Having considering the above criteria, Since HNB Assurance PLC and HNB GI Limited are predominantly connected with Insurance activities, both the companies may continue to apply LKAS 39 - Financial Instruments: Recognition and Measurement rather than SLFRS 9 for annual periods beginning before 1 January 2021.

#### Summary of the Requirements

- Classification and Measurement

#### Financial Assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 contains three principal classification categories for financial assets measured at:

- Amortised Cost,
- Fair Value Through Other Comprehensive Income (FVTOCI)
- Fair Value Through Profit or Loss

The standard eliminates the existing LKAS 39 categories of Held to Maturity, Loans and Receivables and Available For Sale.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

At 31 December 2017, the Group had equity investments classified as Available For Sale with a fair value of Rs 78.1 that are held for long-term strategic purposes. Under SLFRS 9, the Group will reclassify these investments as measured at FVTPL. Consequently, all fair value gains and losses and gains or losses on disposal will be reported in Profit or Loss.

#### Financial Liabilities

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, under LKAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in Profit or Loss, whereas under SLFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in Profit or Loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so.

#### Impairment

SLFRS 9 replaces the 'Incurred Loss' model in LKAS 39 with a forward-looking 'Expected Credit Loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under SLFRS 9, loss allowances will be measured on either of the following bases:

12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.

An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component;

With the consultation of external consultants the Group is in the process of formulating the relevant models for impairment computation.

### 3.2 SLFRS 15 - Revenue from Contracts with Customers

#### Summary of the Requirements

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including Sri Lanka Accounting Standard LKAS 18 - Revenue, Sri Lanka Accounting Standard LKAS 11 - Construction Contracts and International Financial Reporting Interpretations Committee (IFRIC) 13 - Customer Loyalty Programmes.

This standard is effective for the annual periods beginning on or after 01 January 2018. The Group will adopt these standards when they become effective.

Since SLFRS 4 - Insurance Contracts is scope out from this standard. Therefore, we may not have a significant impact to insurance transactions from this standard. However, there could be an impact to other revenue transaction with the implementation of this standard. The Group is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 15 currently.

### 3.3 SLFRS 16 - Leases

#### Summary of the Requirements

SLFRS 16 replaces existing leases guidance, including LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, Standard Interpretations Committee (SIC)-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply SLFRS 15 at or before the date of initial application of SLFRS 16.

SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard.

The Group is in the process of assessing the potential impact on its Consolidated Financial Statements.

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The accounting policies which effect following items have been disclosed as per the below mentioned table.

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# Segmental Reporting

## Accounting Policy

### Segmental Reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group's primary format for segmental reporting is business segments. The business segments are determined based on the Group's management and internal reporting structure.

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

Reportable Operating Segment	Category of Information	Details
Life Insurance	Nature of products	Protection and other Long Term Insurance contracts both with and without discretionary Participating features.
	Classification of products	It comprises a wide range of term assurance, guaranteed pensions, endowment products and annuity products.
	Revenue derived from	Insurance premium and fees charged from policyholders Commission Income, Investment Income and Fair Value Gains and Losses on Investments.
General Insurance	Nature of products	It comprises General insurance to individuals and businesses which are short term in nature.
	Classification of products	Mainly classified in to Motor and Non motor segment, and Non motor segment consist of Fire, Accident and liability, Marine and Workmen Compensation.
	Revenue derived from	Insurance premium and fees charged from policyholders Commission Income, Investment Income and Fair Value Gains and Losses on Investments.

Activities of the Group are located mainly in Sri Lanka. The economic environment in which the Group operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

## HNB Assurance PLC

Integrated Annual Report 2017

# Statement of Financial Position

## - Segmental Review - 2017

As at 31st December 2017,	Life Insurance	General Insurance	Consolidation Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>				
Property, Plant and Equipment	119,078	50,542	-	169,620
Intangible Assets	57,841	-	-	57,841
Deferred Tax Assets	-	64,098	-	64,098
Financial Investments	12,741,015	2,313,895	-	15,054,910
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders	162,285	-	-	162,285
Reinsurance Receivables	65,010	504,768	-	569,778
Premium Receivables	7,488	778,831	-	786,319
Other Assets	764,256	278,711	(6,121)	1,036,846
Insurance Contract - Deferred Expenses	-	105,287	-	105,287
Cash and Cash Equivalents	352,307	289,643	-	641,950
<b>Total Assets</b>	<b>15,419,280</b>	<b>4,385,775</b>	<b>(1,156,121)</b>	<b>18,648,934</b>
<b>Equity and Liabilities</b>				
<b>Equity Attributable to the Equity Holders of Parent</b>				
Stated Capital	1,171,875	1,150,000	(1,150,000)	1,171,875
Retained Earnings	2,373,601	10,781	(2,955)	2,381,427
Available For Sale Reserve	17,415	10,315	2,955	30,685
Other Reserve	(9,884)	(876)	-	(10,760)
Life Policyholders' Available For Sale Reserve Fund	223,272	-	-	223,272
<b>Equity Attributable to the Equity Holders of Parent</b>	<b>3,776,279</b>	<b>1,170,220</b>	<b>(1,150,000)</b>	<b>3,796,499</b>
Non-Controlling Interest	-	-	-	-
<b>Total Equity</b>	<b>3,776,279</b>	<b>1,170,220</b>	<b>(1,150,000)</b>	<b>3,796,499</b>
<b>Liabilities</b>				
Insurance Contract Liabilities - Life Insurance	10,915,858	-	-	10,915,858
Insurance Contract Liabilities - General Insurance	-	2,384,906	-	2,384,906
Employee Defined Benefit Liabilities	73,875	52,208	-	126,083
Current Tax Liabilities	-	34,598	-	34,598
Reinsurance Creditors	90,650	262,392	-	353,042
Other Liabilities	529,862	372,547	(6,121)	896,288
Bank Overdraft	32,756	108,904	-	141,660
<b>Total Liabilities</b>	<b>11,643,001</b>	<b>3,215,555</b>	<b>(6,121)</b>	<b>14,852,435</b>
<b>Total Equity and Liabilities</b>	<b>15,419,280</b>	<b>4,385,775</b>	<b>(1,156,121)</b>	<b>18,648,934</b>

The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements.



# Statement of Financial Position

## - Segmental Review - 2016

As at 31st December 2016	Life Insurance	General Insurance	Consolidation Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>				
Property, Plant and Equipment	112,151	49,211	-	161,362
Intangible Assets	60,882	-	-	60,882
Deferred Tax Assets	-	52,922	-	52,922
Financial Investments	9,642,596	1,901,979	-	11,544,575
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders*	120,441	-	-	120,441
Reinsurance Receivables	54,814	439,912	-	494,726
Premium Receivables	6,805	616,489	-	623,294
Other Assets	575,676	208,118	(13,120)	770,674
Insurance Contract - Deferred Expenses	-	74,951	-	74,951
Cash and Cash Equivalents	476,572	148,955	-	625,527
<b>Total Assets</b>	<b>12,199,937</b>	<b>3,492,537</b>	<b>(1,163,120)</b>	<b>14,529,354</b>
<b>Equity and Liabilities</b>				
<b>Equity Attributable to the Equity Holders of Parent</b>				
Stated Capital	1,171,875	1,150,000	(1,150,000)	1,171,875
Retained Earnings	1,897,936	(173,306)	(2,955)	1,721,675
Available For Sale Reserve	(1,465)	(8,642)	2,955	(7,152)
Other Reserve	(1,886)	3,676	-	1,790
Life Policyholders' Available For Sale Reserve Fund	(191,131)	-	-	(191,131)
<b>Equity Attributable to the Equity Holders of Parent</b>	<b>2,875,329</b>	<b>971,728</b>	<b>(1,150,000)</b>	<b>2,697,057</b>
Non-Controlling Interest	-	-	-	-
<b>Total Equity</b>	<b>2,875,329</b>	<b>971,728</b>	<b>(1,150,000)</b>	<b>2,697,057</b>
<b>Liabilities</b>				
Insurance Contract Liabilities - Life Insurance	8,747,856	-	-	8,747,856
Insurance Contract Liabilities - General Insurance	-	1,921,567	-	1,921,567
Employee Defined Benefit Liabilities	50,883	39,550	-	90,433
Current Tax Liabilities	-	3,300	-	3,300
Reinsurance Creditors	39,395	248,500	-	287,895
Other Liabilities*	486,474	307,892	(13,120)	781,246
<b>Total Liabilities</b>	<b>9,324,608</b>	<b>2,520,809</b>	<b>(13,120)</b>	<b>11,832,297</b>
<b>Total Equity and Liabilities</b>	<b>12,199,937</b>	<b>3,492,537</b>	<b>(1,163,120)</b>	<b>14,529,354</b>

\*These figures have been reclassified and a detail note has been given in Note 48 in page 375.

The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements.

## HNB Assurance PLC

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# Statement of Profit or Loss

## - Segmental Review - 2017

For the Year Ended 31st December 2017,	Life Insurance	General Insurance	Consolidation Adjustment	Total
	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Gross Written Premium	3,963,642	3,906,503	(48,677)	7,821,468
Premium Ceded to Reinsurers	(189,093)	(911,480)	-	(1,100,573)
<b>Net Written Premium</b>	<b>3,774,549</b>	<b>2,995,023</b>	<b>(48,677)</b>	<b>6,720,895</b>
Net Change in Reserves for Unearned Premium	-	(328,818)	-	(328,818)
<b>Net Earned Premium</b>	<b>3,774,549</b>	<b>2,666,205</b>	<b>(48,677)</b>	<b>6,392,077</b>
<b>Other Revenue</b>				
Interest and Dividend Income	1,442,073	251,118	-	1,693,191
Net Realised Losses	28,789	4,339	-	33,128
Net Fair Value Gains	7,653	2,051	-	9,704
Fees and Commission Income	61,494	80,889	(13,284)	129,099
Other Income	24,958	21,777	-	46,735
<b>Total Other Revenue</b>	<b>1,564,967</b>	<b>360,174</b>	<b>(13,284)</b>	<b>1,911,857</b>
<b>Net Income</b>	<b>5,339,516</b>	<b>3,026,379</b>	<b>(61,961)</b>	<b>8,303,934</b>
<b>Net Benefits, Claims and Expenses</b>				
Net Insurance Benefits and Claims Paid	(563,628)	(1,615,920)	992	(2,178,556)
Net Change in Insurance Claims Outstanding	(11,923)	(102,927)	-	(114,850)
Change in Contract Liabilities - Life Fund	(2,166,427)	-	-	(2,166,427)
Other Operating and Administration Expenses	(1,018,770)	(872,476)	52,228	(1,839,018)
Underwriting and Net Acquisition Costs	(822,715)	(214,898)	8,741	(1,028,872)
Other Insurance Related Costs	(30,388)	(18,796)	-	(49,184)
<b>Total Benefits, Claims and other Expenses</b>	<b>(4,613,851)</b>	<b>(2,825,017)</b>	<b>61,961</b>	<b>(7,376,907)</b>
<b>Profit Before Taxation</b>	<b>725,665</b>	<b>201,362</b>	<b>-</b>	<b>927,027</b>
Income Tax Expenses	-	(17,275)	-	(17,275)
<b>Profit for the Year</b>	<b>725,665</b>	<b>184,087</b>	<b>-</b>	<b>909,752</b>

The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements.

# Statement of Profit or Loss

## - Segmental Review - 2016

For the Year Ended 31st December 2016,	Life Insurance	General Insurance	Consolidation Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	3,554,078	3,141,559	(38,943)	6,656,694
Premium Ceded to Reinsurers	(159,050)	(718,663)	-	(877,713)
<b>Net Written Premium</b>	<b>3,395,028</b>	<b>2,422,896</b>	<b>(38,943)</b>	<b>5,778,981</b>
Net Change in Reserves for Unearned Premium	-	(181,102)	-	(181,102)
<b>Net Earned Premium</b>	<b>3,395,028</b>	<b>2,241,794</b>	<b>(38,943)</b>	<b>5,597,879</b>
<b>Other Revenue</b>				
Interest and Dividend Income	987,959	192,126	-	1,180,085
Net Realised Losses	(22,435)	(6,684)	-	(29,119)
Net Fair Value (Losses) / Gains	(7,793)	1,332	-	(6,461)
Fees and Commission Income	62,858	73,029	(7,089)	128,798
Other Income	11,017	14,002	-	25,019
<b>Total Other Revenue</b>	<b>1,031,606</b>	<b>273,805</b>	<b>(7,089)</b>	<b>1,298,322</b>
<b>Net Income</b>	<b>4,426,634</b>	<b>2,515,599</b>	<b>(46,032)</b>	<b>6,896,201</b>
<b>Net Benefits, Claims and Expenses</b>				
Net Insurance Benefits and Claims Paid	(387,829)	(1,579,563)	633	(1,966,759)
Net Change in Insurance Claims Outstanding	(13,848)	32,962	-	19,114
Change in Contract Liabilities - Life Fund	(1,708,285)	-	-	(1,708,285)
Other Operating and Administration Expenses	(886,845)	(728,501)	42,382	(1,572,964)
Underwriting and Net Acquisition Costs	(748,051)	(177,847)	3,017	(922,881)
Other Insurance Related Costs	(25,134)	(13,771)	-	(38,905)
<b>Total Benefits, Claims and Other Expenses</b>	<b>(3,769,992)</b>	<b>(2,466,720)</b>	<b>46,032</b>	<b>(6,190,680)</b>
<b>Profit Before Taxation</b>	<b>656,642</b>	<b>48,879</b>	<b>-</b>	<b>705,521</b>
Income Tax Expenses	(56,512)	(1,596)	-	(58,108)
<b>Profit for the Year</b>	<b>600,130</b>	<b>47,283</b>	<b>-</b>	<b>647,413</b>

The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements.

## HNB Assurance PLC

Integrated Annual Report 2017

# Statement of Cash Flows

## - Segmental Review - 2017

For the Year Ended 31st December 2017,		Life Insurance	General Insurance	Consolidation Adjustment	Total
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cash Flow From Operating Activities</b>					
Profit Before Taxation		725,665	201,362	-	927,027
<b>Adjustments for:</b>					
Interest Income		(1,435,151)	(249,538)	-	(1,684,689)
Dividend Income		(6,922)	(1,580)	-	(8,502)
Amortisation of Intangible Assets		18,937	-	-	18,937
Depreciation of Property, Plant and Equipment		36,142	15,628	-	51,770
Provision for Employee Benefits		18,028	12,512	-	30,540
Net Realised Gains		(28,789)	(4,339)	-	(33,128)
Net Fair Value Gains		(7,653)	(2,051)	-	(9,704)
(Gains) / Losses on Sale of Property, Plant and Equipment		(5,934)	350	-	(5,584)
		<b>(685,677)</b>	<b>(27,656)</b>	<b>-</b>	<b>(713,333)</b>
Net Change in Operating Assets	A	(241,501)	(313,413)	6,121	(548,793)
Net Change in Operating Liabilities	B	2,262,645	539,770	(6,121)	2,796,294
<b>Cash Flows from Operating Activities</b>		<b>1,335,467</b>	<b>198,701</b>	<b>-</b>	<b>1,534,168</b>
Gratuity Paid		(3,397)	(4,043)	-	(7,440)
Economic Service Charges (ESC) Paid		-	(16,919)	-	(16,919)
<b>Net Cash Generated From Operating Activities (a)</b>		<b>1,332,070</b>	<b>177,739</b>	<b>-</b>	<b>1,509,809</b>
<b>Cash Flows from Investing Activities</b>					
Net Acquisition of Investment Securities		(2,425,152)	(342,375)	-	(2,767,527)
Interest Received		1,231,609	212,113	-	1,443,722
Dividend Received		7,483	1,617	-	9,100
Acquisition of Intangible Assets		(15,896)	-	-	(15,896)
Acquisition of Property, Plant and Equipment		(46,196)	(18,747)	-	(64,943)
Proceeds from the Sale of Property, Plant and Equipment		9,061	1,437	-	10,498
<b>Net Cash Used in Investing Activities (b)</b>		<b>(1,239,091)</b>	<b>(145,955)</b>	<b>-</b>	<b>(1,385,046)</b>
<b>Cash Flows from Financing Activities</b>					
Dividend Paid		(250,000)	-	-	(250,000)
<b>Net Cash Used in Financing Activities (c)</b>		<b>(250,000)</b>	<b>-</b>	<b>-</b>	<b>(250,000)</b>
<b>Net (Decrease) / Increase in Cash and Cash Equivalents (a+b+c)</b>		<b>(157,021)</b>	<b>31,784</b>	<b>-</b>	<b>(125,237)</b>
Cash and Cash Equivalents at the beginning of the Year		476,572	148,955		625,527
<b>Cash and Cash Equivalents at the end of the Year</b>	13	<b>319,551</b>	<b>180,739</b>	<b>-</b>	<b>500,290</b>
<b>Notes to the Cash Flow Statement</b>					
<b>A. Change in Operating Assets</b>					
Increase in Deferred Expenses		-	(30,336)	-	(30,336)
Increase in Loans to Life Policyholders		(41,844)	-	-	(41,844)
Increase in Reinsurance Receivables		(10,196)	(64,856)	-	(75,052)
Increase in Premium Receivables		(683)	(162,342)	-	(163,025)
Increase in Other Assets		(188,778)	(55,879)	6,121	(238,536)
<b>Net Change in Operating Assets</b>		<b>(241,501)</b>	<b>(313,413)</b>	<b>6,121</b>	<b>(548,793)</b>
<b>B. Change in Operating Liabilities</b>					
Increase in Other Liabilities		43,388	62,539	(6,121)	99,806
Increase in Insurance Contract Liabilities - Life Insurance		2,168,002	-	-	2,168,002
Increase in Insurance Contract Liabilities - General Insurance		-	463,339	-	463,339
Increase in Reinsurance Creditors		51,255	13,892	-	65,147
<b>Net Change in Operating Liabilities</b>		<b>2,262,645</b>	<b>539,770</b>	<b>(6,121)</b>	<b>2,796,294</b>

The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements.

# Statement of Cash Flows

## - Segmental Review - 2016

For the Year Ended 31st December 2016,		Life Insurance	General Insurance	Consolidation Adjustment	Total
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cash Flow From Operating Activities</b>					
Profit Before Taxation		656,642	48,879	-	705,521
<b>Adjustments for:</b>					
Interest Income		(976,943)	(189,426)	-	(1,166,369)
Dividend Income		(11,016)	(2,700)	-	(13,716)
Amortisation of Intangible Assets		20,107	-	-	20,107
Depreciation of Property, Plant and Equipment		31,708	13,170	-	44,878
Provision for Employee Benefits		13,984	10,158	-	24,142
Net Realised Losses		22,435	6,684	-	29,119
Net Fair Value Losses / (Gains)		7,793	(1,332)	-	6,461
Loss on Sale of Property, Plant and Equipment		2,592	1,171	-	3,763
		<b>(232,698)</b>	<b>(113,396)</b>	<b>-</b>	<b>(346,094)</b>
Net Change in Operating Assets	A	(130,454)	(669,721)	13,120	(787,055)
Net Change in Operating Liabilities	B	1,806,015	654,529	(13,120)	2,447,424
<b>Cash Flows from Operating Activities</b>		<b>1,442,863</b>	<b>(128,588)</b>	<b>-</b>	<b>1,314,275</b>
Gratuity Paid		(8,156)	(3,671)	-	(11,827)
Income Tax Paid		-	(10,250)	-	(10,250)
<b>Net Cash Generated From/(Used in) Operating Activities (a)</b>		<b>1,434,707</b>	<b>(142,509)</b>	<b>-</b>	<b>1,292,198</b>
<b>Cash Flows from Investing Activities</b>					
Net Acquisition of Investment Securities		(1,920,005)	(17,070)	-	(1,937,075)
Interest Received		880,938	198,439	-	1,079,377
Dividend Received		10,858	2,767	-	13,625
Acquisition of Intangible Assets		(35,804)	-	-	(35,804)
Acquisition of Property, Plant and Equipment		(53,895)	(21,498)	-	(75,393)
Proceeds from the Sale of Property, Plant and Equipment		1,551	119	-	1,670
<b>Net Cash (Used in)/Generated From Investing Activities (b)</b>		<b>(1,116,357)</b>	<b>162,757</b>	<b>-</b>	<b>(953,600)</b>
<b>Cash Flows from Financing Activities</b>					
Dividend Paid		(100,000)	-	-	(100,000)
<b>Net Cash Used in Financing Activities (c)</b>		<b>(100,000)</b>	<b>-</b>	<b>-</b>	<b>(100,000)</b>
<b>Net Increase in Cash and Cash Equivalents (a+b+c)</b>		<b>218,350</b>	<b>20,248</b>	<b>-</b>	<b>238,598</b>
Cash and Cash Equivalents at the beginning of the Year		258,222	128,707	-	386,929
<b>Cash and Cash Equivalents at the end of the Year</b>	<b>13</b>	<b>476,572</b>	<b>148,955</b>	<b>-</b>	<b>625,527</b>
<b>Notes to the Cash Flow Statement</b>					
<b>A. Change in Operating Assets</b>					
Increase in Deferred Expenses		-	(9,016)	-	(9,016)
Increase in Loans to Life Policyholders		(27,949)	-	-	(27,949)
Increase in Reinsurance Receivables		(20,545)	(332,827)	-	(353,372)
Decrease in Premium Receivables		(1,213)	(276,165)	-	(277,378)
Decrease in Other Assets		(80,747)	(51,713)	13,120	(119,340)
<b>Net Change in Operating Assets</b>		<b>(130,454)</b>	<b>(669,721)</b>	<b>13,120</b>	<b>(787,055)</b>
<b>B. Change in Operating Liabilities</b>					
Increase Other Liabilities		63,391	125,085	(13,120)	175,356
Increase in Insurance Contract Liabilities - Life Insurance		1,740,776	-	-	1,740,776
Increase in Insurance Contract Liabilities - General Insurance		-	375,302	-	375,302
Increase in Reinsurance Creditors		1,848	154,142	-	155,990
<b>Net Change in Operating Liabilities</b>		<b>1,806,015</b>	<b>654,529</b>	<b>(13,120)</b>	<b>2,447,424</b>

The Notes to the Financial Statements as set out on pages 264 to 375 form an integral part of these Financial Statements.

## Accounting Policies and Notes to the Financial Statements

### 4. PROPERTY, PLANT AND EQUIPMENT (PPE)

#### Accounting Policy

Property, Plant and Equipment are tangible items that are held for servicing or for administrative purposes and are expected to be used for more than one year.

##### Basis of Recognition

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

##### Basis of Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes,

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- the costs of dismantling and removing the items and restoring at the site on which they are located;
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

##### Cost Model

The Group applies the cost model to Property, Plant and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

##### Subsequent Costs

The cost of replacing a component of an item of Property, Plant or 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 Group and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. The costs of the day-to-day servicing of Property, Plant or Equipment are recognised in Profit or Loss as incurred.

##### Repairs and Maintenance

Repairs and maintenance are charged to Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.



## 4. PROPERTY, PLANT AND EQUIPMENT (PPE) (Contd.)

## Accounting Policy

### Depreciation

The Group provides depreciation from the date of the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

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

Computer Equipment	6 years
Motor Vehicles	4 years
Office Equipment	5 years
Furniture and Fittings	10 years
Lease hold Improvements (Fixtures)	Based on Lease Agreement period or useful life of asset whichever is lower

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

### De-recognition

The carrying amount of an item of Property, Plant and Equipment is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from the de-recognition of an item of Plant and Equipment is included in Profit or Loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is de-recognised.

### Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in Property, Plant and Equipment, awaiting for capitalisation.

### Leased Assets - Lessee

The determination of whether an arrangement is a lease or contains a lease is based on the substance of the arrangement at the inception date.

### Finance Leases

Finance leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance cost in the Income Statement. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

### Operating Leases

Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in Profit or Loss on a straight line basis over the lease term.

## Accounting Policies and Notes to the Financial Statements

### 4. PROPERTY, PLANT AND EQUIPMENT (PPE) (Contd.)

	Group					
	Computer Equipment	Motor Vehicles	Office Equipment	Furniture and Fittings	Fixtures	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cost</b>						
Balance as at 01st January 2016	174,979	21,388	60,694	53,527	85,109	395,697
Additions during the year	34,993	-	3,896	8,855	27,649	75,393
Disposals during the year	(78)	-	(3,891)	(1,347)	(18,629)	(23,945)
<b>Balance as at 31st December 2016 (a)</b>	<b>209,894</b>	<b>21,388</b>	<b>60,699</b>	<b>61,035</b>	<b>94,129</b>	<b>447,145</b>
Balance as at 01st January 2017	209,894	21,388	60,699	61,035	94,129	447,145
Additions during the year	33,690	-	13,155	4,499	13,599	64,943
Disposals during the year	(26,208)	(9,987)	(9,008)	(3,244)	(9,655)	(58,102)
<b>Balance as at 31st December 2017 (b)</b>	<b>217,376</b>	<b>11,401</b>	<b>64,846</b>	<b>62,290</b>	<b>98,073</b>	<b>453,986</b>
<b>Accumulated Depreciation</b>						
Balance as at 01st January 2016	121,983	15,087	47,014	27,859	47,475	259,418
Depreciation for the year	19,673	4,013	4,872	4,844	11,476	44,878
Depreciation on Disposals	(41)	-	(2,456)	(1,061)	(14,955)	(18,513)
<b>Balance as at 31st December 2016 (c)</b>	<b>141,615</b>	<b>19,100</b>	<b>49,430</b>	<b>31,642</b>	<b>43,996</b>	<b>285,783</b>
Balance as at 01st January 2017	141,615	19,100	49,430	31,642	43,996	285,783
Depreciation for the year	25,195	2,101	5,612	5,072	13,790	51,770
Depreciation on disposals	(25,659)	(9,800)	(8,130)	(2,318)	(7,280)	(53,187)
<b>Balance as at 31st December 2017 (d)</b>	<b>141,151</b>	<b>11,401</b>	<b>46,912</b>	<b>34,396</b>	<b>50,506</b>	<b>284,366</b>
Carrying Value as at 31st December 2016 (a-c)	68,279	2,288	11,269	29,393	50,133	161,362
<b>Carrying Value as at 31st December 2017 (b-d)</b>	<b>76,225</b>	<b>-</b>	<b>17,934</b>	<b>27,894</b>	<b>47,567</b>	<b>169,620</b>

#### 4.1.a Acquisition of PPE during the year

During the financial year, the Group acquired PPE to the aggregate value of Rs. 64.9 Million (2016 - Rs. 75.4 Million). Cash payments amounting to Rs. 64.9 Million (2016 - Rs. 75.4 Million) were made by the Group during the year to purchase of PPE.

## 4. PROPERTY, PLANT AND EQUIPMENT (PPE) (Contd.)

	Company					
	Computer Equipment	Motor Vehicles	Office Equipment	Furniture and Fittings	Fixtures	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cost</b>						
Balance as at 01st January 2016	141,796	15,304	45,681	32,024	61,497	296,302
Additions during the year	23,636	-	3,343	5,718	21,198	53,895
Disposals during the year	-	-	(3,594)	(868)	(10,846)	(15,308)
<b>Balance as at 31st December 2016 (a)</b>	<b>165,432</b>	<b>15,304</b>	<b>45,430</b>	<b>36,874</b>	<b>71,849</b>	<b>334,889</b>
Balance as at 01st January 2017	165,432	15,304	45,430	36,874	71,849	334,889
Additions during the year	21,092	-	12,469	3,169	9,466	46,196
Disposals during the year	(22,459)	(9,987)	(7,059)	(1,863)	(8,099)	(49,467)
<b>Balance as at 31st December 2017 (b)</b>	<b>164,065</b>	<b>5,317</b>	<b>50,840</b>	<b>38,180</b>	<b>73,216</b>	<b>331,618</b>
<b>Accumulated Depreciation</b>						
Balance as at 01st January 2016	101,656	11,150	36,744	17,723	34,922	202,195
Depreciation for the year	15,035	2,497	3,433	2,877	7,866	31,708
Depreciation on Disposals	-	-	(2,293)	(706)	(8,166)	(11,165)
<b>Balance as at 31st December 2016 (c)</b>	<b>116,691</b>	<b>13,647</b>	<b>37,884</b>	<b>19,894</b>	<b>34,622</b>	<b>222,738</b>
Balance as at 01st January 2017	116,691	13,647	37,884	19,894	34,622	222,738
Depreciation for the year	17,712	1,470	4,278	3,029	9,653	36,142
Depreciation on disposals	(22,134)	(9,800)	(6,673)	(1,388)	(6,345)	(46,340)
<b>Balance as at 31st December 2017 (d)</b>	<b>112,269</b>	<b>5,317</b>	<b>35,489</b>	<b>21,535</b>	<b>37,930</b>	<b>212,540</b>
Carrying Value as at 31st December 2016 (a-c)	48,741	1,657	7,546	16,980	37,227	112,151
<b>Carrying Value as at 31st December 2017 (b-d)</b>	<b>51,796</b>	<b>-</b>	<b>15,351</b>	<b>16,645</b>	<b>35,286</b>	<b>119,078</b>

## 4.1.b Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs. 46.2 Million (2016 - Rs. 53.9 Million). Cash payments amounting to Rs. 46.2 Million (2016 - Rs.53.9 Million) were made by Company during the year to purchase of PPE.

## 4.2 Fully depreciated PPE in use

PPE includes fully depreciated assets which are in the use of normal business activities. The initial cost of fully depreciated PPE which are still in use as at reporting date, is as follows :

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Computer Equipment	83,546	90,619	69,308	76,959
Office Equipment	35,452	35,980	27,670	27,812
Fixtures	23,592	19,307	21,432	17,049
Furniture and Fittings	12,299	8,870	8,124	5,656
Motor Vehicles	11,401	5,317	5,317	5,317
<b>Total</b>	<b>166,290</b>	<b>160,093</b>	<b>131,851</b>	<b>132,793</b>

## Accounting Policies and Notes to the Financial Statements

### 4. PROPERTY, PLANT AND EQUIPMENT (PPE) (Contd.)

#### 4.3 PPE Pledged as Security for Liabilities

There were no items of PPE in the Group and Company, pledged as securities for liabilities during the year. (2016 - Nil)

#### 4.4 Title restriction on PPE

There are no restrictions that existed on the title of the PPE of the Group and Company as at the reporting date.

#### 4.5 Assessment of Impairment

The Board of Directors has assessed the potential impairment indicators of PPE as at 31st December 2017. Based on the assessment, no impairment indicators were identified.

#### 4.6 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of PPE during the year. (2016 - Nil)

#### 4.7 Temporarily idle Property, Plant and Equipment

There were no temporarily idle property as at the year ended 31st December 2017. (2016 - Nil)

### 5. INTANGIBLE ASSETS

#### Accounting Policy

##### Software

##### Basis of Recognition

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

##### Subsequent Expenditure

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

##### Amortisation

Amortisation is recognised in Profit or Loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is six years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

## 5. INTANGIBLE ASSETS (Contd.)

## Accounting Policy

## De-recognition

An Intangible Asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de-recognition of such Intangible Assets is included in Profit or Loss when the item is de-recognised.

## Research and Development Cost

Expenditure on research activities is recognised in Profit or Loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in Profit or Loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

As at 31st December,	Group and Company	
	2017	2016
	Rs.'000	Rs.'000
<b>Computer Software</b>		
<b>Cost</b>		
Balance as at 01st January	199,926	164,122
Acquisition / Capitalised during the year	15,896	35,804
<b>Balance as at 31st December (a)</b>	<b>215,822</b>	<b>199,926</b>
<b>Accumulated Amortisation and Impairment Losses</b>		
Balance as at 01st January	139,044	118,937
Amortisation for the year	18,937	20,107
<b>Balance as at 31st December (b)</b>	<b>157,981</b>	<b>139,044</b>
<b>Carrying amount as at 31st December (a-b)</b>	<b>57,841</b>	<b>60,882</b>

## 5.1 Acquisition of Intangible Assets during the year

During the financial year, the Group/Company acquired/capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 15.9 Million (2016 - Rs. 35.8 Million). Cash payments amounting to Rs. 15.9 Million (2016 - Rs. 35.8 Million) were made during the year for purchase of Intangible Assets. (Computer Software)

## 5.2 Fully amortised Intangible Assets in use

Intangible Assets includes fully amortised Computer software which are in the use of normal business activities having a gross carrying amounts of Rs. 105.3 Million. (2016 - Rs. 93.7 Million)

## Accounting Policies and Notes to the Financial Statements

### 5. INTANGIBLE ASSETS (Contd.)

#### 5.3 Title restriction on Intangible Assets

There were no restrictions that existed on the title of the Intangible Assets of the Company as at the reporting date.

#### 5.4 Assessment of impairment of Intangible Assets

The Board of Directors has assessed potential impairment indicators of Intangible Assets as at 31st December 2017. Based on the assessment, no impairment indicators were identified.

#### 5.5 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of Intangible Assets during the year. (2016 - Nil)

### 6. FINANCIAL INVESTMENTS

#### Accounting Policy

##### Financial Instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### Non-derivative Financial Assets

##### Initial Recognition and Measurement

The Group initially recognises Loans and Receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group determines the classification of its financial assets at initial recognition and will be classified in one of the following categories:

1. Held to Maturity investments (HTM);
2. Loans and Receivables (L&R);
3. Available For Sale (AFS);
4. Fair Value Through Profit or Loss (FVTPL).

A financial asset is measured initially at fair value plus transaction costs, except in the case of financial assets recorded at Fair Value Through Profit or Loss. Transaction cost in relation to financial assets of Fair Value Through Profit or Loss is recognised in Profit or Loss.

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the Group's ability. Financial assets are classified as Fair Value Through Profit or Loss where the Group investment strategy is to manage financial investments on a fair value basis. The Available For Sale and Held to Maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortised cost.



## 6. FINANCIAL INVESTMENTS (Contd.)

## Accounting Policy

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place are recognised on the settlement date, i.e., the date that the Group receives/settles money for the sale / purchase of the financial asset. However, when it comes to investment in quoted equities and corporate debt, the transaction date (i.e. trade date) is used to recognise / de-recognise the asset.

Existing types of financial assets of the Group and their classification criteria are shown in the table below.

Category	Classification criteria	Financial Asset
Held to Maturity	Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as Held to Maturity when the Group has the intention and ability to hold until maturity.	Treasury Bonds
Loans and Receivables	Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as Loans and Receivables.	REPO, Overnight REPO, Term Deposits, *Corporate Debt, Loans to Life Policyholders, Staff and Advisor Loans, Reinsurance Receivable, Premium Receivable, Other receivables, Cash and Cash Equivalents
Available For Sale	Equity investments classified as Available For Sale are those that are neither classified as held for trading nor designated at Fair Value Through Profit or Loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.	Treasury Bonds, Treasury Bills, Listed Equity Shares
Fair Value Through Profit or Loss	Financial assets at Fair Value Through Profit or Loss include financial assets held for trading and those designated upon initial recognition at Fair Value Through Profit or Loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.  For investments designated as Fair Value Through Profit or Loss, the following criteria must be met : <ul style="list-style-type: none"> <li>The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring assets or liabilities or recognising gains or losses on a different basis, Or</li> <li>The assets and liabilities are part of a Group financial assets, financial liabilities or both, which are managed and their performance is evaluated on a fair value basis, in accordance with the Group investment strategy.</li> </ul>	Listed Equity Shares, Unit Trusts

\*Corporate Debt - The Group classifies quoted Corporate Debt under this category since there is no active market for these instruments even if such instruments are listed.

## Accounting Policies and Notes to the Financial Statements

### 6. FINANCIAL INVESTMENTS (Contd.)

#### Accounting Policy

##### Subsequent Measurement

##### Held to Maturity financial assets (HTM)

Subsequent to initial measurement, Held to Maturity financial assets are measured at amortised cost, using the Effective Interest Rate (EIR), less impairment. The EIR amortisation is included in 'Investment Income' in Profit or Loss. Gains and losses are recognised in Profit or Loss when the investments are de-recognised or impaired, as well as through the amortisation process.

##### Loans and Receivables (L&R)

Subsequent to initial measurement, Loans and Receivables are measured at amortised cost, using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Investment Income' in Profit or Loss.

Gains and losses are recognised in Profit or Loss when the investments are de-recognised or impaired, as well as through the amortisation process.

##### Available For Sale financial assets (AFS)

Subsequent to initial measurement, Available For Sale financial assets are measured at fair value, with unrealised gains or losses recognised in Other Comprehensive Income (OCI) in the Available For Sale reserve.

Interest earned whilst holding Available For Sale investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding Available For Sale investments are recognised in Profit or Loss as 'Dividend Income' when the right of the payment has been established. When the asset is de-recognised, the cumulative gain or loss is recognised in the Investment Income.

The Group evaluates its Available For Sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Group is unable to trade these financial assets due to inactive markets and management's intention significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to Loans and Receivables is permitted when the financial asset meets the definition of Loans and Receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to Held to Maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

When a financial asset is reclassified out of the Available For Sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to Profit or Loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is reclassified to Profit or Loss.

## 6. FINANCIAL INVESTMENTS (Contd.)

## Accounting Policy

**Financial assets at Fair Value Through Profit or Loss (FVTPL)**

Subsequent to initial recognition, these investments are re-measured at fair value. Changes in fair value are recorded in 'Fair value gains and losses' in Profit or Loss.

Interest is accrued and presented in 'Investment Income' or 'Finance cost', respectively, using the EIR. Dividend income is recorded in the 'Investment Income' when the right to the payment has been established.

The Group evaluates its financial assets at Fair Value Through Profit and Loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to Loans and Receivables, Available For Sale or Held to Maturity depends on the nature of the asset.

**De-recognition of Financial Instruments****Financial Assets**

The Group de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire or, when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or, in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in Profit or Loss.

**Offsetting**

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when it is permitted under SLFRs/LKASs or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

**Amortised Cost Measurement**

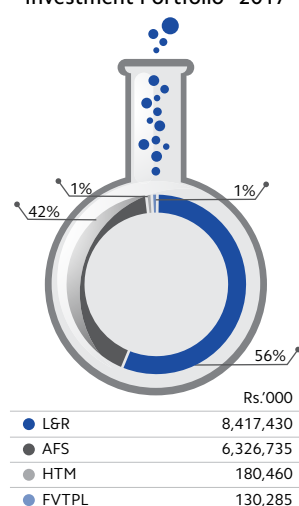
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

## Accounting Policies and Notes to the Financial Statements

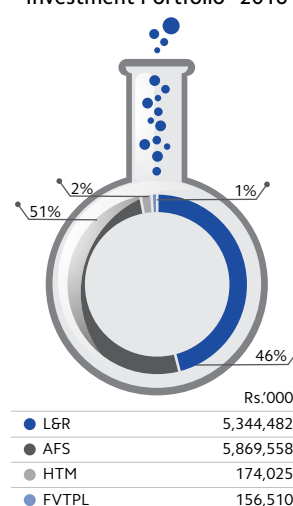
### 6. FINANCIAL INVESTMENTS (Contd.)

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Held to Maturity	(Note 6.1)	180,460	174,025	180,460	174,025
Loans and Receivable	(Note 6.2)	8,417,430	5,344,482	6,789,740	4,253,239
Available For Sale	(Note 6.3)	6,326,735	5,869,558	5,659,291	5,095,600
Fair Value Through Profit or Loss	(Note 6.4)	130,285	156,510	111,524	119,732
<b>Total Financial Investments</b>		<b>15,054,910</b>	<b>11,544,575</b>	<b>12,741,015</b>	<b>9,642,596</b>

Investment Portfolio - 2017



Investment Portfolio - 2016



The following table consists of the fair values of the financial investments together with their carrying values.

Fair Value Through Profit or Loss investments and Available For Sale investments have been valued at fair value. Held to Maturity investments and Loans and Receivable investments are valued at amortised cost.

As at 31st December,		Group				Company			
		2017		2016		2017		2016	
		Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Held to Maturity		180,460	181,166	174,025	177,193	180,460	181,166	174,025	177,193
Loans and Receivable		8,417,430	8,324,815	5,344,482	5,008,761	6,789,740	6,723,881	4,253,239	3,982,721
Available For Sale		6,326,735	6,326,735	5,869,558	5,869,558	5,659,291	5,659,291	5,095,600	5,095,600
Fair Value Through Profit or Loss		130,285	130,285	156,510	156,510	111,524	111,524	119,732	119,732
<b>Total Financial Investments</b>		<b>15,054,910</b>	<b>14,963,001</b>	<b>11,544,575</b>	<b>11,212,022</b>	<b>12,741,015</b>	<b>12,675,862</b>	<b>9,642,596</b>	<b>9,375,246</b>

## 6. FINANCIAL INVESTMENTS (Contd.)

As at 31st December,	Group				Company			
	2017		2016		2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>6.1 Held to Maturity</b>								
- Treasury Bonds	180,460	181,166	174,025	177,193	180,460	181,166	174,025	177,193
<b>Total</b>	<b>180,460</b>	<b>181,166</b>	<b>174,025</b>	<b>177,193</b>	<b>180,460</b>	<b>181,166</b>	<b>174,025</b>	<b>177,193</b>
<b>6.2 Loans and Receivable</b>								
- Repo*	614,999	614,999	439,554	439,554	462,146	462,146	439,554	439,554
- Overnight Repo*	157,003	157,003	240,688	240,688	78,650	78,650	128,811	128,811
- Term Deposit (Note 6.5)	4,862,962	4,902,634	1,597,762	1,574,241	3,908,737	3,946,844	1,158,787	1,138,582
- Debentures (Note 6.6)	2,782,466	2,650,179	3,066,478	2,754,278	2,340,207	2,236,241	2,526,087	2,275,774
<b>Total</b>	<b>8,417,430</b>	<b>8,324,815</b>	<b>5,344,482</b>	<b>5,008,761</b>	<b>6,789,740</b>	<b>6,723,881</b>	<b>4,253,239</b>	<b>3,982,721</b>
<b>6.3 Available For Sale</b>								
- Treasury Bonds	6,031,354	6,031,354	4,424,246	4,424,246	5,590,047	5,590,047	4,135,569	4,135,569
- Treasury Bills	217,307	217,307	1,302,371	1,302,371	-	-	839,293	839,293
- Equity Shares (Note 6.7)	78,074	78,074	142,941	142,941	69,244	69,244	120,738	120,738
<b>Total</b>	<b>6,326,735</b>	<b>6,326,735</b>	<b>5,869,558</b>	<b>5,869,558</b>	<b>5,659,291</b>	<b>5,659,291</b>	<b>5,095,600</b>	<b>5,095,600</b>
<b>6.4 Fair Value Through Profit or Loss</b>								
- Equity Shares (Note 6.8)	118,044	118,044	145,178	145,178	102,964	102,964	112,532	112,532
- Investment in Units (Note 6.9)	12,241	12,241	11,332	11,332	8,560	8,560	7,200	7,200
<b>Total</b>	<b>130,285</b>	<b>130,285</b>	<b>156,510</b>	<b>156,510</b>	<b>111,524</b>	<b>111,524</b>	<b>119,732</b>	<b>119,732</b>

\*HNB Assurance PLC and HNB General Insurance Limited, in its normal course of business invest in Repurchase Agreements (Repos) through number of Bank and Non-Bank Primary Dealers approved by the Central Bank of Sri Lanka (CBSL). During the year also, the Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. Investments in Repos are carried out on DVP/RVP basis. (Delivery vs. Payments and Received vs. Payments)

Group has taken appropriate steps to secure the securities received on investments in Repo's through a custodian (Acuity Securities Limited-a related Company) and as well to sign Master Repo Agreements (MRAs) with all Primary Dealing Companies Group deals with. MRA's provide the facility to the investor to recover the money due by selling the collateral securities in the secondary market in the event of a default.

As at 31st December,	Group				Company			
	2017		2016		2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>6.5 Term Deposits</b>								
Licensed Commercial Banks (6.5.1)	3,378,642	3,384,440	1,098,655	1,092,227	2,665,854	2,671,100	825,091	819,799
Licensed Finance Companies (6.5.2)	1,484,320	1,518,194	499,107	482,014	1,242,883	1,275,744	333,696	318,783
<b>Total</b>	<b>4,862,962</b>	<b>4,902,634</b>	<b>1,597,762</b>	<b>1,574,241</b>	<b>3,908,737</b>	<b>3,946,844</b>	<b>1,158,787</b>	<b>1,138,582</b>

## Accounting Policies and Notes to the Financial Statements

### 6. FINANCIAL INVESTMENTS (Contd.)

As at 31st December,	Group				Company			
	2017		2016		2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
6.5.1 Licensed Commercial Banks								
Term Deposits with Related Parties - HNB PLC	148,445	148,445	152,366	152,366	99,638	99,638	79,571	79,571
Other Banks	3,230,197	3,235,995	946,289	939,861	2,566,216	2,571,462	745,520	740,228
<b>Total</b>	<b>3,378,642</b>	<b>3,384,440</b>	<b>1,098,655</b>	<b>1,092,227</b>	<b>2,665,854</b>	<b>2,671,100</b>	<b>825,091</b>	<b>819,799</b>
6.5.2 Licensed Finance Companies								
Term Deposits with Related Parties - HNB Grameen Finance Ltd	50,243	54,451	-	-	50,243	54,451	-	-
Other Finance Companies	1,434,077	1,463,743	499,107	482,014	1,192,640	1,221,293	333,696	318,783
<b>Total</b>	<b>1,484,320</b>	<b>1,518,194</b>	<b>499,107</b>	<b>482,014</b>	<b>1,242,883</b>	<b>1,275,744</b>	<b>333,696</b>	<b>318,783</b>
6.6 Debentures - Quoted								
Banks, Finance and Insurance								
Bank of Ceylon	59,639	55,113	166,122	164,384	59,639	55,113	155,982	154,029
Commercial Bank of Ceylon PLC	43,421	43,449	43,421	38,716	43,421	43,449	43,421	38,716
DFCC Bank PLC	124,125	122,697	168,240	153,768	124,125	122,697	150,880	136,907
Hatton National Bank PLC	256,957	249,321	263,946	238,941	252,801	245,572	249,552	225,306
National Development Bank PLC	89,146	83,190	87,841	76,089	83,797	78,086	82,492	71,149
Nations Trust Bank PLC	93,130	92,441	93,124	86,116	93,130	92,441	93,124	86,116
Pan Asia Banking Corporation PLC	67,680	64,887	67,680	59,824	47,288	45,311	47,288	41,751
Sampath Bank PLC	368,851	346,280	322,028	274,075	314,914	297,837	255,625	218,825
Seylan Bank PLC	211,968	200,138	211,968	192,427	162,748	157,063	162,748	152,718
HDFC Bank of Sri Lanka	69,300	63,394	69,300	62,706	69,300	63,394	69,300	62,706
Central Finance Company PLC	30,078	29,645	30,078	29,508	30,078	29,645	30,078	29,508
Commercial Credit and Finance PLC	213,510	204,888	213,502	187,690	152,536	146,370	152,530	134,099
Commercial Leasing and Finance PLC	65,850	59,838	65,850	54,961	65,850	59,838	65,850	54,961
Lanka Orix Leasing Company PLC	56,248	52,822	56,244	48,375	40,907	38,416	40,905	35,182
LB Finance PLC	114,984	105,633	97,865	86,898	96,256	87,864	87,193	77,422
Mercantile Investments & Finance PLC	11,597	11,490	11,597	10,913	6,312	6,254	6,312	5,940
Merchant Bank of Sri Lanka & Finance PLC	85,310	78,362	132,431	115,000	67,870	62,914	109,100	95,725
People's Leasing & Finance PLC	167,356	164,420	169,128	156,017	135,362	133,360	137,134	127,456
Siyapatha Finance PLC	134,241	120,957	134,241	110,978	100,482	91,589	100,483	84,097
Softlogic Finance PLC	31,156	30,159	31,154	28,103	18,238	17,655	18,237	16,451
Vallibel Finance PLC	46,150	44,939	46,150	41,540	30,767	29,960	30,767	27,693
<b>Sector Total (a)</b>	<b>2,340,697</b>	<b>2,224,063</b>	<b>2,481,910</b>	<b>2,217,029</b>	<b>1,995,821</b>	<b>1,904,828</b>	<b>2,089,001</b>	<b>1,876,757</b>

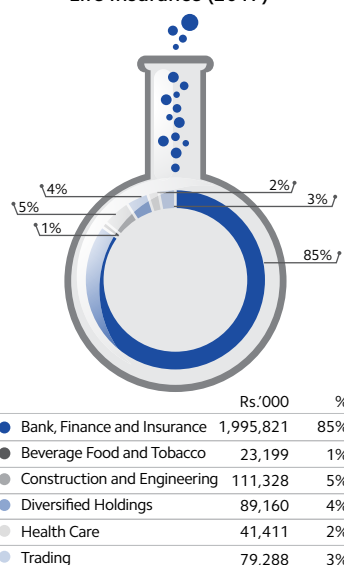


## 6. FINANCIAL INVESTMENTS (Contd.)

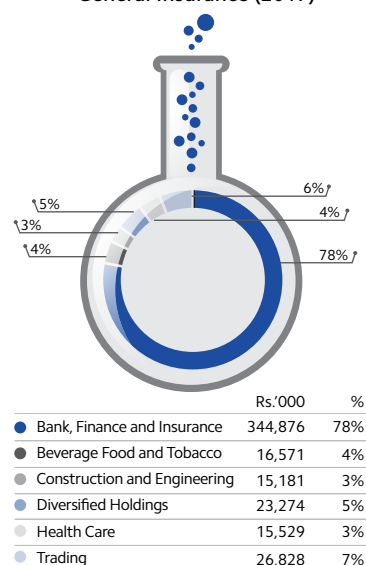
## 6.6 Debentures - Quoted (Contd.)

As at 31st December,	Group				Company			
	2017		2016		2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Beverage Food and Tobacco</b>								
Lion Brewery (Ceylon) PLC	39,770	39,115	69,572	67,929	23,199	22,817	40,584	39,625
<b>Sector Total (b)</b>	<b>39,770</b>	<b>39,115</b>	<b>69,572</b>	<b>67,929</b>	<b>23,199</b>	<b>22,817</b>	<b>40,584</b>	<b>39,625</b>
<b>Construction and Engineering</b>								
Access Engineering PLC	126,509	121,336	126,509	110,516	111,328	106,776	111,328	97,254
<b>Sector Total (c)</b>	<b>126,509</b>	<b>121,336</b>	<b>126,509</b>	<b>110,516</b>	<b>111,328</b>	<b>106,776</b>	<b>111,328</b>	<b>97,254</b>
<b>Diversified Holdings</b>								
Hemas Holdings PLC	57,433	56,558	57,504	53,646	42,610	42,031	42,610	39,866
Richard Pieris and Company PLC	55,001	53,799	58,341	54,260	46,550	45,493	49,890	46,343
<b>Sector Total (d)</b>	<b>112,434</b>	<b>110,357</b>	<b>115,845</b>	<b>107,906</b>	<b>89,160</b>	<b>87,524</b>	<b>92,500</b>	<b>86,209</b>
<b>Health Care</b>								
Nawaloka Hospitals PLC	56,940	56,150	56,940	55,168	41,411	40,836	41,411	40,122
<b>Sector Total (e)</b>	<b>56,940</b>	<b>56,150</b>	<b>56,940</b>	<b>55,168</b>	<b>41,411</b>	<b>40,836</b>	<b>41,411</b>	<b>40,122</b>
<b>Trading</b>								
Abans PLC	106,116	99,158	186,474	169,887	79,288	73,460	132,860	119,536
Singer (Sri Lanka) PLC	-	-	29,228	25,843	-	-	18,403	16,271
<b>Sector Total (f)</b>	<b>106,116</b>	<b>99,158</b>	<b>215,702</b>	<b>195,730</b>	<b>79,288</b>	<b>73,460</b>	<b>151,263</b>	<b>135,807</b>
<b>Total Investment in Quoted Debentures (a+b+c+d+e+f)</b>	<b>2,782,466</b>	<b>2,650,179</b>	<b>3,066,478</b>	<b>2,754,278</b>	<b>2,340,207</b>	<b>2,236,241</b>	<b>2,526,087</b>	<b>2,275,774</b>

Debenture Composition  
- Life Insurance (2017)



Debenture Composition  
- General Insurance (2017)



## HNB Assurance PLC

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## Accounting Policies and Notes to the Financial Statements

## 6. FINANCIAL INVESTMENTS (Contd.)

## 6.7 Equity Shares

Available For Sale

As at 31st December,	Group						Company					
	2017			2016			2017			2016		
	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000		Rs.'000	Rs.'000		Rs.'000	Rs.'000
<b>Banks, Finance and Insurance</b>												
Seylan Bank PLC - (Non Voting)	249,355	12,347	13,964	241,000	12,347	14,219	217,281	10,656	12,168	210,000	10,656	12,390
Sampath Bank PLC	37,831	6,834	11,943	109,749	24,877	28,579	37,831	6,834	11,943	93,831	21,312	24,434
Central Finance Company PLC	151,743	11,464	14,006	206,743	25,370	20,674	135,653	11,192	12,521	177,653	21,805	17,765
<b>Sector Total (a)</b>			<b>39,913</b>			<b>63,472</b>			<b>36,632</b>			<b>54,589</b>
<b>Chemicals and Pharmaceuticals</b>												
CIC Holdings PLC - (Non Voting)	-	-	-	141,915	9,698	9,650	-	-	-	141,915	9,698	9,650
<b>Sector Total (b)</b>			<b>-</b>			<b>9,650</b>			<b>-</b>			<b>9,650</b>
<b>Diversified Holdings</b>												
Melstacorp PLC	39,532	2,343	2,352	39,532	2,344	2,344	39,532	2,343	2,352	39,532	2,344	2,344
<b>Sector Total (c)</b>			<b>2,352</b>			<b>2,344</b>			<b>2,352</b>			<b>2,344</b>
<b>Manufacturing</b>												
Tokyo Cement Company (Lanka) PLC	249,602	10,692	16,474	388,568	22,074	23,003	211,002	9,598	13,926	285,568	16,266	16,906
Royal Ceramics Lanka PLC	50,000	6,067	5,725	83,000	10,072	9,587	50,000	6,067	5,725	50,000	6,067	5,775
Teejay Lanka PLC	-	-	-	453,681	10,817	19,418	-	-	-	453,681	10,817	19,418
<b>Sector Total (d)</b>			<b>22,199</b>			<b>52,008</b>			<b>19,651</b>			<b>42,099</b>
<b>Land and Property</b>												
Overseas Realty (Ceylon) PLC	773,335	19,640	13,610	773,335	19,640	15,467	602,809	15,391	10,609	602,809	15,391	12,056
<b>Sector Total (e)</b>			<b>13,610</b>			<b>15,467</b>			<b>10,609</b>			<b>12,056</b>
<b>Total Investment in Equity Shares (AFS) (a+b+c+d+e)</b>			<b>78,074</b>			<b>142,941</b>			<b>69,244</b>			<b>120,738</b>

## 6. FINANCIAL INVESTMENTS (Contd.)

### 6.8 Equity Shares

Fair Value Through Profit or Loss

As at 31st December,	Group						Company					
	2017			2016			2017			2016		
	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value	No. of Shares	Cost	Carrying Value/ Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000		Rs.'000	Rs.'000		Rs.'000	Rs.'000
<b>Banks, Finance and Insurance</b>												
National Development Bank PLC	11,729	1,600	1,600	11,299	1,600	1,763	11,729	1,600	1,600	11,299	1,600	1,763
Sampath Bank PLC	59,087	11,925	18,654	82,657	17,088	21,524	59,087	11,925	18,654	57,646	11,318	15,011
Nations Trust Bank PLC	87,261	6,083	6,806	97,674	6,768	7,902	87,261	6,083	6,806	87,261	6,083	7,059
People's Leasing & Finance PLC	721,543	12,988	12,266	721,543	12,988	12,411	476,000	8,568	8,092	476,000	8,568	8,187
Seylan Bank PLC - (Non Voting)	316,216	11,243	17,708	315,283	11,633	18,602	247,631	9,006	13,867	239,332	9,006	14,121
<b>Sector Total (a)</b>			<b>57,034</b>			<b>62,202</b>			<b>49,019</b>			<b>46,141</b>
<b>Chemicals and Pharmaceuticals</b>												
CIC Holdings PLC	61,920	4,363	3,839	163,085	12,817	14,905	61,920	4,363	3,839	135,000	10,915	12,338
<b>Sector Total (b)</b>			<b>3,839</b>			<b>14,905</b>			<b>3,839</b>			<b>12,338</b>
<b>Diversified Holdings</b>												
John Keells Holdings PLC	38,274	5,622	5,684	48,274	7,864	7,000	38,274	5,622	5,684	48,274	7,864	7,000
Richard Pieris and Company PLC	312,851	4,351	4,067	722,851	10,342	5,783	312,851	4,351	4,067	722,851	10,342	5,783
Vallibel One PLC	305,925	5,521	5,415	375,000	6,764	6,975	200,000	3,600	3,540	250,000	4,500	4,650
Melstacorp PLC	195,000	11,559	11,603	240,000	14,226	14,232	130,000	7,706	7,735	160,000	9,484	9,488
<b>Sector Total (c)</b>			<b>26,769</b>			<b>33,990</b>			<b>21,026</b>			<b>26,921</b>
<b>Manufacturing</b>												
Royal Ceramics Lanka PLC	28,000	4,318	3,206	51,550	7,901	5,954	28,000	4,318	3,206	28,000	4,318	3,234
Dipped Products PLC	-	-	-	5,798	545	503	-	-	-	-	-	-
ACL Cables PLC	126,400	3,053	5,359	186,800	7,570	11,301	95,200	3,016	4,036	125,200	4,850	7,575
Tokyo Cement Company (Lanka) PLC	330,869	12,278	21,837	275,724	12,278	16,323	330,869	12,278	21,838	275,724	12,278	16,323
<b>Sector Total (d)</b>			<b>30,402</b>			<b>34,081</b>			<b>29,080</b>			<b>27,132</b>
<b>Total Investment in Equity Shares (FVTPL) (a+b+c+d)</b>			<b>118,044</b>			<b>145,178</b>			<b>102,964</b>			<b>112,532</b>

## Accounting Policies and Notes to the Financial Statements

### 6. FINANCIAL INVESTMENTS (Contd.)

#### 6.9 Investment in Units

##### Fair Value Through Profit or Loss

As at 31st December,	Group				Company			
	2017		2016		2017		2016	
	No. of Units	Carrying Value/ Fair Value Rs.'000	No. of Units	Carrying Value/ Fair Value Rs.'000	No. of Units	Carrying Value/ Fair Value Rs.'000	No. of Units	Carrying Value/ Fair Value Rs.'000
<b>Quoted</b>								
NAMAL Acuity Value Fund	114,400	12,241	114,400	10,296	80,000	8,560	80,000	7,200
<b>Total Investment in Quoted Unit Trusts</b>		<b>12,241</b>		<b>10,296</b>		<b>8,560</b>		<b>7,200</b>
<b>Unquoted</b>								
Comtrust ADL Mudarabah Fund	-	-	96,781	1,036	-	-	-	-
<b>Total Investment in Unquoted Unit Trusts Carried at FVTPL</b>		<b>-</b>		<b>1,036</b>		<b>-</b>		<b>-</b>
<b>Total Investment in Units</b>		<b>12,241</b>		<b>11,332</b>		<b>8,560</b>		<b>7,200</b>

#### 6.10 Movement in the Carrying Values of Financial Investments - Group

	Held to Maturity	Loans and Receivable	Available For Sale	Fair Value Through Profit or Loss	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>As at 01st January 2016</b>	472,565	6,444,029	1,659,296	1,175,721	9,751,611
Purchases	-	129,030,472	6,757,737	14,226	135,802,435
Maturities	(334,074)	(130,581,731)	(2,786,817)	-	(133,702,622)
Disposals	-	(104,450)	(52,420)	(1,010,095)	(1,166,965)
Fair Value Gains / (Losses) and Foreign Currency Translation Recorded in Profit or Loss	-	5,844	(4,373)	(8,128)	(6,657)
Amortisation Adjustment / Accrued Interest	35,534	548,620	449,611	2,218	1,035,983
Realised Gains / (Losses) Recorded in Profit or Loss	-	1,698	(14,466)	(17,432)	(30,200)
Fair Value Loss Recorded in Other Comprehensive Income	-	-	(139,010)	-	(139,010)
<b>As at 31st December 2016</b>	<b>174,025</b>	<b>5,344,482</b>	<b>5,869,558</b>	<b>156,510</b>	<b>11,544,575</b>
<b>As at 01st January 2017</b>	<b>174,025</b>	<b>5,344,482</b>	<b>5,869,558</b>	<b>156,510</b>	<b>11,544,575</b>
Purchases	-	92,525,106	2,269,673	2,068	94,796,847
Maturities	(14,875)	(90,041,818)	(2,346,766)	-	(92,403,459)
Disposals	-	(191,658)	(585,768)	(38,291)	(815,717)
Fair Value Gains / (Losses) Foreign Currency Translation Recorded in Profit or Loss	-	3,457	(1,856)	8,102	9,703
Amortisation Adjustment / Accrued Interest	21,310	777,713	632,399	-	1,431,422
Realised Gains Recorded in Profit or Loss	-	148	30,485	1,896	32,529
Fair Value Gains Recorded in Other Comprehensive Income	-	-	459,010	-	459,010
<b>As at 31st December 2017</b>	<b>180,460</b>	<b>8,417,430</b>	<b>6,326,735</b>	<b>130,285</b>	<b>15,054,910</b>

## 6. FINANCIAL INVESTMENTS (Contd.)

### 6.11 Movement in the Carrying Values of Financial Investments - Company

	Held to Maturity	Loans and Receivable	Available For Sale	Fair Value Through Profit or Loss	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>As at 01st January 2016</b>	320,426	5,151,718	1,559,525	817,956	7,849,625
Purchases	-	96,149,888	6,025,766	9,484	102,185,138
Maturities	(174,474)	(97,427,278)	(2,693,910)	-	(100,295,662)
Disposals	-	(65,000)	(44,681)	(692,219)	(801,900)
Fair Value Gains / (Losses) Foreign Currency Translation Recorded in Profit or Loss	-	1,143	(3,335)	(5,601)	(7,793)
Amortisation Adjustment / Accrued Interest	28,073	442,122	400,148	1,579	871,922
Realised Gains / (Losses) Recorded in Profit or Loss	-	646	(11,614)	(11,467)	(22,435)
Fair Value Losses Recorded in Other Comprehensive Income	-	-	(136,299)	-	(136,299)
<b>As at 31st December 2016</b>	<b>174,025</b>	<b>4,253,239</b>	<b>5,095,600</b>	<b>119,732</b>	<b>9,642,596</b>
<b>As at 01st January 2017</b>	174,025	4,253,239	5,095,600	119,732	9,642,596
Purchases	-	66,813,006	1,689,127	2,068	68,504,201
Maturities	(14,875)	(64,716,076)	(1,627,874)	-	(66,358,825)
Disposals	-	(191,658)	(520,304)	(19,431)	(731,393)
Fair Value Gains / (Losses) Foreign Currency Translation Recorded in Profit or Loss	-	835	(1,447)	8,262	7,650
Amortisation Adjustment / Accrued Interest	21,310	630,394	563,010	-	1,214,714
Realised Gains Recorded in Profit or Loss	-	-	27,896	893	28,789
Fair Value Gains Recorded in Other Comprehensive Income	-	-	433,283	-	433,283
<b>As at 31st December 2017</b>	<b>180,460</b>	<b>6,789,740</b>	<b>5,659,291</b>	<b>111,524</b>	<b>12,741,015</b>

## 7. INVESTMENT IN SUBSIDIARY - COMPANY

### Accounting Policy

Investment in subsidiary is recorded at cost less impairment in the Financial Statements of the Company. The net assets of the subsidiary are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its net assets loss.

As at 31st December,		2017			2016		
Unquoted	Principal Activity	No of Shares	Holding	Cost Rs.'000	No of Shares	Holding	Cost Rs.'000
HNB General Insurance Limited	General Insurance Business	115,000,000	100%	1,150,000	115,000,000	100%	1,150,000
Total Investment in Subsidiary				1,150,000			1,150,000

## Accounting Policies and Notes to the Financial Statements

### 7. INVESTMENT IN SUBSIDIARY - COMPANY (Contd.)

The Company incorporated a fully owned subsidiary, HNB General Insurance Limited on 30th January 2014 in order to transfer the General Insurance business w.e.f. 01st January 2015 to be in line with the requirement to segregate Life and General Insurance businesses as required by the Regulation of Insurance Industry (Amendment) Act, No. 03 of 2011.

### 8. LOANS TO LIFE POLICYHOLDERS

#### Accounting Policy

Policyholder Loans are granted up to 90% of the surrender value of a Life Insurance Policy at a rate equivalent to market rate. Policyholder Loans are initially measured at Fair value of loan amount granted and subsequently measured at the amortised cost. If the policyholder demises before the full repayment of the loan, the loan balance is deducted from the death benefit. Policyholder Loans are reviewed for impairment at each reporting date.

As at 31st December,	Group and Company	
	2017	2016
	Rs.'000	Rs.'000
Balance as at 01st January	99,574	77,309
Loans Granted during the Year	72,279	49,642
Repayments during the year	(38,393)	(27,377)
<b>Balance as at 31st December</b>	<b>133,460</b>	<b>99,574</b>
Interest Receivable	28,825	20,867
<b>Total Loans to Life Policyholders</b>	<b>162,285</b>	<b>120,441</b>

- 8.1 The surrender value of the policies for which Policy Loans have been granted as at 31st December 2017 amounted to Rs. 279.7 Million. (2016 - Rs. 214.7 Million)

If the total receivable of the loan, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Company has a first lien on all policies which are subject to policy loans. This mitigates the Company's credit exposure on Policy Loans.

The Company grants Policy Loans at a rate equivalent to the market rate, hence initial recognition is at fair value.

- 8.2 Number of Policy Loans due as at 31st December 2017 was 2,480 (2016 - 2,192)

#### 8.3 Impairment Losses on Loans to Life Policyholders

The Board of Directors has assessed the potential impairment loss of Loans to Life Policyholders as at 31st December 2017. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Loans to Life Policyholders.



## 9. REINSURANCE RECEIVABLES

## Accounting Policy

The Group cedes insurance risk in the normal course of business with recognised reinsurers through formal reinsurance arrangements.

Reinsurance assets include the balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Gross Reinsurance is recorded in the Statement of Financial Position unless a right to offset exists.

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

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

Reinsurance assets are de-recognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Reinsurance Receivable on Outstanding Claims	(Note 9.1)	352,863	339,119	29,240	39,588
Reinsurance Receivable on Settled Claims	(Note 9.2)	216,915	155,607	35,770	15,226
<b>Total Reinsurance Receivables</b>		<b>569,778</b>	<b>494,726</b>	<b>65,010</b>	<b>54,814</b>

9.1 The reinsurance portion of the Outstanding Claims has not been materialised, since the insurance claim has not been paid as at the reporting date.

9.2 The age analysis of the reinsurance receivable on settled claims is as follows:

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Up to 30 days		40,896	24,471	5,186	3,525
31 to 60 days		57,937	13,416	5,157	4,848
61 to 90 days		36,813	30,802	4,297	6,853
91 to 180 days		73,763	77,391	21,130	-
181 to 365 days		5,279	9,527	-	-
Over 365		2,227	-	-	-
<b>Total</b>		<b>216,915</b>	<b>155,607</b>	<b>35,770</b>	<b>15,226</b>

9.3 The carrying value of Reinsurance Receivables approximate the fair value at the reporting date.

## Accounting Policies and Notes to the Financial Statements

### 9. REINSURANCE RECEIVABLES (Contd.)

#### 9.4 Impairment Losses on Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of Reinsurance Receivables as at 31st December 2017. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date. Please refer Note 43 (Page No. 359) for Reinsurance rating analysis and Note 43 (Page No. 364) for rating wise Reinsurance balances.

### 10. PREMIUM RECEIVABLES

#### Accounting Policy

Premiums Receivable are recognised when due and measured on initial recognition at the fair value of the consideration receivable. The carrying value of Premiums Receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognised in Profit or Loss.

Insurance receivables from General Insurance are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Collectability of premiums is reviewed on an ongoing basis.

According to the Premium Payment Warranty (PPW) ruling issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL) formerly known as Insurance Board of Sri Lanka (IBSL), all General Insurance policies are issued subject to PPW and are cancelled upon the expiry of 60 days if not settled.

The Life Insurance premiums for policies within the 30 day grace period are considered as due premium, subject to a provision for premium default. Premium Default Ratio is computed by analysing the default history. Premium will be reversed if those premiums are not settled during the subsequent month, and thus the policies will be lapsed as per the Company policy.

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Premium Receivable From ;</b>					
<b>Life Insurance</b>					
Policyholders		14,221	13,604	14,221	13,604
Impairment loss on Premium Default		(6,733)	(6,799)	(6,733)	(6,799)
		<b>7,488</b>	<b>6,805</b>	<b>7,488</b>	<b>6,805</b>
<b>General Insurance</b>					
Policyholders		425,385	315,286	-	-
Related Parties	(Note 10.1)	49,589	46,720	-	-
Agents, Brokers and Intermediaries		303,857	254,483	-	-
		<b>778,831</b>	<b>616,489</b>	<b>-</b>	<b>-</b>
<b>Total</b>	(Note 10.2)	<b>786,319</b>	<b>623,294</b>	<b>7,488</b>	<b>6,805</b>

**10. PREMIUM RECEIVABLES (Contd.)****10.1 Premium Receivable from Related Parties**

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>General Insurance</b>				
Hatton National Bank PLC	20,734	19,604	-	-
HNB Grameen Finance Ltd	4,915	306	-	-
Sithma Development (Pvt) Ltd	4,296	3,739	-	-
Acuity Stock Brokers (Pvt) Ltd	-	102	-	-
Acuity Partners (Pvt) Ltd	476	136	-	-
Acuity Securities Ltd	129	109	-	-
Other Related Entities	19,039	22,724	-	-
<b>Total</b>	<b>49,589</b>	<b>46,720</b>	<b>-</b>	<b>-</b>

**10.2 Impairment Losses on Premium Receivables**

The Board of Directors has assessed potential impairment loss of Premium Receivable as at 31st December 2017. Since the Group has adopted the Premium Payment Warranty (PPW) ruling issued by Insurance Regulatory Commission of Sri Lanka, no long outstanding balances are left in Premium Receivables. Thus, there is no need for an additional impairment loss provision other than amounts provided. The age analysis of these Premium Receivables is as follows:

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Life Insurance</b>				
Up to 30 days	7,488	6,805	7,488	6,805
<b>General Insurance</b>				
Up to 30 days	521,802	427,795	-	-
31 to 60 days	257,029	188,694	-	-
	<b>778,831</b>	<b>616,489</b>	<b>-</b>	<b>-</b>
<b>Total Premium Receivables</b>	<b>786,319</b>	<b>623,294</b>	<b>7,488</b>	<b>6,805</b>

## Accounting Policies and Notes to the Financial Statements

### 11. OTHER ASSETS

#### Accounting Policy

##### Staff and Advisors Loans

Loans are granted as a benefit to Staff and Advisors subject to defined eligibility criteria. These are measured at amortised cost based on the prevailing interest rates at the loan grant date. Impairment test of loans are carried out when the indicators of impairment exist.

##### Other Assets

Other assets (Receivables and dues from Related Parties) are recognised at cost less accumulated impairment losses.

##### Inventories

Inventories include all consumable items which are stated at lower of cost and net realisable value.

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Staff and Agent Loans	(Note 11.1)	399,075	353,472	239,081	214,492
Advance Payments		159,798	119,137	126,771	99,608
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note 11.2)	457,703	282,203	389,391	242,318
Co - Insurance Receivables		13,121	3,240	-	-
Inventories		2,449	3,940	1,612	2,102
Amounts due from Related Parties - HNB General Insurance Limited		-	-	6,121	13,120
Other Receivables		4,700	8,682	1,280	4,036
<b>Total Other Assets</b>		<b>1,036,846</b>	<b>770,674</b>	<b>764,256</b>	<b>575,676</b>

#### 11.1 Staff and Advisor Loans

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Staff Loans	(Note 11.1.b.)	339,494	309,408	181,897	172,231
Advisor Loans	(Note 11.1.c.)	59,581	44,064	57,184	42,261
<b>Total</b>		<b>399,075</b>	<b>353,472</b>	<b>239,081</b>	<b>214,492</b>

- 11.1.a The carrying value of the Staff and Advisor loans has been computed based on the market interest rates which prevailed at the time of granting the loan, and the fair value of the same has been computed based on the interest rates prevailed at the reporting date.

## 11. OTHER ASSETS (Contd.)

### 11.1.b Staff Loans

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	292,853	226,425	164,333	127,823
Loans granted during the year	203,195	222,968	107,864	120,249
	496,048	449,393	272,197	248,072
Repayments during the year	(164,325)	(156,540)	(93,652)	(83,739)
Balance as at 31st December	331,723	292,853	178,545	164,333
Allowance for Impairment Losses	(26)	(2,996)	-	(2,315)
Fair Value Adjustment on Staff Loan	7,797	19,551	3,352	10,213
Fair Value of the loans as at 31st December	339,494	309,408	181,897	172,231

### 11.1.c Advisor Loans

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	42,753	41,489	40,927	37,514
Loans granted during the year	64,557	44,073	61,032	42,210
	107,310	85,562	101,959	79,724
Repayments during the year	(49,749)	(42,809)	(46,914)	(38,797)
Balance as at 31st December	57,561	42,753	55,045	40,927
Allowance for Impairment Losses	(567)	(524)	(530)	(492)
Fair Value Adjustment on Advisor Loan	2,587	1,835	2,669	1,826
Fair Value of the loans as at 31st December	59,581	44,064	57,184	42,261

### 11.1.d Impairment Losses on Staff and Advisor Loans

The Board of Directors has assessed potential impairment loss of Staff and Advisor loans as at 31st December 2017. Based on the assessment, no additional impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Staff and Advisor loans, other than the amounts provided.

Loans to Staff and Advisor portfolio mainly consists of vehicle loans (95%) which are given to selected categories of Staff and Advisor. These loans are secured with guarantors, mortgage or promissory note.

### 11.1.e Loans of any type are not granted to Directors of the Company.

## 11.2 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Withholding Tax Recoverable	97,619	104,361	89,311	99,673
Value Added Tax Recoverable	161	378	100	346
ESC Recoverable	36,191	21,440	-	-
Notional Tax on Government Securities	323,732	156,024	299,980	142,299
Balance as at 31st December	457,703	282,203	389,391	242,318

## Accounting Policies and Notes to the Financial Statements

### 12. INSURANCE CONTRACT - DEFERRED EXPENSES

#### Accounting Policy

##### Deferred Acquisition Costs (DAC)

The direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred and amortised over the period in which the related revenues are earned. All other acquisition costs are recognised as an expense when incurred.

The DAC is applicable only to General Insurance Contracts. No DAC is calculated for Life Insurance Contracts as the acquisition costs are incurred in line with the revenue earned.

In accordance with the available regulatory guidelines of the IRCSL, the DAC is calculated based on the 1/24th basis except for the Marine policies which are computed on a 60-40 basis.

The DAC for reinsurers are amortised in the same manner as the underlying asset amortisation and is recorded in the statement of Profit or Loss.

An impairment review of DAC is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in Profit or Loss. No such indication of impairment was experienced during the year.

DAC is de-recognised when the related contracts are either settled or disposed.

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Reserve for Net Acquisition Expenses					
Reserve for Deferred Acquisition Expenses					
Balance as at 01st January		152,041	122,865	-	-
Increase in Deferred Acquisition Expenses	(Note No 37.1)	37,806	29,176	-	-
Balance as at 31st December		189,847	152,041	-	-
Reserve for Deferred Reinsurance Commission					
Balance as at 01st January		(77,090)	(56,930)	-	-
Increase in Deferred Acquisition Expenses	(Note No 37.1)	(7,470)	(20,160)	-	-
Balance as at 31st December		(84,560)	(77,090)	-	-
Total Insurance Contract - Deferred Expenses		105,287	74,951	-	-



## 13. CASH AND CASH EQUIVALENTS

## Accounting Policy

Cash and Cash Equivalents comprise cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Bank overdrafts, if any, which form an integral part of cash management, are included as a component of Cash and Cash Equivalents for the purposes of the Statement of Cash Flows. In the Statement of Financial Position, Bank Overdrafts are included under liabilities.

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Cash and Cash Equivalents</b>				
Cash in Hand	2,194	2,130	1,454	1,450
Cash at Bank with Related Parties - HNB PLC	563,602	182,265	293,515	111,407
Cash at Bank with Other Licensed Commercial Banks & Financial institutions	15,236	44,604	987	12,542
	<b>581,032</b>	<b>228,999</b>	<b>295,956</b>	<b>125,399</b>
<b>Short Term Deposits</b>				
Non related Commercial Banks and Financial institutions	60,918	396,528	56,351	351,173
<b>Total Cash and Cash Equivalents (a)</b>	<b>641,950</b>	<b>625,527</b>	<b>352,307</b>	<b>476,572</b>
<b>Bank Overdraft</b>				
Bank Overdraft with Related Parties - HNB PLC	(137,446)	-	(32,756)	-
Bank Overdraft with Other Licensed Commercial Banks	(4,214)	-	-	-
<b>Total Bank Overdraft (b)</b>	<b>(141,660)</b>	<b>-</b>	<b>(32,756)</b>	<b>-</b>
<b>Total Cash and Cash Equivalents for the purpose of Statement Cash flows (a+b)</b>	<b>500,290</b>	<b>625,527</b>	<b>319,551</b>	<b>476,572</b>

## 14. STATED CAPITAL

As at 31st December,	Group		Company	
	2017		2016	
	Number of Shares	Rs.'000	Number of Shares	Rs.'000
Balance as at 01st January	50,000,000	1,171,875	50,000,000	1,171,875
<b>Balance as at 31st December</b>	<b>50,000,000</b>	<b>1,171,875</b>	<b>50,000,000</b>	<b>1,171,875</b>

## 14.1 Rights of Ordinary Shareholders

The Ordinary Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the members of the Company.

## Accounting Policies and Notes to the Financial Statements

### 15. Retained Earnings

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	1,721,675	1,174,262	1,897,936	1,397,806
Profit for the Year	909,752	647,413	725,665	600,130
Dividend Paid to equity holders for previous year	(250,000)	(100,000)	(250,000)	(100,000)
Balance as at 31st December	2,381,427	1,721,675	2,373,601	1,897,936

### 16. Available For Sale Reserve

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	(7,152)	(4,748)	(1,465)	53
Other Comprehensive Income for the year	452,240	(137,185)	433,283	(136,299)
Transferred to Life Policyholders Reserve Fund	(414,403)	134,781	(414,403)	134,781
Balance as at 31st December	30,685	(7,152)	17,415	(1,465)

- 16.1 Available For Sale Reserve comprise of the impact arising from the changes in market values of Financial Assets classified under the category of Available For Sale.

### 17. Other Reserve

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	1,790	(1,093)	(1,886)	(2,039)
Actuarial (Losses) / Gain - Gratuity	(12,550)	2,883	(7,998)	153
Balance as at 31st December	(10,760)	1,790	(9,884)	(1,886)

- 17.1 Other Reserves comprises of the Actuarial Gains / (Losses) arising from valuation of Gratuity Liability as required by LKAS 19 -Employee Benefits. (Effective w.e.f. 01st January 2013)

### 18. Life Policyholders' Available For Sale Reserve Fund

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	(191,131)	(56,350)	(191,131)	(56,350)
Other Comprehensive Income for the Year	414,403	(134,781)	414,403	(134,781)
Balance as at 31st December	223,272	(191,131)	223,272	(191,131)

- 18.1 The Life Policyholder Available For Sale Reserve Fund includes the fair value gains and losses recorded under Other Comprehensive Income arising from Financial Assets categorised under Available For Sale.

## 19. INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE

## Accounting Policy

## Insurance Provision - Life Insurance

Life Insurance Contract Liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future benefits, the expected future management and distribution expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate discount rate as specified by the Insurance Regulatory Commission of Sri Lanka. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is included in the valuation.

## Liability Adequacy Test (LAT)

As required by SLFRS 4 -Insurance Contracts, the Company performed a Liability Adequacy Test (LAT) in respect of Life Insurance Contract Liabilities with the assistance of an external Actuary. In performing the LAT, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. Number of valuation techniques are applied including discounting cash flows, interest rate applied is based on the management's expectation of current market interest rates. The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses.

As at 31st December,		2017	2016
		Rs.'000	Rs.'000
<b>Insurance Contract Liabilities</b>			
Life Insurance Fund	(Note 19.1)	10,800,821	8,634,394
Claims Outstanding		115,037	113,462
<b>Total Insurance Contract Liabilities - Life Insurance</b>		<b>10,915,858</b>	<b>8,747,856</b>

## 19.1 Life Insurance Fund

The movement in the Life Insurance Fund is as follows:

As at 31st December,		2017	2016
		Rs.'000	Rs.'000
Balance as at 01st January	(Note 19.2)	8,634,394	6,926,109
<b>Change in Contract Liabilities - Life Fund</b>			
Increase in Life Insurance Fund Before Surplus Distribution to Shareholders		2,684,985	2,169,427
Surplus Distributed to Shareholders		(518,558)	(461,142)
<b>Change in Contract Liabilities - Life Fund</b>		<b>2,166,427</b>	<b>1,708,285</b>
<b>Balance as at 31st December</b>		<b>10,800,821</b>	<b>8,634,394</b>

## Accounting Policies and Notes to the Financial Statements

### 19. INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE (Contd.)

The valuation of the Life Insurance business as at 31st December 2017 was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of Messers Actuarial Partners Consulting Sdn Bhd. Formerly Known as Mercer Zainal Consulting Sdn Bhd. Valuation of Life Insurance business is performed on a semi annual basis. According to the Appointed Actuary's report, the reserve for the year amounted to Rs. 9,869 Million (2016 - Rs. 8,181.4 Million). In opinion of the Appointed Actuary, the reserve is adequate to cover the liabilities pertaining to the Life Insurance business.

As recommended by the Consultant Actuary a sum of Rs. 518.6 Million (2016 - Rs. 461.1 Million) has been transferred from the Life Insurance Fund to the Life Shareholders' Fund as for the year 2017. As per the Report of the Life Actuary, the Company's Capital Adequacy Ratio (CAR) is 358% (2016 - 445%) well above the minimum requirement of 120%.

#### 19.2 Reconciliation of Life Fund opening liability due to change In Policy Liability Valuation Method

As at 31st December,		2016
		Rs.'000
Balance as at 01st January 2016- Net Premium Valuation Basis (IRCSL approved regulatory valuation model till 31/12/2015)		6,926,109
Balance as at 01st January 2016- Gross Premium Valuation Basis (IRCSL approved regulatory valuation model from 1/1/2016) (a)		4,745,802
Surplus created due to change in valuation method from NPV to GPV as at 01st January 2016	(Note 19.3)	
Release in Liabilities of Fund Based Products		1,849,689
Release in Liabilities of Other Life Products		330,618
<b>Total Release (b)</b>		<b>2,180,307</b>
<b>Total (a+b)</b>		<b>6,926,109</b>

#### 19.3 The Extraordinary Gazette Notification No. 1945/19 issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL) on 15th December 2015, required every registered insurer to apply Solvency Margin (Risk Based Capital) Rules with effect from 01st January 2016. According to the Risk Based Capital rules, all the Insurers are required to value the Life Insurance Policy Liabilities as per the Gross Premium Valuation (GPV) method and Valuation rules and methodologies as stipulated by the Gazette Notification. The change in the valuation method from Net Premium Valuation (NPV) which was applicable under the previous Solvency Margin Rules to GPV method under the new rules resulted in a one off release in Life Insurance Policy Liabilities.

By the letter dated 22nd July 2016 the IRCSL has required all insurance companies, not to transfer or distribute the "surplus created due to change in valuation method from NPV to GPV" and to maintain it within the Long Term Insurance Fund until specific instructions are issued by the IRCSL.

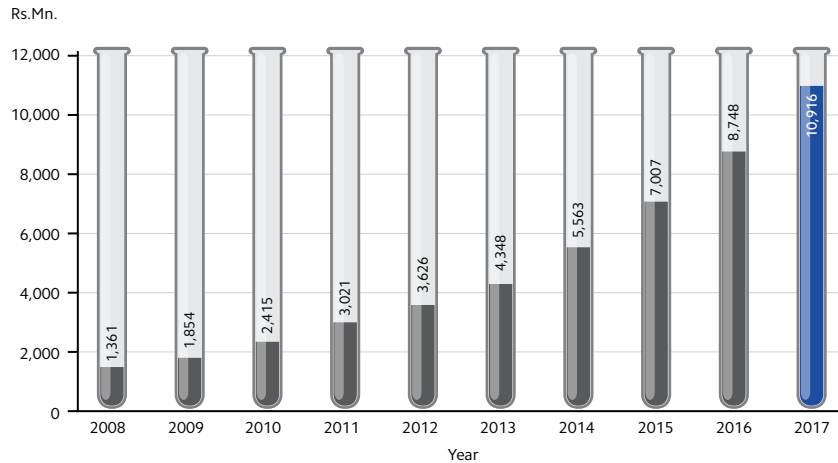
As per the Risk Based Capital Rules stipulated by the Insurance Regulatory Commission of Sri Lanka, the change in the valuation method from NPV to GPV resulted a release in Policyholder Liabilities of the Company as of 01st January 2016. This resulted release in liabilities as at 01st January 2016 amounted to Rs. 1,849.7 Million for fund based life products and Rs.330.6 Million for other life product. The Company has kept the release in liabilities under the Long term Insurance fund of Life Policyholders as required by the IRCSL through the letter dated 22nd July 2016 and as per the subsequent letter issued by Insurance Regulatory Commission of Sri Lanka to all Life Insurance Companies on 30th December 2016 to that effect and instructed this one off surplus to be disclosed separately under long term insurance fund/ insurance contract liabilities, in the name "Surplus created due to change in valuation method from NPV to GPV".

## 19. INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE (Contd.)

### 19.4 Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for Life Insurance contract Liability was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of Messers Actuarial Partners Consulting Sdn Bhd, as at 31st December 2017 as required by SLFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compares this amount with the carrying value of the liability. According to the Consultant Actuary's report, assets are sufficiently adequate as compared to the discounted cash flow reserves and in contrast to the reserves as at 31st December 2017. No additional provision was required against the LAT as at 31st December 2017.

#### Insurance Contract Liabilities - Life Insurance



## Accounting Policies and Notes to the Financial Statements

### 20. INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE

#### Accounting Policy

General Insurance Contract Liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise claims liabilities and premium liabilities.

##### Claims Liabilities

Claims Liabilities are recognised in respect of both with reinsurance and without reinsurance. Claims liabilities refer to the obligation of the insurance company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. These include provision for claims reported, claims incurred but not reported (IBNR) together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for adverse Deviation (PRAD) calculated at line of business level.

##### Premium Liabilities

Premium Liabilities are the higher of the aggregate of the UPR and the best estimate value of the insurer's Unexpired Risk Reserves (URR) at the valuation date and the PRAD calculated at line of business level.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

##### Liability Adequacy Test (LAT)

As required by SLFRS 4 - Insurance Contracts, the Group performed a Liability Adequacy Test (LAT) in respect of General Insurance Contract Liabilities with the assistance of the External Actuary.

##### Title Insurance Reserve

Title Insurance reserve is maintained by the Group to pay potential claims arising from the Title Insurance policies. Title Insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised in the first year of the policy given the higher probability of claims occurring in the first year. From the 02nd year onwards, profit is recognised by amortising the premium received over a five year period using the straight line method. Profit in the first year will be recognised in the 02nd year and thereafter it will be periodically recognised.

The General Insurance reserves as shown in the Statement of Financial Position represents the following :

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Reserves for Net Unearned Premium	(Note 20.1)	1,592,450	1,278,861	-	-
Reserves for Title Insurance	(Note 20.2)	34,840	19,611	-	-
Reserves for Gross Outstanding Claims	(Note 20.3)	757,616	623,095	-	-
<b>Total Insurance Contract Liabilities - General Insurance</b>		<b>2,384,906</b>	<b>1,921,567</b>	<b>-</b>	<b>-</b>



## 20. INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE (Contd.)

### 20.1 Reserves for Net Unearned Premium

#### 20.1.a. Reserves for Unearned Premium

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January		1,596,757	1,301,243	-	-
Transfer during the Year	(Note 27)	359,824	295,514	-	-
<b>Balance as at 31st December (a)</b>		<b>1,956,581</b>	<b>1,596,757</b>	<b>-</b>	<b>-</b>
<b>20.1.b. Reserves for Unearned Reinsurance Premium</b>					
Balance as at 01st January		(317,896)	(203,026)	-	-
Transfer during the Year	(Note 27)	(46,235)	(114,870)	-	-
<b>Balance as at 31st December (b)</b>		<b>(364,131)</b>	<b>(317,896)</b>	<b>-</b>	<b>-</b>
<b>Total Reserves for Net Unearned Premium (a+b)</b>		<b>1,592,450</b>	<b>1,278,861</b>	<b>-</b>	<b>-</b>
<b>20.2 Reserves for Title Insurance</b>					
Balance as at 01st January		19,611	19,153	-	-
Transfer to Title Insurance Reserve		22,565	7,505	-	-
Recognition of Title Insurance Profit	(Note 20.5)	(7,336)	(7,047)	-	-
<b>Transfer to Title Insurance Reserves</b>	<b>(Note 27)</b>	<b>15,229</b>	<b>458</b>	<b>-</b>	<b>-</b>
<b>Total Reserves for Title Insurance as at 31st December</b>		<b>34,840</b>	<b>19,611</b>	<b>-</b>	<b>-</b>
<b>20.3 Reserves for Gross Outstanding Claims</b>					
Balance as at 01st January		555,807	359,921	-	-
Claims Incurred during the Year		2,160,899	2,134,641	-	-
Claims Paid during the Year		(2,052,852)	(1,938,755)	-	-
<b>Balance as at 31st December (a)</b>		<b>663,854</b>	<b>555,807</b>	<b>-</b>	<b>-</b>
IBNR / IBNER balance as at 01st January		67,288	68,974	-	-
Increase / (Decrease) in IBNR / IBNER		26,474	(1,686)	-	-
<b>IBNR / IBNER balance as at 31st December (b)</b>		<b>93,762</b>	<b>67,288</b>	<b>-</b>	<b>-</b>
<b>Total Reserves for Gross Outstanding Claims (a+b)</b>		<b>757,616</b>	<b>623,095</b>	<b>-</b>	<b>-</b>
<b>20.4 Reconciliation between Insurance Contract Liabilities and Technical Reserves</b>					
Insurance Contract Liabilities		2,384,906	1,921,567	-	-
Reserve for Net Deferred Acquisition Expenses	(Note 12)	(105,287)	(74,951)	-	-
Reinsurance on Claims Reserves		(293,827)	(284,009)	-	-
Reinsurance on Claims Reserves IBNR / IBNER		(29,795)	(15,522)	-	-
<b>Technical Reserves</b>		<b>1,955,997</b>	<b>1,547,085</b>	<b>-</b>	<b>-</b>

## Accounting Policies and Notes to the Financial Statements

### 20. INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE (Contd.)

20.5 Net Written Premium on Title Insurance after deducting acquisition cost has been transferred to the Title Reserves account to pay potential claims arising from the Title Insurance policies. During the year, the Group recognised Rs. 7.34 Million (2016 - Rs. 7.04 Million) as profit from Title Insurance.

20.6 Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the reporting date. The Reserves are determined based on the information currently available. However, it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent developments.

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims Reserves as at 31st December 2017 has been actuarially computed by Mr. Matthew Maguire, FIAA, for and on behalf of NMG Financial Services Consulting Pte Limited. The valuation is based on internationally accepted actuarial methods and is performed on a semi annual basis and ensured adequate reserves are maintained.

### 20.7 Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for General Insurance Contract Liability was carried out by Mr. Matthew Maguire, FIAA, for and on behalf of NMG Financial Services Consulting Pte Limited as at 31st December 2017 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on semi annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31st December 2017. No additional provision was required against the LAT as at 31st December 2017.

### 21. EMPLOYEE BENEFITS

#### Accounting Policy

##### Short Term Benefits

Short term 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 or profit-sharing plans if the Group 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.

##### Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in Profit and Loss when incurred.

##### Employee Provident Fund

All employees of the Group are members of the Employees' Provident Fund (EPF). The Group and employees contribute 12% and 8% respectively of the salary to EPF.

##### Employees Trust Fund

All employees of the Group are members of the Employees' Trust Fund (ETF). The Group contributes 3% of the salary of each employee to ETF.

## 21. EMPLOYEE BENEFITS (Contd.)

## Accounting Policy

## Defined Benefit Employee Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified Actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - Employee Benefits. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

The re-measurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognised immediately in Other Comprehensive Income.

Under the Payment of Gratuity Act, No. 12 of 1983, the liability to pay the gratuity to an employee arises only on completion of 5 years of continued service.

## 21.1 Employee Defined Contribution Plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Employees' Provident Fund</b>				
Employer's contribution (12%)	66,966	56,333	32,989	28,725
Employees' contribution (8%)	44,644	37,555	21,993	19,150
<b>Employees' Trust Fund</b>				
Employees' Trust Fund (3%)	16,742	14,083	8,247	7,181
<b>21.2 Defined benefit plans - Provision for Employee Benefits</b>				
Present value of unfunded obligation (Note 21.2.1)	126,083	90,433	73,875	50,883
<b>21.2.1 Movement in the present value of the Employee Benefits</b>				
<b>Balance as at 01st January</b>	90,433	81,001	50,883	44,008
Provision recognised during the year (Note 21.2.1.a)	30,540	24,142	18,028	13,984
Actuarial Loss / (Gain) during the plan year (Note 21.2.1.b)	12,550	(2,883)	7,998	(153)
	133,523	102,260	76,909	57,839
Payments during the year	(7,440)	(11,827)	(3,397)	(8,156)
Adjustment due to transfer of employees from Subsidiary company	-	-	363	1,200
<b>Balance as at 31st December</b>	126,083	90,433	73,875	50,883

## Accounting Policies and Notes to the Financial Statements

### 21. EMPLOYEE BENEFITS (Contd.)

#### 21.1 Employee Defined Contribution Plans (Contd.)

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>21.2.1.a Provision recognised in Profit or Loss</b>				
Current service cost	19,688	13,856	11,922	8,291
Interest on obligation	10,852	10,286	6,106	5,693
<b>Total</b>	<b>30,540</b>	<b>24,142</b>	<b>18,028</b>	<b>13,984</b>
<b>21.2.1.b Provision recognised in Other Comprehensive Income</b>				
Actuarial (Loss) / Gain due to changes in assumptions	(12,714)	9,131	(7,463)	5,064
Actuarial (Loss) / Gain due to changes in experience	164	(6,248)	(535)	(4,911)
<b>Actuarial (Loss) / Gain during the plan year</b>	<b>(12,550)</b>	<b>2,883</b>	<b>(7,998)</b>	<b>153</b>

As at 31st December 2017, the Gratuity liability was actuarially valued under the Projected Unit Credit (PUC) method by Consultant Actuary Mr. Pushpakumar Gunasekera (Actuary/Associate of Institute of Australia.) of Messers Smiles Global (Pvt) Ltd.

21.2.2 According to LKAS 19 - Employee Benefits, the re-measurements of the Net Defined Benefit Liability, which comprise actuarial gains and losses are recognised in Other Comprehensive Income.

#### 21.3 Principal Assumptions used

	Group		Company	
	2017	2016	2017	2016
(a) Discount Rate	10.0%	12.0%	10.0%	12.0%
(b) Future Salary Increase Rate	9.0%	9.5%	9.0%	9.5%
(c) Early withdrawal through Resignations				
- Less than 5 years	25% - 33%	18%	33%	18%
- More than 5 years	9% - 10%	7.5%	10.0%	7.5%
(d) Retirement Age	55 years	55 years	55 years	55 years

The Gratuity Liability is not externally funded.

#### 21.4 Maturity Analysis of the Liability

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Within next 12 Months	2,436	-	1,526	-
Between 1 to 2 Years	2,590	2,242	2,175	1,128
Between 2 to 5 Years	28,287	10,181	17,630	6,295
Between 5 to 10 Years	91,563	50,503	52,544	28,115
Beyond 10 years	1,207	27,507	-	15,345
<b>Total</b>	<b>126,083</b>	<b>90,433</b>	<b>73,875</b>	<b>50,883</b>

**21. EMPLOYEE BENEFITS (Contd.)****21.5 Sensitivity of assumptions employed in Actuarial valuation for the Group**

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

As at 31st December,	2017		2016	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
	Increase	Decrease	Increase	Decrease
Discount Rate (1% movement)	(3,513)	3,929	(3,049)	3,425
Future Salary Growth Rate (1% movement)	4,167	(3,787)	3,666	(3,310)

**22. CURRENT TAX LIABILITIES****Accounting Policy**

Current tax liabilities consist of amounts expected to be paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date.

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January	3,300	-	-	-
Current tax for the year	34,600	3,300	-	-
Under provision pertaining to previous year	621	-	-	-
	38,521	3,300	-	-
<b>Tax set off during the year</b>				
Economic Service Charge	(3,923)	-	-	-
<b>Balance as at 31st December</b>	<b>34,598</b>	<b>3,300</b>	<b>-</b>	<b>-</b>

**23. REINSURANCE CREDITORS****Accounting Policy**

Reinsurance creditors consist of premiums payable to reinsurers. Amounts payable are estimated in a manner consistent with the relevant reinsurance contract and are recognised at cost.

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Domestic Reinsurer - National Insurance Trust Fund (NITF)	95,723	70,135	-	-
Foreign Reinsurers	257,319	217,760	90,650	39,395
<b>Total Reinsurance Creditors</b>	<b>353,042</b>	<b>287,895</b>	<b>90,650</b>	<b>39,395</b>

## Accounting Policies and Notes to the Financial Statements

### 24. OTHER LIABILITIES

#### Accounting Policy

##### Financial Liabilities

The Group initially recognises financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

##### Other Liabilities

Other Liabilities include accruals and advances and these liabilities are recorded at the amounts that are expected to be paid.

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs:'000	Rs:'000	Rs:'000	Rs:'000
Policyholders Advance Payments		85,998	99,857	85,998	99,857
Acquisition Cost Payable		139,268	135,020	69,823	75,509
Advisor Terminal Benefit Scheme	(Note 24.1)	173,879	134,304	156,703	121,201
Government Levies		71,331	71,529	14,494	14,219
Amounts due to Related Parties	(Note 24.2)	25,701	21,005	15,300	14,675
Accrued Expenses		116,362	117,767	71,392	70,750
Co - Insurance Payable		3,682	3,327	-	-
Claims payable		645	1,048	-	-
Staff Related Payables		133,817	86,738	90,949	86,738
Others		145,605	110,651	25,203	22,682
<b>Total</b>		<b>896,288</b>	<b>781,246</b>	<b>529,862</b>	<b>486,474</b>
<b>24.1 Advisor Terminal Benefit Scheme</b>					
Life Insurance		156,703	121,201	156,703	121,201
General Insurance		17,176	13,103	-	-
<b>Total</b>		<b>173,879</b>	<b>134,304</b>	<b>156,703</b>	<b>121,201</b>
<b>24.2 Amounts due to Related Parties</b>					
Hatton National Bank PLC		25,701	21,005	15,300	14,675
<b>Total</b>		<b>25,701</b>	<b>21,005</b>	<b>15,300</b>	<b>14,675</b>



## 25. GROSS WRITTEN PREMIUM (GWP)

## Accounting Policy

## Revenue Recognition

## Life Insurance business

Gross Written Premiums on Life Insurance contracts are recognised as revenue when a premium is due from a Policyholder (policies within the 30 day grace period are considered as due). Premiums received in advance are not recorded as revenue but recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as revenue. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

## General Insurance business

Gross Written Premiums on General Insurance comprise the total premiums received / receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums are generally recognised upon the inception of the policy as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

For the Year Ended 31st December,	Group							
	2017				2016			
	Basic	*SRCC/TC	**Co - Insurance Local	Total	Basic	*SRCC/TC	**Co - Insurance Local	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>General Insurance</b>								
Fire	388,848	160,776	(10,274)	539,350	326,267	147,231	(11,915)	461,583
Motor	2,403,886	445,419	(263)	2,849,042	1,892,931	336,338	(219)	2,229,050
Marine	57,387	79	(15)	57,451	42,010	41	-	42,051
Miscellaneous	438,979	21,761	(80)	460,660	394,681	17,074	(2,880)	408,875
Adjustment for Inter Company premiums	(23,045)	-	-	(23,045)	(20,228)	-	-	(20,228)
<b>Gross Written Premium - General Insurance</b>	<b>3,266,055</b>	<b>628,035</b>	<b>(10,632)</b>	<b>3,883,458</b>	<b>2,635,661</b>	<b>500,684</b>	<b>(15,014)</b>	<b>3,121,331</b>
<b>Life Insurance</b>								
Individual Policies	-	-	-	3,891,527	-	-	-	3,426,072
Corporate Policies	-	-	-	72,115	-	-	-	128,006
Adjustment for Inter Company premiums	-	-	-	(25,632)	-	-	-	(18,715)
<b>Gross Written Premium - Life Insurance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,938,010</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,535,363</b>
<b>Total Gross Written Premium</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,821,468</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,656,694</b>

\* SRCC – (Strike Riot and Civil Commotion Cover), TC – (Terrorism Cover); both ceded to the SRCC and TC Fund

\*\* Co-Insurance is an arrangement to share risks with domestic insurer under a special contract and the portion shared with the co-insurance partner is not considered as a part of Gross Written Premium.

## Accounting Policies and Notes to the Financial Statements

### 25. GROSS WRITTEN PREMIUM (GWP) (Contd.)

For the Year Ended 31st December,	Company							
	2017				2016			
	Basic	SRCC/TC	Co - Insurance Local	Total	Basic	SRCC/TC	Co - Insurance Local	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Life Insurance								
Individual Policies	-	-	-	3,891,527	-	-	-	3,426,072
Corporate Policies	-	-	-	72,115	-	-	-	128,006
<b>Total Gross Written Premium</b>	-	-	-	<b>3,963,642</b>	-	-	-	<b>3,554,078</b>

### 26. PREMIUM CEDED TO REINSURERS

#### Accounting Policy

Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Value of the reinsurance premiums are decided based on rates agreed with reinsurers.

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>General Insurance</b>				
Fire	522,305	414,062	-	-
Motor	105,347	73,787	-	-
Marine	50,900	37,465	-	-
Miscellaneous	232,928	193,349	-	-
	<b>911,480</b>	<b>718,663</b>	-	-
<b>Life Insurance</b>	<b>189,093</b>	<b>159,050</b>	<b>189,093</b>	<b>159,050</b>
	<b>189,093</b>	<b>159,050</b>	<b>189,093</b>	<b>159,050</b>
<b>Total Premium Ceded to Reinsurers</b>	<b>1,100,573</b>	<b>877,713</b>	<b>189,093</b>	<b>159,050</b>

## 27. NET CHANGE IN RESERVES FOR UNEARNED PREMIUM

## Accounting Policy

Gross Written Premium (GWP) is deferred over the term of the underlying policies' risk attached period according to the Regulation of Insurance Industry Act, No. 43 of 2000 and Unearned premiums are the proportion of premiums that relate to the period of risk after the respective reporting period. Company uses 1/24th basis to defer the GWP of all policies except for the Marine Insurance policies and Title Insurance policies, where Marine Insurance premiums are deferred based on 60 : 40 basis and total premiums on Title Insurance are transferred to Title Insurance Reserve for the reporting period.

Similarly Reinsurance Premiums attached to those policies are also deferred over the policies' risk attached period using the same basis as mentioned above. Further, Title Insurance Reserve is maintained based on the net transfer of Net Written Premium after deducting acquisition cost and profit recognised during that period.

As at 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>General Insurance</b>					
Change in Reserve for Unearned Premium	(Note 20.1.a)	(359,824)	(295,514)	-	-
Change in Reserve for Unearned Reinsurers Premium	(Note 20.1.b)	46,235	114,870	-	-
Transfer to Title Insurance Reserve	(Note 20.2)	(15,229)	(458)	-	-
<b>Total Net Change in Reserves for Unearned Premium</b>		<b>(328,818)</b>	<b>(181,102)</b>	<b>-</b>	<b>-</b>

## 28. NET EARNED PREMIUM

For the Year Ended 31st December,	Group					
	2017			2016		
	General	Life	Total	General	Life	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	3,906,503	3,963,642	7,870,145	3,141,559	3,554,078	6,695,637
Adjustment for Inter Company Premium	(23,045)	(25,632)	(48,677)	(20,228)	(18,715)	(38,943)
	<b>3,883,458</b>	<b>3,938,010</b>	<b>7,821,468</b>	<b>3,121,331</b>	<b>3,535,363</b>	<b>6,656,694</b>
Change in Reserve for Unearned Premium	(359,824)	-	(359,824)	(295,514)	-	(295,514)
<b>Gross Earned Premium (a)</b>	<b>3,523,634</b>	<b>3,938,010</b>	<b>7,461,644</b>	<b>2,825,817</b>	<b>3,535,363</b>	<b>6,361,180</b>
Premium Ceded to Reinsurance	(911,480)	(189,093)	(1,100,573)	(718,663)	(159,050)	(877,713)
Change in Reserve for Unearned Reinsurance Premium	46,235	-	46,235	114,870	-	114,870
<b>Gross Reinsurance Premium (b)</b>	<b>(865,245)</b>	<b>(189,093)</b>	<b>(1,054,338)</b>	<b>(603,793)</b>	<b>(159,050)</b>	<b>(762,843)</b>
Transfer to Title Insurance Reserve (c)	(15,229)	-	(15,229)	(458)	-	(458)
<b>Total Net Earned Premium (a+b+c)</b>	<b>2,643,160</b>	<b>3,748,917</b>	<b>6,392,077</b>	<b>2,221,566</b>	<b>3,376,313</b>	<b>5,597,879</b>

## Accounting Policies and Notes to the Financial Statements

### 28. NET EARNED PREMIUM (Contd.)

For the Year Ended 31st December,	Company	
	2017	2016
	Rs.'000	Rs.'000
Gross Written Premium	3,963,642	3,554,078
Premium Ceded to Reinsurance	(189,093)	(159,050)
<b>Total Net Earned Premium</b>	<b>3,774,549</b>	<b>3,395,028</b>

### 29. INTEREST AND DIVIDEND INCOME

#### Accounting Policy

Interest income and expenses are recognised in Profit or Loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Dividend income is recognised when the right to receive income is established which is usually the ex-dividend date of equity securities. Dividends are presented in net trading income or net income from other financial instruments at Fair Value Through Profit or Loss.

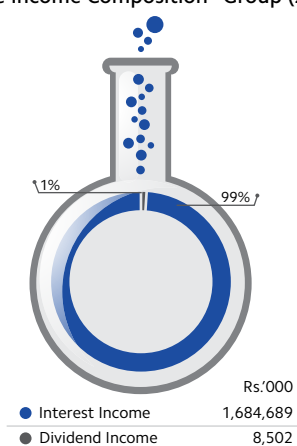
For the Year Ended 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest Income	(Note 29.1)	1,684,689	1,166,369	1,435,151	976,943
Dividend Income	(Note 29.2)	8,502	13,716	6,922	11,016
<b>Total Interest Income and Dividend Income</b>		<b>1,693,191</b>	<b>1,180,085</b>	<b>1,442,073</b>	<b>987,959</b>
<b>29.1 Interest Income</b>					
<b>Interest Income from Financial Investments - Held to Maturity</b>					
- Treasury Bonds		23,678	39,482	23,678	31,192
<b>Total (a)</b>		<b>23,678</b>	<b>39,482</b>	<b>23,678</b>	<b>31,192</b>
<b>Interest Income from Financial Investments - Loans and Receivables</b>					
- Debentures		330,015	327,040	276,885	266,849
- Repurchase Agreements on Government Securities		91,822	105,971	68,643	87,560
- Fixed Deposits		365,059	126,206	291,730	96,469
- Staff, Advisor and Policy Loans		63,059	51,039	45,872	37,981
<b>Total (b)</b>		<b>849,955</b>	<b>610,256</b>	<b>683,130</b>	<b>488,859</b>

## 29. INTEREST AND DIVIDEND INCOME (Contd.)

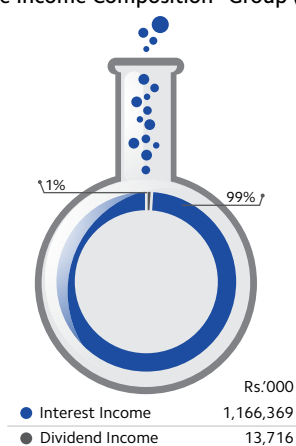
### 29.1 Interest Income (Contd.)

For the Year Ended 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Interest Income from Financial Investments - Available For Sale</b>				
- Treasury Bonds	722,427	402,782	675,635	378,587
- Treasury Bills	66,132	96,787	35,825	66,023
<b>Total (c)</b>	<b>788,559</b>	<b>499,569</b>	<b>711,460</b>	<b>444,610</b>
<b>Interest Income from Financial Investments - Fair Value Through Profit or Loss</b>				
- Treasury Bonds	-	2,464	-	1,754
<b>Total (d)</b>	<b>-</b>	<b>2,464</b>	<b>-</b>	<b>1,754</b>
Interest Income from Cash and Cash Equivalents (e)	22,497	14,598	16,883	10,528
<b>Total Interest Income (a+b+c+d+e)</b>	<b>1,684,689</b>	<b>1,166,369</b>	<b>1,435,151</b>	<b>976,943</b>
<b>29.2 Dividend Income</b>				
- Equity Shares	8,330	12,048	6,802	9,508
- Investment in Units	172	1,668	120	1,508
<b>Total Dividend Income</b>	<b>8,502</b>	<b>13,716</b>	<b>6,922</b>	<b>11,016</b>

Finance Income Composition - Group (2017)



Finance Income Composition - Group (2016)



## Accounting Policies and Notes to the Financial Statements

### 30. NET REALISED GAINS / (LOSSES)

#### Accounting Policy

Net Realised Gains/(Losses) comprises gains less losses related to Financial Instruments. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost which are recorded on occurrence of the sale.

For the Year Ended 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial Investments - Available For Sale</b>				
<b>Realised Gains</b>				
- Treasury Bonds	15,922	-	14,612	-
- Equity Shares	14,563	-	13,284	-
<b>Total (a)</b>	<b>30,485</b>	<b>-</b>	<b>27,896</b>	<b>-</b>
<b>Realised Losses</b>				
- Equity Shares	-	(14,466)	-	(11,614)
<b>Total (b)</b>	<b>-</b>	<b>(14,466)</b>	<b>-</b>	<b>(11,614)</b>
<b>Financial Investments - Fair Value Through Profit or Loss</b>				
<b>Realised Gains</b>				
- Unit Trusts	2	897	-	373
- Equity Shares	1,896	-	893	-
<b>Total (c)</b>	<b>1,898</b>	<b>897</b>	<b>893</b>	<b>373</b>
<b>Realised Losses</b>				
- Treasury Bonds	-	(10,041)	-	(7,340)
- Equity Shares	-	(8,287)	-	(4,500)
<b>Total (d)</b>	<b>-</b>	<b>(18,328)</b>	<b>-</b>	<b>(11,840)</b>
<b>Financial Investments - Loans and Receivables</b>				
- Debentures	148	1,698	-	646
- Foreign Exchange - Term Deposits	597	1,080	-	-
<b>Total (e)</b>	<b>745</b>	<b>2,778</b>	<b>-</b>	<b>646</b>
<b>Total Net Realised Gains / (Losses) (a+b+c+d+e)</b>	<b>33,128</b>	<b>(29,119)</b>	<b>28,789</b>	<b>(22,435)</b>



## 31. NET FAIR VALUE GAINS / (LOSSES)

## Accounting Policy

Net fair value gains / (losses) comprises fair value gains / (Losses) on financial assets at Fair Value Through Profit or Loss and Loans and Receivables categories and any impairment loss of Available For Sales financial assets.

For the Year Ended 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial Investments at Fair Value Through Profit or Loss</b>				
<b>Unrealised Gains</b>				
- Unit Trust	1,945	-	1,360	-
- Equity Shares	6,902	-	6,902	-
<b>Total (a)</b>	<b>8,847</b>	<b>-</b>	<b>8,262</b>	<b>-</b>
<b>Unrealised Losses</b>				
- Equity Shares	(747)	(7,778)	-	(5,313)
- Unit Trust	-	(350)	-	(288)
<b>Total (b)</b>	<b>(747)</b>	<b>(8,128)</b>	<b>-</b>	<b>(5,601)</b>
<b>Financial Investments at Available For Sale</b>				
Impairment of Available For Sale Financial Asset	(1,856)	(4,373)	(1,447)	(3,335)
<b>Total (c)</b>	<b>(1,856)</b>	<b>(4,373)</b>	<b>(1,447)</b>	<b>(3,335)</b>
<b>Loans and Receivables</b>				
<b>Unrealised Gains</b>				
- Foreign Exchange - Term Deposits (d)	3,460	6,040	838	1,143
<b>Total Net Fair Value Gains / (Losses) (a+b+c+d)</b>	<b>9,704</b>	<b>(6,461)</b>	<b>7,653</b>	<b>(7,793)</b>

## Accounting Policies and Notes to the Financial Statements

### 32. FEES AND COMMISSION INCOME

#### Accounting Policy

Insurance contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or become due.

For the Year Ended 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit Commission from Reinsurers	18,466	32,624	19,330	28,453
Fund Management Fee	29,516	24,811	34,059	28,883
Policy and Related Fee	81,117	71,363	8,105	5,522
<b>Total Fee and Commission Income</b>	<b>129,099</b>	<b>128,798</b>	<b>61,494</b>	<b>62,858</b>

### 33. OTHER INCOME

#### Accounting Policy

Incomes earned on other sources, which are not directly related to the normal operations of the Group/Company are recognised as Other Income upon receipt or become due.

For the Year Ended 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit on Sale of Property, Plant and Equipment	5,584	-	5,934	-
Sundry Income	41,151	25,019	19,024	11,017
<b>Total Other Income</b>	<b>46,735</b>	<b>25,019</b>	<b>24,958</b>	<b>11,017</b>

## 34. NET INSURANCE BENEFITS AND CLAIMS PAID

## Accounting Policy

## Net Insurance Benefits and Claims Paid

## Life Insurance business

Claims by death and maturity are charged on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

## General Insurance business

General Insurance claims include all claims occurred during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, reductions for the value of salvage and other recoveries, and any adjustments to Claims Outstanding from previous years. 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 Claims Incurred But Not Reported (IBNR) and Claims Incurred But Not Enough Reported (IBNER) are actuarially valued to ensure a more realistic estimation of the future liability based on the past experience and trends. Actuarial valuations are performed on a quarterly basis.

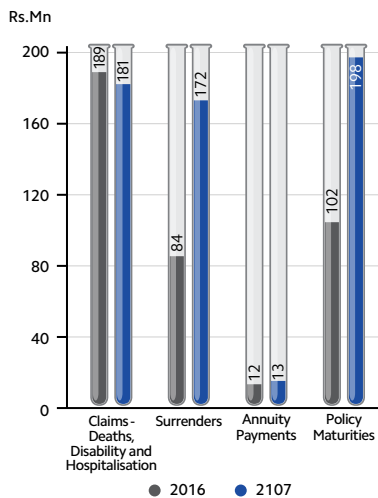
Whilst the provisions for claims are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such amounts are reflected in the Financial Statements for the relevant period.

The methods used to estimate claims and the estimated claim values are reviewed regularly.

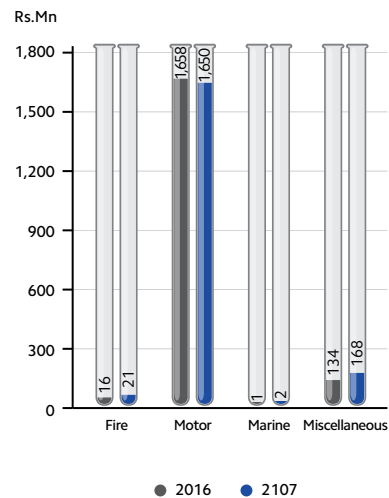
## Reinsurance Claims

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

Net Claims Paid - Life Insurance



Net Claims Paid - General Insurance



## Accounting Policies and Notes to the Financial Statements

### 34. NET INSURANCE BENEFITS AND CLAIMS PAID (Contd.)

For the Year Ended 31st December,	Group					
	2017			2016		
	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>General Insurance</b>						
Fire	350,593	(329,308)	21,285	262,325	(246,249)	16,076
Motor	1,689,064	(39,294)	1,649,770	1,749,159	(90,781)	1,658,378
Marine	10,975	(9,273)	1,702	4,996	(4,367)	629
Miscellaneous	226,818	(58,412)	168,406	150,885	(16,746)	134,139
	<b>2,277,450</b>	<b>(436,287)</b>	<b>1,841,163</b>	<b>2,167,365</b>	<b>(358,143)</b>	<b>1,809,222</b>
Recoveries from Sale of Salvage			(225,243)			(229,659)
<b>Net General Insurance Claims (a)</b>			<b>1,615,920</b>			<b>1,579,563</b>
<b>Life Insurance</b>						
Claims - Deaths, Disability and Hospitalisation	250,904	(70,020)	180,884	236,637	(47,140)	189,497
Surrenders	171,748	-	171,748	84,062	-	84,062
Annuity Payments	13,254	-	13,254	12,491	-	12,491
Policy Maturities	197,742	-	197,742	101,779	-	101,779
	<b>633,648</b>	<b>(70,020)</b>	<b>563,628</b>	<b>434,969</b>	<b>(47,140)</b>	<b>387,829</b>
Adjustments for Inter Company Claims			(992)			(633)
<b>Net Life Insurance Claims (b)</b>			<b>562,636</b>			<b>387,196</b>
<b>Total Net Insurance Benefits and Claims Paid (a+b)</b>			<b>2,178,556</b>			<b>1,966,759</b>

For the Year Ended 31st December,	Company					
	2017			2016		
	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Life Insurance</b>						
Claims - Deaths, Disability and Hospitalisation	250,904	(70,020)	180,884	236,637	(47,140)	189,497
Surrenders	171,748	-	171,748	84,062	-	84,062
Annuity Payments	13,254	-	13,254	12,491	-	12,491
Policy Maturities	197,742	-	197,742	101,779	-	101,779
	<b>633,648</b>	<b>(70,020)</b>	<b>563,628</b>	<b>434,969</b>	<b>(47,140)</b>	<b>387,829</b>
<b>Total Net Insurance Benefits and Claims Paid</b>			<b>563,628</b>			<b>387,829</b>

## 35. NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

For the Year Ended 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Change in Insurance Claims Outstanding				
Life Insurance (a)	1,575	32,491	1,575	32,491
General Insurance				
Fire	28,240	230,053	-	-
Motor	114,674	(48,510)	-	-
Marine	(3,707)	4,350	-	-
Miscellaneous	(4,687)	8,307	-	-
Total General Insurance (b)	134,520	194,200	-	-
Total Gross Change in Insurance Claims Outstanding (c = a+b)	136,095	226,691	1,575	32,491
Gross Change in Reinsurance Recoverable on Claims Outstanding				
Life Insurance (d)	10,348	(18,643)	10,348	(18,643)
General Insurance				
Fire	(17,088)	(226,907)	-	-
Motor	(14,044)	(995)	-	-
Marine	3,394	(3,943)	-	-
Miscellaneous	(3,855)	4,683	-	-
Total General Insurance (e)	(31,593)	(227,162)	-	-
Total Gross Change in Reinsurance Recoverable on Claims Outstanding (f = d+e)	(21,245)	(245,805)	10,348	(18,643)
Total Net Change in Insurance Claims Outstanding (c+f)	114,850	(19,114)	11,923	13,848

## Accounting Policies and Notes to the Financial Statements

### 36. OTHER OPERATING AND ADMINISTRATION EXPENSES

For the Year Ended 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Staff Expenses	(Note 36.1)	922,873	755,427	465,085	396,851
Administration and Establishment Expense		545,894	471,177	346,003	287,605
Selling Expenses		282,007	262,760	158,145	154,193
Amortisation of Intangible Assets		18,938	20,107	10,913	10,913
Depreciation of Property Plant and Equipment		51,770	44,878	26,997	23,547
Directors' Emoluments and Post Employment Benefits		12,235	11,081	8,075	8,505
Auditor's Fees and Expenses	(Note 36.2)	4,509	3,287	3,026	2,220
Loss on sale of Property, Plant and Equipment		-	3,763	-	2,592
Legal Fees		492	184	226	119
Donations		300	300	300	300
<b>Total Other Operating and Administration Expenses</b>		<b>1,839,018</b>	<b>1,572,964</b>	<b>1,018,770</b>	<b>886,845</b>
<b>36.1 Staff Expenses</b>					
Staff Salaries		558,054	469,438	274,905	239,378
Defined Contribution Plan Costs - EPF 12%		66,966	56,333	32,989	28,725
Defined Contribution Plan Costs - ETF 3%		16,742	14,083	8,247	7,181
Defined Benefit Plan Costs - Employee Benefits		30,540	24,142	15,469	12,250
Other Staff Costs		250,571	191,431	133,475	109,317
<b>Total</b>		<b>922,873</b>	<b>755,427</b>	<b>465,085</b>	<b>396,851</b>
<b>36.2 Auditor's Fees and Expenses</b>					
Audit Fees and Expenses		3,131	2,953	2,156	2,023
Audit Related Fees		1,378	334	870	197
<b>Total</b>		<b>4,509</b>	<b>3,287</b>	<b>3,026</b>	<b>2,220</b>



## 37. UNDERWRITING AND NET ACQUISITION COSTS

## Accounting Policy

Expenses for acquisition and maintenance of Life and General Insurance business are accounted on accrual basis. Reinsurance Commission Income is accrued according to the agreed terms with the reinsurers.

For the Year Ended 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Underwriting and Acquisition Costs		1,263,214	1,106,279	836,026	759,143
Reinsurance Commission		(204,006)	(174,382)	(13,311)	(11,092)
Increase in Deferred Acquisition Expenses	(Note 37.1)	(30,336)	(9,016)	-	-
<b>Total Underwriting and Net Acquisition Costs</b>		<b>1,028,872</b>	<b>922,881</b>	<b>822,715</b>	<b>748,051</b>
37.1 (Increase) / Decrease in Deferred Acquisition Expenses					
Commission Income from Reinsurers		(7,470)	(20,160)	-	-
Commission Cost		37,806	29,176	-	-
<b>Total Increase in Deferred Acquisition Expenses</b>		<b>30,336</b>	<b>9,016</b>	<b>-</b>	<b>-</b>

## Accounting Policies and Notes to the Financial Statements

### 38. INCOME TAX EXPENSES

#### Accounting Policy

Income Tax Expense comprises current and Deferred Tax. Current and deferred taxes are recognised in Profit or Loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

##### Current Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years. Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and the amendments thereto.

Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in Equity or Other Comprehensive Income is recognised in equity or Other Comprehensive Income and not in Profit or Loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

##### 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 substantively enacted by the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences. As at the date of the Statement of Financial Position, the Group has deferred tax liabilities arising from Property Plant and Equipment.

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 fully utilised. Deferred tax assets, if any, 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.

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside Profit or Loss, if any is recognised outside Profit or Loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**38. INCOME TAX EXPENSES (Contd.)**

The major components of income tax expense for the years ended 31st December are as follows :

For the Year Ended 31st December,		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
38.1.a	<b>Tax recognised in Profit or Loss</b>				
	<b>Current Income Tax</b>				
	Income Tax on Current Year's Profits	34,600	3,300	-	-
	Notional Tax Unutilised During the Year	-	56,512	-	56,512
	Under Provision of Current Taxes in respect of Prior Years	621	-	-	-
	<b>Total Current Income Tax (a)</b>	<b>35,221</b>	<b>59,812</b>	<b>-</b>	<b>56,512</b>
	<b>Deferred Income Tax</b>				
	Origination of Deferred Tax Liability	742	(987)	-	-
	Origination of Deferred Tax Assets	(18,688)	(717)	-	-
	<b>Deferred Taxation (b)</b> (Note 38.5.b)	<b>(17,946)</b>	<b>(1,704)</b>	<b>-</b>	<b>-</b>
	<b>Total Income Tax Expenses (a+b)</b>	<b>17,275</b>	<b>58,108</b>	<b>-</b>	<b>56,512</b>
38.1.b	<b>Tax recognised in Other Comprehensive Income</b>				
	<b>Deferred Income Tax</b>				
	Origination of Deferred Tax Assets (Note 38.5.b)	6,770	(1,825)	-	-
38.2	<b>Reconciliation of effective Tax rate</b>				
	<b>Profit for the year</b>	<b>909,752</b>	<b>647,413</b>	<b>725,665</b>	<b>600,130</b>
	Income Tax Expenses	35,221	3,300	-	-
	Notional tax Unutilised during the year	-	56,512	-	56,512
	Origination of Deferred Tax Assets	(17,946)	(1,704)	-	-
	<b>Profit Before Tax</b>	<b>927,027</b>	<b>705,521</b>	<b>725,665</b>	<b>656,642</b>
	At the Statutory Income Tax Rate of 28% (2016 : 28%)	259,568	197,546	203,186	183,860
	Income Exempt from Tax	(223,533)	(204,691)	(203,186)	(183,860)
	Aggregate Allowable Expenses	(6,175)	(5,089)	-	-
	Aggregate Disallowed Expenses	23,328	17,282	-	-
	Utilisation of Previous Tax Losses	(18,588)	(1,748)	-	-
	Under Provision of Current Taxes in Respect of Prior Years	621	-	-	-
	Notional Tax Unutilised During the Year	-	56,512	-	56,512
	Origination of Deferred Tax Assets	(17,946)	(1,704)	-	-
	<b>Income Tax Expenses</b>	<b>17,275</b>	<b>58,108</b>	<b>-</b>	<b>56,512</b>

- 38.3** The Company and its subsidiary are liable to pay income tax at the rate of 28% of its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto. There is no Income Tax Expense recognised in the Company due to the tax losses produced.

## Accounting Policies and Notes to the Financial Statements

### 38. INCOME TAX EXPENSES (Contd.)

		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
38.4	<b>Tax Loss Analysis</b>				
	Balance as at 01st January	4,708,101	3,738,309	4,374,944	3,407,860
	Prior Year Adjustments	2,688	1,238	7,778	(7,712)
	Tax Loss Utilised During the Year	(66,384)	(6,242)	-	-
	Tax Losses for the Year	728,638	974,796	728,638	974,796
	Balance as at 31st December	5,373,043	4,708,101	5,111,360	4,374,944
38.5	<b>Deferred Taxation</b>				
	Deferred Tax Assets (Note 38.5.a)	70,100	58,182	-	-
	Deferred Tax Liabilities (Note 38.5.b)	(6,002)	(5,260)	-	-
	Net Deferred Tax Asset	64,098	52,922	-	-

As at 31st December,	Group							
	Statement of Financial Position				Profit or Loss		Other Comprehensive Income	
	2017		2016		2017	2016	2017	2016
	Temporary Difference	Tax Effect Assets/ (Liability)	Temporary Difference	Tax Effect Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
38.5.a	<b>Deferred Tax Assets</b>							
	Employee Benefits	52,208	14,618	39,550	11,074	3,544	(717)	-
	Brought Forward Tax Losses	211,217	59,141	157,131	43,997	15,144	-	-
	Available For Sale Financial Assets	(13,068)	(3,659)	11,110	3,111	-	-	6,770
	<b>Total</b>	<b>250,357</b>	<b>70,100</b>	<b>207,791</b>	<b>58,182</b>	<b>18,688</b>	<b>(717)</b>	<b>6,770</b>
38.5.b	<b>Deferred Tax Liability</b>							
	Property, Plant and Equipment	21,436	(6,002)	18,784	(5,260)	(742)	(987)	-
	<b>Total</b>		<b>64,098</b>		<b>52,922</b>	<b>17,946</b>	<b>(1,704)</b>	<b>6,770</b>

The Company has unutilised tax losses to recognise a Deferred Tax Asset up to the extent of the Deferred Tax Liability arising from taxable temporary differences in the Company. Eventhough Company will have taxable profits under the New Inland Revenue Act which will be effective from 01st April 2018, no Deferred Tax Asset is recognised in the Financial Statements until the Transitional Provisions are made available on the utilisation of carried forward Tax Losses from previous act. The unrecognised Deferred Tax Asset as at 31st December 2017 in Life Insurance business amounted to Rs. 1,431 Million (Rs. 5,111,360 x 28%) and 2016 - Rs. 1,225 Million (Rs. 4,374,944 x 28%). Tax assessments pertaining to these carried forward tax losses are disclosed in Note 46 of page 373.

However HNB General Insurance Limited recorded a Deferred Tax Asset amounted to Rs 59.14 Million (2016 - Rs. 43.99 Million) as a result of tax losses made in 2015. The unrecognised Deferred Tax asset on Tax Losses of HNB General Insurance Limited as at 31st December 2017 in General Insurance business amounted to Rs. 14.13 Million (2016 - Rs. 49.97 Million.)

## 39. BASIC EARNINGS PER SHARE (EPS)

## Accounting Policy

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the Profit or Loss attributable to ordinary shareholders of the Group/Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the Profit or Loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

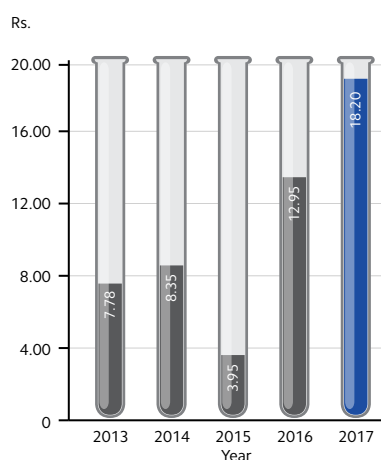
The calculation of the Basic Earnings Per Share as at reporting date was based on the Profit attributable to the ordinary shareholders and a weighted average number of ordinary shares outstanding as at that date.

For the Year Ended 31st December,	Group		Company	
	2017	2016	2017	2016
<b>Amounts used as the numerator:</b>				
Net Profit Attributable to Ordinary Shareholders (Rs. '000)	909,752	647,413	725,665	600,130
<b>Number of Ordinary Shares used as the denominator:</b>				
Weighted of shares as at 31st December ('000)	50,000	50,000	50,000	50,000
<b>Basic Earnings Per Share (Rs.)</b>	<b>18.20</b>	<b>12.95</b>	<b>14.51</b>	<b>12.00</b>

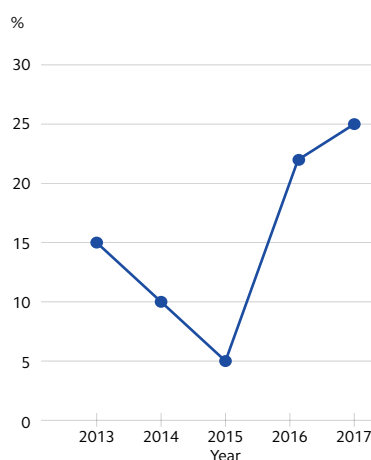
## 39.1 Dilutive Earnings Per Share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, diluted Earnings Per Share is same as Basic Earnings Per Share shown above.

Earnings Per Share - Group (EPS)



Earnings Yield



## Accounting Policies and Notes to the Financial Statements

### 40. DIVIDEND PER SHARE (DPS)

	2017	2016
Dividend per Share (Rs.)	6.00	5.00
<b>40.1 Dividend declared</b>		
Dividends to Shareholders (Rs.'000)	271,186	226,102
Tax deducted at source (Rs.'000)	28,814	23,898
<b>Total</b>	<b>300,000</b>	<b>250,000</b>

### 40.2 Interim Dividend Declared

The Board of Directors has declared a payment of an interim dividend of Rs. 6.00 per share for the Financial year 2017. (2016 final dividend - Rs. 5.00 per share) In accordance with Sri Lanka Accounting Standards LKAS 10 - Events after the Reporting Period, this interim dividend has not been recognised as a liability as at 31st December 2017.

Under the Inland Revenue Amendment Act, No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared from 01st April 2004.

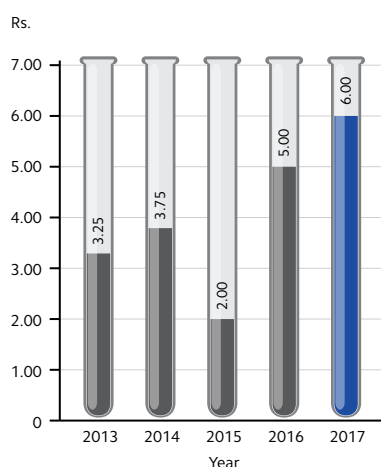
### 40.3 Compliance with the Section 56 and 57 of the Companies Act No. 7 of 2007

As required by the Section 56 of the Companies Act, No. 7 of 2007, the Board of Directors of the Company has satisfied the Solvency Test in accordance with the Section 57, prior to recommending the first and final dividend for the year ended 31st December 2017. A statement of Solvency completed and duly signed by the Directors on 09th February 2018 has been audited by M/S Ernst & Young Sri Lanka.

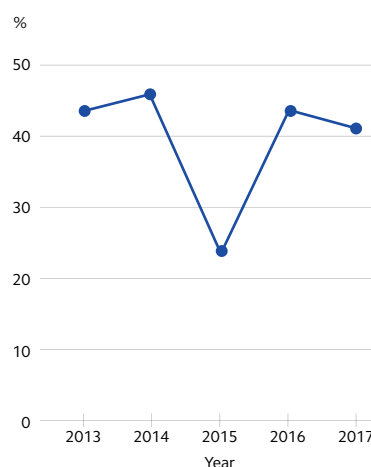
### 40.4 Dividend paid during the year

	2017	2016
	Rs.'000	Rs.'000
Final dividend for 2016: Rs. 5 per share (2015: Rs. 2 per share)	250,000	100,000

**Dividend Per Share (DPS)**



**Dividend Payout**





## 41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT

**Accounting Policy**

The Group measures financial instruments such as Available For Sale and Fair Value Through Profit or Loss, at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability

Or

In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## Accounting Policies and Notes to the Financial Statements

### 41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

#### Accounting Policy

Instrument Category	Fair Value Basis	Fair Value Hierarchy
<b>Government Securities</b>		
Treasury Bonds	Valued using the market yield	Level 1
Treasury Bills	Valued using the market yield	Level 1
<b>Investment in Shares</b>		
Investment in Listed Shares	Volume Weighted Average (VWA) prices	Level 1
<b>Investment in Units</b>		
Investment in Listed Units	Published Market Prices (VWA)	Level 1
Investment in Unlisted Redeemable Units	Published Net Assets Values (NAV)	Level 2
<b>Corporate Debt</b>		
Listed/Unlisted Fixed Rate	Discounted Cash Flow (DCF) Method Using current Treasury Bond/ Treasury bill rates for similar maturity plus a risk premium. The risk premium is determined based on the upgrade/ downgrade of the credit rating of the instrument	Level 2
Unlisted Floating Rate	Cost plus interest	Level 2
<b>Fixed and Term Deposits</b>		
Deposit more than one year	Discounted Cash Flow (DCF) Method Using Treasury Bond rates for similar maturity plus a risk premium. The risk premium is determined based on the upgrade/ downgrade of the credit rating of the institution.	Level 2
<b>Other Financial Assets</b>		
Staff and Advisor Loans	The fair value of the staff and Advisor loans has been computed based on the interest rates prevailed at reporting date	Level 2

Listed Corporate Debt have been classified under level two in fair value hierarchy since there is no active market for these instruments even if such instruments are listed. Therefore when calculating the fair value published market prices are not used.

The following is a list of financial instruments which have not been considered under the fair value measurement hierarchy, because the carrying amount of those financial instruments is a reasonable approximation of fair value since they are short-term in nature or re-price to current market rates frequently :

Assets	Liabilities
- Cash and Cash Equivalents / Term Deposits less than one year	Reinsurance Creditors
- Repo	Other Liabilities (Excluding Government Levies and Accruals)
- Overnight Repo	
- Loans to Life Policyholders	
- Reinsurance Receivables	
- Premium Receivables	

**41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)****41.1 Accounting classifications and fair value - Group**

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

As at 31st December,		Note	2017					Fair value Rs.'000
			Fair Value Through Profit or Loss	Available For Sale	Held to Maturity	Loans and Receivables	Total carrying amount	
			Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
41.1.a	Financial Assets							
	Financial Investments							
	Measured at fair value	6.3 & 6.4	130,285	6,326,735	-	-	6,457,020	6,457,020
	Measured at amortised cost	6.1 & 6.2	-	-	180,460	8,417,430	8,597,890	8,505,981
	Loans to Life Policyholders	8	-	-	-	162,285	162,285	162,285
	Reinsurance Receivables	9	-	-	-	569,778	569,778	569,778
	Premium Receivables	10	-	-	-	786,319	786,319	786,319
	Staff and Advisor Loans	11.1	-	-	-	399,075	399,075	399,075
	Cash and Cash Equivalents	13	-	-	-	641,950	641,950	641,950
	Total Financial Assets		130,285	6,326,735	180,460	10,976,837	17,614,317	17,522,408

As at 31st December,		Note	2017				Fair value Rs.'000
			Fair Value Through Profit or Loss	Other Financial Liabilities	Total carrying amount		
			Rs.'000	Rs.'000	Rs.'000		
41.1.b	Financial Liabilities						
	Reinsurance Creditors	23	-	353,042	353,042		353,042
	Other Liabilities (Excluding Government Levies, Other Provisions and Accruals)	24	-	342,530	342,530		342,530
	Bank Overdraft	13	-	141,660	141,660		141,660
	Total Financial Liabilities		-	837,232	837,232		837,232

As at 31st December,		Note	2016					Fair value Rs.'000
			Fair Value Through Profit or Loss	Available For Sale	Held to Maturity	Loans and Receivables	Total carrying amount	
			Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
41.1.c	Financial Assets							
	Financial Investments							
	Measured at fair value	6.3 & 6.4	156,510	5,869,558	-	-	6,026,068	6,026,068
	Measured at amortised cost	6.1 & 6.2	-	-	174,025	5,344,482	5,518,507	5,185,954
	Loans to Life Policyholders	8	-	-	-	120,441	120,441	120,441
	Reinsurance Receivables	9	-	-	-	494,726	494,726	494,726
	Premium Receivables	10	-	-	-	623,294	623,294	623,294
	Staff and Advisor Loans	11.1	-	-	-	353,472	353,472	353,472
	Cash and Cash Equivalents	13	-	-	-	625,527	625,527	625,527
	Total Financial Assets		156,510	5,869,558	174,025	7,561,942	13,762,035	13,429,482

## Accounting Policies and Notes to the Financial Statements

### 41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

#### 41.1 Accounting classifications and fair value - Group (Contd.)

As at 31st December,		2016			
		Fair Value Through Profit or Loss	Other Financial Liabilities	Total carrying amount	Fair value
		Note	Rs.'000	Rs.'000	Rs.'000
Financial Liabilities					
Reinsurance Creditors	23	-	287,895	287,895	287,895
Other Liabilities (Excluding Government Levies, Other Provisions and Accruals)	24	-	293,656	293,656	293,656
Total Financial Liabilities		-	581,551	581,551	581,551

41.1.e The Group's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in Note 43.

#### 41.2 Accounting classifications and fair value - Company

The table below sets out the carrying amounts and fair values of the Company's financial assets and financial liabilities:

As at 31st December,		2017					
		Fair Value Through Profit or Loss	Available For Sale	Held to Maturity	Loans and Receivables	Total carrying amount	Fair value
		Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets							
Financial Investments							
Measured at fair value	6.3 & 6.4	111,524	5,659,291	-	-	5,770,815	5,770,815
Measured at amortised cost	6.1 & 6.2	-	-	180,460	6,789,740	6,970,200	6,905,047
Loans to Life Policyholders	8	-	-	-	162,285	162,285	162,285
Reinsurance Receivables	9	-	-	-	65,010	65,010	65,010
Premium Receivables	10	-	-	-	7,488	7,488	7,488
Staff and Advisor Loans	11.1	-	-	-	239,081	239,081	239,081
Cash and Cash Equivalents	13	-	-	-	352,307	352,307	352,307
Total Financial Assets		111,524	5,659,291	180,460	7,615,911	13,567,186	13,502,033

As at 31st December,		2017			
		Fair Value Through Profit or Loss	Other Financial Liabilities	Total carrying amount	Fair value
		Note	Rs.'000	Rs.'000	Rs.'000
Financial Liabilities					
Reinsurance Creditors	23	-	90,650	90,650	90,650
Other Liabilities (Excluding Government Levies, Other Provisions and Accruals)	24	-	241,826	241,826	241,826
Bank Overdraft	13	-	32,756	32,756	32,756
Total Financial Liabilities		-	365,232	365,232	365,232

#### 41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

##### 41.2 Accounting classifications and fair value - Company (Contd.)

As at 31st December,	Note	2016					
		Fair Value Through Profit Or Loss	Available For Sale	Held To Maturity	Loans And Receivables	Total Carrying Amount	Fair Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
41.2.c Financial Assets							
Financial Investments							
Measured at fair value	6.3 & 6.4	119,732	5,095,600	-	-	5,215,332	5,215,332
Measured at amortised cost	6.1 & 6.2	-	-	174,025	4,253,239	4,427,264	4,159,914
Loans to Life Policyholders	8	-	-	-	120,441	120,441	120,441
Reinsurance Receivables	9	-	-	-	54,814	54,814	54,814
Premium Receivables	10	-	-	-	6,805	6,805	6,805
Staff and Advisor Loans	11.1	-	-	-	214,492	214,492	214,492
Cash and Cash Equivalents	13	-	-	-	476,572	476,572	476,572
<b>Total Financial Assets</b>		<b>119,732</b>	<b>5,095,600</b>	<b>174,025</b>	<b>5,126,363</b>	<b>10,515,720</b>	<b>10,248,370</b>

As at 31st December,	Note	2016			
		Fair Value Through Profit or Loss	Other Financial Liabilities	Total Carrying Amount	Fair Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
41.2.d Financial Liabilities					
Reinsurance Creditors	23	-	39,395	39,395	39,395
Other Liabilities (Excluding Government Levies, Other Provisions and Accruals)	24	-	211,385	211,385	211,385
<b>Total Financial Liabilities</b>		<b>-</b>	<b>250,780</b>	<b>250,780</b>	<b>250,780</b>

41.2.e The Company's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in Note 43.

## Accounting Policies and Notes to the Financial Statements

### 41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

#### 41.3 Fair Value Measurement Hierarchy

The table below analyses financial investments carried at fair value, by valuation method, in respect of the fair value hierarchy disclosures below.

The different levels have been defined as follows:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As at 31st December,		Group			
		2017			
		Fair Value Measurement Using			
		Quoted Prices in Active Markets (Level 1)	Significant Observable (Level 2)	Significant Unobservable (Level 3)	Total Fair Value
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Fair Value Through Profit or Loss (FVTPL)</b>					
- Investment in Units	6.9	12,241	-	-	12,241
- Equity Shares	6.8	118,044	-	-	118,044
<b>Total (a)</b>	6.4	<b>130,285</b>	<b>-</b>	<b>-</b>	<b>130,285</b>
<b>Available for Sale (AFS)</b>					
- Treasury Bonds	6.3	6,031,354	-	-	6,031,354
- Treasury Bills	6.3	217,307	-	-	217,307
- Equity Shares	6.7	78,074	-	-	78,074
<b>Total (b)</b>	6.3	<b>6,326,735</b>	<b>-</b>	<b>-</b>	<b>6,326,735</b>
<b>Held to Maturity (HTM)</b>					
- Treasury Bonds	6.1	-	181,166	-	181,166
<b>Total (c)</b>		<b>-</b>	<b>181,166</b>	<b>-</b>	<b>181,166</b>
<b>Loans and Receivable (L &amp; R)</b>					
- Term Deposit (More than one year)		-	2,212,278	-	2,212,278
- Corporate Debt	6.6	-	2,650,180	-	2,650,180
- Staff and Advisor Loans	11.1	-	399,075	-	399,075
<b>Total (d)</b>		<b>-</b>	<b>5,261,533</b>	<b>-</b>	<b>5,261,533</b>
<b>Total Financial Assets (a+b+c+d)</b>		<b>6,457,020</b>	<b>5,442,699</b>	<b>-</b>	<b>11,899,719</b>

## 41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

## 41.3 Fair Value Measurement Hierarchy (Contd.)

As at 31st December,	Note	Group			
		2016			
		Fair Value Measurement Using			
		Quoted Prices in Active Markets (Level 1)	Significant Observable (Level 2)	Significant Unobservable (Level 3)	Total Fair Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Fair Value Through Profit or Loss (FVTPL)</b>					
- Investment in Units	6.9	10,296	1,036	-	11,332
- Equity Shares	6.8	145,178	-	-	145,178
<b>Total (a)</b>	6.4	<b>155,474</b>	<b>1,036</b>	<b>-</b>	<b>156,510</b>
<b>Available For Sale (AFS)</b>					
- Treasury Bonds	6.3	4,424,246	-	-	4,424,246
- Treasury Bills	6.3	1,302,371	-	-	1,302,371
- Equity Shares	6.7	142,941	-	-	142,941
<b>Total (b)</b>	6.3	<b>5,869,558</b>	<b>-</b>	<b>-</b>	<b>5,869,558</b>
<b>Held to Maturity (HTM)</b>					
- Treasury Bonds	6.1	-	177,193	-	177,193
<b>Total (c)</b>		<b>-</b>	<b>177,193</b>	<b>-</b>	<b>177,193</b>
<b>Loans and Receivable (L &amp; R)</b>					
- Term Deposit (More than one year)		-	769,990	-	769,990
- Corporate Debt	6.6	-	2,754,278	-	2,754,278
- Staff and Other Loans	11.1	-	353,472	-	353,472
<b>Total (d)</b>		<b>-</b>	<b>3,877,740</b>	<b>-</b>	<b>3,877,740</b>
<b>Total Financial Assets (a+b+c+d)</b>		<b>6,025,032</b>	<b>4,055,969</b>	<b>-</b>	<b>10,081,001</b>



## Accounting Policies and Notes to the Financial Statements

### 41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

#### 41.4 Fair Value Measurement Hierarchy (Contd.)

As at 31st December,	Note	Company			
		2017			
		Fair Value Measurement Using			
		Quoted Prices in Active Markets (Level 1)	Significant Observable (Level 2)	Significant Unobservable (Level 3)	Total Fair Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Fair Value Through Profit or Loss (FVTPL)</b>					
- Investment in Units	6.9	8,560	-	-	8,560
- Equity Shares	6.8	102,964	-	-	102,964
<b>Total (a)</b>	6.4	111,524	-	-	111,524
<b>Available For Sale (AFS)</b>					
- Treasury Bonds	6.3	5,590,047	-	-	5,590,047
- Treasury Bills	6.3	-	-	-	-
- Equity Shares	6.7	69,244	-	-	69,244
<b>Total (b)</b>	6.3	5,659,291	-	-	5,659,291
<b>Held to Maturity (HTM)</b>					
- Treasury Bonds	6.1	-	181,166	-	181,166
<b>Total (c)</b>		-	181,166	-	181,166
<b>Loans and Receivable (L &amp; R)</b>					
- Term Deposit (More than one year)		-	2,009,793		2,009,793
- Corporate Debt	6.6	-	2,236,241	-	2,236,241
- Staff and Other Loans	11.1	-	239,081		239,081
<b>Total (d)</b>		-	4,485,115	-	4,485,115
<b>Total Financial Assets (a+b+c+d)</b>		5,770,815	4,666,281	-	10,437,096

## 41. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (Contd.)

## 41.4 Fair Value Measurement Hierarchy (Contd.)

As at 31st December,	Note	Company			
		2016			
		Fair Value Measurement Using			
		Quoted Prices in Active Markets (Level 1)	Significant Observable (Level 2)	Significant Unobservable (Level 3)	Total Fair Value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Fair Value Through Profit or Loss (FVTPL)</b>					
- Investment in Units	6.9	7,200	-	-	7,200
- Equity Shares	6.8	112,532	-	-	112,532
<b>Total (a)</b>	6.4	<b>119,732</b>	<b>-</b>	<b>-</b>	<b>119,732</b>
<b>Available for Sale (AFS)</b>					
- Treasury Bonds	6.3	4,135,569	-	-	4,135,569
- Treasury Bills	6.3	839,293	-	-	839,293
- Equity Shares	6.7	120,738	-	-	120,738
<b>Total (b)</b>	6.3	<b>5,095,600</b>	<b>-</b>	<b>-</b>	<b>5,095,600</b>
<b>Held to Maturity (HTM)</b>					
- Treasury Bonds	6.1	-	177,193	-	177,193
<b>Total (c)</b>		<b>-</b>	<b>177,193</b>	<b>-</b>	<b>177,193</b>
<b>Loans and Receivable (L &amp; R)</b>					
- Term Deposit (More than one year)		-	646,349		646,349
- Corporate Debt	6.6	-	2,275,774	-	2,275,774
- Staff and Other Loans	11.1	-	214,492		214,492
<b>Total (d)</b>		<b>-</b>	<b>3,136,615</b>	<b>-</b>	<b>3,136,615</b>
<b>Total Financial Assets (a+b+c+d)</b>		<b>5,215,332</b>	<b>3,313,808</b>	<b>-</b>	<b>8,529,140</b>

## Accounting Policies and Notes to the Financial Statements

### 42. RELATED PARTY DISCLOSURES

#### 42.1 Transactions with Key Management Personnel of the Company or its Parent

According to Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosure, Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors (including Executive and Non-Executive Directors) of the Company have been classified as Key Management Personnel of the Company. In Addition, Chief Operating Officer - Life and the Chief Financial Officer have also been classified as Key Management Personnel of the Company further their immediate family members are also considered as related parties of the Company. Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective KMP for his/her financial needs.

Hatton National Bank PLC (Bank) is the ultimate parent of the Company, and the Board of Directors of the Bank have the authority and responsibility of planning, directing and controlling the activities of the Company. The Directors of the Bank and their immediate family members have also been identified as Key Management Personnel of the Company.

Fees and transactions carried out with the related parties are given below,

##### a) Key Management Personnel Compensation

	2017	2016
	Rs.'000	Rs.'000
Directors Fee	12,235	11,081
Short Term Employee Benefits	41,110	37,174
Post Employment Benefits	4,410	10,834
Outstanding Loan Balance Granted to KMPs	5,224	7,192

In addition to salaries, the Company also provides non-cash benefits to Key Management Personnel and contributes to a defined benefit plan (Gratuity) on behalf of them.

\* No loans have been granted to the Directors of the Company.

##### b) Other Transactions with Key Management Personal

	2017	2016
	Rs.'000	Rs.'000
Insurance Premium - General Insurance	1,149	1,052
Insurance Premium - Life Insurance	744	599
Claims Paid - General Insurance	305	155

(c) Following Directors were appointed to the Board of HNB Assurance PLC and HNB General Insurance Limited.

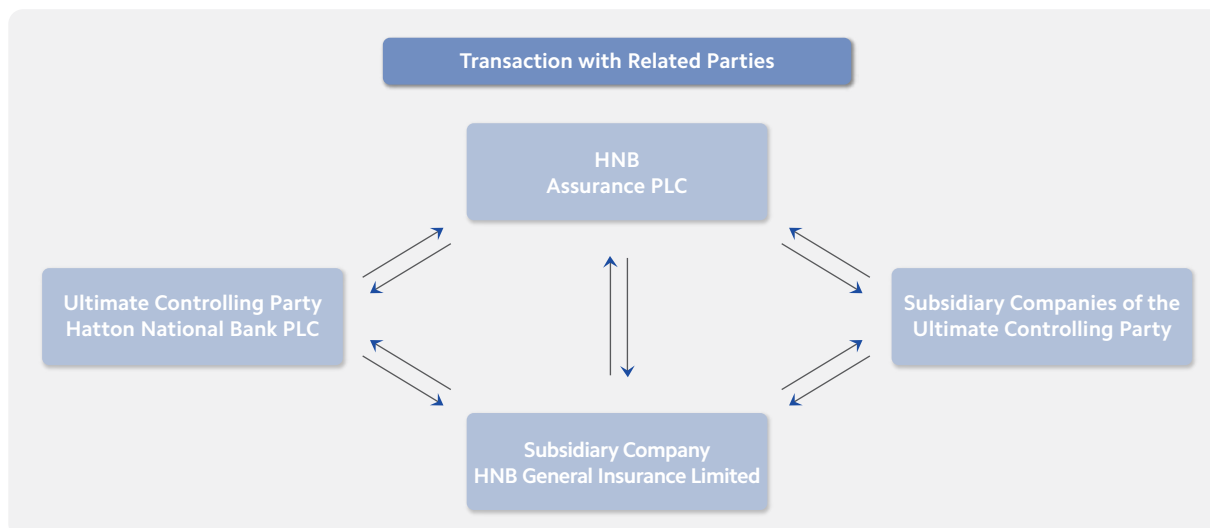
Name of the Director	Effective date of Appointment	Appointed to	
		HNB General Insurance Limited	HNB Assurance PLC
Mr. D P Lokuarachchi	26th May 2017	✓	✓
Mr. R Dissanayake	27th June 2017	✓	✓
Mr. D R Abey Suriya	01st January 2018	N/A	✓

(d) Following Directors have resigned / retired from the Board of HNB General Insurance Limited and HNB Assurance PLC.

Name of the Director	Resigned / Retired	Effective date	Resigned / Retired from	
			HNB General Insurance Limited	HNB Assurance PLC
Mr. N H T I Perera	Resigned	26th & 27th April 2017	✓	✓
Mr. K Balasundaram	Retired	22nd December 2017	N/A	✓

Accordingly, these Directors cease to be Key Management Personnel of the Company w.e.f. their respective dates of resignation.

## 42. RELATED PARTY DISCLOSURES (Contd.)



## 42.2 Transaction with related parties

The Group/Company carries out transactions in the ordinary course of its business with parties who are defined as related parties according to the Sri Lanka Accounting Standard LKAS 24 - Related Party Disclosures.

Transactions with related parties were made on the basis of the price in force with non-related parties, but subject to approved discounts. Outstanding balances with related parties other than balances relating to investment related transactions as at the reporting date are unsecured and interest free. Settlement will take place in cash. Such outstanding balances have been included under respective assets and liabilities together with balances arising from transactions with non-related parties.

Details of related party transactions are reported below.

## 42.2.a Transaction with the Subsidiary Company - HNB General Insurance Limited.

For the Year ended 31st December,	Company	
	2017	2016
	Rs.'000	Rs.'000
Insurance Premium	25,631	18,715
Insurance Expenses	23,045	20,227
Claims Received	992	633
Claims Paid	3,500	2,000
Administrations Expenses Reimbursement	247,939	234,934
Fund Management Fee Income	4,543	4,072
Profit Commission Expenses	8,741	3,017

## Accounting Policies and Notes to the Financial Statements

### 42. RELATED PARTY DISCLOSURES (Contd.)

#### 42.2.b Transaction with/between the Parent and Ultimate Controlling Party - Hatton National Bank PLC

For the Year ended 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Nature of Transaction</b>				
Insurance Premium	25,127	22,270	-	-
Claims Incurred	17,389	8,752	-	-
Investment Income	43,546	35,642	35,026	30,202
Administration Expenses	222,157	185,991	134,698	115,299
Rent Expenses	5,994	31,608	4,042	24,121
Other Operational Expenses	2,275	21,149	1,866	16,818
Dividends Paid	149,965	59,986	149,965	59,986

As at 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Nature of Transaction</b>				
Investments (Includes Deposits and Debentures)	411,461	416,312	358,497	329,123
Cash at Bank Balances	426,156	182,265	260,759	111,407

#### 42.2.c Transaction with/between Subsidiary Companies and Joint Ventures of the Ultimate Controlling Party

For the Year ended 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>a) Sithma Development (Pvt) Limited</b>				
<b>Nature of Transaction</b>				
Insurance Premium	1,534	1,785	-	-
Claims Paid	13	-	-	-
<b>b) HNB Grameen Finance Ltd</b>				
<b>Nature of Transaction</b>				
Insurance Premium	38,989	83,112	38,098	82,261
Claims Incurred	83,591	74,608	83,355	74,306
Administration Expenses	6,218	8,807	2,951	8,466
Interest Income	4,992	-	4,992	-
Investment in Term Deposits (As at 31st December)	50,243	-	50,243	-
<b>c) Actuity Partners (Pvt) Limited</b>				
<b>Nature of Transaction</b>				
Insurance Premium	402	1,482	-	704
<b>d) Actuity Stockbrokers (Pvt) Limited</b>				
<b>Nature of Transaction</b>				
Insurance Premium	226	112	-	-
Claims Incurred	-	288	-	222

## 42. RELATED PARTY DISCLOSURES (Contd.)

### 42.2.c Transaction with/between Subsidiary Companies and Joint Ventures of the Ultimate Controlling Party (Contd.)

For the Year ended 31st December,	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>e) Acuity Securities Ltd</b>				
<b>Nature of Transaction</b>				
Insurance Premium	108	92	-	-
Investment in REPO (As at 31st December)	643,218	606,967	464,790	525,558
Investment Income from REPO	62,223	50,901	47,264	40,051

### 42.2.d Transactions with other Related entities

Other related entities are those which are controlled or significantly influenced, directly or indirectly by Key Management Personnel of the Group/Company. Significant influence is presumed to be established if a Key Management Person of the Group/Company has more than 20% shareholding in an entity, unless otherwise reported by the Key Management Personnel. Further significant influence is also established if in the view of the respective Key Management Person, he/she has the ability to influence the operating and financial policies of an entity even in the absence of a 20% shareholding.

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Group		Company	
			2017	2016	2017	2016
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Lanka Walltiles PLC	Dr. Sivakumar Selliah Mr. Mahendra Jayasekara	Insurance Premium	1,101	2,247	-	-
		Claims Incurred	183	22	-	-
Lanka Tiles PLC	Mr. Mahendra Jayasekara Dr. Sivakumar Selliah	Insurance Premium	4,018	3,600	-	-
		Claims Incurred	3,330	4,928	-	-
Lanka Ceramics PLC	Dr. Sivakumar Selliah Mr. Mahendra Jayasekara	Insurance Premium	1,019	-	-	-
		Claims Incurred	384	-	-	-
Andysel (Pvt) Ltd	Dr. Sivakumar Selliah	Insurance Premium	119	119	-	-
M N Properties (Pvt) Ltd	Mr. Mahendra Jayasekara	Insurance Premium	5	-	-	-
Swisstek (Ceylon) PLC	Mr. Mahendra Jayasekara	Insurance Premium	413	396	-	-
		Claims Incurred	-	8	-	-
M M B L Leisure Holdings (Pvt) Ltd	Mr. K Balasundaram*	Insurance Premium	213	213	-	-
Pathfinder Securities (Pvt) Ltd	Mr. K Balasundaram*	Insurance Premium	40	-	-	-
Pathfinder (Pvt) Ltd	Mr. K Balasundaram*	Insurance Premium	153	131	-	-
		Claims Incurred	10	56	-	-
Salamander Investment (Pvt) Ltd	Mr. K Balasundaram*	Insurance Premium	42	43	-	-
Mercantile Merchant Bank Ltd	Mr. K Balasundaram*	Insurance Premium	145	52	-	-
		Claims Incurred	-	22	-	-
Lanka Houseboat (Pvt) Ltd	Mr. K Balasundaram*	Insurance Premium	-	400	-	-
Lanka Financial Services Bureau	Mr. A J Alles**	Insurance Premium	8	10	-	-
AKK Engineers (Pvt) Ltd	Dr. L R Karunarathne**	Insurance Premium	64	69	-	-
Polypac Secco Ltd	Mr. R S Captain**	Insurance Premium	349	-	-	-
		Claims Incurred	49	-	-	-
Stassen Export (Pvt) Ltd	Ms. D S C Jayawardena**	Insurance Premium	331	510	-	-
The Ceylon Chamber Of Commerce	Mr. M O F Salieh**	Insurance Premium	2,790	-	-	-
		Claims Incurred	325	-	-	-

\* Mr. K Balasundaram Retired from the Board of Directors w.e.f. 22nd December 2017.

\*\* Directors of Ultimate Controlling Party - Hatton National Bank PLC

## Accounting Policies and Notes to the Financial Statements

### 42. RELATED PARTY DISCLOSURES (Contd.)

#### 42.2. e Transactions with the Government of Sri Lanka/ Entities Controlled, Jointly Controlled, Significantly Influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds more than 25% of the voting rights of the Ultimate parent Company Hatton National Bank PLC as at 31st December 2017 and thus has significant influence over its operation and thereby holds an indirect control over the Group/Company. Accordingly the Group/Company has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government related entities) as Related Parties according to LKAS 24 - Related Party Disclosures.

Name of the Company / Entity		Nature of transactions	Group		Company	
			2017	2016	2017	2016
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Government and Government related Financial Institutes						
Government of Sri Lanka		Investment balances as at 31st Dec.	7,201,122	6,580,884	6,311,302	5,717,253
		Investment Income	736,348	582,737	646,099	508,605
Bank of Ceylon	Government related entity	Investment balances as at 31st Dec.	59,639	166,122	59,639	155,982
		Investment Income	22,477	15,095	21,017	15,095
HDFC Bank of Sri Lanka	Government related entity	Investment balances as at 31st Dec.	69,300	69,300	69,300	69,300
		Investment Income	9,300	9,325	9,300	9,325
National Development Bank PLC	Government related entity	Investment balances as at 31st Dec.	980,089	184,575	785,368	163,393
		Investment Income	62,551	17,152	51,560	14,604
		Insurance Premium	-	1,724	-	-
People's Bank	Government related entity	Investment balances as at 31st Dec.	978,081	392,678	840,402	372,667
		Investment Income	87,294	4,852	72,614	4,057

Apart from the transactions listed above the Group has carried out transactions with other government related entities in the form of premium income, reinsurance premium, claims, taxes, utility bills, regulatory charges etc. The total of such payments made during the year ended 31st December 2017 and 2016 are as follows:

Nature of the Transaction	2017	2016
	Rs.'000	Rs.'000
Premium Income from Government Related Entities	342	1,531
Claims Paid to Government Related Entities	-	35
Reinsurance Premium Net of Commission to Government Related Entities	182,559	151,198
Taxes Paid	580,148	390,626
Regulatory Charges	111,555	129,166
Utility Expenses	53,533	51,014
Media Expenses	1,787	1,021



## 43. FINANCIAL RISK MANAGEMENT

### Overview

Effective Risk Management is vital to any organisation and it is a main drive of value. HNBA Group recognises the importance of sound risk management in every aspect of our business and to all our stakeholders.

### Importance of a sound risk management process



### 43.1 Risk and capital management

#### a) Governance framework

Group Risk Management Framework (RMF) of HNB Assurance PLC Group is established to protect the Shareholders from any events that hinder the sustainable achievement of financial objectives, including failing to exploit opportunities. Therefore RMF provides the structure for identifying, quantifying, and mitigating risk across the Group. An effective RMF is the key to avoid the financial and reputational damage that arises from inadequate or ineffective controls in the business.

The Board of Directors has delegated their authorities and responsibilities to Executive Committee and Senior Management to establish Group Policy to identify and mitigate possible risks which will affect the Group adversely. Risk Management Committee comprises four Directors representing the Boards of HNBA and HNBGI and an external expert to oversee the risk management activities of the Group. The Committee reports to the Board of Directors regarding the risk profile of the Group, risk management framework, including the significant policies and practices employed to manage risks in the Group business, as well as the overall adequacy of the Risk Management function. While the Committee has the responsibilities and powers, the Management is responsible for designing, implementing and maintaining an effective risk programme.

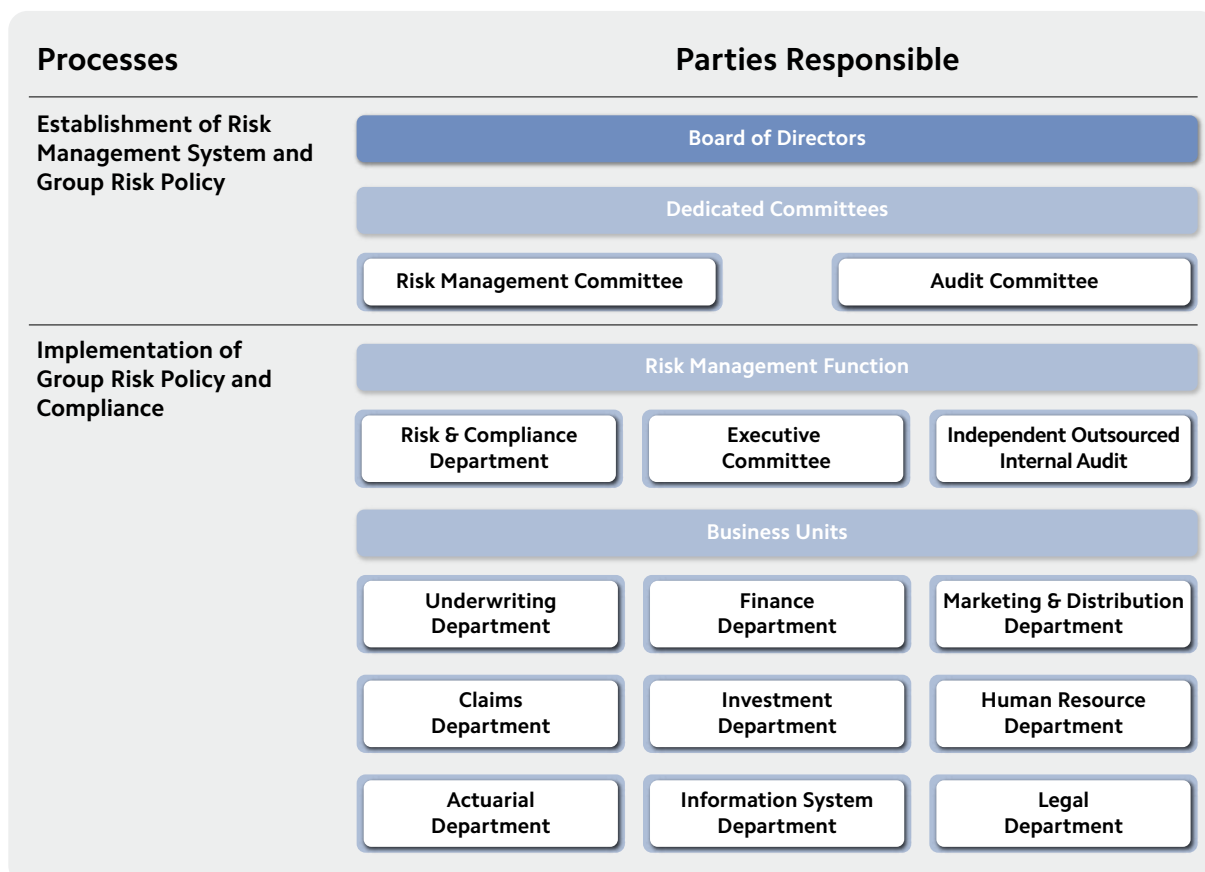
A process is set for identifying Key Risk Indicators (KRIs) based on the risk register prepared by the Management and recommendations made by the Risk Management Committee. These KRIs are prepared and reviewed by the Executive Committee and the Risk Management Committee regularly. Significant KRIs are reported to the Boards of HNBA and HNBGI on a monthly basis.

The Board of Directors approves the Group's risk management policies and meets monthly to approve any commercial, regulatory and organisational requirements of such policies. These policies are defined based on the Group's identification of risk and its interpretation, limit its structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

The following table depicts the accountable and responsible parties for the Group's established risk management process which underlines the principal risk management and control responsibilities.



#### Objectives of Risk Management

Main risk management objectives of HNBA Group are to:

- Enhance the value of the Group by establishing a culture of "No Surprises" and avoid losses greater than expected.
- Ensure the efficient capital deployment for enhancing value creation and to maintain an optimal risk-return profile.
- Provide consistent, reliable and timely risk information which supports the decision making process.
- Protect the capital base by monitoring that risks are not taken beyond the Group's risk tolerance.
- To maintain the required level of stability of the Group thereby providing a degree of security to Policyholders.
- Ensure the compliance of all the applicable regulatory requirements.

#### b) Capital management framework

The Group's capital management framework forms the basis for actively managing capital while optimising the structure and sources of capital to ensure that it consistently maximises returns to the Shareholders and Policyholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a co-ordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Group in the light of changes in economic conditions and risk characteristics. The capital requirements are forecasted on a periodic basis by the Management and the Board of Directors.

#### 43. FINANCIAL RISK MANAGEMENT (Contd.)

The Group has made no significant changes, from previous years, to its policies and processes of its capital structure. Thus there were no changes in the capital structure in the Company during the year.

##### Capital management objectives, policies and approach

The Group has established the following capital management objectives, policies and approaches to manage the risks that affect its capital position:

- To maintain solvency levels of the Company and subsidiary above the levels stipulated by the regulator and thereby providing a degree of security to Policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meets the requirements of its Shareholders and Policyholders.
- To retain financial flexibility by maintaining strong liquidity.
- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the Policyholders, Shareholders, regulators and other stakeholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximise Shareholders' value.

The operations of the both companies (HNB Assurance PLC and HNB General Insurance Limited) in the Group are subject to regulatory guidelines and framework. Such regulations are there not, only to prescribe approval and monitor activities, but also to impose certain restrictive provisions such as minimum Capital Requirement, Solvency Margin, Approved Assets Requirements and etc. to minimise the risk of non compliance with regulatory requirements.

The Group has complied to all these regulatory requirements throughout the financial year.

##### c) Regulatory framework

Insurance Regulatory Commission of Sri Lanka (IRCSL) is primarily protecting the rights of Policyholders and monitors the Group closely to ensure that it is satisfactorily managing affairs for the benefit of Policyholders. The Group operates according to the requirements set by the regulator - IRCSL.

IRCSL ensures that the Group maintains an appropriate solvency position to meet future liabilities arising from economic shocks, natural disasters and etc.

The Group successfully implemented the Risk Based Capital (RBC) framework on solvency margin as required by IRCSL.

The capital positions of the Group's operating companies as of 31st December 2017 and 2016 are as follows.

##### Total Available Capital (TAC) and Risk-based Capital Adequacy Ratio (CAR)

Company	31st December 2017				31st December 2016			
	Total Available Capital (TAC)	Minimum Capital Requirement	Risk-based Capital Adequacy Ratio (CAR)	Regulatory Minimum CAR	Total Available Capital (TAC)	Minimum Capital Requirement	Risk-based Capital Adequacy Ratio (CAR)	Regulatory Minimum CAR
	Rs.'000	Rs.'000	%	%	Rs.'000	Rs.'000	%	%
HNBA	6,038,377	500,000	358	120	5,274,682	500,000	445	120
HNBG	945,781	500,000	178	120	745,532	500,000	168	120

## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

Total Available Capital and Risk based Capital Adequacy Ratio of HNBA and HNBGI were maintained in excess of the minimum requirements as prescribed by the IRCSL throughout the year.

Thus, the operations of the Group are in compliance with the regulatory requirements of the IRCSL. Further Group is in compliance with other regulators such as Colombo Stock Exchange (CSE), Securities and Exchange Commission of Sri Lanka (SEC), Central Bank of Sri Lanka (CBSL), Department of Inland Revenue (IRD) and etc. The Group is also regulated by the Companies Act, No. 07 of 2007.

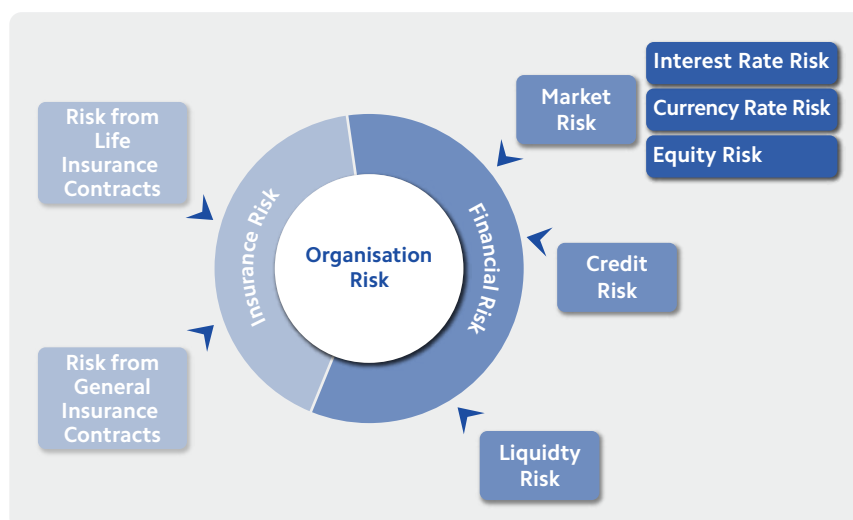
#### d) Asset and Liability Management (ALM) framework

The Group manages Assets and Liabilities to achieve long-term investment returns in excess of its obligations under insurance contracts. Financial risks arise from interest rates, currency and equity products, all of which are exposed to general and specific market movements will have an impact on Asset and Liability Management (ALM). The main risk that the Group faces, due to the nature of its investments and liabilities, is interest rate risk. The Group manages these positions within a clearly defined ALM framework.

### 43.2 Insurance and financial risk

#### 43.2.1 Introduction and Overview

As a Group providing insurance services both HNB Assurance PLC and HNB General Insurance Ltd, are exposed to insurance and financial risks. The following chart graphically presents all kinds of risks that the Group considers in Risk Management



#### 43.2.2 Insurance risk

Under insurance contracts the actual claims and benefit payments or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of claims. Therefore, the objective of the Group is to ensure that at a given time sufficient reserves are held to cover all reported and expected future liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting guidelines, as well as the use of reinsurance arrangements.

Reinsurance ceded is placed on both proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure of the Group to most of the classes of business. Non-proportional reinsurance is primarily surplus and excess-of-loss reinsurance designed to mitigate the Group's net exposure to catastrophe losses. Retention limits for these arrangements differ by product line and territory.

## 43. FINANCIAL RISK MANAGEMENT (Contd.)

### 43.2.2.1 Life Insurance contracts

Life Insurance contracts are offered by HNB Assurance PLC. Life Insurance contracts include term assurance, endowment plans, annuity plans and Group plans. Endowment and term assurance are conventional regular or single premium products, where lump sum benefits are payable on death, maturity or in some cases, permanent total disability. Regular endowment products acquire a surrender value upon completion of three years.

The Company offers two single premium annuity products. The first product being “myfreedom” offers a pre-determined annuity amount for a specified time period, whilst the second product; namely “mypension”, offers a fixed monthly annuity for the entire lifetime of the policyholder. Both these products offer a life cover along with its annuity payout as part of its product feature. Further during the year, the Company also issued single premium investment policies with a guaranteed maturity benefit.

The main risks exposed in Life insurance are as follows:

<b>Mortality risk</b>	Risk of loss arising due to policyholder death experience being different than expected.
<b>Morbidity risk</b>	Risk of loss arising due to policyholder health experience being different than expected.
<b>Longevity risk</b>	Risk of loss arising due to the annuitant living longer than expected.
<b>Investment return risk</b>	Risk of loss arising from actual returns being different than expected.
<b>Expense risk</b>	Risk of loss arising from expense experience being different than expected.
<b>Policyholder decision risk</b>	Risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected.

These risks do not vary significantly in relation to the location and type of risk insured by the Company.

Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew Group policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs. The Company further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

For death or disability contracts, the significant factors that could effect the insurance risks are frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. The Company limits exposure on any single life by way of retention limits agreed with the reinsurers and by having a catastrophic treaty in place. Our annuity products are structured such that backing investments are maintained for the agreed amount of business for the year.

The following table shows the concentration of the Participating and Non-Participating funds position of the Company. The Company continues to gradually increase the proportion of Non-Participating funds by selling more Non-Participating products such as “My Fund” and “Ranmaga”

#### Participation Fund vs. Non-Participation Fund

Year	Participating	Non Participation	Total
	%	%	%
2017	37	63	100
2016	41	59	100

## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

Following are the main strategies followed by the Company to mitigate above main risks associated with Life Insurance.

Strategies associated with Life Insurance Underwriting	Strategies associated with Life Insurance claims to manage within expected level	Reinsurance strategies associated with Life Insurance
<ul style="list-style-type: none"> <li>Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are adequately priced.</li> <li>An in-house Actuarial Department headed by a qualified Actuary is in place to review the Life Insurance business more closely and guide the management to take more informed pricing decisions.</li> <li>Customers are required to submit medical reports from registered laboratories.</li> <li>Focused training is provided to Insurance Advisors on proper selling in Sinhala, Tamil and English.</li> <li>A customer need analysis form is used to identify customers' requirements and sell the most appropriate policy.</li> <li>Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured amount.</li> </ul>	<ul style="list-style-type: none"> <li>An Independent Actuary is engaged to carry out a valuation of the Life Insurance Contract Liabilities biannually.</li> <li>An in-house Actuarial Department headed by a qualified Actuary is in place to review reserving in the Life Insurance business more closely and guide the Management to take more informed decisions.</li> <li>The support of the reinsurers is obtained on reserving such claim liability and the share of reinsurers.</li> <li>Claims are reserved immediately at the intimation or on the availability of information of the death or injury of an insured.</li> <li>Financial authority limits are set based on the claim limits where the maximum limit is with the Claims Panel which is involved in taking decisions on significant/ problematic claims and appeals made in respect of claims.</li> </ul>	<ul style="list-style-type: none"> <li>Restructuring of reinsurance agreements with reinsurance parties regularly.</li> <li>A very close and professional relationship is maintained with all reinsurers and reinsurance brokers</li> <li>Frequent review of the outstanding Reinsurance receivables.</li> <li>Select reinsurers with good rating.</li> <li>Changes to the ratings of reinsurance companies are continuously monitored.</li> </ul>

**43. FINANCIAL RISK MANAGEMENT (Contd.)****Key assumptions for valuation of liabilities in Life Insurance**

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions used are based on past experience, current internal data, investment returns and benchmarks which reflect current observable market prices and other published information. All these assumptions are subject to the guidelines issued by the IRCSL. Assumptions and prudent estimates are determined at the date of valuation. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

<b>Mortality rates</b>	Mortality rate is determined based on industry standard mortality tables and Company historical experience.
<b>Lapse rates</b>	Policies which do not have premium payment up to date after the grace period are considered as lapsed. The lapse rates (based on premium basis) are derived based on the average experience
<b>Discount rate</b>	<p>Life Insurance liabilities are determined as the sum of the discounted value of the expected benefits directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows.</p> <p><b>Risk Free Rate</b></p> <p>Risk free discount rate was used to discount the cash flows for corresponding durations for guaranteed benefits of Non-Participating and Participating insurance fund policies.</p> <p><b>Fund-based yield</b></p> <p>Fund-based yield was used in the Participating fund to discount the cash flows for corresponding durations where total guaranteed and non-guaranteed benefits are considered.</p>
<b>Distribution Expense</b>	Allowance has been made for the payment of commission to advisors and managers on business. These rates exclude appropriate allowances for overriding and bonus commissions.
<b>Management Expense</b>	The assumptions for management expenses are determined based on the expense analysis carried out. The management expense assumptions are developed such that all the management expenses are fully allocated to the policies.

**Sensitivities**

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities.

**Sensitivity of the value of Insurance Liabilities**

31st December,	Change in assumptions	Impact on Gross Liabilities	
		2017	2016
		%	%
Mortality	+10%	0.31	0.35
	-10%	(0.31)	(0.36)
Discount rate	+ 50 basis points	(1.42)	(1.88)
	- 50 basis points	1.48	1.96



## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

#### 43.2.2.2 General Insurance contracts

General Insurance contracts are offered by the fully owned subsidiary of the Company, HNB General Insurance Ltd (HNBGI).

HNBGI principally issues Motor, Fire, Engineering, Marine, Medical, Workmen Compensation and Miscellaneous insurance contracts.

For general insurance contracts, the most significant risks arise from

- climate change
- natural disasters
- terrorist activities
- behavioral trends of people due to changing life styles
- epidemics and medical science and technology improvements
- the steady escalation of costs in respect of spare parts in the auto industry

These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry.

#### Risk mitigation strategies

Strategies associated with General Insurance Underwriting	Strategies associated with General Insurance claims to manage within expected level	Reinsurance strategies associated with General Insurance
<ul style="list-style-type: none"> <li>• Diversified large portfolio of insurance contracts and geographical areas.</li> <li>• Training and development of underwriting staff and distribution network team. The "General Insurance Academy", an internal training and development school, has been set up targeting the improvement of technical knowledge.</li> <li>• Careful selection and implementation of underwriting strategies.</li> <li>• Statistical databases are maintained on all customer profiles and loss making customers strategically reviewed.</li> <li>• Strict controls are maintained on the issuance of temporary cover notes and also limiting them to 60 days validity period at the month-end.</li> <li>• Both the underwriters and the distribution managers are assigned Key Performance Indicators on both turnover and profitability, ensuring alignment of Company objectives.</li> </ul>	<ul style="list-style-type: none"> <li>• Claim intimation is carried out through a 24-hour fully fledged Customer Service Centre (CSC).</li> <li>• Assessments are carried out by an independent expert panel of assessors/loss adjustors working throughout the island on a 24 hour basis.</li> <li>• Comprehensive estimation of costs and a high quality service to customers are granted through certified garages located island-wide.</li> <li>• Claims are assessed immediately upon intimation and reserved accordingly..</li> <li>• Significant outstanding claims are subjected to monthly reviews by the management.</li> <li>• The service of a qualified Independent Actuary is obtained quarterly to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate reinsurance arrangements have been placed and HNBGI continuously reviewing the adequacy of these covers in light of catastrophic / extreme events.</li> <li>• There are strict controls to ensure that no insurance cover is issued without a proper reinsurance arrangement backing the cover.</li> <li>• Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Standard &amp; Poors, AM Best or Fitch are used for reinsurance placements other than for reinsurance placed with the National Insurance Trust Fund (NITF) which is an organisation operating under Government of Sri Lanka.</li> <li>• Periodic review of the credit rating and ensuring all reinsurers maintain the rating throughout the year.</li> </ul>

## 43. FINANCIAL RISK MANAGEMENT (Contd.)

## Risk mitigation strategies (Contd.)

Strategies associated with General Insurance Underwriting	Strategies associated with General Insurance claims to manage within expected level	Reinsurance strategies associated with General Insurance
<ul style="list-style-type: none"> <li>Motor Insurance pricing is determined based on a risk based pricing grid.</li> <li>Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured and risk.</li> </ul>	<ul style="list-style-type: none"> <li>All third party claim intimations are separately reviewed with the support of the head of the legal department.</li> <li>Adequate claim reserves are maintained according to the agreed methodology adopted by the Company.</li> <li>Financial authority limits are set for claim limit giving the maximum limit to the Claims Panel which is involved in taking decisions on significant / problematic claims and appeals made in respect of claims.</li> </ul>	<ul style="list-style-type: none"> <li>Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.</li> <li>Clearly defined financial authority for reinsurance arrangement.</li> </ul>

Reinsurance recoveries on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposures through prudent reinsurance arrangements, the obligation to meet claims emanating from Policyholders rests with HNBGI. Default of reinsurers does not negate the obligation and in that respect HNBGI carries a credit risk up to the extent ceded to each reinsurer.

HNBGI reinsurance placement is arranged in a manner that is neither dependent on a single reinsurer nor substantially dependent upon any single reinsurance contract. All reinsurance contracts are reviewed annually and renewed based on careful selection of reinsurers. All General Insurance reinsurance contracts are with companies holding credit ratings above the minimum stipulated by the Insurance Regulatory Commission of Sri Lanka.

## Reinsurance Credit Rating

The following table shows the credit ratings of the reinsurance companies with whom the Group has arrangements at present.

Reinsurer	Country of Origin	Rating	Rating Agency
Antares Syndicate AUL 1274 at Lloyds	United Kingdom	A+	Standard & Poor
Cathedral Syndicate CCL 3010 at Lloyds	United Kingdom	A+	Standard & Poor
General Insurance Corporation	India	A-	A M Best
Munich Re Company	Germany	AA	Fitch Rating
RGA Reinsurance Company	Ireland	AA-	Standard & Poor
National Insurance Trust Fund ( NITF)	Sri Lanka (Government owned entity)	AA-	Fitch Rating
Santam Ltd	South Africa	A+	A M Best
Swiss Reinsurance Company Ltd	Switzerland	AA-	Standard & Poor
Trust International Insurance Company	Bahrain	A-	A M Best
XL Bermuda Ltd "Singapore Branch"	Singapore	A+	Standard & Poor

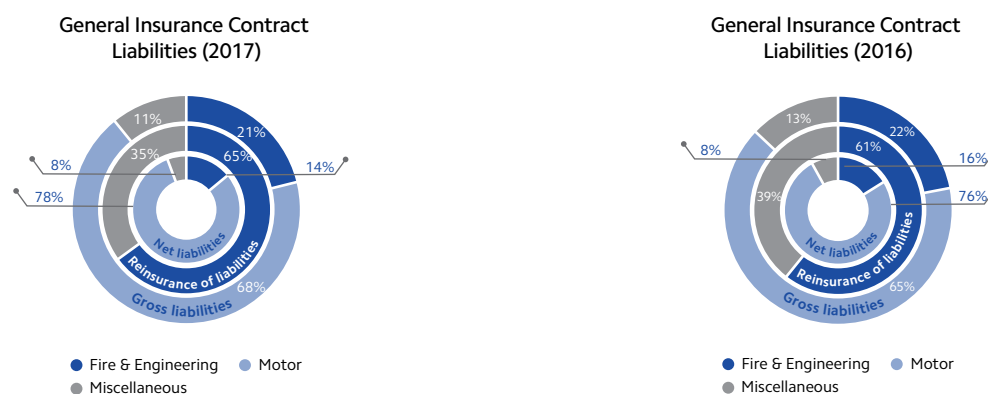
## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

#### General Insurance contracts

Refer note 20 to the financial statement, which shows the gross claim liability and the reinsurance component.

The graph below depicts the concentration of non-life insurance contract liabilities by type of contract:



#### Key assumptions for valuation of liabilities in General Insurance

The principal assumption underlying the liability estimates is that HNBGI's future claims development may follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are also used to assess the extent to which liabilities may arise in the future, but excludes one-off occurrences, changes in market factors such as public attitude to claiming, economic conditions, internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and Government legislation affect the estimates.

The following analysis is performed for possible movements in Claims Outstanding with all other assumptions held constant, showing the impact on gross and net liabilities, Profit before Tax and equity. It should be noted that movements in these assumptions are non-linear.

#### Sensitivity of Claims Outstanding

	Change in assumptions	Reported Claim Outstanding	Impact on gross liabilities	Impact on net liabilities	Impact on Profit Before Tax	Impact on Equity (after tax)
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
31st December 2017	+/-10%	663,854	+/-66,385	+/-37,003	-/+37,003	-/+26,642
31st December 2016	+/-10%	555,807	+/-55,581	+/-27,180	-/+27,180	-/+19,569

#### 43. FINANCIAL RISK MANAGEMENT (Contd.)

##### Claims development table

The following table shows the estimated net claims liability (after considering reinsurance) for each successive accident year at each reporting date.

Accident Year	0	1	2	3	4	5	6	7	8	9
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
2008	76,230	7,956	4,604	2,965	2,895	2,726	1,519	1,650	5,367	4,597
2009	78,801	3,636	2,576	1,379	1,021	4,133	2,697	1,385	8,964	-
2010	100,283	6,980	4,675	3,219	2,365	1,312	5,964	4,019	-	-
2011	170,450	7,258	3,422	2,661	1,494	3,622	1,826	-	-	-
2012	163,480	3,250	2,821	3,064	4,039	3,564	-	-	-	-
2013	163,203	5,303	3,529	1,695	1,902	-	-	-	-	-
2014	188,644	7,055	2,765	4,300	-	-	-	-	-	-
2015	324,314	9,962	8,599	-	-	-	-	-	-	-
2016	267,060	12,372	-	-	-	-	-	-	-	-
2017	351,723	-	-	-	-	-	-	-	-	-

#### 43.2.3 Financial risk

##### 43.2.3.1 Introduction

The Group is exposed to different kinds of financial risks as a result of investing in financial instruments. The Group's Senior Management has established appropriate policies and procedures to identify financial risks, measure and manage in accordance with the Group's policies and risk objectives. Following are the primary risks exposed by the Group.

- Credit Risk
- Liquidity Risk
- Market risk

##### 43.2.3.2 Credit Risk

Credit risk is the risk that principal party to a financial instrument will cause a financial loss by failing to discharge an obligation by the counter party. The Group is exposed to credit risk from its operating activities (primarily premium receivables from Policyholders) and from its financing activities, such as deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

#### Risk exposure

The following table shows the maximum risk positions of financial assets which are generally subject to credit risk. The maximum risk exposure of following financial assets is equal to their carrying amounts.

#### Concentrations of Credit Risk

As at 31st December,	2017				2016			
	Group		Company		Group		Company	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Government Securities	7,201,123	40.9	6,311,303	46.5	6,580,884	47.8	5,717,252	54.4
Corporate Debt Securities	2,782,466	15.8	2,340,207	17.2	3,066,478	22.3	2,526,087	24.0
Term Deposit	4,862,962	27.6	3,908,737	28.7	1,597,762	11.6	1,158,787	11.0
Cash and Cash Equivalents	641,950	3.6	352,307	2.6	625,527	4.5	476,572	4.5
Premium Receivable	786,319	4.5	7,488	0.1	623,294	4.5	6,805	0.1
Reinsurance Receivables	569,778	3.2	65,010	0.5	494,726	3.6	54,814	0.5
Staff and Agent Loans	399,075	2.3	239,081	1.8	353,472	2.6	214,492	2.0
Equity	196,118	1.1	172,208	1.3	288,119	2.1	233,270	2.2
Loans to Life Policyholders	162,285	0.9	162,285	1.2	120,441	0.9	120,441	1.2
Unit Trusts	12,241	0.1	8,560	0.1	11,332	0.1	7,200	0.1
<b>Total credit risk exposure</b>	<b>17,614,317</b>	<b>100</b>	<b>13,567,186</b>	<b>100</b>	<b>13,762,035</b>	<b>100</b>	<b>10,515,720</b>	<b>100</b>

#### Government Securities

Investments in Government securities consist of Treasury Bonds, Treasury Bills and repo investments. They are considered to be risk free instruments since government securities are fully backed by the government of Sri Lanka.

#### Corporate debt securities

The following table shows the credit rating of Investment in Corporate Debt.

#### Corporate debt securities by credit rating

As at 31st December,	2017				2016			
	Group		Company		Group		Company	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
AA+	59,639	2.1	59,639	2.5	166,122	5.4	155,982	6.2
AA	43,421	1.6	43,421	1.9	43,421	1.4	43,421	1.7
AA-	605,871	21.8	554,897	23.7	816,231	26.6	703,253	27.8
A+	654,354	23.5	563,316	24.1	478,616	15.6	397,031	15.7
A	355,538	12.8	314,307	13.4	405,990	13.2	358,869	14.2
A-	518,132	18.6	400,896	17.1	530,242	17.3	410,237	16.2
BBB+	106,117	3.8	79,290	3.4	186,472	6.1	132,860	5.3
BBB	282,810	10.2	221,836	9.5	282,802	9.2	221,830	8.8
BBB-	125,428	4.5	84,367	3.6	125,428	4.1	84,367	3.4
BB+	31,156	1.1	18,238	0.8	31,154	1.1	18,237	0.7
<b>Total</b>	<b>2,782,466</b>	<b>100</b>	<b>2,340,207</b>	<b>100</b>	<b>3,066,478</b>	<b>100</b>	<b>2,526,087</b>	<b>100</b>

Group has invested more than 80.4% (79.6% - 2016) of the Corporate Debt Investment in instruments rated A- or above by Fitch Rating Lanka.

#### Term Deposit

Investments in term deposits consist of fixed and call deposits in Licensed Commercial Banks, Licensed Specialised Banks and Registered Finance Companies which are disclosed under financial investments and short term deposits under cash and cash equivalents.

## 43. FINANCIAL RISK MANAGEMENT (Contd.)

## Term Deposit

As at 31st December,	2017		2016	
	Group	Company	Group	Company
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Term Deposit under Loans and Receivable	4,862,962	3,908,737	1,597,762	1,158,787
Short Term Deposits	60,918	56,351	396,528	351,173
<b>Total</b>	<b>4,923,880</b>	<b>3,965,088</b>	<b>1,994,290</b>	<b>1,509,960</b>

The following table shows the credit rating of the Investment in Term Deposits.

## Term deposits by credit rating

As at 31st December,	2017				2016			
	Group		Company		Group		Company	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
AA+	978,081	19.9	840,402	21.2	392,678	19.7	372,607	24.7
AA	153,755	3.1	-	-	90,976	4.6	-	-
AA-	1,612,030	32.7	1,274,443	32.1	975,656	48.9	705,569	46.7
A+	1,311,905	26.6	1,122,533	28.3	143,941	7.2	143,941	9.5
A	476,115	9.7	405,823	10.2	244,944	12.3	187,113	12.4
A-	391,994	8.0	321,887	8.2	146,095	7.3	100,730	6.7
<b>Total</b>	<b>4,923,880</b>	<b>100</b>	<b>3,965,088</b>	<b>100</b>	<b>1,994,290</b>	<b>100</b>	<b>1,509,960</b>	<b>100</b>

Group has invested more than 92% (2016 – 92.7%) of the Term Deposit Investment in Companies rated "A" or above by Fitch Rating Lanka.

Some of the specific actions undertaken by the Group to mitigate Credit Risk in investments are shown below.

## During new placements

- Adoption of a list of counterparties approved by the Investment Committee, consisting of companies which, in the opinion of the Committee, carry minimal Credit Risk.
- Checking the credit worthiness of potential investees, mainly through ratings assigned to the issuing institution or the ratings assigned to the issue.
- Obtaining explicit approval of the Investment Committee for any investments in an entity not included in the Committee approved list.
- Deciding on single party exposure limits based on the credit ratings and regulatory requirements and monitoring them closely at different levels.
- Conducting a detailed analysis of individual counterparties for each equity and corporate debt investment before taking the investment decision.
- Adhering to established guidelines regarding the acceptability of collateral and valuation parameters. The management monitors the market value of the collateral, requests for additional collateral when needed and performs an impairment valuation when applicable.
- The Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. All our investments in Repos are on DVP/RVP basis (Delivery vs. Payments and Received vs. Payments).
- Adhering to the guidelines on selection of Primary dealer with regard to Government security investments.
- Preparation of checklist to ensure adherence to the Company investment policy and other regulatory requirements
- Approved financial authority limits set by Investment Committee for all investment related activities.

## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

#### Investment operation and Monitoring

- Signing Master Repo Agreements ("MRA") with all primary dealers the Group works with in order to ensure zero level of default risk for lending under overnight repo and repo transactions, in the event of their bankruptcy. MRA's provide the facility to the investor or investee to recover the money due by selling the collateral securities in the secondary market in the event of a default by either party.
- Maintaining a custodian arrangement for Government securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd (a joint venture of HNB and DFCC Bank).
- Entering in to a custodian agreement with Hatton National Bank PLC for listed equity investments.
- Obtaining specialist advice from legal experts on any issues related to investment activities.

The Group regularly reviews the policies and procedures in respect of managing the Credit Risk in investments and no significant changes were made during the year.

#### Staff and Agent Loans

Company has established an effective Credit Policy which evaluates staff and Advisor credit worthiness before granting loans. All loans are fair valued and tested for impairment on a periodic basis.

#### Loans to life Policyholders

The value of each loan granted to a Life Policyholder was limited to the surrender value of those insurance policy.

#### Reinsurance receivables

Reinsurance receivable made up of reinsurance receivable from claim outstanding and settled claims amounts. Following table provides information regarding the Credit Risk exposure on Reinsurance Receivables of the Group and the Company. Reinsurance Receivables on Claims Outstanding and IBNR/IBNER on claims amounts to Rs. 352.9 Million (2016: Rs. 339.1 Million) have not been considered in this analysis since these have not crystallised. Ratings represent international ratings given by "S&P", "AM BEST" and "Fitch".

#### Reinsurance Receivables Based on Credit Rates (on settled claims)

	AAA	AA+ to AA-	A+ to A-	B+ to B-	Not rated	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>31st December 2017</b>						
Group	-	124,448	92,467	-	-	216,915
Company	-	35,770	-	-	-	35,770
<b>31st December 2016</b>						
Group	-	67,612	87,948	46	-	155,607
Company	-	15,226	-	-	-	15,226



#### 43. FINANCIAL RISK MANAGEMENT (Contd.)

##### Premium receivable

If the policyholder or intermediary does not settle the due premium, the Group and the Company is exposed to credit risk.

The table below provides information regarding the credit risk exposure on reinsurance receivable (on settled claims) and premium receivable of the Group and the Company according to their due period.

##### Age analysis of reinsurance and premium receivable

As at 31st December 2017,	Up to 30 days		31 to 60 days		61 to 90 days		91 to 180 days		Over 180 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
<b>Group</b>												
Reinsurance receivable on settled claims	40,896	18.9	57,937	26.6	36,813	17.0	73,763	34.0	7,506	3.5	216,915	100
Premium receivables	529,290	67.3	257,029	32.7	-	-	-	-	-	-	786,319	100
<b>Total</b>	<b>570,186</b>	<b>56.8</b>	<b>314,966</b>	<b>31.4</b>	<b>36,813</b>	<b>3.7</b>	<b>73,763</b>	<b>7.4</b>	<b>7,506</b>	<b>0.7</b>	<b>1,003,234</b>	<b>100</b>
<b>Company</b>												
Reinsurance receivable on settled claims	5,186	14.5	5,157	14.4	4,297	12.0	21,130	59.1	-	-	35,770	100
Premium receivables	7,488	100	-	-	-	-	-	-	-	-	7,488	100
<b>Total</b>	<b>12,674</b>	<b>29.3</b>	<b>5,157</b>	<b>11.9</b>	<b>4,297</b>	<b>9.9</b>	<b>21,130</b>	<b>48.9</b>	<b>-</b>	<b>-</b>	<b>43,258</b>	<b>100</b>

##### Age analysis of reinsurance and premium receivable

As at 31st December 2016,	Up to 30 days		31 to 60 days		61 to 90 days		91 to 180 days		Over 180 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
<b>Group</b>												
Reinsurance receivable on settled claims	24,471	15.7	13,416	8.6	30,802	19.8	77,391	49.8	9,527	6.1	155,607	100
Premium receivables	434,600	69.7	188,694	30.3	-	-	-	-	-	-	623,294	100
<b>Total</b>	<b>459,071</b>	<b>58.9</b>	<b>202,110</b>	<b>25.9</b>	<b>30,802</b>	<b>4.0</b>	<b>77,391</b>	<b>9.9</b>	<b>9,527</b>	<b>1.3</b>	<b>778,901</b>	<b>100</b>
<b>Company</b>												
Reinsurance receivable on settled claims	3,525	23.2	4,848	31.8	6,853	45.0	-	-	-	-	15,226	100
Premium receivables	6,805	100	-	-	-	-	-	-	-	-	6,805	100
<b>Total</b>	<b>10,330</b>	<b>46.9</b>	<b>4,848</b>	<b>22.0</b>	<b>6,853</b>	<b>31.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,031</b>	<b>100</b>

Specific actions undertaken by the Group to mitigate Credit Risk in premium receivable are shown below.

- Strict implementation of Premium Payment Warranty (PPW), ensuring that all General Insurance policies with payments outstanding for more than 60 days are cancelled.
- Conducting follow-up meetings on debt collection on a monthly basis.
- Using the latest technology (e.g.: mobile text messages) to inform customers on premium reminders and cancellation notices.
- Follow up with the customer by contacting from our Customer Relations Centre (CRC) on long outstanding balances.
- Processing claims only for the premium settled policies.

Group regularly reviews the policies and procedures in respect of managing the premium receivables under General Insurance and no significant changes were made during the year.

The Group has no significant concentration of credit risk during the reporting period.

## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

#### 43.2.3.3 Liquidity Risk

The risk group will encounter difficulty in meeting obligations associated with financial liabilities due to non-availability of sufficient level of liquid assets referred to as liquidity risk. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk.

- Guidelines are set out for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet Group insurance and investment contract obligations.
- The Group follows Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy which is reviewed by Investment Committee regularly.
- Maintaining sufficient cash balances, repurchase agreement and other short tenure investments to accommodate expected obligations and commitments of the Group.
- Determining the maturity profiles of insurance Contract Liabilities and reinsurance assets based on the estimated timing of net cash outflows from recognised insurance liabilities.
- Reviewing the maturity mix of the investment portfolio by the management and the Investment Committee on a regular basis.
- Agreeing with the reinsurers to support in case of catastrophic by way of cash call.
- Forecasting and planning for all large cash outflows in advance and making necessary arrangements to ensure the availability of funds to meet such outflows.
- Availability of a stand-by overdraft facility to be used only in the event of an emergency.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that can be accessed to meet its liquidity needs. The Group has an effective and efficient daily cash management process and due to this risk was mitigated.

The table below summarises the maturity profile of the financial assets of the Group and the Company based on remaining contractual obligations, including interest payable and receivable.

#### Maturity Profile of Assets & Liabilities - Group

As at 31st December 2017,	Total	Less than One year	One year to Three years	Three to Five Years	More than Five Years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>					
Financial Investments	15,054,910	5,667,239	3,050,702	2,990,634	3,346,336
Loans to Life Policyholders	162,285	-	-	-	162,285
Reinsurance Receivables	569,778	567,551	2,227	-	-
Premium Receivables	786,319	786,319	-	-	-
Staff and Other Loans	399,075	110,861	143,729	105,141	39,344
Cash and Cash Equivalents	641,950	641,950	-	-	-
<b>Total Assets</b>	<b>17,614,317</b>	<b>7,773,920</b>	<b>3,196,658</b>	<b>3,095,775</b>	<b>3,547,965</b>
<b>Liabilities</b>					
Reinsurance Creditors	353,042	352,998	44	-	-
Other Liabilities	342,530	168,651	-	-	173,879
Bank Overdraft	141,660	141,660	-	-	-
<b>Total Liabilities</b>	<b>837,232</b>	<b>663,309</b>	<b>44</b>	<b>-</b>	<b>173,879</b>

## 43. FINANCIAL RISK MANAGEMENT (Contd.)

## Maturity Profile of Assets &amp; Liabilities - Group (Contd.)

As at 31st December 2016,	Total	Less than One year	One year to Three years	Three to Five Years	More than Five Years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>					
Financial Investments	11,544,575	3,521,592	2,888,156	2,682,529	2,452,298
Loans to Life Policyholders	120,441	-	-	-	120,441
Reinsurance Receivables	494,726	494,726	-	-	-
Premium Receivables	623,294	623,294	-	-	-
Staff and Other Loans	353,472	91,278	126,562	94,802	40,830
Cash and Cash Equivalents	625,527	625,527	-	-	-
<b>Total Assets</b>	<b>13,762,035</b>	<b>5,356,417</b>	<b>3,014,718</b>	<b>2,777,331</b>	<b>2,613,569</b>
<b>Liabilities</b>					
Reinsurance Creditors	287,895	287,895	-	-	-
Other Liabilities	293,656	159,352	-	-	134,304
<b>Total Liabilities</b>	<b>581,551</b>	<b>447,247</b>	<b>-</b>	<b>-</b>	<b>134,304</b>

## Maturity Profile of Assets &amp; Liabilities - Company

As at 31st December 2017,	Total	Less than One year	One year to Three years	Three to Five Years	More than Five Years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>					
Financial Investments	12,741,015	4,271,958	2,511,470	2,668,770	3,288,817
Loans to Life Policyholders	162,285	-	-	-	162,285
Reinsurance Receivables	65,010	65,010	-	-	-
Premium Receivables	7,488	7,488	-	-	-
Staff and Other Loans	239,081	76,748	85,110	56,121	21,102
Cash and Cash Equivalents	352,307	352,307	-	-	-
<b>Total Assets</b>	<b>13,567,186</b>	<b>4,773,511</b>	<b>2,596,580</b>	<b>2,724,891</b>	<b>3,472,204</b>
<b>Liabilities</b>					
Reinsurance Creditors	90,650	90,650	-	-	-
Other Liabilities	241,826	85,123	-	-	156,703
Bank Overdraft	32,756	32,756	-	-	-
<b>Total Liabilities</b>	<b>365,232</b>	<b>208,529</b>	<b>-</b>	<b>-</b>	<b>156,703</b>

## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

#### Maturity Profile of Assets & Liabilities - Company (Contd.)

As at 31st December 2016,	Total	Less than One year	One year to Three years	Three to Five Years	More than Five Years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>					
Financial Investments	9,642,596	2,446,368	2,432,688	2,396,133	2,367,407
Loans to Life Policyholders	120,441	-	-	-	120,441
Reinsurance Receivables	54,814	54,814	-	-	-
Premium Receivables	6,805	6,805	-	-	-
Staff and Other Loans	214,492	61,903	76,347	54,842	21,400
Cash and Cash Equivalents	476,572	476,572	-	-	-
<b>Total Assets</b>	<b>10,515,720</b>	<b>3,046,462</b>	<b>2,509,035</b>	<b>2,450,975</b>	<b>2,509,248</b>
<b>Liabilities</b>					
Reinsurance Creditors	39,395	39,395	-	-	-
Other Liabilities	211,385	90,184	-	-	121,201
<b>Total Liabilities</b>	<b>250,780</b>	<b>129,579</b>	<b>-</b>	<b>-</b>	<b>121,201</b>

The Company has no significant concentration of Liquidity risk during the reporting period.

#### 43.2.3.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk namely interest rate risk, equity price risk and currency risk.



The following policies and procedures are in place to mitigate the Group's exposure to market risks.

- The Group follows Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy. The ALM guidelines are reviewed by Investment Committee regularly.
- Macro-economic indicators and their impact on the Group's Investment Portfolio are monitored closely by the Management, Investment Committee and Risk Management Committee regularly.
- Equity portfolios are reviewed by the Investment Committee on a quarterly basis.
- Impact from the market movement is monitored on a daily basis and warnings are sent to MD / CEO and CFO of high volatilities in the market.
- Total exposure to equity investments is made strictly within the agreed target asset allocation and sectorial equity limits.
- Equity investments are made in fundamentally sound stocks which are identified after an in-depth research and evaluation process by the investment management team.

#### 43. FINANCIAL RISK MANAGEMENT (Contd.)

##### a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This is considered to be the most important risk to be managed by the Group because the magnitude of the impact considered being significant.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity. The table below depicts the Group's and the Company's sensitivity to Interest Rate Risk.

##### Sensitivity to interest rate risk

As at 31st December,	2017				2016			
	Group		Company		Group		Company	
	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
100 bps parallel increase in all yield curves	-	(237,261)	-	(224,250)	-	(157,400)	-	(149,027)
100 bps parallel decrease in all yield curves	-	255,403	-	241,850	-	167,550	-	158,813

Following table presents the exposure to the Interest Rate Risk by the Group and the Company.

##### Exposure to Interest Rate Risk

31st December 2017	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial Assets - Group</b>				
Held to Maturity	-	180,460	-	180,460
Loans and Receivables	-	8,417,430	-	8,417,430
Available For Sale	-	6,248,661	78,074	6,326,735
Fair Value Through Profit or Loss	-	-	130,285	130,285
Cash and Cash Equivalent	-	60,919	581,032	641,951
<b>Total Financial Assets - Group</b>	-	14,907,470	789,391	15,696,861
<b>Total Financial Liabilities - Group</b>	-	141,660	695,572	837,232
<b>Financial Assets - Company</b>				
Held to Maturity	-	180,460	-	180,460
Loans and Receivables	-	6,789,740	-	6,789,740
Available For Sale	-	5,590,047	69,244	5,659,291
Fair Value Through Profit or Loss	-	-	111,524	111,524
Cash and Cash Equivalent	-	56,352	295,956	352,307
<b>Total Financial Assets - Company</b>	-	12,616,599	476,724	13,093,322
<b>Total Financial Liabilities - Company</b>	-	32,756	332,476	365,232

## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

#### Exposure to Interest Rate Risk

31st December 2016	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial Assets - Group</b>				
Held to Maturity	-	174,025	-	174,025
Loans and Receivables	-	5,344,482	-	5,344,482
Available For Sale	-	5,726,617	142,941	5,869,558
Fair Value Through Profit or Loss	-	-	156,510	156,510
Cash and Cash Equivalent	-	396,528	228,999	625,527
<b>Total Financial Assets - Group</b>	-	<b>11,641,652</b>	<b>528,450</b>	<b>12,170,102</b>
<b>Total Financial Liabilities - Group</b>	-	-	<b>581,551</b>	<b>581,551</b>
<b>Financial Assets - Company</b>				
Held to Maturity	-	174,025	-	174,025
Loans and Receivables	-	4,253,239	-	4,253,239
Available For Sale	-	4,974,862	120,738	5,095,600
Fair Value Through Profit or Loss	-	-	119,732	119,732
Cash and Cash Equivalent	-	351,173	125,399	476,572
<b>Total Financial Assets - Company</b>	-	<b>9,753,299</b>	<b>365,869</b>	<b>10,119,168</b>
<b>Total Financial Liabilities - Company</b>	-	-	<b>250,780</b>	<b>250,780</b>

In order to mitigate the interest rate risk faced by the Group, the management follows the guidelines set out in the Investment Policy. Amongst other such guidelines, the policy also requires the management of the maturities of interest bearing financial assets. Compliance with the policy is monitored and the exposure and instances of noncompliance are reported to the Investment Committee. The Policy is reviewed regularly for pertinence and for changes in the risk environment.

Interest on floating rate instruments is re-priced annually whilst Interest on fixed interest rate instruments is priced at the inception of the financial instrument and is fixed until maturity.

The Company has no significant concentration of interest rate risk during the reporting period.

#### b) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in equity prices other than those arising due to interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

In order to manage the equity price risk, the Group's Investment Policy guides the management to set/monitor objectives and constraints on investments, diversification plans as well as limits on equity exposure.

#### 43. FINANCIAL RISK MANAGEMENT (Contd.)

Following table shows the equity portfolio diversification the Group and the Company

##### Equity Portfolio Diversification

As at 31st December,	2017				2016			
	Group		Company		Group		Company	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Banks, Finance and Insurance	96,947	46.5	85,651	47.4	125,674	42.0	100,730	41.9
Manufacturing	52,601	25.3	48,731	27.0	86,089	28.7	69,231	28.8
Diversified Holdings	29,120	14.0	23,378	12.9	36,334	12.1	29,265	12.2
Land and Property	13,611	6.5	10,609	5.9	15,467	5.2	12,056	5.0
Chemicals and Pharmaceuticals	3,839	1.8	3,839	2.1	24,555	8.2	21,988	9.1
Closed / Open End Funds	12,241	5.9	8,560	4.7	11,332	3.8	7,200	3.0
<b>Total</b>	<b>208,359</b>	<b>100</b>	<b>180,768</b>	<b>100</b>	<b>299,451</b>	<b>100</b>	<b>240,470</b>	<b>100</b>

The sensitivity analysis below is performed for reasonably possible movements in All Share Price Index with all other variables held constant, showing the impact on profit before tax.

##### Percentage change in benchmark index (ASPI)

For the year ended 31st December,	Group				Company			
	Impact on PBT		Impact on OCI		Impact on PBT		Impact on OCI	
	2017	2016	2017	2016	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
10 per cent increase in equity prices	11,804	14,518	7,807	14,294	10,296	11,253	6,924	12,074
10 per cent decrease in equity prices	(11,804)	(14,518)	(7,807)	(14,294)	(10,296)	(11,253)	(6,924)	(12,074)

The Group has no significant concentration of equity price risk during the reporting period.

#### c) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's principal transactions are carried out in Sri Lankan Rupees and hence, its exposure to foreign exchange risk arises primarily with respect to the US Dollar and Euro denominated assets maintained in order to honor liabilities of foreign currency denominated insurance policies, which are sold in the ordinary course of business.

However, no material liabilities were recorded on foreign currency denominated policies as at the reporting date.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets.



## Accounting Policies and Notes to the Financial Statements

### 43. FINANCIAL RISK MANAGEMENT (Contd.)

#### Sensitivity to foreign Currency Risk

	31st December 2017				31st December 2016			
	Group		Company		Group		Company	
	Amount in Foreign Currency	LKR amount	Amount in Foreign Currency	LKR amount	Amount in Foreign Currency	LKR amount	Amount in Foreign Currency	LKR amount
	USD '000	Rs. '000	USD '000	Rs. '000	USD '000	Rs. '000	USD '000	Rs. '000
USD Assets	1,367	211,485	374	57,725	1,020	153,559	247	37,059
	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
5% strengthening of rupee	(10,574)	(7,613)	(2,886)	(2,078)	(7,678)	(5,528)	(1,853)	(1,334)
5% weakening of rupee	10,574	7,613	2,886	2,078	7,678	5,528	1,853	1,334
+/- % impact on Profit	1.14%	0.84%	0.40%	0.29%	1.09%	0.85%	0.28%	0.22%

The Group has no significant concentration of currency risk during the reporting period.

#### Risk Sensitivity of Financial Assets

This analysis has been performed for reasonably possible movements in key individual variables, while holding all other variables constant. It shows the impact on profit before tax (due to changes in fair value of financial assets whose fair values movements are recorded in the Statement of Profit or Loss and Other Comprehensive Income) and equity.

An analysis of the sensitivity of financial assets and liabilities of the Group and the Company to the key impacting variables are set out in the table below.

#### Sensitivity on Overall Finance Assets

	Change in variables	31st December 2017				31st December 2016			
		Group		Company		Group		Company	
		Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Exchange rate	5% strengthening of rupee	(10,574)	(7,613)	(2,886)	(2,078)	(7,678)	(5,528)	(1,853)	(1,334)
Yield curve	+100 basis points	-	(237,261)	-	(224,250)	-	(157,400)	-	(149,027)
ASPI	10% increase	11,804	16,307	10,296	14,338	14,518	24,747	11,253	20,176
<b>Total</b>		<b>1,230</b>	<b>(228,567)</b>	<b>7,410</b>	<b>(211,990)</b>	<b>6,840</b>	<b>(138,181)</b>	<b>9,400</b>	<b>(130,185)</b>
Exchange rate	5% weakening of rupee	10,574	7,613	2,886	2,078	7,678	5,528	1,853	1,334
Yield curve	-100 basis points	-	255,403	-	241,850	-	167,550	-	158,813
ASPI	10% decrease	(11,804)	(16,307)	(10,296)	(14,338)	(14,518)	(24,747)	(11,253)	(20,176)
<b>Total</b>		<b>(1,230)</b>	<b>246,709</b>	<b>(7,410)</b>	<b>229,590</b>	<b>(6,840)</b>	<b>148,331</b>	<b>(9,400)</b>	<b>139,971</b>

Note 1 : The correlation of variables will have a significant effect in determining the ultimate impact of exchange rate, interest rate and equity price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

Note 2 : It should be noted that movements in these variables are non-linear. The method used for deriving sensitivity information and significant variables has not changed from the previous period.

**44. EVENTS OCCURRING AFTER THE REPORTING DATE**

Except for the following mentioned post balance events there have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

**44.a. Interim Dividend Declared**

The Board of Directors has declared a payment of an interim dividend of Rs. 6.00 per share for the Financial year 2017 (2016 Final Dividend - Rs. 5.00 per share). More information with respect to a dividend declaration is given on Note 40.

**45. COMMITMENTS**

**45.1** At the year end, no capital expenditure approved by the Board and contracted for which no provision has been made in these Financial Statements (2016 - Rs. Nil).

**45.2 Operating Leases****Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

Future commitments on operating leases	2017	2016
	Rs.'000	Rs.'000
Less than one year	116,311	123,052
Between one and five years	299,855	373,522
More than five years	6,424	4,402
<b>Total Operating Lease Commitments</b>	<b>422,590</b>	<b>500,976</b>

The Company leases a number of offices under operating leases. The leases typically run for a period of five to seven years, with an option to renew the lease after that date. Lease payments are increased to reflect market rentals at regular intervals.

During the year ended 31st December 2017 an amount of Rs. 6.2 Million was recognised as an expense in Profit or Loss in respect of operating leases for vehicle hired (2016: Rs.2.8 Million). There were no contingent rent recognised as an expense during the year.

**46. CONTINGENCIES**

**46.1** The Inland Revenue Department (IRD) has taken the view that Reinsurance Claims for the year of assessment 2010/11 on General Insurance business is liable for Value Added Tax (VAT). Accordingly the Company has received a VAT Assessment on Reinsurance Claims amounting to Rs. 13.3 Million for the year of Assessment 2010/2011. This is a common assessment issued by IRD to most of the Insurance companies in the General Insurance business. However these companies are of the view that they are not liable to pay VAT on Reinsurance Claims.

The Company has filed due responses in consultation with Tax Consultants and made an appeal to the Tax Appeals Commission. Following a hearing at the Tax Appeals Commission, Company submitted a written appeal on 31st July 2016 and are yet to receive a response. A bank Guarantee of Rs 3.3 Million is also obtained against the appeal. As such the Company is of the view that no additional Tax liabilities will arise due to this Assessment. No further response has been received on this matter as of the date of authorising these Consolidated Financial Statements.

Further, VAT on Reinsurance Claims and Reinsurance Commissions has been exempted by the IRD w.e.f. 1st January 2011 which is an indication that realisation of this liability is remote.

## Accounting Policies and Notes to the Financial Statements

### 46. CONTINGENCIES (Contd.)

- 46.2 The Company has received an official communication from IRD stating that the Company is liable for VAT and NBT on Financial Service (FS) based on Section 25C of VAT Act, No. 14 of 2002 with the application of attributable method. According to IRD, Company has been registered to pay VAT and NBT on FS w.e.f 01st January 2014. However, the Management, Company's Tax Consultant and other insurance companies in the industry are of the view that insurance companies are not liable for VAT and NBT on FS since the Companies are in the insurance business and do not engage in the business of financial services.

Therefore, the Company has requested the IRD to cancel the registration on VAT and NBT on FS which is the stance of the entire insurance industry. As such we expect no liability to materialise in respect of the same.

- 46.3 The Company has received Income Tax Assessments for Life Insurance Taxation for the years of assessments 2011/2012, 2012/2013, 2013/2014, 2014/2015. These Assessments were issued by the Inland Revenue Department in contrary to the Section 92 of Inland Revenue Act, No. 10 of 2016. Further, these Income Tax Assessments have been common Assessments for all Life Insurance companies in the insurance industry. However the Management, Company's Tax Consultant and other insurance companies in the industry are of the view that these assessments will not materialise. Therefore no additional provision has been made in the Financial Statements.

Company has duly appealed against these Assessments in consultation with Tax Consultants and the status of each Assessment is provided in the table below,

Year of Assessment	Status of Assessment	Nature of Contingent Impact to the Company	Measurement of Contingent Impact to the Company
2011/2012	Pending decision from Tax Appeals Commission	Loss adjustment (Decrease in Brought forward Tax loss	Brought forward Tax loss of Life Insurance business will be reduced by Rs. 310 Million
2012/2013	Pending decision from Commissioner General of Inland Revenue	Loss adjustment (Decrease in Brought forward Tax loss	Brought forward Tax loss of Life Insurance business will be reduced by Rs. 278 Million
2013/2014	Pending decision from Commissioner General of Inland Revenue	Additional tax liability	An additional Tax Liability of Rs. 132 Million will arise
2014/2015	Pending decision from Commissioner General of Inland Revenue	Additional tax liability	An additional Tax Liability of Rs. 136 Million will arise

### 47. LITIGATIONS AND CLAIMS

Litigations that are pending against the Company other than those arising in the normal course of conducting insurance business In the opinion of the Directors and in consultation with the company lawyers, litigation currently pending against the company will not have a material impact on the reported financial results or future operations of the Company. All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

**48. COMPARATIVE INFORMATION**

The presentation and classification of following items in these Financial Statements are amended/reclassified to ensure comparability with the current year information.

**As Presented in the Statement of Financial Position**

As at 31st December,	Note	After Reclassification		Amount Reclassified		Prior to Reclassification	
		Group	Company			Group	Group
		2016	2016	Group	Company	2016	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Other Revenue</b>							
Loans to Life Policyholders	48.1	120,441	120,441	500	500	119,941	119,941
Other Liabilities	48.1	781,246	486,474	500	500	780,746	485,974

**48.1 Reason for changes in presentation and reclassification**

Interest received in advance for Policyholder Loans previously recorded under policyholder loans, this has been reclassified under other liabilities to be in line with the current year presentation.

**49. TRANSFER PRICING**

Provision on transfer pricing under sections 104 and 104A of the Inland Revenue Act, No.10 of 2006 covers the transactions with associated undertakings. Since compliance reporting will be enforced from the year of assessment 2015/16.

During the financial year, certain transactions including provision of insurance solutions and placement of deposits have been taken place with parent entity (associated undertaking). Both HNB Assurance PLC and HNB General Insurance Limited are of the view that the transactions with parent entity have been taken place on arm's length pricing.

As the aggregate value of transactions of each companies with associated undertaking is more than Rs. 50 Million, both the companies are required to maintain separate documentation as prescribed by Transfer Pricing Regulations by IRD. The companies have prepared and maintained the relevant documentation and filings to comply with transfer pricing regulation.

**50. DIRECTORS' RESPONSIBILITY STATEMENT**

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer to page 249 of the Statement of Directors' Responsibility for Financial Reporting.

# Statement of Financial Position of The Life Insurance Fund - Supplemental

As at 31st December,	Note	Page No.	2017 Rs.'000	2016 Rs.'000
<b>Assets</b>				
Financial Investments	A	377	11,045,680	8,190,577
Loans to Life Policyholders	B	380	162,285	120,441
Reinsurance Receivables	C	381	65,010	54,814
Premium Receivables	10	302	7,488	6,805
Other Assets	D	381	156,912	167,471
Cash and Cash Equivalents	E	381	232,349	260,740
<b>Total Assets</b>			<b>11,669,724</b>	<b>8,800,848</b>
<b>Equity and Liabilities</b>				
Life Policyholders' Available For Sale Reserve Fund	18	308	223,272	(191,131)
<b>Total Equity</b>			<b>223,272</b>	<b>(191,131)</b>
<b>Liabilities</b>				
Insurance Contract Liabilities - Life Insurance	19	309	10,915,858	8,747,856
Reinsurance Creditors	F	381	90,650	39,395
Other Liabilities	G	381	191,227	204,728
Bank Overdraft			18,143	-
Payable to Life Shareholders			230,574	-
<b>Total Liabilities</b>			<b>11,446,452</b>	<b>8,991,979</b>
<b>Total Equity and Liabilities</b>			<b>11,669,724</b>	<b>8,800,848</b>

The Notes to the Financial Statements as set out on pages 377 to 381 form an integral part of these Financial Statements.

# Notes to the Financial Statements - Life Insurance (Supplemental)

## A. Financial Investments

As at 31st December,		2017	2016
		Rs.'000	Rs.'000
Held to Maturity (HTM)	(Note A.1)	180,460	174,025
Loans and Receivable (L & R)	(Note A.2)	5,392,691	3,217,599
Available For Sale (AFS)	(Note A.3)	5,361,005	4,679,221
Fair Value Through Profit or Loss (FVTPL)	(Note A.4)	111,524	119,732
<b>Total Financial Investments</b>		<b>11,045,680</b>	<b>8,190,577</b>

The table below shows the carrying values of these Financial Instruments together with their fair values.

As at 31st December,		2017		2016	
		Carrying value	Fair value	Carrying value	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Held to Maturity (HTM)	(Note A.1)	180,460	181,166	174,025	177,193
Loans and Receivable (L & R)	(Note A.2)	5,392,691	5,343,795	3,217,599	3,010,959
Available For Sale (AFS)	(Note A.3)	5,361,005	5,361,005	4,679,221	4,679,221
Fair Value Through Profit or Loss (FVTPL)	(Note A.4)	111,524	111,524	119,732	119,732
<b>Total Financial Investments</b>		<b>11,045,680</b>	<b>10,993,517</b>	<b>8,190,577</b>	<b>7,987,105</b>
<b>A.1 Held to Maturity (HTM)</b>					
- Treasury Bonds		180,460	181,166	174,025	177,193
<b>Total</b>		<b>180,460</b>	<b>181,166</b>	<b>174,025</b>	<b>177,193</b>
<b>A.2 Loans and Receivable (L &amp; R)</b>					
- Treasury Bills - Repo		369,441	369,441	245,250	245,250
- Treasury Bills - Overnight Repo		67,221	67,221	88,295	88,295
- Term Deposit	(Note A.5)	3,108,539	3,142,763	888,908	871,440
- Corporate Debt	(Note A.6)	1,847,490	1,764,370	1,995,146	1,805,974
<b>Total</b>		<b>5,392,691</b>	<b>5,343,795</b>	<b>3,217,599</b>	<b>3,010,959</b>
<b>A.3 Available for Sale (AFS)</b>					
- Treasury Bonds		5,291,760	5,291,760	3,840,003	3,840,003
- Treasury Bills		-	-	718,480	718,480
- Equity Shares	(Note A.7)	69,245	69,245	120,738	120,738
<b>Total</b>		<b>5,361,005</b>	<b>5,361,005</b>	<b>4,679,221</b>	<b>4,679,221</b>
<b>A.4 Fair Value Through Profit or Loss (FVTPL)</b>					
- Investment in Units	(Note A.8)	8,560	8,560	7,200	7,200
- Equity Shares	(Note A.9)	102,964	102,964	112,532	112,532
<b>Total</b>		<b>111,524</b>	<b>111,524</b>	<b>119,732</b>	<b>119,732</b>

Fair Value Through Profit or Loss Investments and Available For Sale Investments have been valued at fair value. Held to Maturity and Loans and Receivable are valued at at amortised cost.

## Notes to the Financial Statements - Life Insurance (Supplemental)

### A.5. Term Deposits

As at 31st December,		2017		2016	
		Carrying value	Fair value	Carrying value	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Long term and medium term deposits with,</b>					
Licensed Commercial Banks	(Note A.5.1.)	1,954,022	1,959,150	629,544	624,492
Licensed Finance Companies	(Note A.5.2.)	1,154,517	1,183,613	259,364	246,948
<b>Total</b>		<b>3,108,539</b>	<b>3,142,763</b>	<b>888,908</b>	<b>871,440</b>
<b>A.5.1. Licensed Commercial Banks</b>					
Term Deposits with Related Parties - Hatton National Bank PLC		99,638	99,638	79,570	79,570
Others Banks		1,854,384	1,859,512	549,974	544,922
<b>Total</b>		<b>1,954,022</b>	<b>1,959,150</b>	<b>629,544</b>	<b>624,492</b>
<b>A.5.2. Licensed Finance Companies</b>					
Term Deposits with Related Parties - HNB Grameen Finance Limited		50,243	54,451	-	-
Others Finance Companies		1,104,274	1,129,162	259,364	246,948
<b>Total</b>		<b>1,154,517</b>	<b>1,183,613</b>	<b>259,364</b>	<b>246,948</b>
<b>A.6. Debentures - Quoted</b>					
Abans PLC		63,326	58,444	90,108	79,932
Access Engineering PLC		96,147	92,216	96,147	83,992
Bank of Ceylon		50,440	46,399	131,332	130,511
Commercial Bank of Ceylon PLC		27,727	27,704	27,727	24,428
Central Finance Company PLC		30,078	29,645	30,078	29,508
Commercial Credit and Finance PLC		81,298	78,023	81,295	71,454
Commercial Leasing and Finance PLC		43,900	39,780	43,900	36,517
DFCC Bank PLC		67,619	66,677	94,374	86,270
Hatton National Bank PLC		220,994	214,734	217,837	197,137
HDFC Bank of Sri Lanka		69,300	63,394	69,300	62,706
Hemas Holdings PLC		42,610	42,031	42,610	39,866
Lanka Orix Leasing Company PLC		35,794	33,614	35,792	30,784
LB Finance PLC		80,512	73,652	71,450	63,443
Lion Brewery (Ceylon) PLC		23,199	22,817	40,584	39,625
Mercantile Investment and Finance PLC		3,669	3,635	3,669	3,453
Merchant Bank of Sri Lanka & Finance PLC		56,970	53,259	86,419	76,719
National Development Bank PLC		61,384	57,149	60,731	52,430
Nations Trust Bank PLC		78,139	77,228	78,133	72,275
Nawaloka Hospitals PLC		41,411	40,836	41,411	40,122
Pan Asia Banking Corporation PLC		38,549	36,921	38,549	34,005
People's Leasing & Finance PLC		109,623	108,291	111,396	104,368
Richard Pieris and Company PLC		42,560	41,580	45,900	42,644
Sampath Bank PLC		239,035	225,120	194,798	166,459
Seylan Bank PLC		151,308	145,466	151,308	141,982
Singer (Sri Lanka) PLC		-	-	18,403	16,271
Siyapatha Finance PLC		58,275	53,120	58,275	48,775
Softlogic Finance PLC		18,239	17,655	18,237	16,451
Vallibel Finance PLC		15,384	14,980	15,383	13,847
<b>Total Investment in Quoted Debentures</b>		<b>1,847,490</b>	<b>1,764,370</b>	<b>1,995,146</b>	<b>1,805,974</b>



## A.7. Equity Shares - Available For Sale

As at 31st December,	2017			2016		
	No. of Shares	Cost	Carrying Value/Fair Value	No. of Shares	Cost	Carrying Value/Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000
<b>Banks, Finance and Insurance</b>						
Seylan Bank PLC - (Non Voting)	217,281	10,656	12,168	210,000	10,656	12,390
Sampath Bank PLC	37,831	6,834	11,943	93,831	21,312	24,434
Central Finance Company PLC	135,653	11,192	12,521	177,653	21,805	17,765
<b>Sector Total (a)</b>			<b>36,632</b>			<b>54,589</b>
<b>Diversified Holdings</b>						
Melstacorp PLC	39,532	2,343	2,353	39,532	2,344	2,344
<b>Sector Total (b)</b>			<b>2,353</b>			<b>2,344</b>
<b>Manufacturing</b>						
Tokyo Cement Company (Lanka) PLC	211,002	9,598	13,926	285,568	16,266	16,906
Royal Ceramics Lanka PLC	50,000	6,067	5,725	50,000	6,067	5,775
Teejay Lanka PLC	-	-	-	453,681	10,817	19,418
<b>Sector Total (c)</b>			<b>19,651</b>			<b>42,099</b>
<b>Chemicals and Pharmaceuticals</b>						
CIC Holdings PLC- (Non Voting)	-	-	-	141,915	9,698	9,650
<b>Sector Total (d)</b>			<b>-</b>			<b>9,650</b>
<b>Land and Property</b>						
Overseas Realty (Ceylon) PLC	602,809	15,391	10,609	602,809	15,391	12,056
<b>Sector Total (e)</b>			<b>10,609</b>			<b>12,056</b>
<b>Total Investment in Equity Shares - AFS (a+b+c+d+e)</b>			<b>69,245</b>			<b>120,738</b>

## A.8. Investment in Units

As at 31st December,	2017		2016	
	No. of Units	Carrying Value/Fair Value	No. of Units	Carrying Value/Fair Value
		Rs.'000		Rs.'000
<b>Quoted</b>				
NAMAL Acuity Value Fund	80,000	8,560	80,000	7,200
<b>Total Investment in Quoted Unit Trusts</b>		<b>8,560</b>		<b>7,200</b>

## Notes to the Financial Statements - Life Insurance (Supplemental)

### A.9. Equity Shares - Fair Value Through Profit or Loss

As at 31st December,	2017			2016		
	No. of Shares	Cost	Carrying Value/Fair Value	No. of Shares	Cost	Carrying Value/Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000
<b>Banks, Finance and Insurance</b>						
National Development Bank PLC	11,729	1,600	1,600	11,299	1,600	1,763
Sampath Bank PLC	59,087	11,925	18,654	57,646	11,318	15,011
Nations Trust Bank PLC	87,261	6,083	6,806	87,261	6,083	7,059
Peoples Leasing & Finance PLC	476,000	8,568	8,092	476,000	8,568	8,187
Seylan Bank PLC - (Non Voting)	247,631	9,006	13,867	239,332	9,006	14,121
<b>Sector Total (a)</b>			<b>49,019</b>			<b>46,141</b>
<b>Diversified Holdings</b>						
John Keells Holdings PLC	38,274	5,622	5,684	48,274	7,864	7,000
Richard Pieris and Company PLC	312,851	4,351	4,067	722,851	10,342	5,783
Vallibel One PLC	200,000	3,600	3,540	250,000	4,500	4,650
Melstacorp PLC	130,000	7,706	7,735	160,000	9,484	9,488
<b>Sector Total (b)</b>			<b>21,026</b>			<b>26,921</b>
<b>Manufacturing</b>						
Royal Ceramics Lanka PLC	28,000	4,318	3,206	28,000	4,318	3,234
ACL Cables PLC	95,200	3,016	4,036	125,200	4,850	7,575
Tokyo Cement Company (Lanka) PLC	330,869	12,278	21,838	275,724	12,278	16,323
<b>Sector Total (c)</b>			<b>29,080</b>			<b>27,132</b>
<b>Chemicals and Pharmaceuticals</b>						
CIC Holdings PLC	61,920	4,363	3,839	135,000	10,915	12,338
<b>Sector Total (d)</b>			<b>3,839</b>			<b>12,338</b>
<b>Total Investment in Equity Shares - FVTPL (a+b+c+d)</b>			<b>102,964</b>			<b>112,532</b>

### B. LOANS TO LIFE POLICYHOLDERS

As at 31st December,	2017	2016
	Rs.'000	Rs.'000
Balance as at 1st January	99,574	77,309
Loans Granted during the Year	72,279	49,642
Repayments during the year	(38,393)	(27,377)
	<b>133,460</b>	<b>99,574</b>
Interest Receivable	28,825	20,867
<b>Balance as at 31st December</b>	<b>162,285</b>	<b>120,441</b>

As at 31st December,		2017	2016
		Rs.'000	Rs.'000
<b>C.</b>	<b>REINSURANCE RECEIVABLES</b>		
	Reinsurance Receivable on Outstanding Claims	29,240	39,588
	Reinsurance Receivable on Settled Claims (Note C.1)	35,770	15,226
	<b>Total Reinsurance Receivable</b>	<b>65,010</b>	<b>54,814</b>
<b>C.1</b>	<b>The age analysis of the reinsurance receivable on settled claims is as follows:</b>		
	Up to 30 days	5,186	3,525
	31 to 60 days	5,157	4,848
	61 to 90 days	4,297	6,853
	91 to 180 days	21,130	-
	<b>Total</b>	<b>35,770</b>	<b>15,226</b>
<b>D.</b>	<b>OTHER ASSETS</b>		
	Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR) (Note D.1)	155,207	166,285
	Other Receivables	1,705	1,186
	<b>Total Other Assets</b>	<b>156,912</b>	<b>167,471</b>
<b>D.1</b>	<b>Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)</b>		
	Withholding Tax Recoverable (WHT)	9,934	71,176
	Notional Tax on Government Securities	145,273	95,109
	<b>Total</b>	<b>155,207</b>	<b>166,285</b>
<b>E.</b>	<b>CASH AND CASH EQUIVALENTS</b>		
	Cash in Hand	1,290	1,282
	Cash at Bank with Licensed Commercial Banks	965	10,708
	Cash at Bank with Related Parties - Hatton National Bank PLC	224,035	97,984
		<b>226,290</b>	<b>109,974</b>
	Short Term Deposits (Note E.1)	6,059	150,766
	<b>Total Cash and Cash Equivalents</b>	<b>232,349</b>	<b>260,740</b>
<b>E.1</b>	<b>Short Term Deposits</b>		
	With Licensed Commercial Banks	6,059	150,766
	<b>Total</b>	<b>6,059</b>	<b>150,766</b>
<b>F.</b>	<b>REINSURANCE CREDITORS</b>		
	Foreign Reinsurer	90,650	39,395
	<b>Total Reinsurance Creditors</b>	<b>90,650</b>	<b>39,395</b>
<b>G.</b>	<b>OTHER LIABILITIES</b>		
	Policyholders Advance Payments	85,998	99,854
	Acquisition Cost Payable	83,476	86,369
	Government Levies	1,988	1,819
	Accrued and Other Expenses	19,765	16,686
	<b>Total Other Liabilities</b>	<b>191,227</b>	<b>204,728</b>

## Insurance Revenue Account

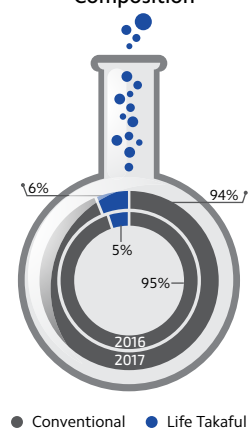
For the Year Ended 31st December,	2017	2016
	Rs.'000	Rs.'000
<b>Life Insurance</b>		
Gross Written Premium	3,963,642	3,554,078
Premium Ceded to Reinsurers	(189,093)	(159,050)
<b>Net Written / Earned Premium</b>	<b>3,774,549</b>	<b>3,395,028</b>
Net Benefits Expense	(575,551)	(401,677)
Net Commission	(836,026)	(759,143)
Expenses Attributable to Policyholders	(1,035,847)	(900,887)
Fees and Commission Income	61,494	62,858
<b>Underwriting Surplus</b>	<b>1,388,619</b>	<b>1,396,179</b>
Change In contract Liabilities - Life Fund	(2,166,427)	(1,708,285)
Interest and Dividend Income	1,442,073	987,959
Net Realised Gains / (Losses)	28,789	(22,435)
Net Fair Value Gains / (Losses)	7,653	(7,793)
Other Income	24,958	11,017
<b>Surplus from Life Insurance Business (a)</b>	<b>725,665</b>	<b>656,642</b>
<b>General Insurance</b>		
Gross Written Premium	3,906,503	3,141,559
Premium Ceded to Reinsurers	(911,480)	(718,663)
<b>Net Written Premium</b>	<b>2,995,023</b>	<b>2,422,896</b>
Net Change in Reserves for Unearned Premium	(328,818)	(181,102)
<b>Net Earned Premium</b>	<b>2,666,205</b>	<b>2,241,794</b>
Net Claims Incurred	(1,718,847)	(1,546,601)
Net Commission	(435,929)	(350,153)
Decrease in Deferred Acquisition Expenses	30,336	9,016
Expenses Attributable to Policyholders	(700,577)	(578,982)
Fees and Commission Income	80,889	73,029
<b>Underwriting Deficit</b>	<b>(77,923)</b>	<b>(151,897)</b>
Interest and Dividend Income	251,118	192,126
Net Realised Gains / (Losses)	4,339	(6,684)
Net Fair Value Gain	2,051	1,332
Other Income	21,777	14,002
<b>Operating Profit from General Insurance Business (b)</b>	<b>201,362</b>	<b>48,879</b>
<b>Reconciliation of Statement of Income and Insurance Revenue Accounts</b>		
Surplus from Life Insurance Business (a)	725,665	656,642
Operating Profit from General Insurance Business (b)	201,362	48,879
Profit Before Taxation	927,027	705,521
Income Tax Expense	(17,275)	(58,108)
<b>Profit for the Year</b>	<b>909,752</b>	<b>647,413</b>

# Takaful Business Analysis - Profitability

For the Year Ended 31st December,	Life-Takaful	
	2017	2016
	Rs.'000	Rs.'000
Gross Written Contribution (Premium)	2,855	1,404
Contribution (Premium) Ceded to Retakaful companies (Reinsurers)	(1,134)	(551)
<b>Net Earned Contribution (Premium)</b>	<b>1,721</b>	<b>853</b>
Other Income	147	211
<b>Net Income</b>	<b>1,868</b>	<b>1,064</b>
Total Benefits, Loss (Claims) and other Expenses	(422)	(294)
<b>Profit for the Year</b>	<b>1,446</b>	<b>770</b>

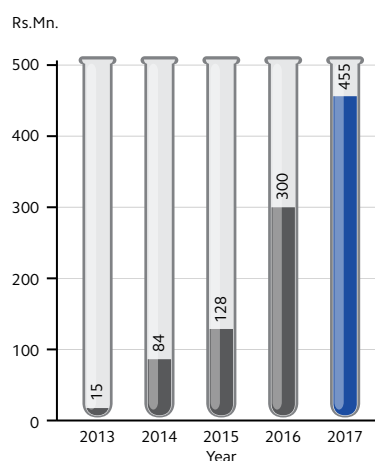
For the Year Ended 31st December,	Non Life -Takaful	
	2017	2016
	Rs.'000	Rs.'000
Gross Written Contribution (Premium)	455,262	300,649
Contribution (Premium) Ceded to Retakaful companies (Reinsurers)	(116,598)	(88,176)
Unearned Takaful Contribution (Premium)	(67,416)	(59,300)
<b>Net Earned Contribution (Premium)</b>	<b>271,248</b>	<b>153,173</b>
Other Income	23,704	9,522
<b>Net Income</b>	<b>294,952</b>	<b>162,695</b>
Total Benefits, Loss (Claims) and other Expenses	(275,353)	(138,602)
<b>Profit for the Year</b>	<b>19,599</b>	<b>24,093</b>

Gross Written Contribution - Composition



● Conventional ● Life Takaful

Gross Written Contribution - Non-Life Takaful



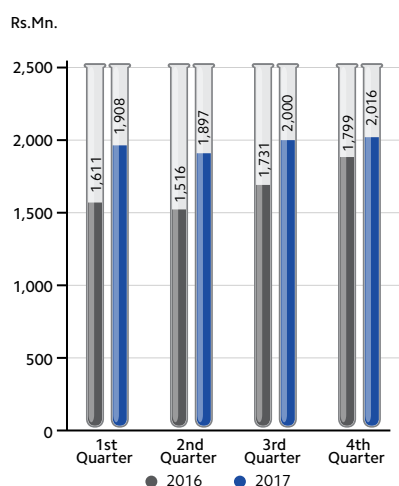
## Quarterly Analysis 2017 and 2016 - Group

### Statement of Profit or Loss

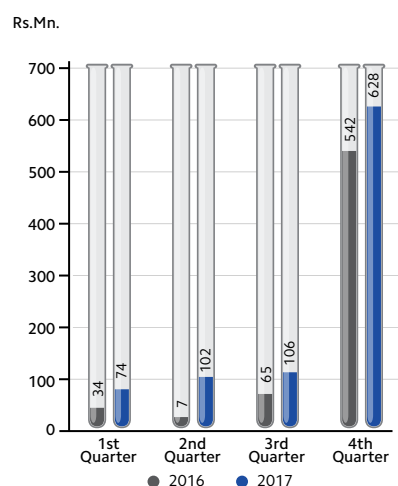
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Jan - March		Apr-Jun		Jul-Sep		Oct-Dec		Jan - Dec	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	1,907,987	1,610,951	1,897,244	1,515,977	2,000,395	1,730,790	2,015,842	1,798,976	7,821,468	6,656,694
Premium Ceded to Reinsurers	(237,958)	(212,572)	(310,165)	(210,110)	(237,356)	(180,700)	(315,094)	(274,331)	(1,100,573)	(877,713)
<b>Net Written Premium</b>	<b>1,670,029</b>	<b>1,398,379</b>	<b>1,587,079</b>	<b>1,305,867</b>	<b>1,763,039</b>	<b>1,550,090</b>	<b>1,700,748</b>	<b>1,524,645</b>	<b>6,720,895</b>	<b>5,778,981</b>
Net Change in Reserves for Unearned Premium	(127,415)	(61,883)	(81,606)	(7,626)	(124,029)	(71,143)	4,232	(40,450)	(328,818)	(181,102)
<b>Net Earned Premium (a)</b>	<b>1,542,614</b>	<b>1,336,496</b>	<b>1,505,473</b>	<b>1,298,241</b>	<b>1,639,010</b>	<b>1,478,947</b>	<b>1,704,980</b>	<b>1,484,195</b>	<b>6,392,077</b>	<b>5,597,879</b>
<b>Other Revenue</b>										
Interest and Dividend Income	360,345	243,070	383,066	283,843	422,475	316,753	527,305	336,419	1,693,191	1,180,085
Net Realised Gains/(Losses)	3,475	(11,098)	4,467	1,912	8,681	(11,866)	16,505	(8,067)	33,128	(29,119)
Net Fair Value (Losses)/Gains	(3,453)	(36,555)	23,303	18,867	(5,527)	20,307	(4,619)	(9,080)	9,704	(6,461)
Fee and Commission Income	50,859	53,682	38,016	22,588	27,441	24,076	12,783	28,452	129,099	128,798
Other Income	8,603	2,958	13,365	6,370	9,485	3,642	15,282	12,049	46,735	25,019
<b>Total Other Revenue (b)</b>	<b>419,829</b>	<b>252,057</b>	<b>462,217</b>	<b>333,580</b>	<b>462,555</b>	<b>352,912</b>	<b>567,256</b>	<b>359,773</b>	<b>1,911,857</b>	<b>1,298,322</b>
<b>Net Income (c = a+b)</b>	<b>1,962,443</b>	<b>1,588,553</b>	<b>1,967,690</b>	<b>1,631,821</b>	<b>2,101,565</b>	<b>1,831,859</b>	<b>2,272,236</b>	<b>1,843,968</b>	<b>8,303,934</b>	<b>6,896,201</b>
<b>Net Benefits, Claims and Expenses</b>										
Net Insurance Benefits and Claims Incurred	(519,555)	(433,277)	(519,447)	(492,990)	(624,374)	(519,840)	(630,030)	(501,538)	(2,293,406)	(1,947,645)
Change in Contract Liabilities - Life Fund	(629,363)	(499,476)	(607,659)	(524,232)	(686,818)	(591,679)	(242,587)	(92,898)	(2,166,427)	(1,708,285)
Other Operating and Administration Expenses	(432,767)	(364,859)	(466,855)	(377,668)	(448,380)	(403,643)	(491,016)	(426,794)	(1,839,018)	(1,572,964)
Underwriting and Net Acquisition Costs	(271,028)	(238,001)	(224,024)	(210,304)	(257,031)	(222,755)	(276,789)	(251,821)	(1,028,872)	(922,881)
Other Insurance Related Costs	(14,089)	(7,082)	(12,198)	(8,666)	(11,415)	(12,711)	(11,482)	(10,446)	(49,184)	(38,905)
<b>Total Benefits, Claims and other Expenses (d)</b>	<b>(1,866,802)</b>	<b>(1,542,695)</b>	<b>(1,830,183)</b>	<b>(1,613,860)</b>	<b>(2,028,018)</b>	<b>(1,750,628)</b>	<b>(1,651,904)</b>	<b>(1,283,497)</b>	<b>(7,376,907)</b>	<b>(6,190,680)</b>
<b>Profit Before Taxation (c+d)</b>	<b>95,641</b>	<b>45,858</b>	<b>137,507</b>	<b>17,961</b>	<b>73,547</b>	<b>81,231</b>	<b>620,332</b>	<b>560,471</b>	<b>927,027</b>	<b>705,521</b>
Income Tax (Expenses) / Reversal	(21,599)	(12,326)	(35,369)	(10,695)	32,192	(16,137)	7,501	(18,950)	(17,275)	(58,108)
<b>Profit for the Period</b>	<b>74,042</b>	<b>33,532</b>	<b>102,138</b>	<b>7,266</b>	<b>105,739</b>	<b>65,094</b>	<b>627,833</b>	<b>541,521</b>	<b>909,752</b>	<b>647,413</b>

Note : To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2016 annual report, and the comparative figures published in third and fourth quarters of 2017 have been reclassified where necessary.

Gross Written Premium - Group



Profit for the Period - Group



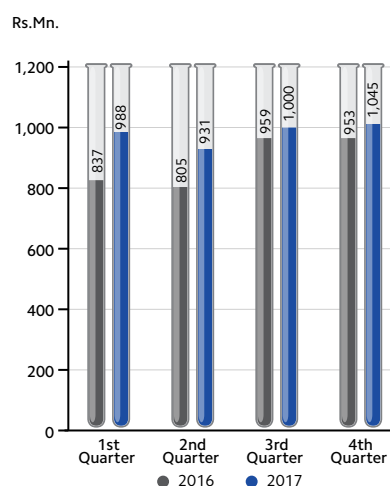
# Quarterly Analysis 2017 and 2016 - Company

## Statement of Profit or Loss

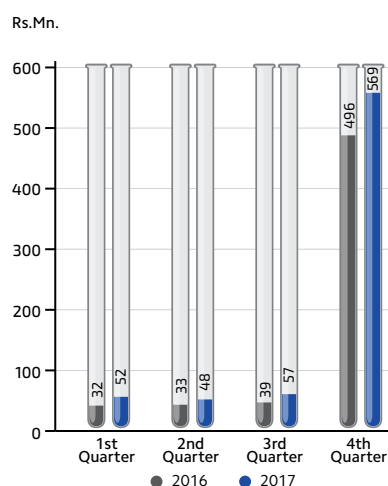
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Jan - March		Apr-Jun		Jul-Sep		Oct-Dec		Jan - Dec	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	987,824	837,450	931,313	804,848	999,758	959,167	1,044,747	952,613	3,963,642	3,554,078
Premium Ceded to Reinsurers	(45,836)	(37,635)	(45,776)	(38,210)	(46,522)	(39,941)	(50,959)	(43,264)	(189,093)	(159,050)
<b>Net Earned Premium(a)</b>	<b>941,988</b>	<b>799,815</b>	<b>885,537</b>	<b>766,638</b>	<b>953,236</b>	<b>919,226</b>	<b>993,788</b>	<b>909,349</b>	<b>3,774,549</b>	<b>3,395,028</b>
<b>Other Revenue</b>										
Interest and Dividend Income	304,756	200,901	321,856	236,695	355,962	266,238	459,499	284,125	1,442,073	987,959
Net Realised Gains/(Losses)	2,911	(7,337)	2,035	2,113	7,670	(9,308)	16,173	(7,903)	28,789	(22,435)
Net Fair Value (Losses)/Gains	(3,768)	(26,759)	19,605	11,314	(3,640)	16,395	(4,544)	(8,743)	7,653	(7,793)
Fee and Commission Income	25,075	33,866	15,518	6,067	9,945	11,546	10,956	11,379	61,494	62,858
Other Income	6,868	332	4,125	1,844	7,818	2,424	6,147	6,417	24,958	11,017
<b>Total Other Revenue (b)</b>	<b>335,842</b>	<b>201,003</b>	<b>363,139</b>	<b>258,033</b>	<b>377,755</b>	<b>287,295</b>	<b>488,231</b>	<b>285,275</b>	<b>1,564,967</b>	<b>1,031,606</b>
<b>Net Income (c = a+b)</b>	<b>1,277,830</b>	<b>1,000,818</b>	<b>1,248,676</b>	<b>1,024,671</b>	<b>1,330,991</b>	<b>1,206,521</b>	<b>1,482,019</b>	<b>1,194,624</b>	<b>5,339,516</b>	<b>4,426,634</b>
<b>Net Benefits, Claims and Expenses</b>										
Net Insurance Benefits and Claims Incurred	(105,221)	(67,046)	(130,811)	(71,703)	(167,800)	(130,739)	(171,719)	(132,189)	(575,551)	(401,677)
Change in Contract Liabilities - Life Fund	(629,363)	(499,476)	(607,659)	(524,232)	(686,818)	(591,679)	(242,587)	(92,898)	(2,166,427)	(1,708,285)
Other Operating and Administration Expenses	(236,239)	(193,870)	(256,928)	(212,629)	(255,707)	(239,692)	(269,896)	(240,654)	(1,018,770)	(886,845)
Underwriting and Net Acquisition Costs	(226,907)	(193,979)	(178,515)	(164,142)	(195,274)	(181,884)	(222,019)	(208,046)	(822,715)	(748,051)
Other Insurance Related Costs	(9,939)	(5,069)	(7,324)	(5,243)	(6,163)	(7,802)	(6,962)	(7,020)	(30,388)	(25,134)
<b>Total Benefits, Claims and other Expenses(d)</b>	<b>(1,207,669)</b>	<b>(959,440)</b>	<b>(1,181,237)</b>	<b>(977,949)</b>	<b>(1,311,762)</b>	<b>(1,151,796)</b>	<b>(913,183)</b>	<b>(680,807)</b>	<b>(4,613,851)</b>	<b>(3,769,992)</b>
<b>Profit Before Taxation (c+d)</b>	<b>70,161</b>	<b>41,378</b>	<b>67,439</b>	<b>46,722</b>	<b>19,229</b>	<b>54,725</b>	<b>568,836</b>	<b>513,817</b>	<b>725,665</b>	<b>656,642</b>
Income Tax (Expenses) / Reversal	(17,778)	(9,763)	(19,817)	(13,258)	37,595	(16,137)	-	(17,354)	-	(56,512)
<b>Profit for the Period</b>	<b>52,383</b>	<b>31,615</b>	<b>47,622</b>	<b>33,464</b>	<b>56,824</b>	<b>38,588</b>	<b>568,836</b>	<b>496,463</b>	<b>725,665</b>	<b>600,130</b>

Note : To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2016 annual report have been reclassified where necessary.

Gross Written Premium - Company



Profit for the Period - Company





# Decade at a Glance

## HNB ASSURANCE PLC (GROUP)

### Statement of Financial Position

As at 31st December,	2017	2016*	2015	2014	2013	2012	2011	2010	2009	2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>										
Property, Plant and Equipment	169,620	161,362	136,279	133,942	137,009	118,447	121,568	130,971	117,070	91,717
Intangible Assets	57,841	60,882	45,185	51,622	53,807	61,068	48,876	52,308	30,755	23,058
Deferred Tax Assets	64,098	52,922	49,394	-	2	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	2,717,415	2,037,643
Financial Investments	15,054,910	11,544,575	9,751,611	8,277,895	6,656,438	5,703,866	4,884,262	3,643,361	-	-
Loans to Life Policyholders	162,285	120,441	91,992	71,082	53,656	29,888	20,097	15,000	10,338	4,908
Reinsurance Receivables	569,778	494,726	141,354	162,260	105,390	162,715	130,867	122,403	73,824	69,314
Premium Receivables	786,319	623,294	345,916	364,051	301,182	247,417	231,385	231,929	157,029	120,922
Other Assets	1,036,846	770,674	625,985	683,149	575,180	482,216	397,385	337,745	471,170	334,640
Insurance Contract - Deferred Expenses	105,287	74,951	65,935	52,072	32,912	19,968	20,059	12,392	-	-
Cash and Cash Equivalents	641,950	625,527	386,929	173,245	144,087	209,293	190,355	81,444	94,100	117,271
<b>Total Assets</b>	<b>18,648,934</b>	<b>14,529,354</b>	<b>11,640,580</b>	<b>9,969,318</b>	<b>8,059,663</b>	<b>7,034,878</b>	<b>6,044,854</b>	<b>4,627,553</b>	<b>3,671,701</b>	<b>2,799,473</b>
<b>Equity and Liabilities</b>										
<b>Equity</b>										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	375,000	375,000	375,000
Retained Earnings	2,381,427	1,721,675	1,174,262	1,196,546	941,820	690,197	444,057	676,118	455,851	301,116
Available For Sale Reserve	30,685	(7,152)	(4,748)	3,590	1,427	6,209	-	-	-	-
Other Reserves	(10,760)	1,790	(1,093)	1,177	2,172	-	-	-	-	-
Life Policyholders' AFS Reserve Fund	223,272	(191,131)	(56,350)	40,748	(4,182)	(1,191)	(22,526)	31,050	-	-
<b>Total Equity</b>	<b>3,796,499</b>	<b>2,697,057</b>	<b>2,283,946</b>	<b>2,413,936</b>	<b>2,113,112</b>	<b>1,867,090</b>	<b>1,593,406</b>	<b>1,082,168</b>	<b>830,851</b>	<b>676,116</b>
<b>Liabilities</b>										
Insurance Contract Liabilities - Life	10,915,858	8,747,856	7,007,080	5,562,648	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505
Insurance Contract Liabilities - General	2,384,906	1,921,567	1,546,265	1,279,138	1,011,102	969,443	944,321	743,049	599,364	470,206
Employee Defined Benefit Liabilities	126,083	90,433	81,001	71,493	56,637	42,360	34,129	25,076	18,180	11,318
Current Tax Liabilities	34,598	3,300	-	12,012	35,143	42,950	25,998	28,618	-	-
Deferred Tax Liabilities	-	-	-	8,845	-	-	-	-	-	-
Reinsurance Creditors	353,042	287,895	131,905	110,778	100,881	83,253	103,256	77,309	87,251	83,039
Other Liabilities	896,288	781,246	590,383	510,468	394,298	403,543	322,413	256,119	282,542	198,289
Bank Overdraft	141,660	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>14,852,435</b>	<b>11,832,297</b>	<b>9,356,634</b>	<b>7,555,382</b>	<b>5,946,551</b>	<b>5,167,788</b>	<b>4,451,448</b>	<b>3,545,385</b>	<b>2,840,850</b>	<b>2,123,357</b>
<b>Total Equity and Liabilities</b>	<b>18,648,934</b>	<b>14,529,354</b>	<b>11,640,580</b>	<b>9,969,318</b>	<b>8,059,663</b>	<b>7,034,878</b>	<b>6,044,854</b>	<b>4,627,553</b>	<b>3,671,701</b>	<b>2,799,473</b>

### Statement of Profit or Loss

For the year ended 31st December,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	7,821,468	6,656,694	5,447,164	4,665,618	3,877,730	3,211,232	2,984,710	2,428,183	2,115,647	1,838,879
<b>Net Earned Premium</b>	<b>6,392,077</b>	<b>5,597,879</b>	<b>4,725,403</b>	<b>3,845,510</b>	<b>3,269,181</b>	<b>2,697,024</b>	<b>2,349,619</b>	<b>1,844,360</b>	<b>1,567,747</b>	<b>1,375,681</b>
Income from Investments and Other Income	1,911,857	1,298,322	1,049,152	1,167,910	937,417	736,810	466,956	516,880	469,038	344,007
Net Claims and Benefits	(2,293,406)	(1,947,645)	(2,117,789)	(1,573,104)	(1,568,208)	(1,154,521)	(865,130)	(648,137)	(511,911)	(408,482)
Change in Contract Liabilities - Life Fund	(2,166,427)	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)	(479,831)
Underwriting and Net Acquisition Costs	(1,028,872)	(922,881)	(699,679)	(474,826)	(381,259)	(348,108)	(288,059)	(164,991)	(150,108)	(168,166)
Expenses	(1,888,202)	(1,611,869)	(1,325,214)	(1,334,634)	(1,107,209)	(981,430)	(833,221)	(746,854)	(650,677)	(493,335)
<b>Profit Before Taxation</b>	<b>927,027</b>	<b>705,521</b>	<b>169,773</b>	<b>438,583</b>	<b>425,093</b>	<b>393,866</b>	<b>271,840</b>	<b>269,525</b>	<b>231,081</b>	<b>169,874</b>
Income Tax (Expenses)/Reversal	(17,275)	(58,108)	27,571	(20,857)	(35,970)	(42,726)	(25,772)	(27,786)	(29,471)	(5,401)
<b>Profit for the Year</b>	<b>909,752</b>	<b>647,413</b>	<b>197,344</b>	<b>417,726</b>	<b>389,123</b>	<b>351,140</b>	<b>246,068</b>	<b>241,739</b>	<b>201,610</b>	<b>164,473</b>
Basic Earnings per Share (Rs.)	18.20	12.95	3.95	8.35	7.78	7.02	5.14	5.38	4.49	3.66
Dividend per Share (Rs.)	6.00	5.00	2.00	3.75	3.25	2.75	2.10	1.80	1.50	1.25

\*Note - The presentation and classification in these Financial Statements are amended/reclassified to ensure comparability with the current year information. Detail note has been given in Note 48 in page 375.

**HNB ASSURANCE PLC / LIFE INSURANCE - COMPANY****Statement of Financial Position**

As at 31st December,	2017	2016*	2015	2014	2013	2012	2011	2010	2009	2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Assets</b>										
Property, Plant and Equipment	119,078	112,151	94,107	-	-	-	4,276	4,573	6,174	8,151
Intangible Assets	57,841	60,882	45,185	-	-	-	22,203	20,773	14,523	5,742
Investments	-	-	-	-	-	-	-	-	1,686,073	1,263,166
Financial Investments	12,741,015	9,642,596	7,849,625	5,545,833	4,270,216	3,527,422	2,935,487	2,415,853	-	-
Investment in Subsidiary	1,150,000	1,150,000	1,150,000	-	-	-	-	-	-	-
Loans to Life Policyholders	162,285	120,441	91,992	71,082	53,656	29,888	20,097	15,000	10,338	4,908
Reinsurance Receivables	65,010	54,814	34,269	23,446	23,626	40,716	27,848	18,617	16,283	10,025
Premium Receivables	7,488	6,805	5,592	6,943	6,710	9,573	-	-	-	-
Other Assets	764,256	575,676	493,571	195,023	169,032	137,795	129,223	102,556	219,625	150,279
Cash & Cash Equivalents	352,307	476,572	258,222	88,482	74,705	129,916	62,468	13,005	45,252	39,939
<b>Total Assets</b>	<b>15,419,280</b>	<b>12,199,937</b>	<b>10,022,563</b>	<b>5,930,809</b>	<b>4,597,945</b>	<b>3,875,310</b>	<b>3,201,602</b>	<b>2,590,377</b>	<b>1,998,268</b>	<b>1,482,210</b>
<b>Equity and Liabilities</b>										
<b>Equity</b>										
Stated Capital	1,171,875	1,171,875	1,171,875	-	-	-	-	-	-	-
Retained Earnings	2,373,601	1,897,936	1,397,806	-	-	-	-	-	-	-
Available For Sale Reserve	17,415	(1,465)	53	-	-	-	-	-	-	-
Other Reserves	(9,884)	(1,886)	(2,039)	(18,780)	928	-	-	-	-	-
Life Policyholders' AFS Reserve Fund	223,272	(191,131)	(56,350)	40,748	(4,182)	(1,191)	(22,526)	31,050	-	-
<b>Total Equity</b>	<b>3,776,279</b>	<b>2,875,329</b>	<b>2,511,345</b>	<b>21,968</b>	<b>(3,254)</b>	<b>(1,191)</b>	<b>(22,526)</b>	<b>31,050</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>										
Insurance Contract Liabilities - Life Insurance	10,915,858	8,747,856	7,007,080	5,562,648	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505
Employee Defined Benefit Liabilities	73,875	50,883	44,008	31,508	6,747	4,943	4,565	3,406	2,597	1,681
Reinsurance Creditors	90,650	39,395	37,547	30,921	24,849	29,928	28,106	25,341	24,937	32,535
Other Liabilities	529,862	486,474	422,583	283,764	221,113	215,391	170,126	115,366	117,221	87,489
Bank Overdraft	32,756	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>11,643,001</b>	<b>9,324,608</b>	<b>7,511,218</b>	<b>5,908,841</b>	<b>4,601,199</b>	<b>3,876,501</b>	<b>3,224,128</b>	<b>2,559,327</b>	<b>1,998,268</b>	<b>1,482,210</b>
<b>Total Equity and Liabilities</b>	<b>15,419,280</b>	<b>12,199,937</b>	<b>10,022,563</b>	<b>5,930,809</b>	<b>4,597,945</b>	<b>3,875,310</b>	<b>3,201,602</b>	<b>2,590,377</b>	<b>1,998,268</b>	<b>1,482,210</b>

**Statement of Profit or Loss**

For the year ended 31st December,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	3,963,642	3,554,078	2,788,716	2,342,867	2,014,547	1,500,028	1,290,367	1,084,480	984,866	914,170
<b>Net Earned Premium</b>	<b>3,774,549</b>	<b>3,395,028</b>	<b>2,680,753</b>	<b>2,215,404</b>	<b>1,912,749</b>	<b>1,371,952</b>	<b>1,187,671</b>	<b>985,283</b>	<b>891,808</b>	<b>834,218</b>
Income from Investments and Other Income	1,564,967	1,031,606	783,126	707,444	578,890	428,630	297,566	339,295	311,730	217,223
Net Benefits Incurred	(575,551)	(401,677)	(280,495)	(412,383)	(679,136)	(261,771)	(62,760)	(59,900)	(63,701)	(44,669)
Change in Contract Liabilities - Life Fund	(2,166,427)	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)	(479,831)
Underwriting and Net Acquisition Costs	(822,715)	(748,051)	(544,673)	(386,651)	(327,858)	(294,456)	(247,379)	(177,530)	(151,995)	(161,894)
Expenses	(1,049,158)	(911,979)	(719,583)	(703,519)	(578,327)	(523,220)	(444,773)	(399,415)	(364,834)	(265,047)
<b>Profit Before Taxation</b>	<b>725,665</b>	<b>656,642</b>	<b>457,028</b>	<b>228,022</b>	<b>181,489</b>	<b>165,226</b>	<b>172,000</b>	<b>156,000</b>	<b>130,000</b>	<b>100,000</b>

\*Note - The presentation and classification in these Financial Statements are amended/reclassified to ensure comparability with the current year information. Detail note has been given in Note 48 in page 375.

## Decade at a Glance

### HNB GENERAL INSURANCE LTD. / GENERAL INSURANCE - SUBSIDIARY

#### Statement of Financial Position

As at 31st December,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
							Restated	Restated		Restated
<b>Assets</b>										
Property, Plant and Equipment	50,542	49,211	42,172	133,942	137,009	118,447	117,292	126,398	110,896	83,566
Intangible Assets	-	-	-	51,622	53,807	61,068	26,673	31,535	16,102	17,316
Deferred Tax Assets	64,098	52,922	49,394	-	2	-	-	-	-	-
Investments	-	-	-	-	-	-	-	-	1,031,342	774,477
Financial Investments	2,313,895	1,901,979	1,901,986	2,732,062	2,386,222	2,176,444	1,948,775	1,227,508	-	-
Reinsurance Receivables	504,768	439,912	107,085	138,814	81,764	121,999	103,019	103,786	57,541	59,289
Premium Receivables	778,831	616,489	340,324	357,108	294,472	237,844	231,385	231,929	157,029	120,922
Other Assets	278,711	208,118	141,431	488,126	406,148	344,421	268,162	235,189	251,675	184,361
Insurance Contract - Deferred Expenses	105,287	74,951	65,935	52,072	32,912	19,968	20,059	12,392	-	-
Cash and Cash Equivalents	289,643	148,955	128,707	84,763	69,382	79,377	127,887	68,439	48,848	77,332
<b>Total Assets</b>	<b>4,385,775</b>	<b>3,492,537</b>	<b>2,777,034</b>	<b>4,038,509</b>	<b>3,461,718</b>	<b>3,159,568</b>	<b>2,843,252</b>	<b>2,037,176</b>	<b>1,673,433</b>	<b>1,317,263</b>
<b>Equity and Liabilities</b>										
<b>Equity</b>										
Stated Capital	1,150,000	1,150,000	1,150,000	1,171,875	1,171,875	1,171,875	1,171,875	375,000	375,000	375,000
Retained Earnings	10,781	(173,306)	(220,589)	1,196,546	941,820	690,197	444,057	676,118	455,851	301,116
Available For Sale Reserve	10,315	(8,642)	(7,756)	3,590	1,427	6,209	-	-	-	-
Other Reserves	(876)	3,676	946	19,957	1,244	-	-	-	-	-
<b>Total Equity</b>	<b>1,170,220</b>	<b>971,728</b>	<b>922,601</b>	<b>2,391,968</b>	<b>2,116,366</b>	<b>1,868,281</b>	<b>1,615,932</b>	<b>1,051,118</b>	<b>830,851</b>	<b>676,116</b>
<b>Liabilities</b>										
Insurance Contract Liabilities - General Insurance	2,384,906	1,921,567	1,546,265	1,279,138	1,011,102	969,443	944,321	743,049	599,364	470,206
Employee Defined Benefits Liabilities	52,208	39,550	36,993	39,985	49,890	37,417	29,564	21,670	15,583	9,637
Current Tax Liabilities	34,598	3,300	-	12,012	35,143	42,950	25,998	28,618	-	-
Deferred Tax Liabilities	-	-	-	8,845	-	-	-	-	-	-
Reinsurance Creditors	262,392	248,500	94,358	79,857	76,032	53,325	75,150	51,968	62,314	50,504
Other Liabilities	372,547	307,892	176,817	226,704	173,185	188,152	152,287	140,753	165,321	110,800
Bank Overdraft	108,904	-	-	-	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>3,215,555</b>	<b>2,520,809</b>	<b>1,854,433</b>	<b>1,646,541</b>	<b>1,345,352</b>	<b>1,291,287</b>	<b>1,227,320</b>	<b>986,058</b>	<b>842,582</b>	<b>641,147</b>
<b>Total Equity and Liabilities</b>	<b>4,385,775</b>	<b>3,492,537</b>	<b>2,777,034</b>	<b>4,038,509</b>	<b>3,461,718</b>	<b>3,159,568</b>	<b>2,843,252</b>	<b>2,037,176</b>	<b>1,673,433</b>	<b>1,317,263</b>

#### Statement of Profit or Loss

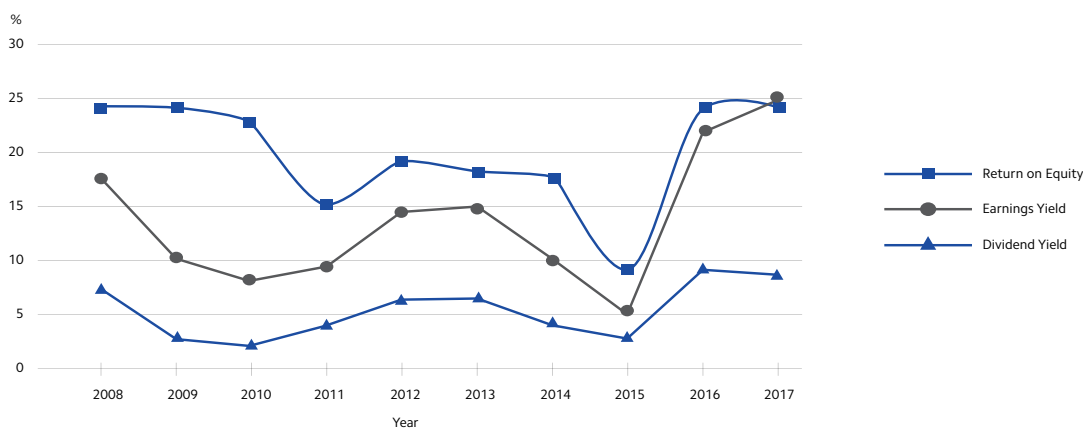
For the year ended 31st December,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	3,906,503	3,141,559	2,698,176	2,322,751	1,863,183	1,711,204	1,694,343	1,343,703	1,130,781	924,709
<b>Net Earned Premium</b>	<b>2,666,205</b>	<b>2,241,794</b>	<b>2,084,378</b>	<b>1,630,106</b>	<b>1,356,432</b>	<b>1,325,072</b>	<b>1,161,948</b>	<b>859,077</b>	<b>675,939</b>	<b>541,463</b>
Income from Investments and Other Income	360,174	273,805	279,041	460,466	358,527	308,180	169,390	177,585	157,308	126,784
Net Claims Incurred	(1,718,847)	(1,546,601)	(1,837,294)	(1,160,721)	(889,072)	(892,750)	(802,370)	(588,237)	(448,210)	(363,813)
Underwriting and Net Acquisition Costs	(214,898)	(177,847)	(160,979)	(88,175)	(53,401)	(53,652)	(40,680)	12,539	1,887	(6,272)
Expenses	(891,272)	(742,272)	(649,446)	(631,115)	(528,882)	(458,210)	(388,448)	(347,439)	(285,843)	(228,288)
<b>Profit / (Loss) Before Taxation</b>	<b>201,362</b>	<b>48,879</b>	<b>(284,300)</b>	<b>210,561</b>	<b>243,604</b>	<b>228,640</b>	<b>99,840</b>	<b>113,525</b>	<b>101,081</b>	<b>69,874</b>

**HNB ASSURANCE PLC (GROUP)****Statement of Cash Flows**

For the year ended 31st December,	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
							Restated	Restated		Restated
<b>Profit Before Tax</b>	<b>927,027</b>	<b>705,521</b>	<b>169,773</b>	<b>438,583</b>	<b>425,093</b>	<b>393,866</b>	<b>271,840</b>	<b>269,525</b>	<b>231,081</b>	<b>169,874</b>
Net Adjustments and net change in Operating Assets and Liabilities	582,782	586,677	999,997	348,864	(188,697)	(90,905)	389,970	522,072	531,890	480,958
<b>Net Cash Generated from Operating Activities</b>	<b>1,509,809</b>	<b>1,292,198</b>	<b>1,169,770</b>	<b>787,447</b>	<b>236,396</b>	<b>302,961</b>	<b>661,810</b>	<b>791,597</b>	<b>762,971</b>	<b>650,832</b>
Net Cash Used in Investing Activities	(1,385,046)	(953,600)	(767,836)	(595,289)	(164,102)	(179,023)	(871,645)	(748,093)	(738,236)	(587,568)
Net Cash Used in Financing Activities	(250,000)	(100,000)	(188,250)	(163,000)	(137,500)	(105,000)	318,746	(56,250)	(47,906)	(38,089)
<b>Net (Decrease) / Increase in Cash and Cash Equivalents</b>	<b>(125,237)</b>	<b>238,598</b>	<b>213,684</b>	<b>29,158</b>	<b>(65,206)</b>	<b>18,938</b>	<b>108,911</b>	<b>(12,746)</b>	<b>(23,171)</b>	<b>25,175</b>
Cash and Cash Equivalents at the beginning of the Year	625,527	386,929	173,245	144,087	209,293	190,355	81,444	94,100	117,271	92,096
<b>Cash and Cash Equivalents at the end of the Year</b>	<b>500,290</b>	<b>625,527</b>	<b>386,929</b>	<b>173,245</b>	<b>144,087</b>	<b>209,293</b>	<b>190,355</b>	<b>81,354</b>	<b>94,100</b>	<b>117,271</b>

**Investor Informations**

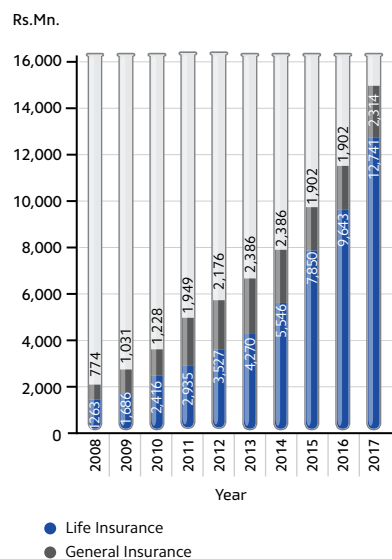
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Return on Equity	24.09%	24.00%	8.64%	17.30%	18.41%	18.79%	15.23%	23.00%	24.27%	24.32%
Market Price per Share as at 31st Dec (VWA) (Rs.)	72.50	58.80	74.60	83.50	52.50	49.00	56.90	78.00	49.50	18.25
Market Price per Share as at 31st Dec (VWA) (Rs.) - Adjusted for Bonus Issue	72.50	58.80	74.60	83.50	52.50	49.00	56.90	66.31	44.94	21.50
Price Earning Ratio (Times)	3.98	4.54	18.89	10	6.75	6.98	11.07	12.33	10.01	5.87
Earnings Yield	25.10%	22.02%	5.29%	10.00%	14.82%	14.33%	9.03%	8.11%	9.99%	17.02%
Dividend Yield	8.28%	8.50%	2.68%	4.49%	6.19%	5.61%	3.69%	2.31%	3.03%	6.85%
Market Capitalisation (Rs. Mn)	3,625	2,940	3,730	4,175	2,625	2,450	2,845	2,925	1,856	694
<b>Employee Information</b>										
Number of Employees	947	903	836	829	804	723	662	597	540	457
GWP per Employee (Rs. Mn)	8.26	7.37	6.52	5.63	4.82	4.44	4.51	4.07	3.92	4.02
Net Profit per Employee (Rs. '000)	960.67	716.96	236.06	503.90	483.98	485.67	371.70	404.92	373.35	359.90
<b>General Insurance Operation</b>										
Net Claims Ratio	64%	69%	88%	72%	66%	68%	69%	68%	66%	67%
Expense Ratio	38%	38%	35%	38%	39%	34%	34%	39%	42%	43%
Combined Ratio	102%	107%	123%	110%	105%	102%	103%	107%	108%	110%

**Investor Information - Graphical Presentation (Group)**

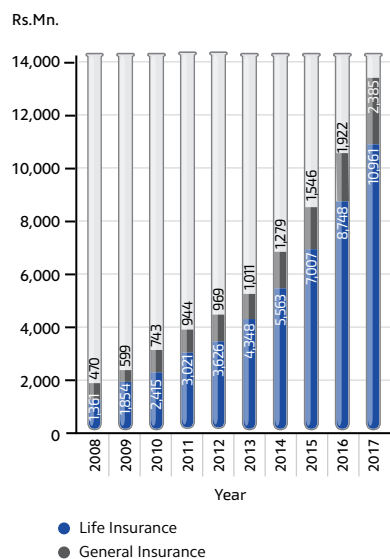
## Decade at a Glance

### HNB ASSURANCE PLC (GROUP) Graphical Presentation

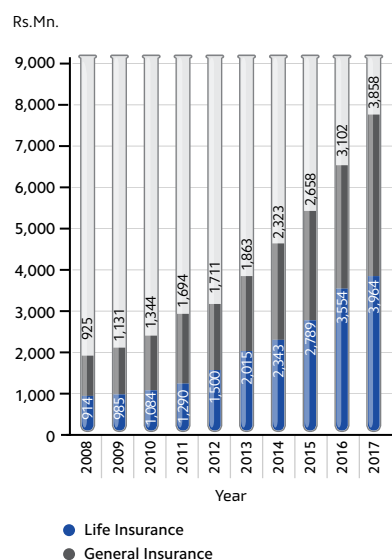
Investments / Financial Investments - Group



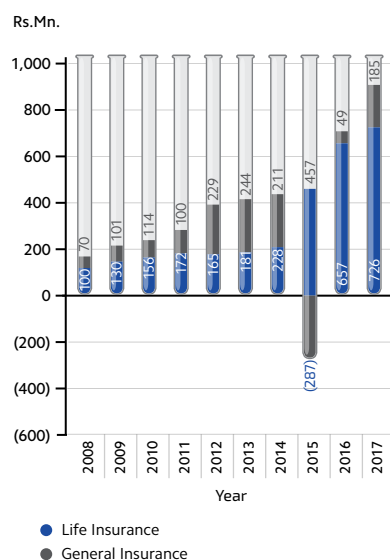
Contract Liabilities - Group



Gross Written Premium - Group



Profit Before Tax - Group



# Glossary

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## 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

## Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto.

## Claims

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

## Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by Claims Outstanding provisions at the beginning and end of the accounting period.

## Claims Incurred But Not Reported (IBNR)

At the end of the period of account a reserve in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but not yet been reported to the insurer.

## Claims Incurred But Not Enough Reported (IBNER)

A reserve made in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but no comprehensive information is available to make adequate provisions as at the reporting date.

## Claims Outstanding Reserve – General Insurance Business

The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the reporting date, including Incurred But Not Reported (IBNR), Claims Incurred But Not Enough Reported (IBNER) claims and claims handling expenses, less amounts already paid in respect of those claims.

## Deferred Acquisition Cost – General Insurance Business

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

## Net Written Premium

The balance of the Gross Written Premium after deduction of any premium paid or payable by the insurer for reinsurance ceded. Commonly identifies as Net Premium.

## Policy Loan

A loan from the insurer to a policy holder on the security of the surrender value of a long term 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.

## Reinsurance

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

## Premium Ceded to Reinsurers

The premium paid by the ceding Company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

## Reinsurance Commission

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

## Unearned Premium

It represents the portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the reporting date.

## Unearned Premium Reserve

A fund kept by a General insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

## Key Insurance Ratios

Net Claims Ratio =  $\frac{\text{Net claims incurred} \times 100}{\text{Net earned premium}}$

Expense Ratio =  $\frac{\text{Net Expense incurred} \times 100}{\text{Net earned premium}}$

Combined Ratio =  $\frac{(\text{Net claims incurred} + \text{Net Expense incurred}) \times 100}{\text{Net earned premium}}$

## Notice of Meeting

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Notice is hereby given that the Sixteenth (16th) Annual General Meeting of HNB Assurance PLC is convened on Tuesday the Twenty Seventh (27th) day of March 2018, at the **Auditorium on Level 22 of "HNB Towers", at No: 479, T.B. Jayah Mawatha, Colombo 10 at 10.00 in the forenoon** when the following business will be transacted.

- i. To receive and consider the Annual Report of the Board of Directors along with the Financial Statements of the Company for the year ended 31st December 2017, the Auditors' Report thereon.
- ii. To re-elect Mr. Rajive Dissanayake, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 92 of the Articles of Association of the Company.
- iii. To re-elect Mr. Deepthi Lokuarachchi, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 92 of the Articles of Association of the Company.
- iv. To re-elect Mr. Ravindra Abeysuriya, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 92 of the Articles of Association of the Company.
- v. To re-elect Dr. Sivakumar Selliah, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 86 of the Articles of Association of the Company.
- vi. To re-appoint Messers. Ernst & Young (EY) Chartered Accountants, as the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
- vii. To authorise the Directors to determine payments for the year 2018 for charitable and other purposes.

By Order of the Board  
**HNB ASSURANCE PLC**



**Sitari Jayasundara**  
Board Secretary

Colombo, Sri Lanka.  
09th February, 2018.

### Notes :

1. A member entitled to attend or attend and vote at the meeting is entitled to appoint a proxy to attend or attend and vote as the case may be, in his stead.
2. A proxy need not be a member of the Company. The Form of Proxy is enclosed.
3. The completed Form of Proxy should be deposited with the Board Secretary at the Principal Office of the Company at Legal & Company Secretarial Division, Corporate Office, "Iceland Business Center", No: 30, Sri Uttarananda Mawatha, Colombo 3, not less than 48 hours before the time appointed for holding the meeting.



## Notes

## Notes

[illegible]

# Form of Proxy

I/We .....  
 of .....  
 being \*a member/members of the HNB Assurance PLC, hereby appoint .....  
 .....of.....

or failing him/her Mirihana Arachchige Rose Chandralatha Cooray or failing her Sarath Carlyle Ratwatte or failing him Jayasekera Arachchige Panduka Mahendra Jayasekera, or failing him Dilshan Peter Nirosh Rodrigo, or failing him Siromi Noelle Wickramasinghe or failing her Sivakumar Selliah or failing him Deepthi Prasad Lokuarachchi or failing him Aloysius Gerard Rajive Dissanayake, or failing him Darshan Ravindra Abeyesuriya as \*my/our proxy, to represent \*me/us and to vote for \*me/us on \*my/our behalf on the resolutions (including the under mentioned) at the Sixteenth Annual General Meeting of the Company to be convened on Tuesday the 27th day of March 2018 at 10.00 in the forenoon at the Auditorium on Level 22 of "HNB Towers" at No: 479, T B Jayah Mawatha, Colombo 10 and at any adjournment thereof and at every poll which may be taken in consequence thereof :

To re-elect Mr. Aloysius Gerard Rajive Dissanayake , as a Director of the Company	In favour	
	Against	
To re-elect Mr. Deepthi Prasad Lokuarachichi, as a Director of the Company	In favour	
	Against	
To re-elect Mr. Darshan Ravindra Abeyesuriya, as a Director of the Company	In favour	
	Against	
To re-elect Dr. Sivakunar Selliah, as a Director of the Company	In favour	
	Against	
To re-appoint Messers. Ernst & Young ( EY) Chartered Accountants, as the Auditors for the ensuing year/authorise the Directors to fix their remuneration	In favour	
	Against	
To authorise the Directors to determine payments for charitable and other purposes	In favour	
	Against	

Mark your preference with "✓"

Signed this ..... day ..... 2018.

Signature/s .....

.....

## Please provide the details :

Shareholder's NIC No./Company Registration No .....

Folio No./Number of Shares held .....

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

**Note** - See reverse hereof for instructions to complete the Proxy

\*Delete inappropriate words



## Form of Proxy

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### INSTRUCTIONS TO COMPLETE PROXY

1. The full name and the registered address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be deposited with the Board Secretary, at the Corporate Office of the Company at "Iceland Business Centre", No: 30, Sri Uttarananda Mawatha, Colombo 3, not less than 48 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
  - (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
  - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the Constitution of that Company or corporate body.

The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer.
  - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder, signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

# Stakeholder Feedback Form

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To request information or submit a comment / query to the company, please complete the following and return this page to,

**Board Secretary,**  
HNB Assurance PLC,  
Iceland Business Center  
No. 30, Sri Uttarananda Mawatha,  
Colombo 03,  
Sri Lanka.  
Fax : 0112337423  
E-mail : sitari@hnbassurance.com

Name : .....

Permanent Mailing Address : .....

Contact Numbers - (Tel) : .....  
Country Code Area Code Number

-(Fax) : .....  
Country Code Area Code Number

E-mail : .....

Name of Company : .....  
(If Applicable)

Designation : .....  
(If Applicable)

Company Address : .....  
(If Applicable)

Comments/Queries : .....

.....

.....

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# Corporate Information

## COMPANY

HNB Assurance PLC (HNBA)

## FULLY OWNED SUBSIDIARY

HNB General Insurance Limited (HNBGI)

	HNBA	HNBGI
Legal Form	Public Limited Liability Company	Limited Liability Company
Date of Incorporation	23rd August 2001	30th January 2014
Company Registration No.	PQ 108	PB 5167
Tax Payer Identification (TIN) No.	134009373	139051670
VAT Registration No.	134009373-7000	139051670-7000
Principal Activities	Life Insurance Business	General Insurance Business
Telephone	+9411 4793700	+9411 4676700
Facsimile	+9411 4793728	+9411 4501166
E-mail	info@hnbassurance.com	info@hnbgeneral.com
Web	www.hnbassurance.com	www.hnbgeneral.com

## FISCAL YEAR-END

31st December

## REGISTERED OFFICE

No.479, T B Jayah Mawatha, Colombo 10, Sri Lanka.

## HEAD OFFICE

No.30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.

## BOARD OF DIRECTORS

Rose Cooray	- Chairperson-Non-Executive Director (HNBA/HNBGI)
Deepthi Lokuarachchi	- Managing Director (HNBA/HNBGI)
Sarath Ratwatte	- Non-Executive Director (HNBA)
Mahendra Jayasekera	- Independent/Non-Executive Director (HNBA)
Dilshan Rodrigo	- Non-Executive Director (HNBA/HNBGI)
Siromi Wickramasinghe	- Non-Executive Director (HNBA)
Dr. Sivakumar Selliah	- Independent/Non-Executive Director (HNBA)
Rajive Dissanayake	- Non-Executive Director (HNBA/HNBGI)
Ravi Abeyesuriya	- Independent/Non-Executive Director (HNBA)
Faizal Salieh	- Independent/Non-Executive Director (HNBGI)
Marina Tharmaratnam	- Independent/Non-Executive Director (HNBGI)

## EXECUTIVE COMMITTEE

Deepthi Lokuarachchi	- Managing Director/CEO (HNBA/HNBGI)
Prasanth Fernando	- Chief Operating Officer (HNBA)
Chandana Aluthgama	- Chief Business Officer Corporate Lines (HNBGI)
Ivan Nicholas	- Chief Business Officer (HNBA)
Nilesh Amarasinghe	- Chief Investment and Strategy Officer (HNBA/HNBGI)
Sithumina Jayasundara	- Chief Technical Officer (HNBGI)
Indika Perera	- Chief Financial Officer (HNBA/HNBGI)
Jude Benjamin	- Chief Business Officer Personal Lines & Branch Network (HNBGI)
Dinesh Udawatta	- Chief Technical Officer (HNBA)
Pushpika Senevirathne	- Chief Actuary (HNBA/HNBGI)

## CONSULTANT ACTUARIES

### Life Insurance

Actuarial Partners Consulting Sdn Bhd  
Suite 17.02 Kenanga International,  
Jalan Sultan Ismail,  
50250 Kuala Lumpur, Malaysia.

## General Insurance

NMG Financial Services Consulting Pte Ltd.  
65, Chulia Street, #37 – 07/08 OCBC Centre,  
049513, Singapore.

## Gratuity

Smiles Global (Pvt) Limited  
135/1/1, Kirula Road,  
Colombo 05, Sri Lanka.

## AUDITORS

### External Auditors

Ernst & Young  
Chartered Accountants,  
201, De Saram Place,  
Colombo 10,  
Sri Lanka.

### Internal Auditors

KPMG  
Chartered Accountants,  
32A, Sir Mohamed Macan Markar Mawatha,  
P.O. Box 186,  
Colombo 03,  
Sri Lanka.

## CREDIT RATING (FITCH) - HNBA & HNBGI

National Long Term Rating A (Ika)  
National Insurer Financial Strength Rating A (Ika)

## BANKERS

Hatton National Bank PLC  
Commercial Bank of Ceylon PLC  
Sampath Bank PLC  
Bank of Ceylon  
National Savings Bank  
HDFC Bank of Sri Lanka  
DFCC Bank PLC  
Pan Asia Banking Corporation PLC



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No.30, Iceland Business Centre,  
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Colombo 03, Sri Lanka.

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