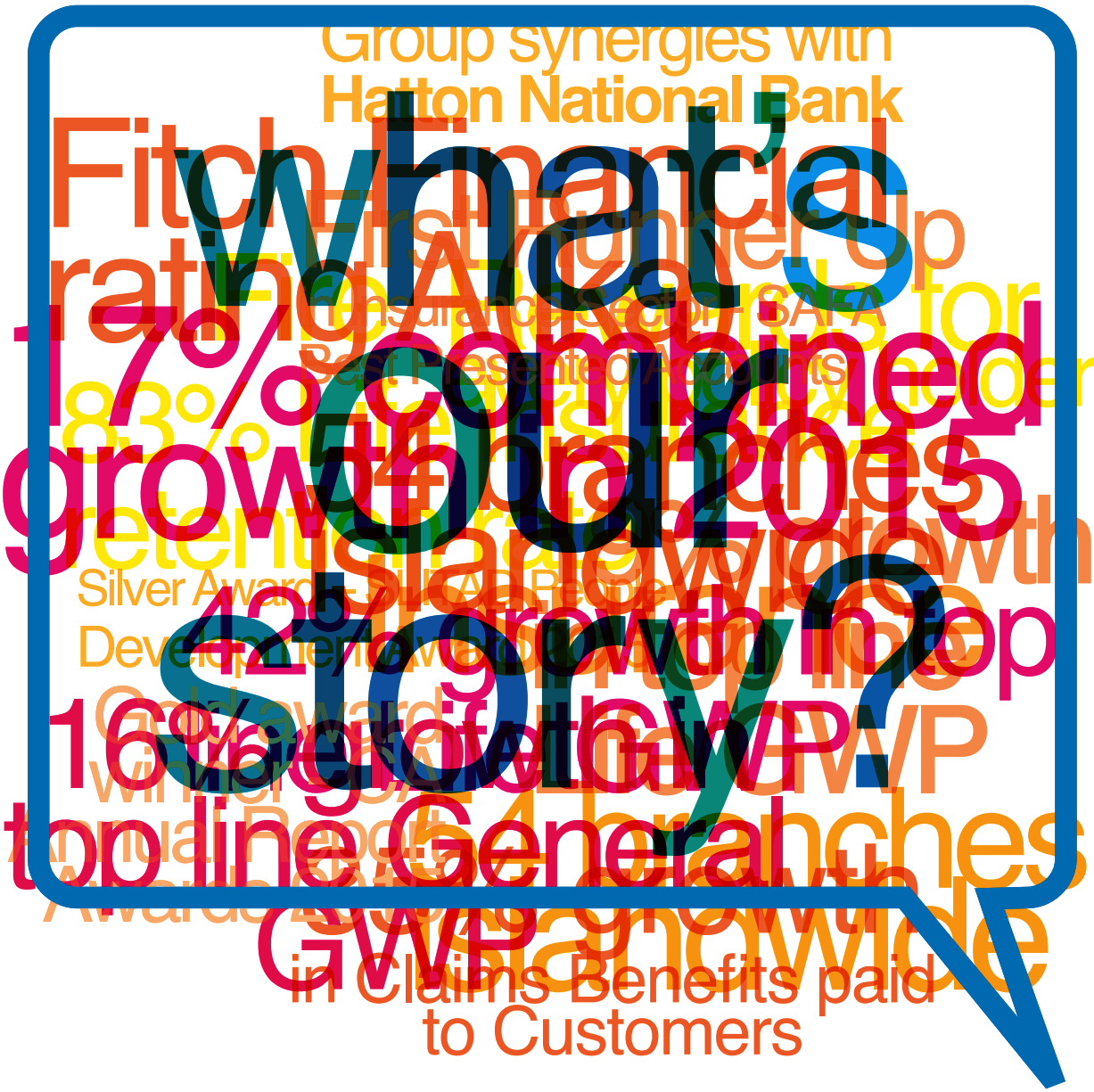

What's
our
story?

what's our story?

Integrated Annual Report 2015

HNB ASSURANCE

HNB GENERAL INSURANCE

What's our Story?

- **A strong reputation as a stable financial institution**
- **Enhanced value addition through Group synergies**
- **Consistent financial performance**
- **Extensive presence at every corner of the island**
- **Multiple awards for excellence in performance**
- **Win-win relationships with all our stakeholders**

And we could go on and on….

These are just a few of the reasons why we are one of the most trusted insurers in Sri Lanka, with a broad customer base and exciting digital technologies to reach every one of them. Reliability, security, transparency and value are what we offer our many stakeholders, the investors, regulators, partners, communities and customers who drive our business, share our success and make us great.
This report looks at a strong performance achieved in a

challenging environment and we showcase the commitment and effort that made these results possible. In the pages that follow, we review the year's accomplishments, explain our management strategies, discuss our risk management framework, analyse our innovative products and technologies and present our year end financial results to you, our loyal shareholder.

Our passion to excel sets us apart and drives us to achieve new heights each year. That's what makes us special.

And that's our story.

Read this Annual Report online at https://www.hnbassurance.com/

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In this report

Glance through a snapshot of the story that unfolds in this report.

Here unfolds the story of our performance during the year, narrated by our management, detailing how we delivered value to our stakeholders, how we managed the risks associated with the business, and our plans for the future.

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What's our story?

Read the story of our governance mechanism that ensures the highest standards of good Corporate Governance.

Browse through our financial statements for the period under review, along with all related notes and accounting policies.

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Reference: GRI-G4 G4-3 G4-15 G4-17 G4-28 G4-30 G4-34

Welcome to the Annual Report of HNB Assurance - "Our Story"

REPORT PROFILE

We, HNB Assurance PLC, take great pride in presenting our 04th Integrated Annual Report to our valued stakeholders.

The story unfolding through each page of this report details the financial and non-financial performance of the Company and our subsidiary HNB General Insurance Limited, henceforth referred to as the 'Group', for the year ended 31st December 2015. Through this report, we aim to provide a meaningful insight to our value creation process through a transparent and concise review of our performance during the year and our economic, social and environmental impacts on all key stakeholders. We also intend to provide our stakeholders with an indication of the future direction of the Group, to enable you to make informed decisions.

The audited Financial Statements presented on pages 238 to 248 and other non-financial information presented throughout this report, unless otherwise stated, relate only to the Group.

In our undeterred efforts to meet the requirements and interests of all our stakeholders, we have comprehended the importance of providing them an integrated view of the intricacies of our operations. This, our 04th Integrated Annual Report, strives to continue this trend, by enabling our stakeholders to conduct a comprehensive assessment of our ability to create and sustain value for them.

GUIDING FRAMEWORKS AND PRINCIPLES

The following standards and frameworks have been used in the compilation of this report.

- The International Integrated Reporting Council's International IR Framework, released in December 2013, provides the guiding framework for this report.
- Financial information contained in this report is in compliance with Sri Lanka Accounting Standards (LKAS/SLFRS), issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).
- All financial and non–financial information presented, where applicable, conform to the requirements of the Companies Act No. 07 of 2007, the Listing Rules of the Colombo Stock

Reference: GRI-G4 G4-5 G4-15 G4-22 G4-29 G4-31 G4-32 G4-33

Exchange, the Regulation of Insurance Industry Act No. 43 of 2000, and rules and regulations issued by the Insurance Board of Sri Lanka.

- All references to compliance on governance related aspects are based on the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

- This report is prepared 'in accordance' with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines and fulfills the criteria of a report under the "Core" option.

EXTERNAL ASSURANCE AND TEST OF COMPLIANCE

Given below are details of assurance obtained on the contents of this report.

- Financial Statements and related Notes published in this report have been audited by Messrs. Ernst & Young, whose independent Auditors' Report to the shareholders of HNB Assurance PLC is given on page 237.

- This report was submitted to GRI for Content Index Service and it was confirmed that the Content Index is accurately aligned with GRI General Standard Disclosure G4-32 and that the disclosure labels are correctly placed throughout the report.

- No other form of assurance has been obtained for this report.

DATA COLLECTION

Transparency and validity are the two pillars ensuring the credibility of data presented throughout this report. All units and departments falling under the scope of the Group are covered when collecting data and such data obtained is verified by the most senior levels of the Company. While the following sources form the main base for information presented in this report, the data calculation methodologies are similar to those used in the Annual Report 2014, which is the most recent previous report. No material restatements have been made to the information provided in previous reports.

Sources of Information

ORACLE E-BUSINESS SUITE

Oracle EBS

TCS BANCS

TCS Bancs

h Senid Biz
It's all about People

H Senid Biz



Data sustained by our staff

AVAILABLE FORMS

Printed copies of this Annual Report are only posted to our shareholders who have requested for the same in writing. Further, Sinhala and Tamil translations of the Chairperson's Message, CEO's (Acting) Review and Key Financial Statements are available on request.

All other shareholders are provided with a CD-ROM containing the Annual Report.

All interested parties can access the Annual Report online on our website www.hnbassurance.com.

We are happy to provide any further information or clarification on the contents of this report to our stakeholders and such enquiries could be directed through any of the following channels;

info@hnbassurance.com

Head Office
HNB Assurance PLC,
No.10,
Sri Uttarananda
Mawatha, Colombo 3,
Sri Lanka.

www.hnbassurance.com

Investor Feedback form is given on page 371 of this Annual Report

Reference: GRI-G4 G4-3 G4-6 G4-7 G4-13

We Are HNB Assurance

Profile

HNB Assurance PLC is the 06th largest Life Insurance solution provider in Sri Lanka, possessing a strong history of over 14 years. The Company was incorporated in 2001 as a fully owned subsidiary of Hatton National Bank PLC (HNB) and was listed on the Colombo Stock Exchange in 2003, with HNB divesting 40% of their investment stake.

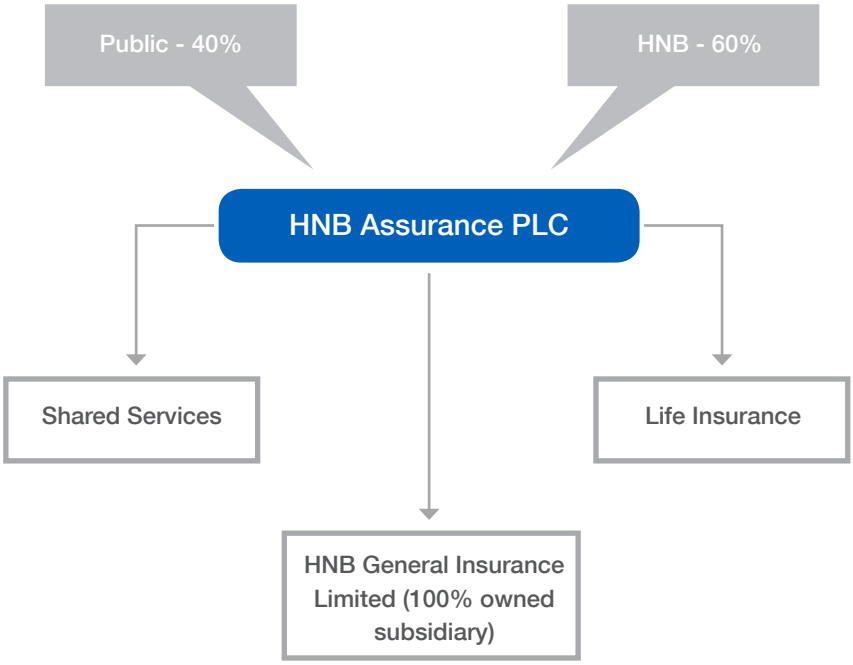
HNB Assurance (HNBA) offered both Life and General Insurance solutions as a composite insurance company until 31st December 2014. The two business lines were segregated on 01st January 2015 in order to comply with the segregation requirements of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 and subsequent guidelines issued by the Insurance Board of Sri Lanka (IBSL).

The General Insurance Business was transferred to our fully owned subsidiary, HNB General Insurance Limited (HNBGI), as of the same date. Apart from this change, no significant change occurred during the period with regard to the size, ownership, capital formation or the supply chain of the business as at the reporting date.

Awards & Accolades

- Gold Award in Insurance Sector - CA Sri Lanka 51st Annual Report Award Ceremony 2015
- Silver Award – SLITAD People Development Awards 2015
- First Runner Up in Insurance Sector - SAFA Best Presented Accounts Awards 2014
- Bronze Award - Emerging Islamic Finance Entity of the Year 2014
- Merit Award for Corporate Governance Disclosures - SAFA Best Presented Accounts Awards 2014

Structure of the Company



Reference: GRI-G4 G4-56

Our Vision

To be Sri Lanka's most admired and trusted partner in meeting insurance needs professionally with a spirit of caring

Our Mission

Working together with a passion for excellence and a team spirit none can match, to provide innovative, customised solutions, exploring opportunities beyond conventional boundaries.

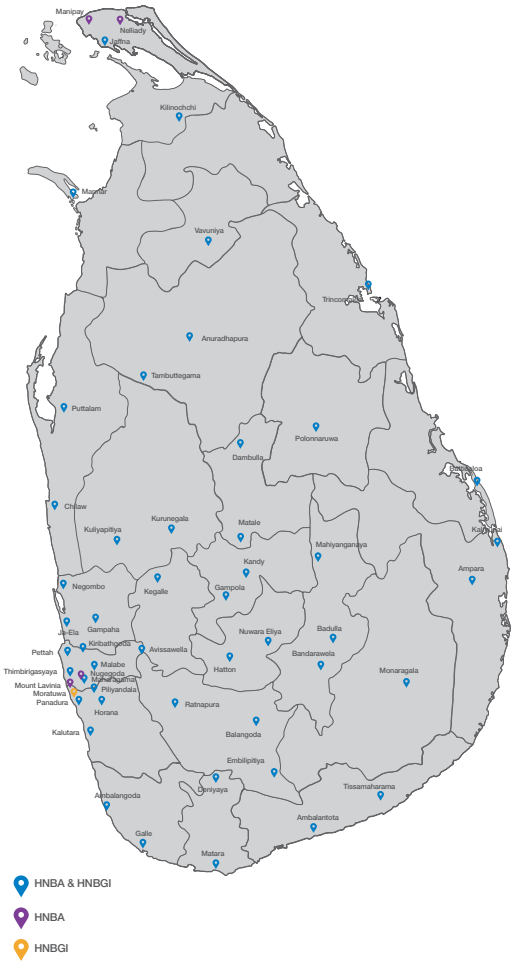
Our Values

- 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

Reference: GRI-G4 G4-8

Where We Operate

54 Branches covering the entire country



HNB Assurance PLC

Province	GWP		Number of Bancassurance Units	Number of Staff	Number of Advisors
	Rs. Mn.	Contribution			
Central	195	7%	16	28	165
Eastern	143	5%	21	40	207
North Central	85	3%	12	17	63
North Western	215	8%	13	23	124
Northern	237	8%	18	20	146
Sabaragamuwa	145	5%	12	27	115
Southern	262	9%	20	31	147
Uva	135	5%	9	11	73
Western	1,372	50%	79	301	516
Total	**2,789**	**100%**	**200**	**498**	**1,556**

HNB General Insurance Limited

Province	GWP		Number of Staff	Number of Advisors	Number of Assessors
	Rs. Mn.	Contribution			
Central	227	8%	21	17	6
Eastern	97	4%	16	25	4
North Central	144	5%	16	19	3
North Western	129	5%	10	10	6
Northern	62	2%	14	12	2
Sabaragamuwa	185	7%	19	25	5
Southern	280	10%	27	58	5
Uva	126	5%	10	11	5
Western	1,448	54%	205	82	21
Total	**2,698**	**100%**	**338**	**259**	**57**

Reference: GRI-G4 G4-9

Triple Bottom Line Highlights

	2015 Rs. Mn.	2014 Rs. Mn.	Growth %
HNB Assurance PLC - Life Insurance			
Gross Written Premium (GWP)	2,789	2,343	19%
Profit Before Tax (PBT)	457	228	100%
Profit After Tax (PAT)	428	228	88%
HNB General Insurance Ltd - General Insurance			
Gross Written Premium (GWP)	2,698	2,323	16%
Profit/(Loss) Before Tax (PBT)	(284)	211	(235%)
Profit/(Loss) After Tax (PAT)	(227)	190	(219%)
Group			
Gross Written Premium (GWP)	5,447	4,666	17%
Profit Before Tax (PBT)	170	439	(61%)
Profit After Tax (PAT)	197	418	(53%)

Total Assets (Rs.)

11.6Bn

17% Increase in asset growth reflect the stability of the Group

Total Revenue (Rs.)

5.4Bn

17% Continuous growth in every aspect is the biggest strength of HNBA

Credit Rating

A(lka)

"National Insurer Financial Strength Rating"

"National Long - Term Rating"

Market Capitalisation
Rs. 3.7 Bn

Employees
836
Dedicated staff to serve the entire customer base

Customers
257,812
Number of insurance policies indicates the strength of our relationship

Products
29
To cater to diverse insurance needs

Community
Rs. 3 Mn
Invested in creating sustainable value to the target community addressing their needs

Reference: GRI-G4 G4-4

Our Insurance Solutions

Life

Protection Plans

HNB Assurance Ranmaga – Your investment for the true protection

More than just a Life Insurance. Provides high financial returns in addition to protection.

Pradeepa Life Policy

Total protection for your life.

HNB Assurance Rashmi

A policy which provides part payments with an extended life cover.

Ran Aswanu

Special policy for seasonal income earners which will never lapse or be cancelled.

HNB Assurance mylife

A unique insurance plan for the youth

Retirement Plans

HNB Assurance myfund

A hassle-free and enjoyable retirement fund building plan.

myfreedom – Enhancing the joy of life

A guaranteed monthly income for a happy retirement.

HNB Assurance mypension

A monthly guaranteed pension throughout life

Child Insurance Plan

HNB Assurance mychild

The best way to secure your child's future.

Group Life Plan

PRIME – Group Life Policy ...

Group Life Insurance cover for company employees and members of organisations.

Mortgage Protection Plan

රැකුම

Insurance cover for people who obtain a loan from a bank or a financial institution to buy a house or a land.

Takaful Solutions

HNB Assurance Takaful

Takaful version of the Mortgage Protection Plan is provided under the Takaful Window

Reference: GRI-G4 G4-4

General

Motor Solutions

HNB GENERAL motorGuard

Motorguard is a product that is geared to protect you and your precious vehicle from every possible risk element.

HNB GENERAL motorGuard XTRA

A premium Motor Insurance cover with added benefits including a free life cover.

HNB GENERAL motorGuard eco

A comprehensive insurance coverage for your eco friendly vehicles.

HNB GENERAL motorGuard RIDERS

A cover designed for motorcyclists with a special insurance cover for Women Riders.

HNB GENERAL motorGuard Agro

A comprehensive protection for agricultural vehicles.

Non - Motor Solutions

MARINE INSURANCE

Covers transportation of goods from source to destination.

HNB GENERAL Engineering Insurance

Covers unforeseen damages in construction/ erection projects.

FIRE INSURANCE

Protection against fire, riots and weather perils.

HNB GENERAL Casualty Insurance

Pays for losses arising from burglary/ infidelity of employees and loss of money in transit, affecting the business.

HNB GENERAL Health Insurance

Reimburses the medical expenses of the employees and their families.

HNB GENERAL Workmen's Compensation Insurance

Covers employer's liabilities to employees

HNB GENERAL TRAVELMAX Travel Insurance

A travel insurance policy that covers up to the age of 70 years.

HNB GENERAL my HOME

A comprehensive policy that provides the right protection for your home

HNB GENERAL my health

A unique plan which covers hospitalisation expenses, personal accident and critical illness under one policy.

HNB GENERAL mycard protection

A unique insurance policy for HNB credit cardholders.

HNB GENERAL ඔබසඟ Comprehensive Shop Insurance Policy

A comprehensive shop insurance plan.

Takaful Solutions

HNB GENERAL Takaful

All General Takaful solutions are provided from a specialised Takaful Window

Highlights of the Year

January

Life and General Insurance operations segregated on 01st January 2015

HNB General Insurance Limited, our fully owned subsidiary, takes over the General Insurance Business

HNB Assurance PLC becomes a Life Insurance company

February

HNB General Insurance becomes the official insurance partner for Motor Show 2015

HNB General Insurance celebrates excellence with the first ever Annual Staff Conference and Sales Convention

March

HNB Assurance becomes the official insurance partner for SLIM Peoples Awards 2015

April

Mr. Niranjan Manickam was appointed as the Chief Executive Officer (Acting)

May

HNB Assurance wins the first ever Inter-Company Quiz Competition Organized by SLII

June

Six top-performing MDRT qualifiers emerged from HNB Assurance

July

Mrs. Rose Cooray takes over as the new Chairperson of HNB Assurance PLC and HNB General Insurance Limited

August

HNB Assurance wins five Awards at NASCO

HNB Assurance partners with HNB Grameen Micro Finance

September

Top sales performers of HNB Assurance embarked on a Foreign Tour

October

HNB General Insurance receives an affirmation of A (lka) by Fitch Rating Lanka for “National Insurer Financial Strength Rating” and “National Long - Term Rating”

November

HNBA wins a silver award for HR Practices at SLITAD Awards Ceremony

December

HNBA wins the Gold Award in the Insurance Sector at CA Sri Lanka Annual Report Awards Ceremony 2015

Reference: GRI-G4 G4-12

How We Create Value

Business Model

We secure the future of our customers by offering innovative insurance solutions to manage the risks faced by them during different phases and instances of their lives. This is done through our business model which reflects our value creation process.

We create value by adopting an integrated approach whereby value is added not just to one but to all our stakeholders.

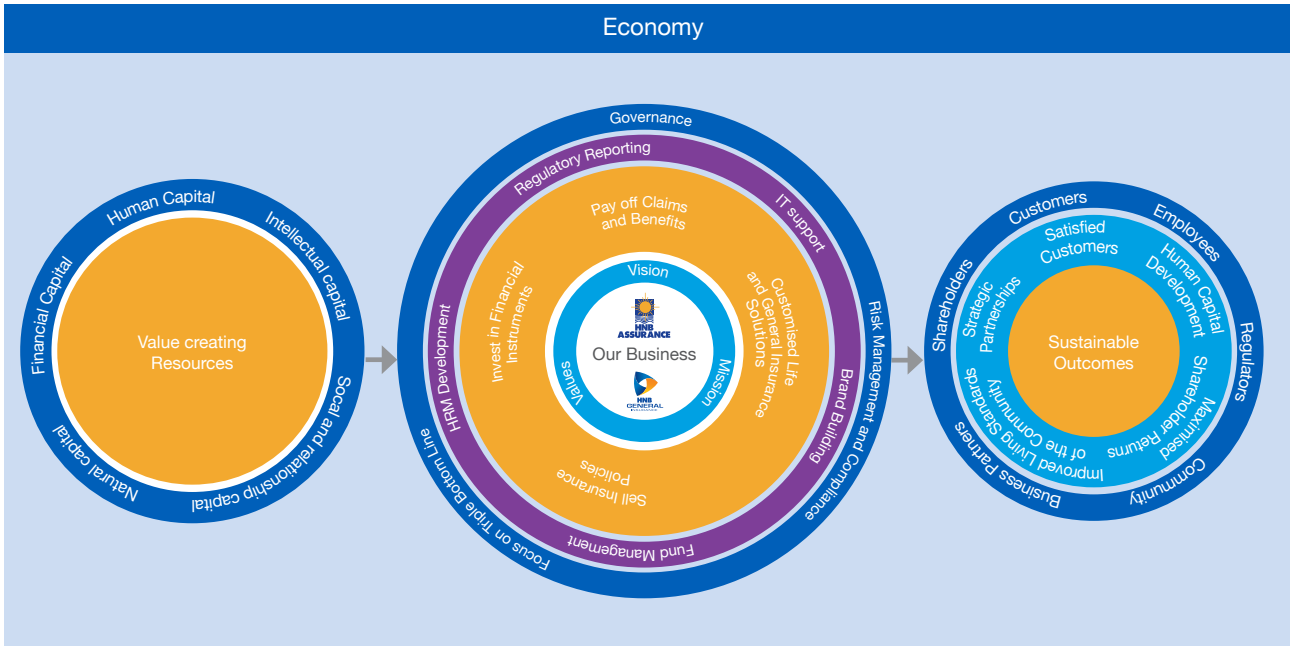
At the initial stage, we obtain value creating resources i.e. financial, human, intellectual, and relationship capital from our key stakeholders and natural capital provided by Mother Nature. Next, these are combined to provide insurance solutions to our customers. This process of transformation is at the core of the business model and therefore, the efficiency of this process determines our success in delivering the optimum value to our stakeholders.

Consequently, the ultimate result of our business model is sustainable value, delivered in the form of peace-of-mind for customers, satisfaction to our employees, wining relationships with business partners, high returns for investors and positive impacts on the community around us.

In this delivery, we also ensure that the highest standards of corporate governance and sound risk management practices are maintained at all times.

This is our story; the story we relate to throughout this report.

Our Value Creation Model



Reference: GRI-G4 G4-1

Chairperson's Message

On behalf of the Board of Directors, it gives me great pleasure to welcome you to the 14th Annual General Meeting of the Company and present to you the Annual Report and Accounts for the year ended 31st December 2015. This was a challenging year being the post-split first year in operation.

Against a very competitive business environment in the post-split first year of operation, the Group achieved a combined growth of 17% in 2015 recording a premium income of Rs. 5.4 Billion

The Economy

The Gross Domestic Product (GDP) of Sri Lanka, on the revised base of 2010, is estimated to have grown by 5.5% during 2015. This growth was supported by progress in the Industrial Sector and a favourable performance in the Agriculture Sector, principally in Paddy Sector, as well as moderate growth in the Services Sector.

In the backdrop of a turbulent global economy, the Central Bank (CBSL) adopted measures to maintain interest rates at low levels with a view to stimulating growth and expansion. However, in order to curtail any significant economic overheating, CBSL moved to tighten the Monetary Policy in December 2015, ending its accommodative Monetary Policy stance that was implemented since December 2012.

We also saw CCPI annual average inflation remain at single digit levels declining to below 1% mainly due to the downward adjustment of domestic energy prices reflecting international price movements and favourable supply conditions.

The disposable income of the public sector has risen consequent to the Government decision to increase wages of Government sector employees. This together with low credit terms on offer resulted in an increase in demand for imports, especially motor vehicles. These factors, in turn, led to an increase in the General Insurance sector with demand for Life Insurance too beginning to grow. The Government through its budget in November has introduced many incentives to business, especially the manufacturing and Industrial Sector, to spur growth and expansion in this segment encouraging entry into overseas domains as well. The Service Sector too is bound to benefit from these initiatives as the country endeavours to create a more vibrant global presence. However, in order to optimize the full potential in all sectors of the economy the Government needs to implement consistent, sustainable development oriented policies over the long term.

The Insurance Industry

The Insurance Industry experienced moderate growth during the year with the Life Insurance segment growing by 20% while General Insurance grew by 15%. The overall premium income recorded by the industry was Rs. 120 Billion with General Insurance

Reference: GRI-G4 G4-1



premium being Rs. 67 Billion and Life Insurance premium at Rs. 53 Billion. While a few companies have been able to gain larger market shares smaller companies too have been able to establish their presence in the market, offering unique products and services through preferred networks. However, despite the higher disposable income levels in 2015, insurance penetration ratio in the country continued to hover at 1%, stagnating at this level for a period of time. This ratio lagged behind the Asian region average of 5.4% and the global average of 6%. Recognising the lack of awareness amongst the population of the importance of insurance as a main factor inhibiting growth, the industry along with the Insurance Board of Sri Lanka (IBSL), the insurance regulator, has undertaken a few initiatives to promote a greater awareness among the people on the benefits of insurance throughout the country. This is expected to bring favourable results in the future.

Regulatory Framework

Regulation of the Insurance Industry has become more stringent in the recent past with several new initiatives being introduced to the industry by IBSL. As per the terms of Regulation of Insurance Industry (RII) Amendment Act No. 03 of 2011, all composite insurance companies were required to segregate their Life and General Insurance business from the beginning of 2015. This was expected to create more transparency in the insurance business with improved governance together with a more focused approach to fulfil the different needs of customer segments providing greater protection. HNB Assurance along with most of its peer companies has been able to segregate their businesses adhering to the timelines imposed by the Regulators. However, a few companies, including a major insurer in the industry, have not been able to complete this process. Needless to state that prolonged delay in meeting the regulatory requirements by some undermines the objective of creating greater transparency and a level playing field in both lines of businesses while it provides an unfair advantage to them over those who have complied with regulations, despite facing challenges and high costs.

The Risk Based Capital Framework (RBC) introduced by IBSL would replace the Solvency Margin Rules and is effective from 01st January 2016. This is intended to strengthen the process of monitoring the capital adequacy levels of insurers in terms of the risks carried by them in their portfolios. Adaptation of this framework became mandatory to all insurers. I am pleased to state that the Company actively took part in the road map devised by the regulator over a two year period and has successfully implemented the change well within the stipulated time frame.

The requirement for all insurance companies to list their entities by end

Chairperson's Message

2015 was extended by IBSL and instead companies were given a time frame of three years from the date of commencement of businesses, after segregation. Therefore, the Company did not pursue with the listing of HNB General Insurance Limited, the fully owned subsidiary of HNB Assurance, this year; but would be doing so before the end of 2017, complying with the relevant provisions.

Performance

Against a very competitive business environment, in the post-split first year of operation, the Group achieved a combined growth of 17% in 2015 recording a premium income of Rs. 5.4 Billion in comparison with Rs. 4.6 Billion the previous year. Life Insurance recorded a GWP of Rs. 2.8 Billion registering a growth rate of 19% in premium income over the performance of last year. This rate of growth is 3% above that achieved last year and is on par with the industry. The Company continued to maintain strong focus on Endowment business generating 83% of its Gross Written Premium from this segment as the core of Life Business. It was an encouragement to note that the Company achieved a 32% growth in new Life Businesses which will augur well for future growth with renewals. Policy Renewals have grown by 21% over 2014 and our Premium Persistency Ratio has increased to 83% at the end of 2015.This favourable performance by the Life Business enabled the policyholders fund to grow by 27% reaching Rs. 6.9 Billion whilst recording a surplus of Rs. 310 Million against Rs. 228 Million recorded last year. These developments led to the total assets of the Company reaching Rs. 11.6 Billion crossing double digits for the first time. Total assets recorded a growth of 17% over 2014.

HNB General Insurance Limited (HNBGI) grew slightly better than the industry by recording a 16% growth in premium. Although the growth rate of General Business Sector surpassed that of the industry, it is lower by 9 percentage points achieved by the Company last year. The Claim Ratio recorded a rate of 88% at the end of 2015 over the comparable budgeted 65%.

However, despite several healthy developments, the profitability of the Group was moderate when compared with the performance over the years mainly due to the weak performance from our subsidiary, HNBGI. Losses at HNBGI emanated from the expansion of the new classes of vehicles entering the market and the high cost of repairs. This had an adverse impact on the overall Group results. The Board of Directors along with the Management Team, since the last quarter of 2015 has implemented several measures aimed at reversing this trend while strengthening the monitoring mechanism on the progress of these initiatives to ensure improved performance in 2016.

Dividend

Based on the performances for 2015 the Board of Directors is pleased to propose a first and final dividend of Rs. 2.00 per share for the year under review.

CSR Activities

The Company continued to support the initiative to supply water to school children in rural areas fulfilling one of the basic human needs in society. This year we were able to supply water to schools in Malmaduwa and Kimbissa thereby completing 36 such projects since its inception in 2008. The "School to Office" initiative to train and equip students leaving school after completing their secondary education before entering the business world for employment was conducted by us for the 03rd consecutive year. A few selected students were also given employment by the Company upon completion of the programme based on their ability and skills. Generous support was given to various other needy areas such as providing financial assistance to the Blood Bank of Negombo Hospital, gifts for orphan children, white canes for visually handicapped women etc. as part of our corporate social responsibility activities and supporting the lesser fortunate in society.

Accolades

The excellent progress of the Group in its life span of 14 years has won many accolades both locally and internationally. This year too we were able to win many awards including the Gold Award for the Insurance Sector at the 51st Annual Report Awards conducted by CA Sri Lanka, for the 3rd consecutive year. We were also recognized by being awarded 1st runner up in the Insurance Sector and a merit for Corporate Governance at the SAFA Best Presented Accounts Awards, Silver Award for People Development at the SLITAD Awards



Gold Award – Insurance Sector – 51st CA Annual Report Awards Ceremony 2015

Having established its presence as a trusted insurance service provider, the Life Business in its forward march would focus on accelerating its growth to increase its market share further and to reach new heights.

2015, and Bronze Award for Emerging Islamic Finance Entity of The Year at the Sri Lanka Islamic Banking and Finance Industry Awards. The consistent progress made by the Company enabled it to be ranked in the 91st position among the top 100 companies in Sri Lanka compiled by Lanka Monthly Digest moving up from the 98th position of the previous year.

Looking ahead

HNB Assurance PLC, handling the Life Insurance Business has had a steady growth continuously in the past few years, reaching the market position of 06th in the industry in a relatively short time span. Having established its presence as a trusted insurance service provider, the Company in its forward march would focus on accelerating its growth to increase its market share further and to reach new heights. Towards this purpose, after lengthy deliberations with the Management Team, the Board of Directors has approved an ambitious three year strategic plan effective from 2016. Among the main strategies included are to exploit aggressively the market opportunities and leveraging the strength of the parent, Hatton National Bank especially via the Bancassurance channel. With the current emphasis placed on encouraging pension programs and savings plans to build self-reliant individuals, the Company would be reviewing its product offers and introducing innovative elements to its current range aimed at propagating greater financial security through insurance.

Improving the overall profitability of the business would be the key focus of HNBGI strategies. Clear emphasis on customer segments, pricing, risk identification, improved services and use of actuarial inputs in the business in an effective manner are among the new measures already in place. Seamless efforts will be taken towards implementing and monitoring the progress of these strategies.

While following the organic growth path the Company will also actively explore opportunities for expansions through inorganic means in order to expand its presence in the country.

With a view of closely monitoring the implementation of this plan, the Terms of Reference of Board Sub-Committees have been expanded and restructured while a dedicated new sub-committee has been appointed with the responsibility of monitoring the progress of the strategic plan.

Acknowledgements

Dr. (Mrs.) Ranee Jayamaha resigned from the post of Chairperson on 30th March 2015 after serving the Company for 3 years. I thank her for the leadership given during her tenure in guiding the Company.

Mr. Manjula de Silva, resigned from the position of MD/CEO on 31st March 2015 after a period of 11 years at the helm of the Company. I wish to thank him for his leadership and contribution over the years to develop HNBA into a leading company in the Insurance Industry.

Improving the overall profitability of the business would be the key focus of HNBGI strategies. Clear emphasis on customer segments, pricing, risk identification, improved services and use of actuarial inputs in the business in an effective manner are among the new measures already in place.

Chairperson's Message

Mr. Jonathan Alles, who was the acting Chairman from 01st April to July 2015 and continued to serve as a member, resigned from the Board on 03rd December 2015 to concentrate on guiding HNB and leading the bank to new heights and I sincerely thank him for his contributions and valuable inputs over the years in guiding HNBA to its current position of strength.

Mr. Upali de Silva, resigned from the Board on 08th January 2016. He was associated with the Company from its formative years in various capacities and served on the Board for over 11 years. I thank him for his contribution, guidance and valuable support to the Company. I also thank Mr. Pratapkumar de Silva who resigned from the HNB General Insurance Board on 10th October 2015 for his contribution over the years.

Appointments

Mr. Thimal Perera was appointed to the HNB General Insurance and HNB Assurance Boards with effect from 21st December 2015 and 08th January 2016 respectively. He is currently serving as the Deputy General Manager-Retail & SME Banking at HNB and I extend him a warm welcome to the Boards of HNBA and HNBGI. His wealth of experience and knowledge in the banking sector in Sri Lanka and overseas, especially in personal banking would be extremely useful to build synergies within the Group. I also welcome Mr. Dilshan Rodrigo who joined the HNB General Insurance Board on 21st December 2015. He currently serves on the HNB Assurance Board and his presence on both Boards would help strengthen the networks being built within the Group.

Appreciation

I take this opportunity to thank the Chairperson, Director General and other officials of the IBSL for their direction and continued support during 2015. I also thank the Insurance Ombudsman for the contribution he makes to the industry and for sharing his knowledge and expertise for the betterment of the industry. I appreciate the support, cooperation and guidance extended to me by my fellow Directors throughout the year. I also wish to convey my appreciation to the Management Team and the staff for their committed efforts during the year.

While thanking all our stakeholders for the trust placed in us, on behalf of the Board, I wish to assure you that we will continue to take necessary steps to charter the progress of the Company to more secure and improved performance in 2016, striving to deliver value while upholding the virtues of good business practices.



Rose Cooray
Chairperson

09th February 2016

Chief Executive Officer's Review



It is with much pleasure that I present to you our Annual Report for the year ended 31st December 2015. This is the 04th time we would be presenting an Integrated Report encapsulating all our activities in a competitive and challenging market environment. Our Integrated Reports for the past three years have been recognised as achieving the highest standards in reporting in both local and international spheres, winning numerous awards including the coveted Gold Award in the Insurance Sector for three consecutive years at the Annual Report Awards conducted by CA Sri Lanka. We have once again endeavoured to share the story of our journey this year, with all our stakeholders.

The Insurance Market

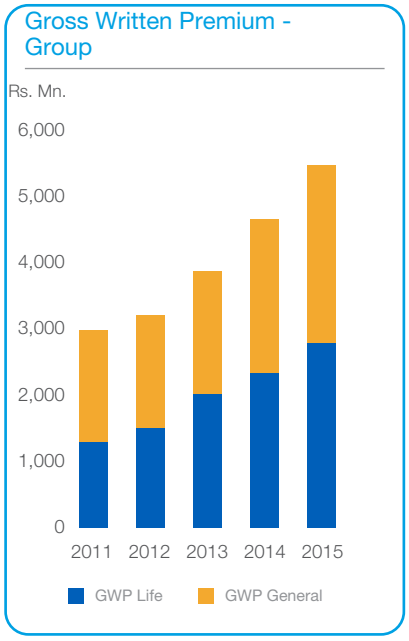
The year commenced with all composite insurance companies being mandated to segregate their business into Life and General Insurance companies and fulfil the regulatory requirements while adhering to the guidelines issued by the Insurance Board of Sri Lanka (IBSL). Following the segregation process, at present 15 companies are actively engaged in writing Life Insurance Business while 16 companies write General Insurance Business.

The insurance market, though having much potential to expand due to the low level of penetration in both Life and General Insurance, which at a combined level stands marginally above 1% of the GDP, grew very

Chief Executive Officer's Review

moderately in 2015. The combined growth of both insurance segments was 17%, with Life Insurance experiencing a growth of 20% and General Insurance recording a 15% growth. The intense price competition in the General Insurance Business and the hesitancy by the general population to adopt Life Insurance as a mechanism to build their future financial security despite many efforts by the industry to espouse its value, are reasons which could be attributable to the moderate growth.

Overall performance of the Group



We started the year having successfully segregated our business with HNB Assurance PLC (HNBA) handling Life Insurance and its 100% owned subsidiary HNB General Insurance Limited (HNBGI) focusing on General Insurance Business. As the change process of developing the ideal structures and allocating people to the different roles were done in 2014 the transition into the segregated environment was smooth with both entities focused on developing their businesses. Hence the Group was able to achieve a premium income of Rs. 5.4 Billion which was a growth of 17% over 2014.

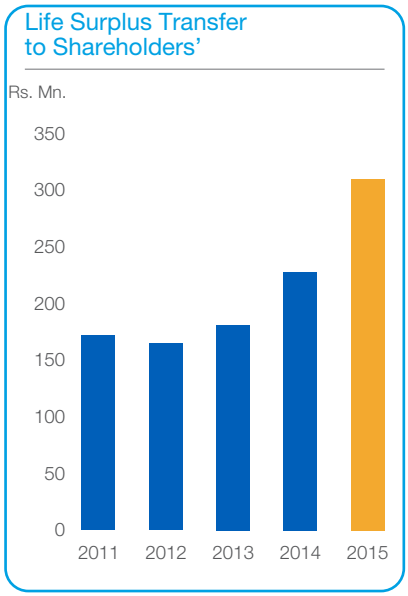
We started the year having successfully segregated our business with HNB Assurance PLC handling Life Insurance and its 100% owned subsidiary HNB General Insurance Limited focusing on General Insurance Business.

Further, the Group recorded a Profit After Tax of Rs. 197 Million for the year under review and this is a decline in the yearly profit in comparison to the previous years. While the Life Insurance Business delivered a healthy profit of Rs. 428 Million for the year which was a growth of 88% over 2014, losses emanating from the subsidiary HNB General Insurance Limited resulted in a drop in the overall performance of HNB Assurance PLC Group.

However, both HNB Assurance PLC and HNB General Insurance Limited remain strongly capitalised entities meeting the current solvency requirements and the future Capital Adequacy Ratios which would be introduced under the Risk Based Capital Framework (RBC) from 2016 onwards. Further, the strength of these entities was reaffirmed by Fitch Rating Lanka Limited when they confirmed the Insurer Financial Rating and National Long Term Rating at "A (lka)" with a stable outlook for both entities for another year. We are extremely proud of our ability to maintain the 'A" Rating for eight consecutive years.

Life Insurance Business

The performance of the Life Insurance Business was commendable, growing by 19% and achieving a premium income of Rs. 2.8 Billion in a very challenging business climate. The main contributor to the growth was the Endowment Policies which grew by a remarkable 25%.



"My Fund" and "Ranmaga", our two main Endowment Policies, showed tremendous improvements in sales during the year and contributed significantly towards the growth. The growth was also very encouraging from a perspective of profits in the Life Insurance Business as the Regular Premium Endowment Policies create greater value for the Company over the long term and our strategic plans were directed towards increasing this category in our business mix, while gradually reducing on Investment Oriented Policies.

The low interest environment saw increased activity in the housing loan segment creating more opportunities for us to market our Mortgage Reducing Policies with incomes growing by a remarkable 52% in this category.

Policy lapsation during the first year of the policy has been a matter of concern in the Life Insurance Industry. As a measure of improving our performance in this area, we introduced a payment tracking mechanism and through the improved monitoring process we have been able to reduce the number of first year lapses by 3%. This has not only helped us improve our Persistency Ratio but also resulted in higher Renewal Premium, which has boosted the overall incomes.

Parallel to these achievements the Company was also able to produce 14, Million Dollar Round Table (MDRT) winners this year which is a significant increase from the 4 winners produced in 2015. Achieving this international recognition is the apex status in the career of a Life Insurance sales person and the ability of the Company to produce 10 new winners this year clearly demonstrates the committed efforts taken by the management team to develop sales persons capable of performing at globally benchmarked levels while also helping them to reach great heights in their personal lives.

The valuation for the business at year end indicated that the Life Insurance Fund exceeded the actuarially validated required reserves by Rs. 476 Million. From this surplus we distributed Rs. 86 Million as Bonus to policyholders and Rs. 310 Million was transferred to the Shareholder's Fund as surplus emanating from the Life Business. We also paid a dividend of 7.5% to the dividend based policies with the highest rate of bonus being Rs. 54 per Rs. 1,000/- sum insured in respect of policies with participation in profits. These were attractive returns in the context of the current market conditions.

Due to the growth in business the Life Fund grew by 27% reaching Rs. 6.9 Billion with the surplus transferred to the shareholders also growing by 36% compared to the 26% in 2014.

Investment

Uncertainties in the political and the macro-economy saw volatility in interest rates, foreign exchange and capital markets. Amidst these difficult market conditions, the Group managed to record Rs. 918 Million in Investment Income for the year with Rs. 729 Million through the parent Company HNB Assurance PLC and Rs. 189 Million from the subsidiary HNB General Insurance Limited. The Group was also able to maintain its average investment yields well above the annual average one year risk free rate of 6.6% by achieving an average investment yield of 10.1% in respect of both Life and General Insurance Businesses. The Group was also able to realise Rs. 15.7 Million gain from Government Securities and further Rs. 12.6 Million gain from debentures by prudently exploiting the volatility in the interest rates which prevailed during the first half of the year and the expectations of a sharp hike in interest rates during the latter half. Further, by anticipating a major depreciation in the Rupee and managing the forex positions accordingly, the Company was able to record a benefit of Rs. 12 Million as unrealised foreign currency gain.

The contribution through investment income to the overall profitability of the Group, in a tough operating environment was a commendable performance by the in-house fund management team.

Report of the Subsidiary - General Insurance Business

Our General Insurance Business recorded a premium income of Rs. 2.7 Billion in the midst of fierce price competition. This was a growth of 16% over last year with Motor Insurance being the major component recording a premium of Rs. 2 Billion and contributing to 76% of the income with Fire and Engineering class recording a premium of Rs. 372 Million and contributing 14% to the mix. Marine Insurance recorded a marginal growth of 6% while medical premium declined by 15% due to selective underwriting of business in this segment. Our Takaful window had an excellent growth of 57% recording a premium income of Rs. 132 Million. This unit is being strengthened and

Chief Executive Officer's Review

plans are afoot to accelerate growth in 2016 by expanding the business operations of this segment, especially in the East.

The Net Claims Ratio of the General Insurance business increased to 88% during the year mainly due to the rise in motor claims. Losses from our motor private car segment increased sharply over the year offsetting the good performance from the non-private car segments. A rise in the cost of repairs mainly from spare parts partly due to the depreciating currency, sharp increase in the number of accidents, competitive pricing to be in line with the market; were the main factors attributable to the increase in the Claims Ratio during the year.

Despite the increase in the Claims Ratio, we have been able to control costs and maintain the Expense Ratio at 35% which was lower than the 38% last year. However, due to the increased Claims Ratio the Combined Ratio ended at 123% compared to the 110% in 2014.

The Investment Income yield from the General Insurance Business for the year under review was better than market performance. But the impressive investments returns could not negate the underwriting losses, resulting in HNB General Insurance Limited reporting a loss of Rs. 227 Million for the operating year 2015.

The Company has developed and implemented a plan of actions for General Insurance which includes introduction of an actuarially supported pricing grid for Motor Insurance which would evaluate and price risks based on the type of vehicle/value/channel, greater emphasis on securing non-car segments, non-renewal of loss making accounts and renegotiating all strategic tie-ups for better value addition in order to improve the overall performance of the business with specific focus on improving profitability. Further claims management has also been strengthened with claim evaluation and processing being streamlined to adopt a more proactive approach to mitigate claims cost while also paying due attention to the needs of our customers.

As a measure of strengthening the capital base of the General Insurance Company, HNB Assurance PLC, the parent Company infused Rs. 150 Million as fresh capital in November 2015. This increased the solvency level of HNB General Insurance Limited.

Governance

The Company maintained its high standards of Corporate Governance by continuously inculcating ethical practices and values in its business processes while complying with all regulatory requirements in a timely manner. The Chairperson and Board of Directors ensured the Company adhered to these good practices throughout the year.

Dr. Ranee Jayamaha, the Chairperson of both HNB Assurance PLC and HNB General Insurance Limited resigned on 30th March 2015. I thank her for the support and guidance given to the Company during her tenure. Mrs. Rose Cooray joined the Board as the Chairperson of HNB Assurance on 06th July 2015 and was subsequently appointed as the Chairperson of HNB General Insurance Limited. I extend a warm welcome to her and believe the Company would immensely benefit from the wealth of knowledge she has gained in many fields, while she astutely leads the Group to greater heights.

Mr. Manjula de Silva, Managing Director of HNB Assurance PLC and HNB General Insurance Limited resigned with effect from 31st March 2015. I express my sincere thanks and gratitude for his committed efforts during the 11 years in office and building a strong Company during his tenure.

Mr. Jonathan Alles who was the Acting Chairman from April to July 2015 resigned with effect from 03rd December 2015 from the Boards of both HNB Assurance PLC and HNB General Insurance Limited. I wish to thank him for his support and guidance which was invaluable. His encouragement to explore new boundaries and initiatives to build synergies within the Group is appreciated very much.

Mr. M U de Silva resigned from the HNB Assurance PLC Board with effect from 08th January 2016. I express my gratitude for the guidance and insights he provided over the years to develop the business.

Mr. Thimal Perera joined the Board of Directors of HNB Assurance PLC and HNB General Insurance Limited with effect from 08th January 2016 and 21st December 2015 respectively. I warmly welcome him and look forward to his contribution in harnessing the synergies within the HNB Group.

The HNB General Insurance Limited Board was further strengthened by the appointment of Mr. Dilshan Rodrigo with effect from 21st December 2015. He also serves on the HNB Assurance PLC Board and welcomes his presence as we strengthen networks within the HNB Group.

Mr. Pratapkumar de Silva resigned from the Board of HNB General Insurance Limited with effect from 10th October 2015. I thank him for his immense contribution during his association with us over the years and wish him good health and happiness in the ensuing years.

Appreciation

I wish to convey my sincere appreciation to the Chairperson and Board of Directors for the support and encouragement given to me and the team. I also thank the Chairperson of IBSL, Director General of IBSL and staff of IBSL for their support. A special thank you to the Executive Committee members, Heads of Divisions, Managers, Staff Members, Sales and Field Force members for their unstinted support extended to me to guide the Company during the year. The staff of HNB at Head Office and branches for your continued support to my team which is appreciated much. Along with my team I thank all the Brokers, Reinsurers, Intermediaries, Network and Strategic Partners for your support and cooperation in our progress this year.

Future growth and outlook

The insurance environment will remain competitive but stable with many growth opportunities for innovative entities. This is further confirmed by the latest report issued by Fitch Rating expressing positive sentiments on the Sri Lankan Insurance market.

Our focus this year would be to offer unique and attractive propositions through new products or value additions to our current product range and grow our business. As a key strategy we intend to progressively increase our presence throughout the country by expanding our branch network or deploying teams in selected areas with potential as seedlings to grow. Creating more touch points with customers is pivotal to our business and much attention would be paid to uplift the image and professionalism of our sales force.

A major strength in our business has been the support extended to us by Hatton National Bank towards our Bancassurance operation. This relationship will be continuously nourished to leverage the vast potential within the Group exploiting the opportunity of being able to offer our products and services to a varied and diverse customer base.

Under the Risk Based Capital (RBC) environment, more attention is paid to capital management and product offers than under the previous solvency margin rules. Our internal Actuarial Team would continue to work with our External Actuaries in developing frameworks and polices which we would adopt to ensure that our Capital Adequacy Ratios remain strong while increasing profitability through well designed products.

We will continue to strengthen the HNB Assurance and HNB General Insurance brand image as caring and reliable insurance providers and have already embarked on adopting globally recognised practices into our processes.

While pursuing aggressive growth through organic means, the Company will continue to explore opportunities to expand our business through inorganic means that would add value to all our stakeholders. Similarly, we would continue to look at forming strategic relationships with entities of global repute as technical partners or equity holders and introduce international best practices that would elevate our product offers and services to our esteemed customers benchmarked with the best in the world.

The subsidiary HNB General Insurance Limited would receive close attention of the management team with the measures introduced to mitigate losses being closely monitored. The current plan of focusing on shifting the business mix and channels of business are key changes in direction which have already been introduced and believe the benefit of these actions would be seen during 2016.

HNB Assurance which has been in the forefront of the Insurance Industry for consistent growth in terms of premium and profitability reaching the position of being the sixth largest Life Insurer in a relatively short span of time has once again delivered an excellent performance for the year ending 31st December 2015. The plans developed and being implemented for the Life Insurance business during 2016 would build on the firm foundation laid over the years with greater thrust on selling protection policies.

Though the poor results emanating from HNB General Insurance Limited negatively impacted the Group profitability, I am confident that the initiatives taken to change the direction of the General Insurance business would enable the subsidiary to emphatically contribute once again towards building sustainable value for the Group in the future.



Niranjan Manickam
Chief Executive Officer (Acting)

09th February 2016

Board of Directors



Rose Cooray
Chairperson - HNBA & HNBGI



Sarath Ratwatte
Director - HNBA



Mahendra Jayasekera
Director - HNBA



Siromi Wickramasinghe
Director - HNBA



Dr. Sivakumar Selliah
Director - HNBA



K. Balasundaram
Director - HNBA



Dilshan Rodrigo
Director - HNBA & HNBGI



Thimal Perera
Director - HNBA & HNBGI



Shiromi Halloluwa
Company Secretary - HNBA



Faizal Salieh
Director - HNBGI



Sitari Jayasundara
Company Secretary HNBGI

Board of Directors - HNB Assurance PLC

01. ROSE COORAY

Chairperson/Non-Executive Director

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 and was the Senior Director till the 30th of October 2014. She is a retired Deputy Governor of the Central Bank of Sri Lanka where she served for over 35 years. She is a Director of Ceylon Guardian Investment Trust PLC, Ceylon Investment PLC and of HNB Grameen Finance Limited. She is the Chairperson of Sithma Development (Private) Limited and HNB General Insurance Limited.

On release from the Central Bank, she had served the Ministry of Finance in the capacity of Director General Fiscal Policy and Economic Affairs Department for nearly 6 years. She 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 represented the Monetary Board on West Coast Power (Pvt) Ltd.

She has functioned as the Vice Chairperson of the Institute of Bankers of Sri Lanka for 5 years and has served on a number of Committees at national level covering a variety of subjects representing the Ministry of Finance and the Central Bank. She has also represented the Central Bank and the Ministry of Finance at various international meetings/seminars.

Mrs. Cooray has been involved extensively in policy making and implementing projects and programmes especially in the area of regional development and microfinance. She has wide experience in negotiating loans with multilateral and other donors as well as bilateral trade agreements on behalf of the Government. Her articles/papers have been published in professional journals.

02. SARATH RATWATTE

Independant Non-Executive Director

FCMA (UK), CGMA

He counts over 30 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 a Non-Executive Director of Elpitiya Plantations PLC.

03. MAHENDRA JAYASEKERA

Independant Non-Executive Director

FCA, BSc Special Hons - University of Sri Jayawardenapura

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

04. SIROMI WICKRAMASINGHE

Non-Executive Director

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.

05. DR. SIVAKUMAR SELLIAH

Independant Non-Executive Director

(MBBS, M.Phil)

Dr. Selliah holds a MBBS Degree and a Master's Degree (M. Phil). He was appointed to the Board of HNB Assurance PLC in June, 2014. He has over 24 years of diverse experience in various fields which include areas of manufacturing, healthcare, plantations, packaging, logistics, retail and distribution.

He currently holds the position of Deputy Chairman of Asiri Hospitals Holdings PLC, Deputy Chairman of Asiri Surgical Hospital PLC and Deputy Chairman of Central Hospital Private Ltd. He is a Director of Lanka Floor Tiles PLC, ODEL PLC, Softlogic Holdings PLC, Lanka Walltiles PLC, Horana Plantation PLC and Lanka Ceramic PLC. Dr. Selliah is also the Chairman of Cleanco Lanka (Pvt) Ltd and JAT Holding Pvt Ltd. Dr. Selliah has served on the Remuneration Committees and Audit Committees of some of the Companies listed above.

06. K BALASUNDARAM

Independant Non-Executive Director

Director/Chief Executive Officer of Mercantile Merchant Bank and Pathfinder Group of Companies. Also serves on the Boards of MMBL Money Transfer Private Limited (Joint Venture with Aitken Spence), Saffron Aviation Private Limited and Sentinel Reality Private Limited (Joint Venture with John Keells), Yarl Hotels Private Limited (Joint Venture with Jetwings), Intertek Lanka Private Limited (Joint Venture with Intertek UK), Energizer Lanka Private Limited (Joint Venture with Energizer USA). Counts over 49 years of experience in Corporate Finance and Business Management having worked in Manufacturing and Service Industries including Public Quoted Companies, Board of Investment Companies and Statutory Boards.

07. DILSHAN RODRIGO

Non-Executive Director

MBA (Cranfield University, UK) FCMA (UK) and FCCA (UK)

Chief Operating Officer of Hatton National Bank PLC and Director of Acuity Securities Ltd, Acuity Partners Ltd, Guardian Acuity Asset Management Ltd., Credit Information Bureau of Sri Lanka, Sithma Development (Pvt) Ltd., and HNB General Insurance Ltd. 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.

Board of Directors - HNB Assurance PLC

08. THIMAL PERERA

Non-Executive Director

ACA

Appointed Director on 08th January, 2016. Mr. Thimal Perera is the Deputy General Manager – Retail & SME Banking at Hatton National Bank PLC and is responsible for the Retail Banking and SME Banking verticals which includes Marketing, E-Banking, the Branch Network, Product Management and Distribution. He is also a Director at HNB Grameen Finance Ltd., and HNB General Insurance Ltd.

He is a Member of the Institute of Chartered Accountants of Sri Lanka and completed his Articles at Ernst & Young and then joined HSBC Sri Lanka in 1992. During his career at HSBC in Sri Lanka, he held different positions including the Manager Main Branch, Head of Marketing & Public Relations and Head of Cards for Sri Lanka & Maldives. He then joined The Commercial Bank of Qatar in the capacity of Group Head of Cards and subsequently joined HSBC in Saudi Arabia (Saudi British Bank) as Head of Cards & Consumer Finance. Thereafter he moved within HSBC to their Middle East Regional Head Office in the UAE as the Regional Head of Cards and Digital Channels of HSBC – Middle East and North Africa, where he was responsible for 10 markets across the GCC, Levant, North Africa and Pakistan.

His last role, prior to returning to Sri Lanka was with Barclays Bank PLC, in the capacity of Director of Products – Retail & SME for the UAE market.

09. Ms SHIROMI HALLOLUWA

Company Secretary

Attorney-at-Law & Notary Public

Appointed Company Secretary in January 2012. Presently works as the Manager – Legal (Operations) of the Hatton National Bank PLC and Company Secretary of HNB Grameen Finance Limited, a subsidiary of Hatton National Bank PLC. Counts over 20 years' experience in the Legal Profession and 16 years as a member of the Legal Team of Hatton National Bank PLC.

Board of Directors - HNB General Insurance Limited

01. ROSE COORAY
Chairperson/Non-Executive Director

Profile appears on page 28.

10. FAIZAL SALIEH
Independent Non-Executive Director

BA (Econ)Hons., MBA, FCPM

Has over 3 decades of extensive experience in commercial and development banking both in Sri Lanka and overseas. He 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, and several Government and Non-Governmental Committees in the fields of finance, economic affairs, housing, construction and tertiary education.

Well known for the outstanding leadership role he has played in initiating, developing and furthering the practice of interest-free banking in Sri Lanka based on the principles of profit and loss sharing and establishing Amana Bank as the first interest-free licensed commercial bank in Sri Lanka in which he was the founding Managing Director and CEO.

Also serves as a Non-Executive Independent Director on the Boards of Cargills Bank, The Ceylon Chamber of Commerce, The Sri Lanka Institute of Directors and the Distance Learning Centre.

07. DILSHAN RODRIGO
Non-Executive Director

Profile appears on page 29.

08. THIMAL PERERA
Non-Executive Director

Profile appears on page 30.

11. SITARI JAYASUNDARA
Company Secretary

Attorney-at-Law & Notary Public

Appointed as Company Secretary in March 2014. Presently works as the Manager – Legal of HNB Assurance PLC and HNB General Insurance Limited. Counts over 16 years experience in the legal profession and heading the Legal Department of HNB Assurance PLC for over 6 years.

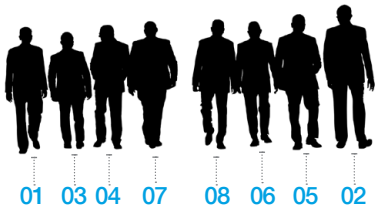
Group Executive Committee



What's our story?



Group Executive Committee



01. Niranjan Manickam

Chief Executive Officer (Acting), HNB Assurance PLC and HNB General Insurance Limited

ACII (UK), Chartered Insurer

Niranjan is the Chief Executive Officer (Acting) of HNB Assurance PLC and HNB General Insurance Ltd. Prior to being promoted as CEO (Acting), he was the Chief Operating Officer (COO) of HNB General Insurance Ltd. He joined HNB Assurance PLC as the General Manager General Insurance in April 2009. Niranjan counts over 32 years of local and international experience in handling all classes of General Insurance. Prior to joining HNB Assurance, he held the position of General Manager, Operations at Aviva NDB Insurance PLC. He is a past Chairman of the General Insurance Forum (GIF) of the Insurance Association of Sri Lanka (IASL) and is a Lecturer at the Sri Lanka Insurance Institute.

02. Prasantha Fernando

Chief Operating Officer – Life Insurance

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

Prasantha joined HNB Assurance in 2012. Currently he is serving as the Chief Operating Officer for Life Insurance. He served as General Manager - Life Insurance for three years prior to being promoted as COO. Prior to joining HNB Assurance, he held the position of Assistant General Manager, Life Operations at Aviva NDB Insurance PLC. He counts over 20 years of experience in the Life Insurance Industry. He is the current 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.

03. Vipula Dharmapala

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

BSc Bus. Admin Sp. (J'pura), ACA

Vipula joined HNB Assurance as the Finance Manager in July 2008 and was subsequently promoted as the Head of Finance w.e.f. 01st January 2009 and was promoted as CFO in January 2014. He has over 10 years of finance and audit experience at the Company and at Ernst & Young. He is the past Chairman of the Finance Technical Sub-Committee (FTSC) of the Insurance Association of Sri Lanka (IASL).

04. Namal Gunawardhane

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

BCom Hons (Delhi University), BIT (Indira Gandhi National University)

Namal started his career in Insurance as the IT Manager at Sri Lanka's largest General Insurer Ceylinco Insurance PLC (General) in 2005. He joined HNB Assurance in 2008 as Head of IT. He received the IT Leadership award at the Asia Insurance Technology awards last year where the winner is selected among the CIO's of Insurance domain in APAC countries. Previously he held the positions of Group IT Manager of Timex and Fergasam Group of Companies - one of leading apparel manufacturer in Sri Lanka and Project Manager at Asian Aviation Center. Namal holds a BCom (Hons) degree from Delhi University and a BIT from Indira Gandhi National University among other Professional certifications in the field of IT. He is the current Chairman of the IT Forum of the Insurance Association of Sri Lanka (IASL).

05. Chandana L Aluthgama

Chief Business Officer – 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 2015. He counts over 24 years' experience in business development, operations, claims management, branch coordination, corporate marketing, bancassurance, and channel management. He is also a visiting Lecturer at the Postgraduate Department of the University of Colombo - Management and Finance Faculty. He has undergone extensive training both locally and overseas including Generali Insurance, Vienna Austria. 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.

06. 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 & 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.

07. Nilesh Amarasinghe

Head of Strategy and Investment - HNB Assurance PLC and HNB General Insurance Limited

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

Functioning as the Head of Investment since January 2013, Nilesh has over 10 years of experience in Capital Markets in Sri Lanka specialising in investment management/fund management. Having joined HNBA as a Management Trainee in 2005, Nilesh served HNBA as Assistant Manager – Investments and Manager – Investments, prior to being promoted as the Head of Investment.

08. Sithumina Jayasundara

Head of Operations – HNB General Insurance Limited

Sithumina is a Chartered Insurer and an Associate Member of the Chartered Insurance Institute of UK. He is also a senior Associate of the Australian and New Zealand Institutes of Insurance and Finance.

Hailing from Kandy, and a product of St. Anthony's College, Kandy, Sithumina began his career in insurance in 1997, served in various positions in the areas of accounting, reinsurance and underwriting at different companies with a multinational flavor. Additionally he holds a Diploma in Computer Studies.

Over his 17 year career, he has earned a reputation of diligence and integrity and is affiliated to several local and international industry organizations. He has also obtained foreign exposure through different training programmes in General Insurance and specialized in the Reinsurance field. During the past year Sithumina held the position of honorary treasurer of the Sri Lanka Insurance institute which is affiliated to the Chartered Insurance Institute of the UK.

Management Team
HNB Assurance PLC















01. Dinesh Udawatta
Head of Operations - Life

02. Indika Perera
Head of Finance

03. Dinesh Yogaratnam
Head of Marketing

04. Geethani Seram
Head of Support Services - Life

05. Pushpika Seneviratne
Head of Actuarial

06. Hiran Fernandopulle
Zonal Head - Western

07. Ananda Kulasooriya
Regional Manager

What's our story?





















08. Salinda Perera
Manager - Administration

09. Kamini Gunawardene
Manager - Marketing

10. Sitari Jayasundara
Manager - Legal

11. Padma Dahanayake
Manager - Life Servicing

12. A L D H Liyanage
Zonal Manager - Metro

13. Harendra Ramasinghe
Zonal Manager - Southern

14 Rohan Hemantha
Manager – Risk and Compliance

15 D M S Gunaratne
Manager – Bancassurance

16. Prasad Thambawita
Manager - Life Claims

17. N Sugunan
Zonal Manager - North & East

Management Team
HNB Assurance PLC















18. Kapila Jayarathne
Regional Manager

19. Sudath Perera
National Sales Training
& Development Manager

20. Chandana Abeywardena
Regional Manager

21. J J B Gaspe
Regional Manager

22. Punsirini Perera
Finance Manager

23. Dasun Siriwardana
Manager - Corporate Life

24. B G Dhanawardena
Regional Manager

Management Team HNB General Insurance Limited















01. Chitparan Vivekanandan
Head of Finance & Support Services

02. Jehan Haniff
National Sales Training &
Development Manager

03. Sajeewa Chandrasena
Zonal Head - Central

04. A.R. Baslin Salih
Zonal Head - Southern

05. Hazana Cafoor
Manager - Motor

06. Sanjeewani Pitadeniya
Manager - Customer Relations

07. M K D J R Miriyagalle
Zonal Manager - North Western

Management Team
HNB General Insurance Limited













08. T Rizepan
Zonal Manager - North & East

09. Hifly Huzair
Manager - Takaful

10. Devaka Jayasinghe
Manager - Broker Development

11. Dayan Georgesz
Manager - Bancassurance

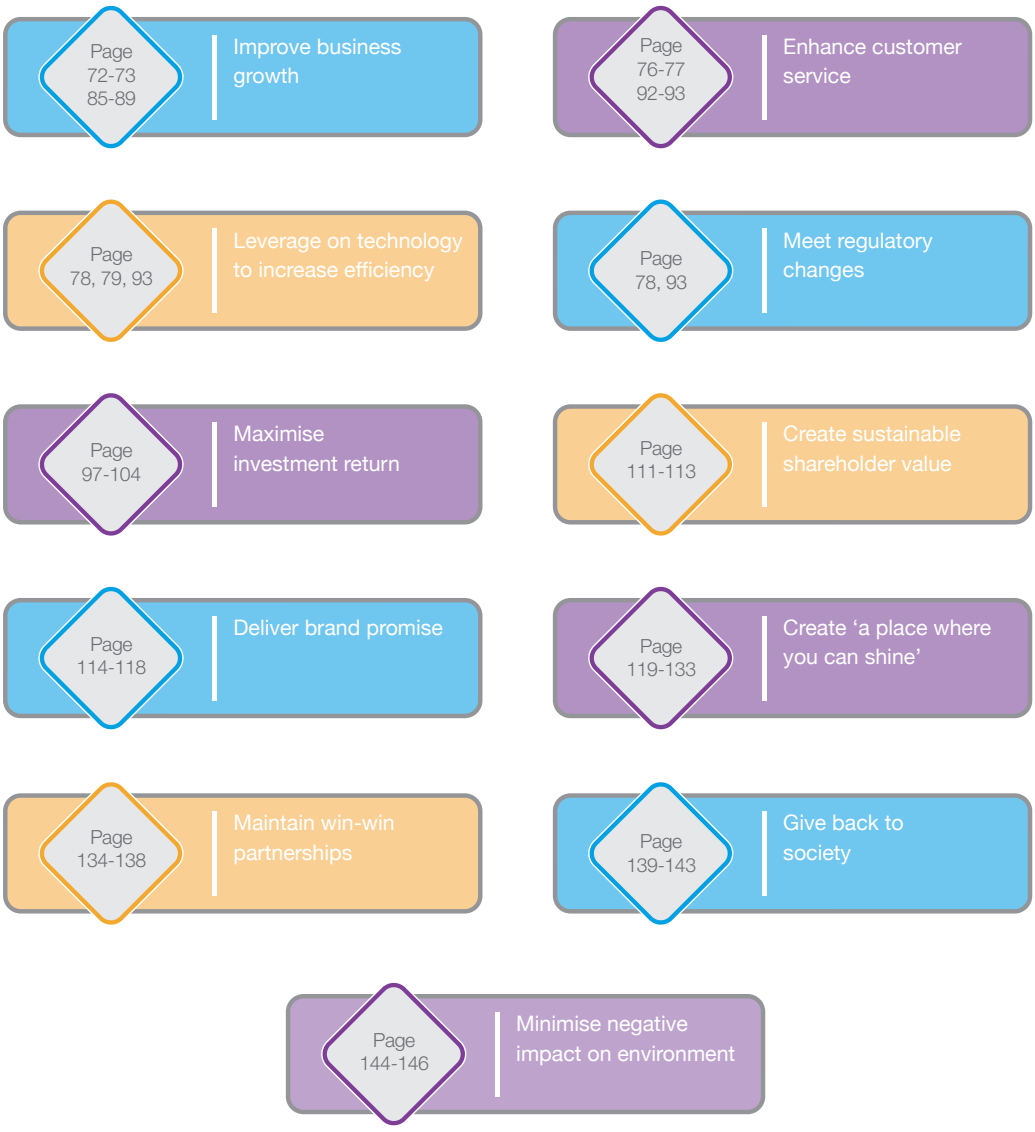
12. Harin Darshana
Zonal Manager Metro & Corporate

13. Damayanthi Nelumdeniya
Cluster Manager

Strategic Focus

Our corporate strategy is designed to deliver sustainable, profitable growth in a changing business environment. While the Vision and Mission of the Company provide the long term direction, short and medium term strategies are developed by the Senior Management of the Company under the guidance of the Board of Directors. Each year, the members of the management team who lead key areas of the business develop a Corporate Plan, for a time horizon of three years, through a participative process. The Corporate Plan of our subsidiary, HNB General Insurance Limited (HNBGI) too is formulated through a similar process.

At the extensive planning process carried out at the end of 2014, the following strategies were arrived at as core areas of strategic focus for 2015. Throughout this report, we will be presenting you a detailed analysis of how we endeavoured to achieve these areas of strategic focus, the results, as well as the future direction.



Goals and Objectives

Goal for 2015	Performance in 2015	Status	Goal for 2018
Shareholder			
Achieve a Profit After Tax (PAT) of Rs. 332 Million at Company level	The Company achieved a PAT of Rs. 428 Million at a growth of 29%.	●	PAT of the Company to be over Rs.900 Million
Achieve a Profit After Tax (PAT) of Rs. 455 Million at Group level	The Group was only able to achieve a PAT of Rs.197 Million due to losses made by the subsidiary.	●	PAT of the Group to be over Rs.1.2 Billion
Achieve a Return on Equity (ROE) of 18%	ROE of the Group was recorded at 8.6%. This was due to the loss made by the subsidiary.	●	Achieve a ROE of over 20%
Earn an Investment Yield of 9.6% at Group level	The Group earned a yield of 10.2%.	●	Maintain a yield above 10%.
Become the 6th largest Company in the industry	The Company is the 6th largest Life Insurance solution provider in the market.	●	Improve the Market Share above 6%
Improve investor confidence by maintaining a Fitch Credit Rating of A (lka)	Fitch Ratings endorsed HNBA and HNBGI with a rating of A (lka).	●	Improve the Fitch Credit Rating
Maintain premium persistency above 82%	The Company achieved a premium persistency of 83%.	●	Maintain the premium persistency above 86%
Employees			
Achieve GWP per employee of Rs. 5 Million at Company level	GWP per employee is Rs. 6.2 Million at Company level.	●	Increase GWP per employee to Rs. 9 Million
Reduce the employee turnover (excluding Bancassurance officers) to 18%	The employee turnover stood at 21.28%.	●	Reduce employee turnover to single digit levels

● Objective achieved ● Objective not achieved ● Needs improvement

What's our story?

Goal for 2015	Performance in 2015	Status	Goal for 2018
Regulator			
Ensure full compliance with RBC regime	The Group successfully completed the mandatory parallel run and processes are in place to move on to RBC in 2016.	●	Continue to comply with all RBC regulations and adapt to timely changes
Successfully complete the segregation of the Company	The segregation of Life and General Insurance Businesses was completed successfully with no operational disruptions. All segregation requirements were met on time.	●	Not applicable
Business Partners			
Enhance the advisor force with the use of technological advancements	Steps are in place to implement a sales force management system to better monitor performance management.	●	Invest resources to improve systems on a continuous basis
Build relationships only with suppliers adhering to ethical business practices	All our suppliers have adhered to ethical and human rights practices in conducting their activities, to the best of our knowledge.	●	Continue to work with suppliers adhering to ethical practices and human rights
Customers			
Enhance reach by expanding the distribution network	The branch network was expanded to 54 branches (2014:51)	●	Further enhance the distribution network by opening new branches
Increase brand value	The Company achieved the rank of 57 in the LMD 100 Most Valuable Brands.	●	Further improve brand value
Community			
Expand the community's access to water	3 projects were conducted to provide drinking water facilities.	●	Continue to expand the community's access to water
Extend a helping hand to arts and culture	Assistance was extended to 2 prominent senior artists.	●	Continue to assist in maintaining the quality of arts and culture
Environment			
Automating manual processes to minimise the wastage of resources	Introduced e-payslips to reduce paper wastage.	●	Continue to automate manual processes to minimise wastage

● Objective achieved ● Objective not achieved ● Needs improvement

Key Performance Indicators

Indicator	Status	2015	2014	2013	2012	2011	Growth 2015
Financial Performance							
GWP (Rs. Mn.)	↑	5,447	4,666	3,878	3,211	2,985	17%
Investment Income (Rs. Mn.)	↓	918	1,032	852	662	479	(11%)
Profit After Tax (Rs. Mn.)	↓	197	418	389	351	246	(53%)
Funds under Management (Rs. Mn.)	↑	9,939	8,291	6,660	5,806	4,967	20%
Market Capitalisation (Rs. Mn.)	↓	3,730	4,175	2,625	2,450	2,845	(11%)
Solvency Ratio - Life Insurance (Times)	↓	2.15	2.29	2.04	2.28	2.89	
Solvency Ratio - General Insurance (Times)	↓	1.50	3.07	3.89	3.48	3.15	
Market Share	—	4.5%	4.5%	4.0%	3.7%	3.7%	
Returns to Investors							
Return on Equity	↓	8.6%	17.3%	18.4%	18.7%	15.2%	
Earnings Per Share (Rs.)	↓	3.95	8.35	7.78	7.02	5.14	(53%)
Dividends Per Share (Rs.)	↓	2.00	3.75	3.25	2.75	2.1	(47%)
Dividend Payment (Rs. Mn.)	↓	100.0	187.5	162.5	137.5	105.0	(47%)
Market Price Per Share VWA (Rs.)	↓	74.60	83.50	52.50	49.00	56.90	(11%)
P/E Ratio (Times)	↓	18.89	10.00	6.75	6.98	11.07	89%
Life Insurance Operations							
GWP (Rs. Mn.)	↑	2,789	2,343	2,015	1,500	1,290	19%
Life Fund (Rs. Mn.)	↑	7,007	5,563	4,348	3,626	3,021	26%
Number of Policies	↑	123,295	109,695	100,481	95,738	90,260	12%
Lapse Ratio (First year)	↑	46%	49%	52%	50%	49%	
Lapse Ratio (second year)	↑	23.15%	26.6%	29.7%	26.5%	26.7%	
Premium Persistency Ratio	↑	83%	81%	81%	80%	79%	
Claims Ratio (with maturities)	↑	10%	19%	36%	19%	5%	
Claims Ratio (without maturities)	—	6%	6%	5%	8%	4%	
Expense Ratio	↑	46%	48%	47%	59%	57%	
Combined Ratio (with maturities)	↑	56%	67%	82%	78%	62%	
Combined Ratio (without maturities)	↑	52%	54%	52%	67%	61%	
General Insurance Operations							
GWP (Rs. Mn.)	↑	2,698	2,323	1,863	1,711	1,694	16%
General Fund (Rs. Mn.)	↑	1,546	1,279	1,011	969	944	21%
Number of Policies	↑	134,517	118,438	89,824	85,996	85,651	14%
Claims Ratio	↓	88%	72%	66%	68%	69%	
Expense Ratio	↑	35%	38%	39%	34%	34%	
Combined Ratio	↓	123%	110%	105%	102%	103%	

↑ Status Improved ↓ Status Declined — Status Unchanged

What's our story?

Reference: GRI-G4 G4-SO11

Indicator	Status	2015	2014	2013	2012	2011	Growth 2015
Customer Value							
Claims and Benefits - Incurred (Rs. Mn.)	↑	2,118	1,573	1,568	1,154	865	
Number of Branches	↑	54	51	51	51	51	
Number of New Products	↓	3	4	9	4	3	
% of Customer Complaints Settled	—	54%	54%	78%	80%	89%	
Bonus for Policyholders (Rs. Mn.)	↓	86	109	90	83	70	(21%)
Rate of Dividend for Non-Participating Policyholders	↓	7.5%	8%	9%	9%	8%	(6%)
Average GWP per Bancassurance Officer (Rs. Mn.)	↑	4.29	2.26	1.78	1.32	1.29	90%
Employee Benefits - Group							
Number of Staff	↑	836	829	804	723	662	1%
GWP Per Employee (Rs. Mn.)	↑	6.52	5.63	4.82	4.44	4.51	16%
Profit Per Employee (Rs. Mn.)	↓	0.2	0.5	0.5	0.5	0.4	(60%)
Training hours Per Employee (hrs)	↓	17.23	17.7	20.4	25.8	23.4	(3%)
Employee Turnover (with fixed term contract staff)	↓	27%	22%	22%	25%	23%	
Employee Turnover (without Fixed term contract staff)	↓	21%	13%	14%	17%	13%	
Business Partners - Group							
Number of Advisors	↑	1,815	1,533	1,507	1,643	1,451	18%
Commission Paid (Rs. Mn.)	↑	646	600	494	437	389	8%
Average GWP per Active Advisor (Rs. Mn.)	↓	1.32	1.34	1.17	0.83	0.79	(1%)
Number of Brokers	↑	57	55	52	49	48	4%
Commission Paid to Brokers (Rs. Mn.)	↑	106	90	62	55	55	18%
Number of Assessors	↓	100	143	128	106	91	(30%)
Fees paid to Assessors (Rs. Mn.)	↑	26.2	18	14	15	14	46%
Acquisition cost as a % of GWP	↑	12%	13%	13%	11%	10%	
Community Emphasis - Group							
Number of Micro Insurance Policies	↑	3,480	2,361	1,663	2,078	2,988	47%
Total Number of School Water Projects completed (cumulative)	↑	36	33	27	21	16	9%
Total Investment in Community (Rs. Mn.)	—	3	3	3	2	2	
Environment Involvement - Group							
Electricity Consumption (units)	↓	1,423,382	1,298,176	1,356,317	1,208,361	Not Available	10%
Paper Recycled (Kg)	↑	12,919	12,780	14,330	4,524	11,907	1%

↑ Status Improved ↓ Status Declined — Status Unchanged

Reference: GRI-G4 G4-14 G4-16

Management Discussion & Analysis

Our Approach to Sustainability

Sustainability lies at the very foundation of our value creation model. Thus, focus on sustainability is at the forefront of all our operations, processes and procedures. Although none of our business activities pose a direct negative impact to the environment, we strive to ensure that our strategies are formulated with a holistic view in giving the best value to our stakeholders with the minimum negative impact on the environment. This holistic approach is being elaborated on each page of this Integrated Annual Report, signifying that all components of our value creation model are interlinked in delivering value to our stakeholders. Further information on the workings of our process of strategy formulation is given on pages 41 and 188.

Sustainability Structure

The ultimate responsibility of maintaining sustainability is entrusted to the Board of Directors of the Company. Under their guidance and supervision, a top-down approach is adopted in passing such responsibility down to the Group Executive Committee, Group Sustainability Committee, Business Continuity Planning Committee and the Management Team. Further, Board sub-committees, including the Audit Committee, Investment Committee, Remuneration Committee and the Risk Management Committee, oversee operations, governance and risk management activities of the Group with a view of enhancing sustainability endeavours.

Our Endorsements

As a socially responsible corporate entity, we endorse the standards, codes and guidelines stated on pages 06 to 07, which form the basis of this Integrated Annual Report. Additionally, our external commitments extend to the following organisations by virtue of membership;

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

Reference: GRI-G4 G4-18 G4-19 G4-20

Material Matters – Deciding What Matters Most

We believe that in order to carry out a sustainable business, it is important to identify the matters which are most material to our stakeholders and how these impact the actions and decisions we make. Material matters of the Group therefore relate to a diverse range of key factors impacting our ability to deliver sustainable outcomes to our key stakeholders in the value creation process. Through this report we aim to communicate to all our stakeholders the material sustainability impacts that we have created.

We use the guidelines set by the Global Reporting Initiative (GRI) to determine the sustainability impacts of the Group and the matters material to the Group and its stakeholders. GRI sets guidelines and indicators in disclosing economic, environmental and social performance under different aspects. We have also used the specific Financial Sector Disclosures issued by GRI, which covers sustainability performance relevant to companies in the financial services sector, such as banks and insurance companies.

In identifying these impacts, we have also considered the sustainability impacts that occur within the Group or at the premises of our business partners, and the boundary for reporting was defined accordingly.

Illustrated below is the process we engage in when identifying the material aspects and impacts.

Stakeholder Inclusiveness
Pages 105-109

- Identify key stakeholders
- Identify stakeholder concerns through active engagement

Sustainability Context
Pages 48-144

- Identify economic, social and environmental impacts of HNBA
- Embed economic, social and environmental concerns on strategies
- Report progress on economic, social and environmental performance

Materiality
Pages 48-50

- List all aspects
- Test materiality of aspects in relation to our business and stakeholders
- Select and report on the most material aspects

Completeness
Pages 51-144

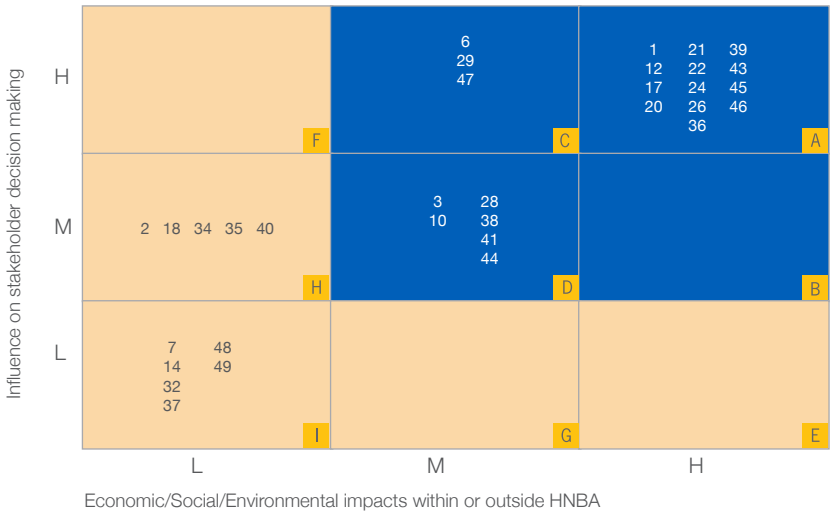
- Check and ensure our report covers all material economic, social and environmental performance and impacts

Reference: GRI-G4 | G4-18 | G4-19 | G4-20 | G4-21 | G4-23

A detailed discussion on the identification of stakeholders and engaging with them appears on pages 105 to 109.

The results generated from the process outlined on page 47 are plotted on the matrix below.

Materiality Matrix



The list of material aspects and their boundaries, determined based on where the Economic, Social or Environmental impact occurs i.e. within the Group or outside the Group or in both instances, is given below. No significant change has occurred in relation to the scope and boundaries of aspect, compared to previous reporting periods.

No.	Aspect	Significance In Terms of Sustainability Context	Boundary	Materiality		Material Aspect
				To Us	To Stakeholders	
Economic						
1	Economic Performance	●	HNBA Group	●	●	✓
2	Market Presence	●	HNBA Group	●	●	✗
3	Indirect Economic Impacts	●	HNBA Group	●	●	✓
4	Procurement Practices	n/a	n/a			
Environmental						
5	Material	n/a	n/a			
6	Energy	●	HNBA Group	●	●	✓
7	Water	●	HNBA Group	●	●	✗
8	Bio Diversity	n/a	n/a			
9	Emissions	n/a	n/a			

● High ● Moderate ● Low

✓ Material - Disclosed ✗ Not Material - Not Disclosed n/a - Not Applicable

Reference: GRI-G4 G4-18 G4-19 G4-20 G4-21

No.	Aspect	Significance In Terms of Sustainability Context	Boundary	Materiality		Material Aspect
				To Us	To Stakeholders	
10	Effluents and Waste	●	HNBA Group	●	●	✓
11	Products and Services	n/a	n/a			
12	Compliance	●	HNBA Group	●	●	✓
13	Transport	n/a	n/a			
14	Overall	●	HNBA Group	●	●	✗
15	Supplier Environmental Assessment	n/a	n/a			
16	Environmental Grievance Mechanisms	n/a	n/a			
Social: Labour Practices and Decent Work						
17	Employment	●	HNBA Group	●	●	✓
18	Labour/Management Relations	●	HNBA Group	●	●	✗
19	Occupational Health and Safety	n/a	n/a			
20	Training and Education	●	HNBA Group	●	●	✓
21	Diversity and Equal Opportunity	●	HNBA Group	●	●	✓
22	Equal Remuneration for Women and Men	●	HNBA Group	●	●	✓
23	Supplier Assessment for Labour Practices	n/a	n/a			
24	Labour Practices Grievance Mechanisms	●	HNBA Group	●	●	✓
Social: Human Rights						
25	Investment	n/a	n/a			
26	Non-Discrimination	●	HNBA Group	●	●	✓
27	Freedom of Association and Collective Bargaining	n/a	n/a			
28	Child Labour	●	HNBA Group/ Garages/ Other Suppliers	●	●	✓
29	Forced or Compulsory Labour	●	HNBA Group/ Garages/ Other Suppliers	●	●	✓
30	Security Practices	n/a	n/a			

● High ● Moderate ● Low

✓ Material - Disclosed ✗ Not Material - Not Disclosed n/a - Not Applicable

Reference: GRI-G4 G4-18 G4-19 G4-20 G4-21

No.	Aspect	Significance In Terms of Sustainability Context	Boundary	Materiality		Material Aspect
				To Us	To Stakeholders	
31	Indigenous Rights	n/a	n/a			
32	Assessment	●	HNBA Group	●	●	✗
33	Supplier Human Rights Assessment	n/a	n/a			
34	Human Rights Grievance Mechanisms	●	Garages/ Other Suppliers	●	●	✗
Social: Society						
35	Local Communities	●	HNBA Group	●	●	✗
36	Anti-Corruption	●	HNBA Group	●	●	✓
37	Public Policy	●	HNBA Group	●	●	✗
38	Anti-Competitive Behaviour	●	HNBA Group/ Advisors	●	●	✓
39	Compliance	●	HNBA Group	●	●	✓
40	Supplier Assessment for Impacts on Society	●	Advisors/ Other Suppliers	●	●	✗
41	Grievance Mechanisms for Impacts on Society	●	HNBA Group/ Advisors	●	●	✓
Social: Product Responsibility						
42	Customer Health & Safety	n/a	n/a			
43	Product and Service Labeling	●	HNBA Group	●	●	✓
44	Marketing Communications	●	HNBA Group/ Advisors/ Brokers	●	●	✓
45	Customer Privacy	●	HNBA Group/ Advisors/ Brokers	●	●	✓
46	Compliance	●	HNBA Group	●	●	✓
47	Product Portfolio	●	HNBA Group	●	●	✓
48	Audit	●	HNBA Group	●	●	✗
49	Active Ownership	●	HNBA Group	●	●	✗

● High ● Moderate ● Low

✓ Material - Disclosed ✗ Not Material - Not Disclosed n/a - Not Applicable

Risks and Opportunities

Global trends relating to the best practices in the Insurance Industry and the changing insurance needs of the people have resulted in the Sri Lankan insurance market becoming vastly dynamic. Consequently we, as players, need to be more vigilant in identifying risks and opportunities that arise with such changes, and must take measures to align our strengths to exploit the opportunities and address the risks. The following table depicts the key trends which would, in our opinion, shape the Insurance Industry in the future, as well as the measures we are taking to address them.

Environmental Trend	Opportunities and Risks	Our Strategy	Impact on Our Business Model
Aging Population and Inadequate Retirement Benefits The growth in Sri Lanka's aging population is higher than its South Asian counterparts, with 20% of the total population expected to be older than 60 years by the end of 2031.	Ⓞ People would pay more attention to securing their future with stable financial plans. We can capitalise on this need and introduce new Life Insurance products to suit such requirements. Ⓡ The increase in the elderly population will be reflected in our customer base, compelling us to provide an expanded array of retirement benefits and medical related plans for them.	We have adjusted our product portfolio to cater to the changing demand through products such as 'mypension'. We plan to introduce more innovative products to cater to the growing need of wealth protection. We also have introduced a Medical Reimbursement Rider to our portfolio.	• Customers • Employees • Claims and Benefits
Natural Disasters The increased number of natural disasters occurring in the world and in Sri Lanka poses risks to people's valuables and lives.	Ⓞ People seek protection against natural disasters. We can meet these needs via Life Insurance and General Insurance solutions. Ⓡ As the number of natural disasters increase, we are likely to experience an increase in claims incurred.	We have taken action to change our General Insurance product portfolio mix with greater concentration on Fire and Engineering categories, to benefit from the opportunities presented by the market. Since the impact of these risks are high, there needs to be strong backing from reinsurance.	• Customers • Reinsurers • Claims and Benefits

Ⓞ Opportunity Ⓡ Risk

Environmental Trend	Opportunities and Risks	Our Strategy	Impact on Our Business Model
Economic Uncertainty Economic uncertainty due to changes in fiscal and monetary policy stances and political changes have resulted in volatility in economic variables. Interest rates are increasing, inflation is picking up and the equity market is not performing well. The global economic climate is also not in a stable condition, due to multiple reasons.	Ⓞ Economic growth would increase the purchasing power of economic agents, especially of those representing the middle class, thereby increasing the demand for products. Ⓡ The volatility of financial markets would pose risks in relation to the investment income generated and will affect the bottom line of the business.	We have increased the focus on Life and General Insurance sales. Sound risk management practices are used to mitigate the investment and other risks arising due to economic uncertainties, in order to reduce possible losses. We have also taken actions to strengthen the Investment Policy to protect our investments in volatile market conditions.	• Product development • Fund management • Human resource development • Customers • Investors • Employees
Changing Regulations New regulations in the industry changed the structure of our business, with the segregation of Life and General Insurance Businesses. Our approach to risk management also changed with the introduction of the Risk Based Capital (RBC) regime.	Ⓞ Segregation has enabled us to build more focused relationships with our customers and offer them a high level of value addition. Ⓡ Our costs increased due to segregation. Ⓡ The implementation of RBC requires the possession of expertise.	We are investing in our distribution network to cater to the customer base and are taking measure to strengthen the distribution channels. We have developed our staff, systems and processes to cater to RBC requirements.	• Sales and distribution • Human resource development • IT support • Customers • Employees • Regulator
Rise in New Technologies Technology has changed the behavioural patterns of customers. They have become more knowledgeable about online product offerings and expect claims and services faster.	Ⓞ Online selling allows us to reach a wide market at a low cost. Ⓞ The process of claims settlement can be expedited using new technology. Ⓡ We run the risk of falling behind competition if we do not keep up with customer expectations.	We already offer online Life and General Insurance products. Our claims process has been expedited using new technology.	• IT support • Product development • Sales and distribution • Claims and benefits • Customers
Responsible Corporate Behaviour People are increasingly concerned about the responsible behaviour of companies. Corporates are expected to behave responsibly with regard to the products they offer, employment practices and impacts on the environment.	Ⓞ Being a responsible corporate citizen attracts more customers and better talent in the market place. Ⓡ We are subjected to increased scrutiny by all stakeholders.	We have adopted a strong code of ethics and good governance practices. We have improved employee and customer engagement and scrutinised our suppliers for any unethical behaviour. We invest in CSR projects as part of our corporate strategy.	• CSR • Brand building • Society

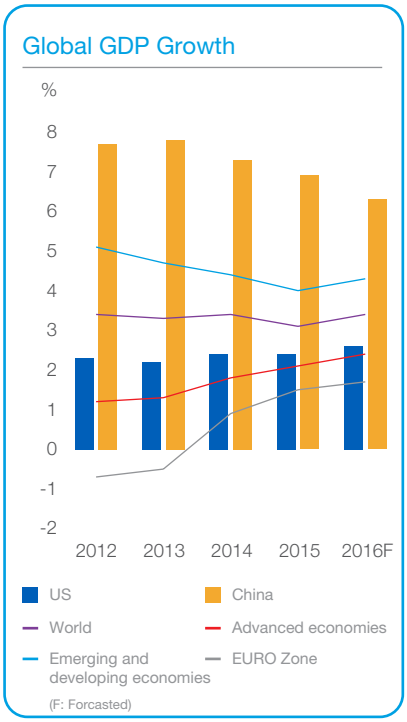
Ⓞ Opportunity Ⓡ Risk

Economic Review

The economic environment surrounding us invariably affects our business strategies and outcomes. It presents us with opportunities we must promptly harvest, and risks we must prudently manage. This is the story of the economic forces that profoundly impacted our business operations during the year.

GLOBAL ECONOMY: FACING MULTIPLE CHALLENGES

The IMF estimated the global economy to have recorded a growth of 3.1% in 2015, the weakest pace since the recession of 2009. The slowdown of the Chinese economy, the tightening Monetary Policy stance of the United States, and the lower levels of global energy and commodity prices are identified as key challenges that will impact the global economy in 2016.



Growth in emerging markets and developing nations is expected to have slowed for the fifth consecutive year, and their growth forecast for 2016 was revised downwards by the IMF from 4.5% to 4.3%. Advanced economies, on the other hand, are expected to experience a modest and uneven recovery, led by the economies of the United States, Euro Area and Japan.

2016: Volatility will be the Name of the Game

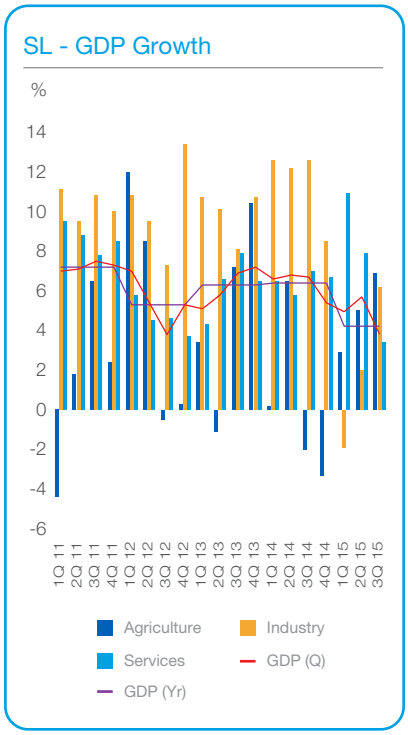
The global outlook remains tilted towards the downside, with the world facing four major adjustments, i.e. the emerging market slowdown, the slowdown of China as it rebalances away from export-led growth, the rapid drop in commodity prices and the Federal Reserve's gradual exit from ultra-low interest rates.

It is likely that the year 2016 and beyond will see high asset volatility, supplemented by Central Bank policy divergence, rising price of the USD and political uncertainties that persist across the globe. Given the many risks involved, the world economy is likely to experience a setback in 2016, amidst the possibility of another prolonged recession, which has the potential to adversely affect emerging and frontier economies.

SRI LANKAN ECONOMY: A YEAR OF RADICAL REFORMS

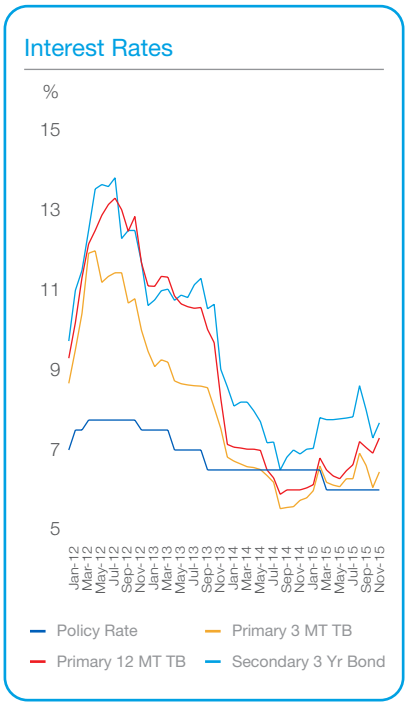
2015 proved to be a special year for the Sri Lankan economy, with a regime change that inevitably paved the way for change in economic policies as well.

The economy of Sri Lanka grew by 5.2% during the first nine months of 2015, with a growth of 4.8% being recorded in the third quarter of 2015. The highest sectoral growth was recorded by the Agriculture Sector, at 6.1%, followed by the Services Sector at 5.2% and the Industry Sector at 3.6%.

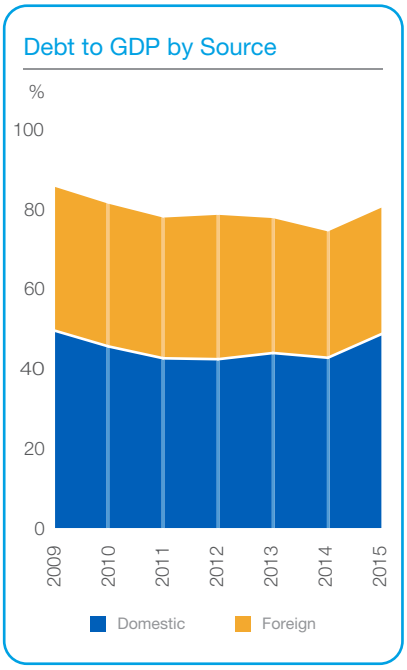


Increased Reliance on Borrowings

In 2015, Sri Lanka entered "increasing debt-to-GDP territory" for the first time since 2010, recording a ratio of 81% against 76% recorded in 2014.



Although the target level for 2016 is 75%, its achievement appears unlikely, especially because of the Government's high demand for borrowing, as signified in the increase of the Treasury Bill borrowing limit by 47% in October 2015. Filling its borrowing demand through foreign loans could also be an expensive option for the Government, in the face of the expected increase in interest rates of the United States. This is already manifested in the foreign holding of local Government Securities declining to below 8% in December 2015 from 13% recorded in January 2014.



Limited Fiscal Consolidation

The budget deficit as a percentage of GDP, which had earlier declined to 5.2% in 2014 from 5.9% in 2013, is estimated to have surpassed 7% in 2015. This was mainly due to the significant increase in Government expenditure on Public Sector salaries, subsidies and concessions, as well as the revision of taxes.

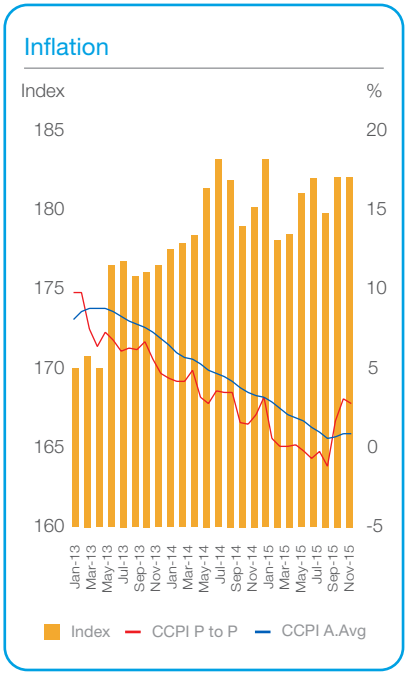
Meanwhile, the budget presented for the year 2016 forecasted a fiscal deficit of 5.9% of GDP (narrowing from the 6% target in 2015), to be achieved mainly through revenue growth of 30%. It included measures to boost foreign investment, to curtail the decline in the currency and to improve the deteriorating Balance of Payments (BOP). Considering the longer term, the Government of Sri Lanka expects to achieve a budget deficit target of 3.5% by 2020 and to improve the indirect to direct tax composition to 60%:40% from the current 80%:20%.

However, we believe that the budget deficit would rise to at least 6.5% in 2016, and that the Government will be forced to cut down on vital capital expenditure if its own budget deficit target is to be achieved. We also believe that the short term risks on fiscal consolidation remain high, and that the proper implementation of policies would be vital to revive sustainable economic growth.

Demand Driven Inflationary Pressure

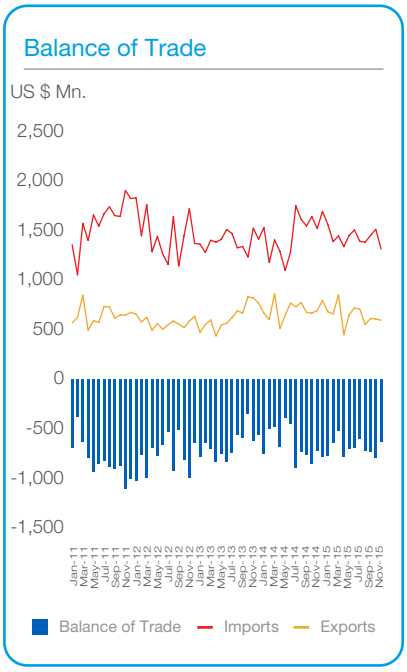
Point-to-point inflation remained well below 5% during 2015. In July 2015, Sri Lanka entered the territory of deflation for the first time since March 1995, reverting to inflation again only in September 2015. The rate of inflation on an annual average basis continued its decelerating trend observed since June 2013 and reached 0.9% in December 2015, compared to 3.3% a year ago. Inflation figures mainly reflected the impacts of the downward revision of administered prices, including electricity and fuel prices, during the latter part of 2014 and early 2015.

Increased Government expenditure, coupled with the expanding budget deficit, magnifies inflationary pressures in the current Sri Lankan economy. The impacts of the depreciation of the LKR and the strong levels of aggregate demand impose a further burden on the inflation rate. Considering these factors and the low base effect, we believe the annual average inflation rate will rise to approximately mid-single digit levels in 2016.



A Challenging Year for the External Sector

The total earnings from exports for the first ten months of 2015 declined by 3.9%, while the expenditure on imports also dropped marginally by 1.2%, amidst a considerable reduction in expenditure on intermediate goods imports, especially on fuel. The cumulative effect of these numbers was the trade deficit for the first ten months of 2015 increasing by 2.5% to USD 6,936 Million.



Worker remittances, which assume a key role in BOP, recorded only a 1.7% growth for the first ten months of 2015. However, earnings from tourism continued its growth momentum and posted a growth of 18% for the same period. Meanwhile, Sri Lanka's gross official reserves stood at USD 6.5 Billion at end October 2015, equivalent 4 months of imports.

The real effective exchange rate indices have adjusted in line with the 9% depreciation of the LKR in 2015, supporting the external competitiveness of the domestic economy. Going forward, the Central Bank's decision to allow for greater flexibility in the determination of the exchange rate, and the expected inflows to the current and financial accounts, are likely to strengthen the External Sector.

Import expenditure is expected to be curtailed in the short term through the depreciation of the LKR, while the implementation of policy measures to boost export earnings and the likely reinstatement of the GSP+ arrangement are expected to drive exports in 2016. However, weakening global demand conditions will be a major risk that needs to be managed appropriately.

Local Currency Depreciation Battle to Intensify

The escalation of the BOP deficit throughout 2015 led to increased pressure on the foreign exchange rate and saw the Government intervening in the forex market, selling USD via state owned banks. By the end of 2015, the LKR had depreciated by 9% over the year.

In 2016, we expect the exchange rate to further depreciate by at least 3.5%, with growing pressure on external imbalances largely borne by LKR. The positive impact of LKR depreciation in cushioning the export oriented economic policies of the Government further raises the probability of depreciation in 2016.



3.3%
Annual Average Inflation 2014

0.9%
Annual Average Inflation 2015

Economic and Political Uncertainty Weighing on the CSE

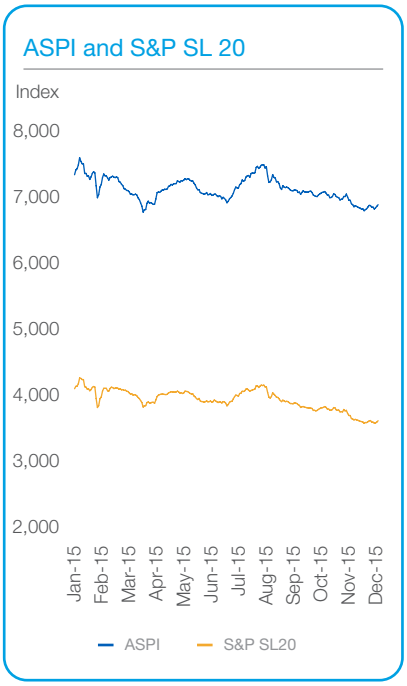
The main indices at the Colombo bourse, ASPI and S&P SL20, declined by 6% and 11%, respectively, in 2015 (vs. +23% and +25%, respectively, in 2014) largely due to the uncertainty that prevailed in economic and policy directions subsequent to changes in the political landscape, along with the volatility in global markets.

While the depreciation of the currency impacted investor confidence, the effect was further aggravated by the volatility in global markets and financial outflows from emerging markets. Foreigners were net sellers in 2015, for the first time since 2011, with a net outflow of Rs. 4.3 Billion as against the net inflow of Rs. 22.1 Billion in 2014. The decision of the Federal Reserve in December 2015 to raise interest rates in the United States also adversely impacted the CSE, while the expectation of further incremental hikes is likely to lead to continued foreign outflows.

2016: Towards a Tightening Monetary Policy Stance

The Central Bank of Sri Lanka initiated monetary tightening in December 2015 by increasing the Statutory Reserve Requirement (SRR) for banks, aiming to curtail significant economic overheating, thereby ending the expansionary Monetary Policy stance that was adopted since December 2012.

Government Security yields witnessed continuous volatility during 2015, with the benchmark 12-month treasury yield increasing by 1.11% to reach 7.11%, while the Average Weighted Prime Lending Rate (AWPLR) increased by 0.24% to 7.10%.



Credit to the Private Sector grew by double digits in each month of 2015 and credit growth is expected to continue in 2016, albeit at a slower pace due to the forecasted decline in financing of vehicles.

Increasing aggregate demand, which fuels imports and applies pressure on the Balance of Payments, coupled with imbalances in Sri Lanka's current account and fiscal deficit, would pressurise domestic interest rates to move up unless the Government successfully negotiates an IMF standby facility. Therefore, despite the volatility observed since the second half of 2015, we expect interest rates to increase in 2016 through further tightening of the Monetary Policy stance.

Regulatory Review

We place utmost importance on complying with the regulatory framework that binds us. In doing so, we not only safeguard the interests of our stakeholders but also recognise the importance of rules and regulations that govern our society. This is the story of the regulatory environment that bound us and how we ensured full adherence.

The Regulation of Insurance Industry Act No. 43 of 2000 and its Amendment Act No. 03 of 2011, coupled with the subordinate regulations issued by Insurance Board of Sri Lanka (IBSL), primarily regulate the Insurance Industry in Sri Lanka.

SEGREGATION OF LIFE AND GENERAL INSURANCE BUSINESSES AS PER REGULATORY REQUIREMENTS

The segregation requirement under Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011 was a challenging requirement that mandated composite insurers to segregate Life and General Insurance Businesses into two separate companies by February 2015. In compliance with this requirement, HNB Assurance PLC, which was functioning as a composite insurance company, was segregated into two companies by transferring its General Insurance business to its fully owned subsidiary, HNB General Insurance Limited, with effect from 01st January 2015. Therefore, as the year 2015 dawned, HNB General Insurance Limited started its operations as a fully-fledged General Insurer, becoming one of the country's first to obtain the IBSL registration as a segregated insurer.

As per the guidelines issued by the IBSL, segregated insurers are allowed to share services and functions except in the areas of underwriting, claims, policyholder complaints management, reinsurance and sales & distribution. Therefore, under the segregation model, employees involved in these functions have been separated and placed in relevant divisions under each company.

The details of the direct management teams of the Life Insurance Business under HNB Assurance PLC and the General Insurance Business under HNB General Insurance Limited are given on pages 36 to 40.

However, in order to disseminate expertise and minimise the duplication of costs, some key services, such as the Office of the CEO, CFO and the finance function, IT, investment management, marketing, HR, administration, legal, actuarial, risk management and compliance, serve both companies on a shared basis. The costs of these functions are shared between the two entities on a Cost Sharing Policy approved by the Boards of both companies.

Further, employees purely involved in either Life or General Insurance Business under finance, IT, HR and administration functions have been placed in Support Services Units attached directly to the relevant company. These employees have dual reporting lines to the Head of Support Services as well as to the respective functional Head in Shared Services, on specific matters.

INVESTMENT IN HNBGI AND TRANSFER OF ASSETS

HNBA increased its investment in its subsidiary, HNBGI, to Rs. 1 Billion on 01st January 2015 after taking into consideration both regulatory and business requirements. In November 2015, HNBA further increased its investment in HNBGI by an additional Rs. 150 Million, again in consideration of business and regulatory capital requirements.

COMPLIANCE WITH REGULATORY REQUIREMENTS

The Company obtained all necessary approvals, including the approval of Shareholders, Policyholders, the Insurance Board of Sri Lanka (IBSL) and the District Court, prior to the transfer of the General Insurance business to HNBGI. Further, the Company met all deadlines relating to the segregation process imposed by the IBSL.

IMPLEMENTATION OF THE RISK BASED CAPITAL (RBC) FRAMEWORK

The IBSL has decided to implement a Risk Based Capital (RBC) Framework, replacing the Solvency Regime, to monitor insurance companies in the country. The deadline given by the IBSL for the implementation of the RBC Framework is January 2016.

In order to ensure a smooth transition from the Solvency Regime to a RBC Framework, IBSL launched a RBC Road Test from September 2012 to June 2013. Based on the results of the Road Test, the IBSL issued the final draft of the RBC Framework in October 2013. Additionally, the IBSL initiated a compulsory parallel run of the RBC framework for all insurance companies in 2014 and 2015. HNBA participated in the RBC Road Test from its inception till the end, and provided all information requested by the IBSL. We also provided all information under the compulsory parallel run to the IBSL, in a timely manner. Further, In preparation for the adoption of the RBC Framework, the Company already uses two independent and separate Consultant Actuaries for the Life and General businesses.

Participation at the endeavours organised by the IBSL has enabled the Company to gather experience on the implementation of the RBC Framework, while identifying necessary changes and enhancements to its systems and processes. The management has already taken steps to prepare the groundwork for establishing the RBC Framework and is confident that it could be successfully implemented from 2016.

MINIMUM STATED CAPITAL

As per the rules issued by the IBSL, all insurers who were registered before 30th June 2011 were required to increase their paid up share capital to Rs. 500 Million for each class of business by 11th February 2015. Further, insurers who were registered following the segregation requirements were required to increase their paid up share capital to Rs. 500 Million on or before 07th February 2015.

HNBA's Stated Capital as of the reporting date was Rs. 1,172 Million, and thereby was compliant with this rule as of the due date. The Company's investment of Rs. 1,150 Million in HNBGI as Stated Capital enabled HNBGI also to comply with this rule as of the due date. Accordingly both HNBA and HNBGI remain well above the minimum capital requirements stipulated by the IBSL.

DIRECTIONS ISSUED BY THE IBSL DURING THE YEAR

Settlement of Insurance Claims

During the year, IBSL issued a direction to all insurers to pay the claim amounts due, in respect of claims arising out of a policy of General or Life Insurance issued by it, within fourteen (14) days from the time of the quantum of the claim being established, receipt of the discharge documents and upon establishment of the identity of the claimant.

Both HNBA and HNBGI have processes in place to monitor the claim settlement time period. The time taken to settle claims is monitored strictly from the date of receiving the final documentation from customers, and service standards have been set below the regulatory targets to ensure compliance. Key Risk Indicators have been developed to monitor performance in this respect and any deviations with the target are investigated and actions taken to avoid recurrence.

Participation at the endeavours organised by the IBSL has enabled the Company to gather experience on the implementation of the RBC framework, while identifying necessary changes and enhancements to its systems and processes.

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, insurers who were in operation holding a license as at the date of this Act are required to be listed on a Stock Exchange licensed under the Securities and Exchange Commission of Sri Lanka by February 2016.

However, during the year the IBSL clarified that any new company registered as an insurer, including insurers who registered following the segregation of companies, has a three year period to list on a stock exchange in terms of Section 15A of the Regulation of Insurance Industry Act No. 43 of 2000 as amended by the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011.

Therefore, the Company's fully owned subsidiary, HNB General Insurance Limited, is required to be listed on the Stock Exchange before 31st December 2017. Appropriate action will be taken to comply with this requirement in due course.

COMPLIANCE WITH CSE LISTING RULES AND SEC DIRECTIVES

Related Party Transactions

A circular relating to the rules on related party transactions was issued during the year by the CSE, making such rules to be mandatorily followed by all listed companies with effect from 01st January 2016.

It is noted that the Company has been adhering to the said rules on a voluntary basis since 2014. A Related Party Transactions Review Committee has already been formed to review related party transactions and to ensure compliance with the rules on related party transactions.

CORPORATE GOVERNANCE RULES

The Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC was amended from 01st January 2014. The Company's levels of compliance with the said Code and Rule No. 7.10 of the Listing Rules of the CSE on Corporate Governance are given in detail from pages 193 to 195.

FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA)

As required in the Foreign Account Tax Compliance Act (FATCA), the Company registered with the US Internal Revenue Service (IRS) within the given deadline.

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 has re-designed its documents to capture this information when issuing new policies. The Company's FATCA registration details are given below.

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

Financial Review

The year 2015 was an extraordinary year for the Company, considering the immense structural changes and multiple challenges it faced. It witnessed the Company's transformation from a composite insurer to a Life Insurance provider and the establishment of a fully owned subsidiary to carry out General Insurance Business. Concurrently, it also witnessed the Company's steadfast performance amidst intense market competition. Now, the stage is set for the review of this challenging year, and to identify, in retrospect, the successes, failures and areas for future enhancement.

All financial information presented in the following report relate to the Group unless otherwise stated, concentrating on both the parent company (Life Insurance solutions provider) and the subsidiary (General Insurance solutions provider) to give our stakeholders a comprehensive understanding of the story behind the numbers.

In reading the financial information, our stakeholders must take note that the numbers relating to the years 2011 to 2015 have been prepared in accordance with the current Sri Lanka Accounting Standards (SLFRS/LKAS) which came into effect in the year 2012, while financial information for the years prior to 2011, unless otherwise stated, have been prepared according to the previous framework of Sri Lanka Accounting Standards (SLAS).

Numbers are the primary tool with which a corporate's performance is judged. They provide quantified measures that can be used for analysis and comparison, for understanding and benchmarking. This review brings you the story of our financial performance, shedding greater light on our business operation.

OUR OPERATING RESULTS

The following analyses present a holistic picture of the Group's performance through key financial drivers.

This analysis has been conducted in line with the areas of strategic focus we have highlighted throughout the report.

It is therefore recommended that the complete report be read, in order to obtain a comprehensive understanding of the information presented.

A Snapshot of Our Income Statements for the Last 5 Years

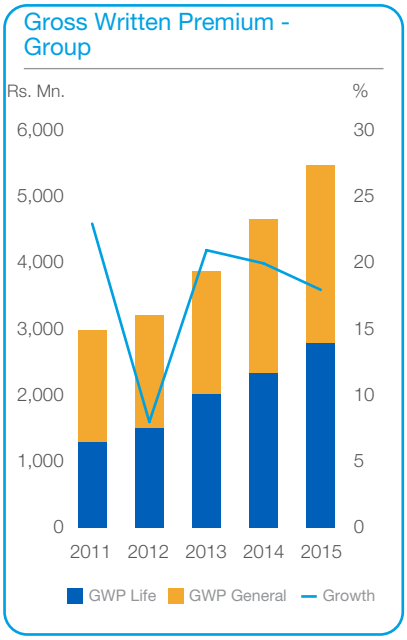
	Rs. Mn.					Growth	CAGR*
	2015	2014	2013	2012	2011	2015	
Gross Written Premium	5,447	4,666	3,878	3,211	2,985	17%	16%
Reinsurance	(599)	(601)	(526)	(520)	(493)	0%	5%
Net Change in UPR	(123)	(219)	(83)	6	(143)	(44%)	(4%)
Net Earned Premium	4,725	3,846	3,269	2,697	2,349	23%	19%
Other Revenue including Investment Income	1,049	1,168	937	737	467	(10%)	22%
Net Benefits and Claims	(2,118)	(1,573)	(1,568)	(1,155)	(865)	35%	25%
Underwriting and Net Acquisition Costs	(632)	(475)	(381)	(348)	(288)	33%	22%
Other Operating, Administration and Other Expenses	(1,393)	(1,335)	(1,107)	(981)	(833)	4%	14%
Change in Contract Liabilities - Life Fund	(1,462)	(1,192)	(725)	(556)	(558)	23%	27%
Profit Before Taxation (PBT)	170	439	425	394	272	(61%)	(11%)
Income Tax Expenses	27	(21)	(36)	(43)	(26)	(231%)	-
Profit After Tax (PAT)	197	418	389	351	246	(53%)	(5%)

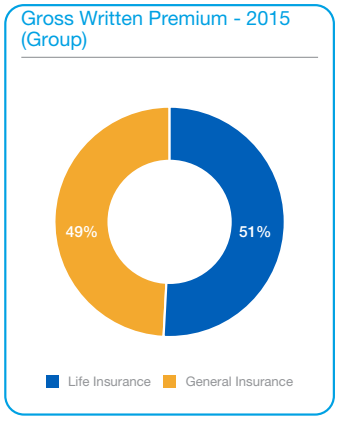
** Compound Annual Growth Rate*

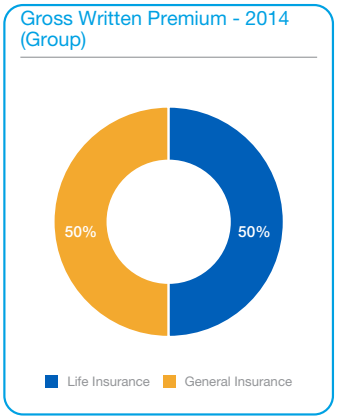
Gross Written Premium (GWP)

Gross Written Premium of the Group grew by 17% during the year. The combined GWP of the Group surpassed the Rs. 5 Billion milestone for the first time in its history, recording Rs. 5.4 Billion. Life Insurance and General Insurance contributed Rs. 2.7 Billion each to this historic combined GWP achievement.

A detailed analysis of the GWP and the performance of Life and General Insurance Businesses appear on pages 72 to 74 and pages 85 to 90.





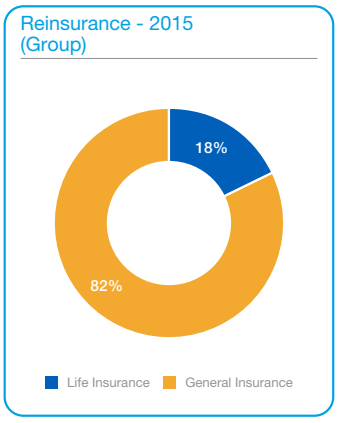


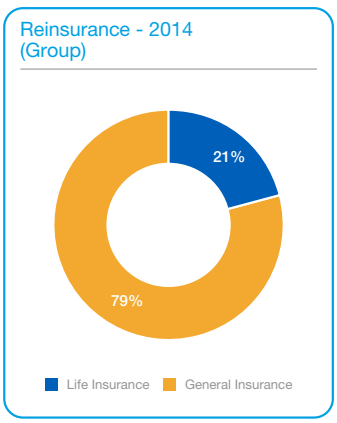
Reinsurance (RI)

During the year Rs. 599 Million was ceded to reinsurers by the Group, maintaining the reinsurance cost at the same level as the previous year.

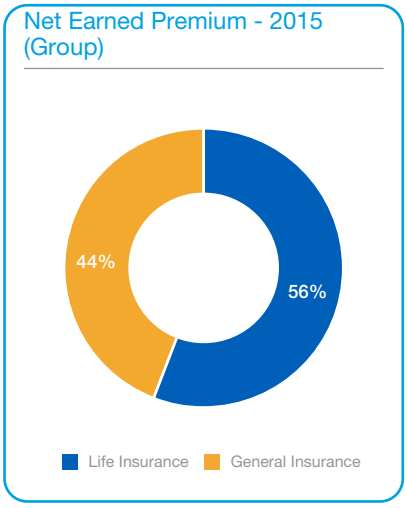
The reinsurance premium of Life Insurance accounted for a mere 18% of the total. Moreover, the Company was successful in reducing the reinsurance premium for Life Insurance by 15% compared to the previous year, mainly through the rearrangement of reinsurance agreements.

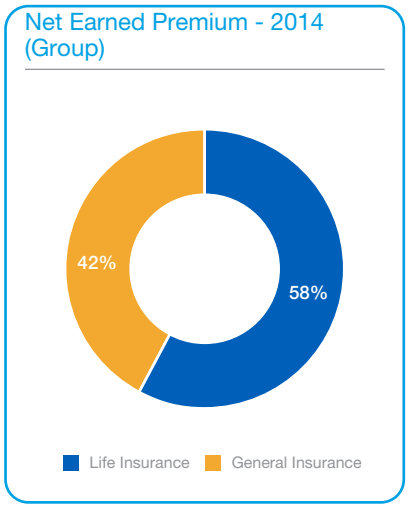
The General Insurance Business, the main contributor to the reinsurance cost, demonstrated an increase of 4% when compared to the previous year. However, it is noted that the increase in the General Insurance reinsurance premium was significantly lower than the increase in its GWP. This is mainly due to the 76% (2014: 79%) contribution to the GWP from the Motor Insurance class, which carries no reinsurance.





Net Earned Premium (NEP)





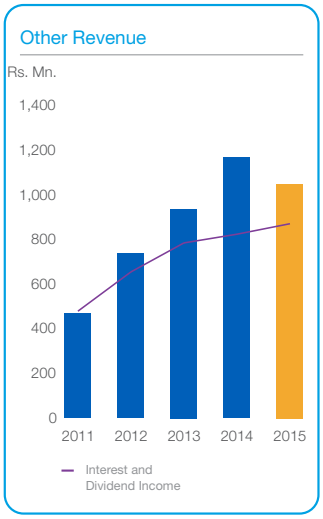
The NEP of the Group for the year under review amounted to Rs. 4,725 Million, indicating a growth of 23% from Rs. 3,846 Million recorded in 2014. It is observed that the growth in NEP exceeded the growth in GWP because the transfer to Unearned Premium Reserves was lower than the transfer in the previous year. It is also observed that the NEP of the Life Insurance Business grew by 21% while the NEP of the General Insurance Business grew by an impressive 28%.

Other Revenue

Other Revenue of the Group experienced a decrease of 10% during 2015, reaching Rs. 1,049 Million compared to Rs. 1,168 Million in the previous year. The drop in Net Realised Gains and Net Fair Value Gains was the main reason for this considerable decline.

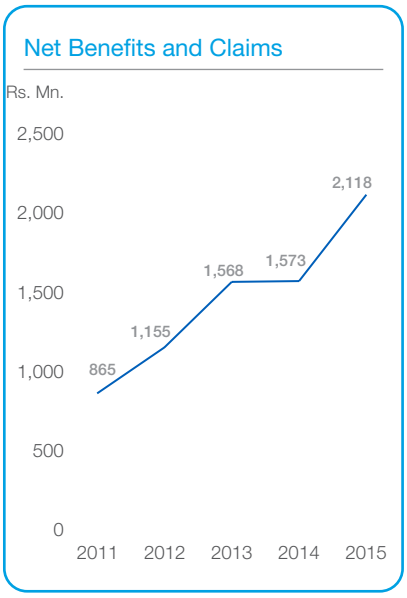
With the increase in market interest rates, Net Realised Gains recorded a 72% dip, decreasing to Rs. 30 Million from Rs. 109 Million in the previous year. Net Fair Value Gains on the investment portfolios of the Group also decreased significantly, resulting in an 83% drop in Unrealised Fair Value Gains from Rs. 99 Million in 2014 to Rs. 17 Million in the year under review.

Nevertheless, it is positively noted that Interest and Dividend Income, which is the main component driving this income category, showed a growth of 6% over the previous year.



What's our story?

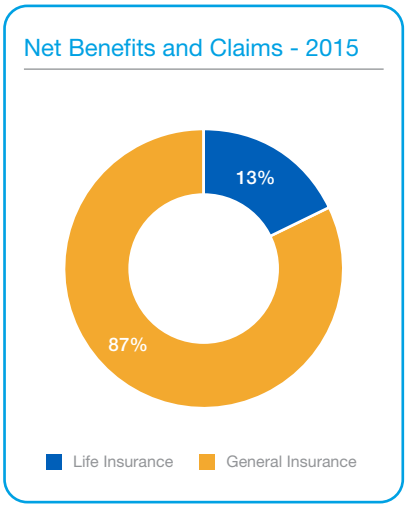
Other Revenue	Rs. Mn.					Growth in 2015
	2015	2014	2013	2012	2011	
Interest and Dividend Income	871	824	785	655	479	6%
Net Realised Gains	30	109	53	7	1	(72%)
Net Unrealised Fair Value Gains / (Losses)	17	99	13	1	(71)	(83%)
Fee and Commission Income	122	124	73	72	55	(1%)
Other Income	9	12	13	3	3	(28%)
Total Other Revenue	1,049	1,168	937	737	467	(10%)

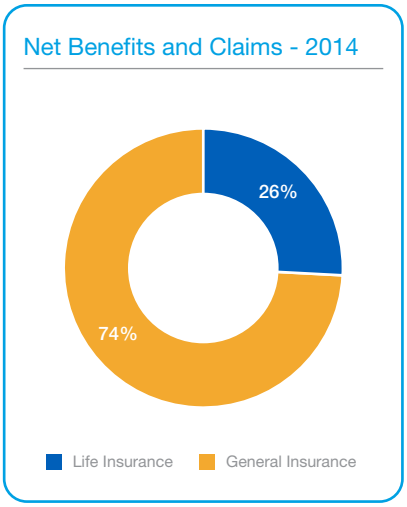


Being an insurance company we consider claims as an opportunity to deliver a unique experience to our customers through which we could build a long term positive relationship with them.

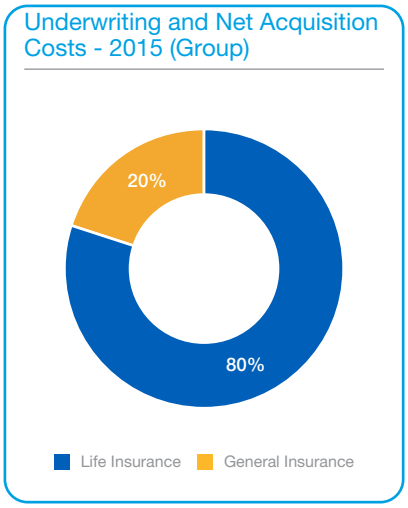
Net Benefits and Claims

In 2015, the Group disbursed Rs. 2,118 Million as Benefits and Claims, marking a 35% growth compared to Rs. 1,573 Million disbursed in 2014. This increase was mainly fuelled by the increase in Benefits and Claims at HNB General Insurance Limited, particularly on account of Motor and Medical Insurance classes. A detailed analysis in this regard is given on page 74 and pages 90 to 91.



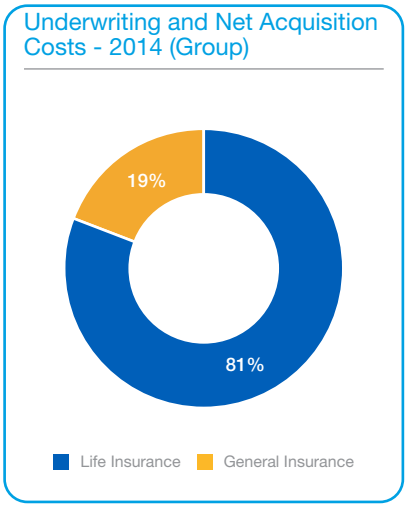


Underwriting and Net Acquisition Cost



Underwriting and Net Acquisition Costs increased by 33% to reach Rs. 632 Million during 2015, compared to Rs. 475 Million recorded in the previous year.

A major portion of the acquisition cost was derived from the Life Insurance Business, which carries high acquisition costs, especially on new business.

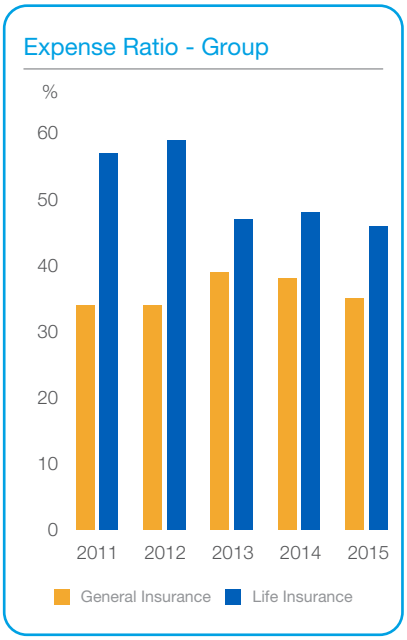


On a positive note, it is observed that Underwriting and Net Acquisition Costs in Life Insurance was 18% of total GWP in 2015 (2014: 17%), which demonstrates that the Company has invested in acquiring new business, which has resulted in sustainable business growth.

Underwriting and Net Acquisition Costs in General Insurance was recorded at 5% of GWP in 2015, as opposed to 4% recorded in 2014.

Operating, Administration and Other Expenses

The Company had experienced a large increase in expenses in 2014, mainly due to the brand building activities carried out by the Life Insurance Business and the expenses in respect of the segregation of the two business lines.

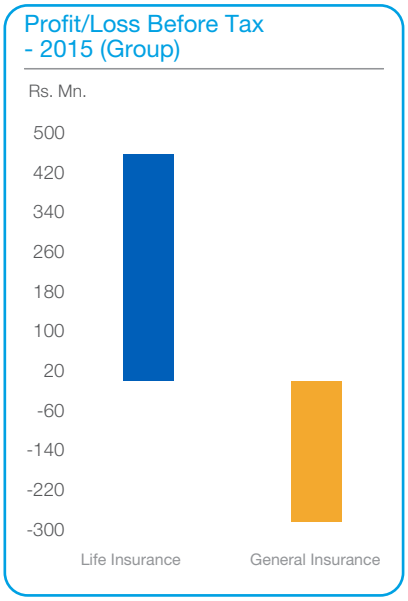


However, in 2015 the Group successfully contained the growth in Operating, Administration and Other Expenses to a mere 4%, by making a conscious decision to minimise expenses. Detailed budget analysis were carried out at the corporate planning period and a comprehensive monitoring process was established to minimise non-value adding expenses and to exercise cash outflows only for essential activities. Due to the careful implementation of these strategies, both business lines were successful in reducing Expense Ratios in 2015.

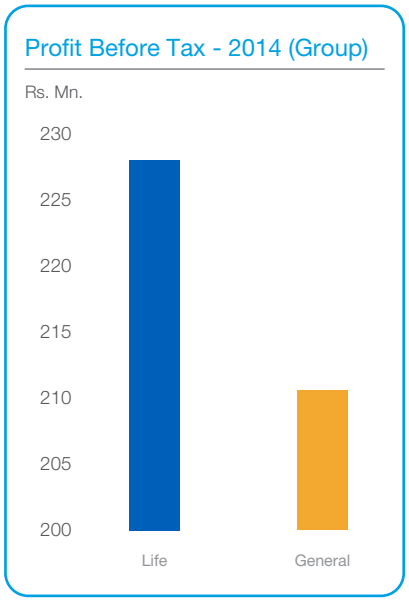
Profit / Loss Before Tax

During the year, the Profit Before Tax of the Group decreased by 61% over the previous year. The Group was only able to achieve a PBT of Rs. 170 Million, as against Rs. 439 Million earned in 2014.

The parent company's contribution to PBT significantly improved from the previous year and reached Rs. 457 Million. This mainly arose from Life Surplus Transfer to Shareholders, amounting to Rs. 310 Million as against Rs. 228 Million in 2014, and the Investment Income of Rs. 101 Million generated by the Life Shareholders' Fund. Accordingly, the Life Insurance Business performed exceptionally well in 2015, successfully achieving all KPIs.



The main reason behind the low profits of the Group was the operating loss made by the subsidiary, which experienced a very high level of Net Benefits and Claims during the year, driven by the Motor and Medical



Insurance classes. Further details in this regard can be read on pages 90 to 91.

Income Tax Expense / Reversal

The Group experienced an income tax reversal of Rs. 27 Million during the year, at the applicable corporate tax rate of 28%. This reversal comprises a tax expenditure in respect of the parent company and a deferred tax reversal in HNBGI, details of which are given below.

The Life Insurance Business has been recording tax losses since inception, in accordance with the tax laws of the country. Due to this reason, the Company has been accumulating tax credits such as Notional Tax Credits from investments in Government Securities and Withholding Tax Credits from other fixed income investments, over the period. However, the Company, in consultation with the External Auditors, has made provisions for long outstanding Notional Tax Credits in the Life Insurance Business, which would be reversed if the tax rules of the country change. This provision for long outstanding Notional Tax Credits, amounting to Rs. 29 Million, is recorded as a tax expenditure in HNB Assurance PLC's company accounts.

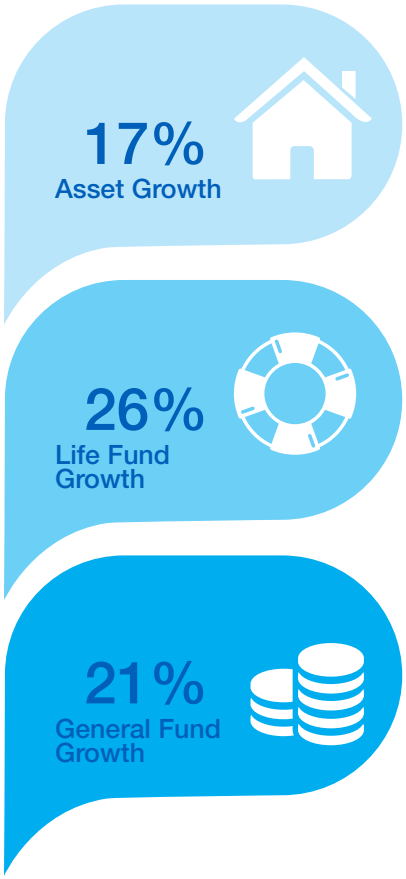
A deferred tax asset has been recognised in the accounts of HNBGI, utilising the tax losses recorded in the business during the year. Such deferred tax asset was recognised only to the probable extent of the usage of tax losses through taxable profits in the near future. The amount recognised as deferred tax asset as at the reporting date was Rs. 49 Million, and this will be tested for impairment at each reporting date in the future.

Profit After Tax (PAT)

The Group ended the year with a Profit After Tax of Rs. 197 Million, which recorded a negative growth of 53% compared to the previous year. This profit arose only from the Life Insurance Business, since the General Insurance Business incurred losses during the year.

Accordingly, it is observed that the loss incurred by the subsidiary has negatively impacted the results of the overall Group. The reasons for this negative performance have been reviewed in detail by the Management and the Board, and appropriate actions have been taken to recover the profitability of the General Insurance Business. More details in this regard are discussed on pages 84 to 96.

Due to these challenging conditions, the Earning Per Share of the Group declined to Rs. 3.95. Nevertheless, we declared a dividend of Rs. 2.00 per share. More details on the returns experienced by shareholders are given on pages 111 to 113 in the Investor Review.



OUR FINANCIAL STRENGTH

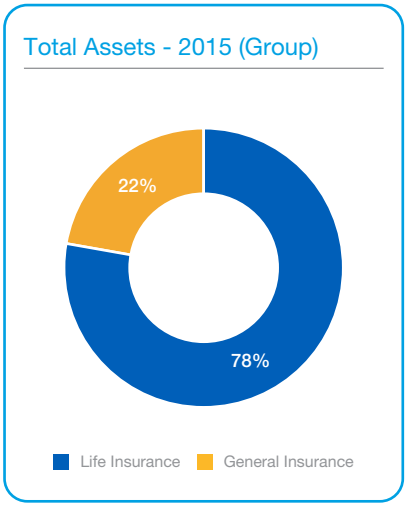
The ultimate strength of an insurer is the strong financial position which enables it to meet its current and future obligations towards policyholders, without compromising the wealth of its shareholders. As an insurer, we have consistently strengthened our financial position each year, ensuring the stability of our business and the security of the wealth of both our policyholders and shareholders.

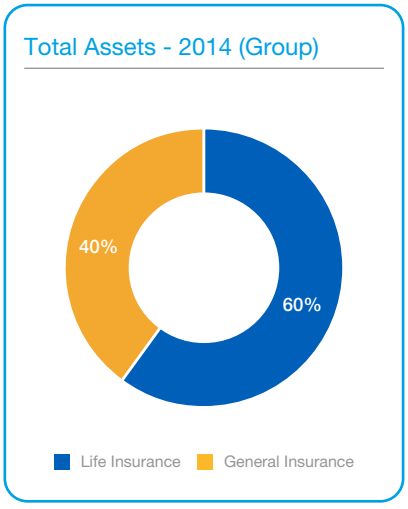
The following table presents a snapshot of our asset and liability position as at the reporting date, including comparisons as at the previous reporting date.

	2015	2014	Growth	Contribution	
	Rs. Mn.	Rs. Mn.		2015	2014
Assets					
Intangible Assets and Property, Plant & Equipment	181	186	(2%)	2%	2%
Financial Investments	9,752	8,278	18%	84%	83%
Deferred Tax Assets	49	-	-	0%	0%
Loans to Life Policyholders	92	71	29%	1%	1%
Reinsurance Receivables	141	162	(13%)	1%	2%
Premium Receivables	346	364	(5%)	3%	4%
Other Assets	1,079	908	19%	9%	9%
Total Assets	**11,640**	**9,969**	**17%**	**100%**	**100%**
Total Equity	2,284	2,414	(5%)	20%	24%
Liabilities					
Insurance Contract Liabilities – Life	7,007	5,563	26%	60%	56%
Insurance Contract Liabilities – General	1,546	1,279	21%	13%	13%
Reinsurance Creditors	132	111	19%	1%	1%
Employee Benefits	81	71	13%	1%	1%
Other Liabilities	590	531	11%	5%	5%
Total Liabilities	9,356	7,555	24%	80%	76%
Total Equity and Liabilities	**11,640**	**9,969**	**17%**	**100%**	**100%**

The Group achieved yet another milestone in 2015 by crossing the Rs. 11 Billion mark in Total Assets, which grew by 17% over the previous year.

The asset base of HNB Assurance PLC grew by 49% and contributed to 76% of the Total Assets of the Group while the asset base of the HNBGI declined by 31% and contributed to only 24% of the Group's Total Assets. It is important to note that the asset base of the General Insurance Business decreased due to the restructuring of capital at the beginning of the year as a result of the segregation of businesses.





Maintaining a Healthy Balance Sheet

As a strong Balance Sheet is critical to the insurance business, we have implemented strong monitoring mechanisms through the Management Team, Board and its sub-committees, to ensure that the Group Balance Sheet is strong and healthy. For instance, aspects such as the quality of the investment portfolios, the admissibility of assets under applicable regulations, the requirement of investing in working capital and other assets to support business development activities, are critically reviewed in the process of decision making.

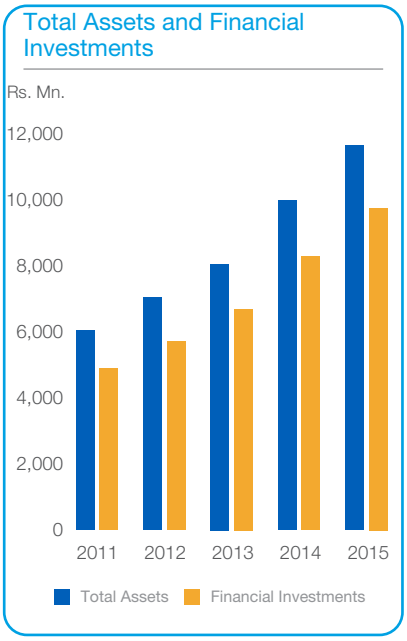
Intangible Assets and Property, Plant and Equipment

2% of the Total Asset base was held as Intangible Assets and Property, Plant and Equipment, which amounted to Rs. 181 Million (2014: Rs. 186 Million). By the end of the year, a marginal decrease of 2% was recorded in this asset category.

All such assets recorded in the Financial Statements are measured at cost and are physically verified periodically. Property, Plant and Equipment are depreciated using the straight line method over the assets' estimated useful lives. The depreciation thus calculated during the year amounted to Rs. 51 Million (2014: Rs. 40 Million). Intangible Assets are amortised over their estimated useful lives in accordance with the pattern of expected consumption. The amortisation cost for the year was Rs. 17 Million (2014: Rs. 18 Million).

Financial Investments

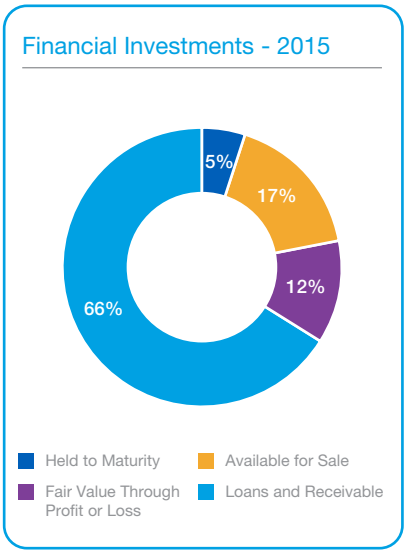
To ensure the highest returns for policyholders and shareholders while adopting a healthy and secure risk appetite, a significant part of our assets are held as Financial Investments.

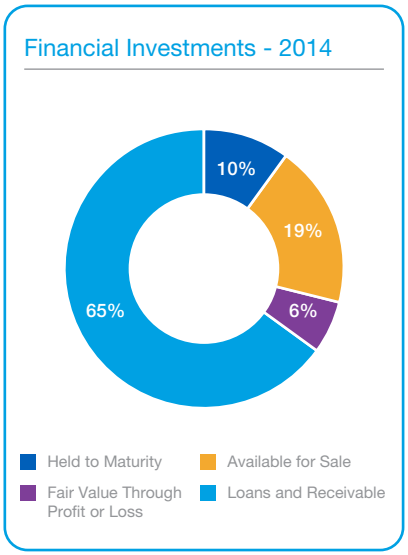


Accordingly, 84% of our assets were held as Financial Investments. They amounted to Rs. 9.8 Billion as at the end of 2015 (2014: Rs. 8.3 Billion), recording a growth of 18% over the previous year. These assets have been classified under the four categories specified in Sri Lanka Financial Reporting Standards (SLFRS), i.e. Held to Maturity, Available for Sale, Fair Value Through Profit or Loss and Loans and Receivables.

The exposure to each Financial Investment category is governed by the Investment Policy of the Group and every investment placed is strictly in line with this Policy.

A detailed discussion on Financial Investments can be read on pages 97 to 104 under the Investment Review.





Loans to Life Policyholders, Premiums Receivable and Reinsurance Receivables

During the year, loans to the value of Rs. 38 Million (2014: Rs. 33 Million) were granted to Life Policyholders, thereby the Policy Loan balance increased to Rs. 92 Million marking a growth of 29% in the Loans to Life Policyholders category. More details on Policy Loans are available on page 285.

Premiums Receivable from customers stood Rs. 346 Million at the end of 2015, decreasing by 5% from Rs. 364 Million recorded in 2014.

Premiums Receivable in respect of the Life Insurance Business decreased by 19% as a result of improved Renewal Premium collection. The age analysis of Premiums Receivable is given on pages 286 to 287. Premiums receivable from General Insurance also reduced by 5% due to improved collection attempts.

Due to prompt reinsurance settlement procedures, amounts receivable from Reinsurers also decreased by 13%, reaching Rs. 141 Million. The reduction in Reinsurance Receivables of the General Insurance Business was 23%, whilst the Life Insurance Business reflected a growth of 46%.

Other Assets

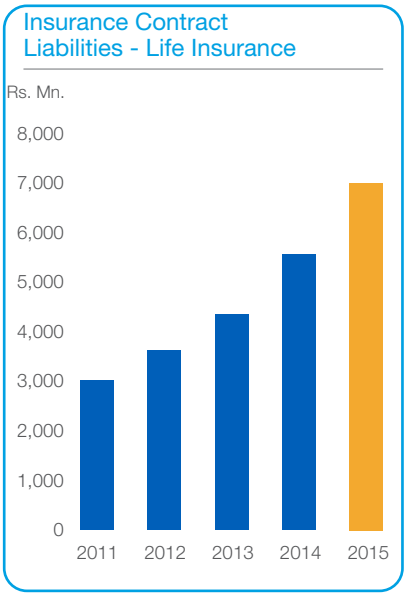
36% of Other Assets of the Group consists of Cash and Cash Equivalents, maintained to meet liquidity requirements such as claim payments, supplier payments and dividend payments. Meanwhile, loans granted to employees/Insurance Advisors and Notional/Withholding Tax receivables from the Inland Revenue Department account for 50% of Other Assets.

More details on Other Assets can be found on pages 287 to 289. All assets are reviewed to be recoverable assets and provisions have been made for doubtful receivables.

Insurance Contract Liabilities

HNB Assurance PLC – Life Insurance

Life Insurance Contract Liabilities, which are maintained to meet future obligations and policy maturities, grew by 26% reaching Rs.7 Billion from Rs. 5.6 Billion recorded in 2014. The Company was able to achieve this considerable growth in the Life Fund due to its exceptional business growth and the lower outflow of funds related to maturities.



We have made adequate provisions for future liabilities to policyholders (including bonuses and dividends) and other reserves as at 31st December 2015, according to the recommendations of the Consultant Actuary Mr. Hassan Scott Odierno, representing Actuarial Partners, as certified by his Actuarial Valuation Report appearing on page 234.

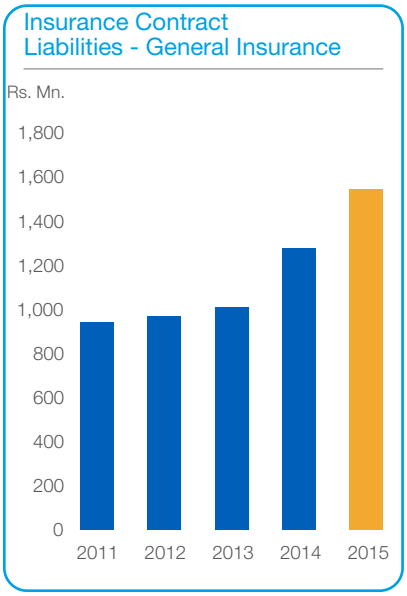
A Liability Adequacy Test (LAT) was conducted by Mr. Hassan Scott Odierno as at 31st December 2015 to meet the requirements of SLFRS 4 – Insurance Contracts, and it was concluded that liabilities recorded are adequate to meet future obligations to policyholders.

HNB General Insurance Limited - General Insurance

Reserves maintained in the General Insurance Business in the form of Net Unearned Premium (UEP), Claims Outstanding, Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER), grew by 21% during the year reaching Rs. 1.5 Billion from Rs. 1.3 Billion in 2014.

We have made adequate provisions for UEP, Claims Outstanding, IBNR and IBNER based on the recommendations made by the General Insurance Consultant Actuary Mr. Matthew Maguire of NMG Consulting. His report, which appears on page 235, certifies that the provisions made are adequate.

A Liability Adequacy Test was carried out for the General Insurance Business as required by SLFRS – 4 Insurance Contracts, to test the adequacy of reserves maintained to meet future obligations to policyholders. This was conducted as at 31st December 2015 by the General Insurance Consultant Actuary and it has been concluded that the recorded liabilities are adequate to meet future obligations.



Reinsurance Creditors and Employee Benefits

Reinsurance Creditors of the Life Insurance Business grew by 21% during the year, while the General Insurance Business saw a 18% growth. All payables will be settled in due course as part of normal Business settlements. The Group has received no extended credit from reinsurers.

The 13% increase in Employee Benefits is due to the provisions made to meet future liabilities of gratuity payments to employees. As required by LKAS 19 – Employee Benefits, this liability was valued by an Independent Consultant Actuary, Mr. Hugh Terry, and it was certified that adequate provisions have been maintained as at 31st December 2015.

Solvency Margins

Strong Solvency Margins are crucial indicators that decide the adequacy of the capital of our business relative to the risks undertaken. Both Life and General Insurance Businesses of the Group maintained Solvency Margins well above the regulatory requirements throughout the year.

HNB Assurance PLC

Line	Item	2015	2014
1	Value of Admissible Assets (Rs. Mn.)	8,133	6,038
2	Amount of Liabilities:		
	(a) Policy Liabilities (Rs. Mn.)	6,845	5,040
	(b) Other Liabilities (Rs. Mn.)	551	422
3	Available Solvency Margin (ASM) (Rs. Mn.)	736	576
4	Required Solvency Margin (RSM) (Rs. Mn.)	342	252
5	Solvency Ratio	2.15	2.29

The Solvency Margin in Life Insurance increased at the beginning of the year with the restructuring of capital on account of the segregation of businesses. However, it decreased again with the payment of dividends to shareholders and the additional capital infusion of Rs. 150 Million to HNB General Insurance Ltd.

HNB General Insurance Limited

Line	Item	2015	2014
1	Value of Admissible Assets (Rs. Mn.)	2,346	2,616
2	Amount of Total Liabilities (Rs. Mn.)	1,684	1,480
3	Available Solvency Margin (ASM) (Rs. Mn.)	662	1,136
4	Required Solvency Margin (RSM) (Rs. Mn.)	441	370
5	Solvency Ratio	1.50	3.07

The drop in the Solvency Margin of the General Insurance Business is mainly due to the restructuring of capital at the beginning of the year 2015, following the segregation of businesses. The loss recorded in the business during the year also had a negative impact on the Solvency position of the Company.

Approved Assets

Approved Assets, defined as per Section 25(1) of the Regulation of Insurance Industry Act No. 43 of 2000 and the Determination made by the IBSL in terms of the said Act, is also an important requirement that every insurer in the country should comply with throughout the year.

HNB Assurance PLC

	2015	2014
Approved Assets maintained in Life Insurance Business (Rs. Mn.)	8,038	5,526
Life Insurance Fund (Rs. Mn.)	6,926	5,464
Excess in Approved Assets over the Life Insurance Fund (Rs. Mn.)	1,112	62
Approved Assets as a % of Life Insurance Fund	116%	101%
Required Ratio	100%	100%

HNB General Insurance Limited

	2015	2014
Approved Assets maintained in General Insurance Business (Rs. Mn.)	1,928	2,093
Technical reserve (Rs. Mn.)	1,407	1,150
Approved Assets in Excess of the Technical Reserve (Rs. Mn.)	520	943
Approved Assets as a % of the Technical Reserve	137%	182%
Required Ratio	100%	100%

Life Insurance Business Review

CREATING VALUE AS A LIFE INSURANCE PROVIDER

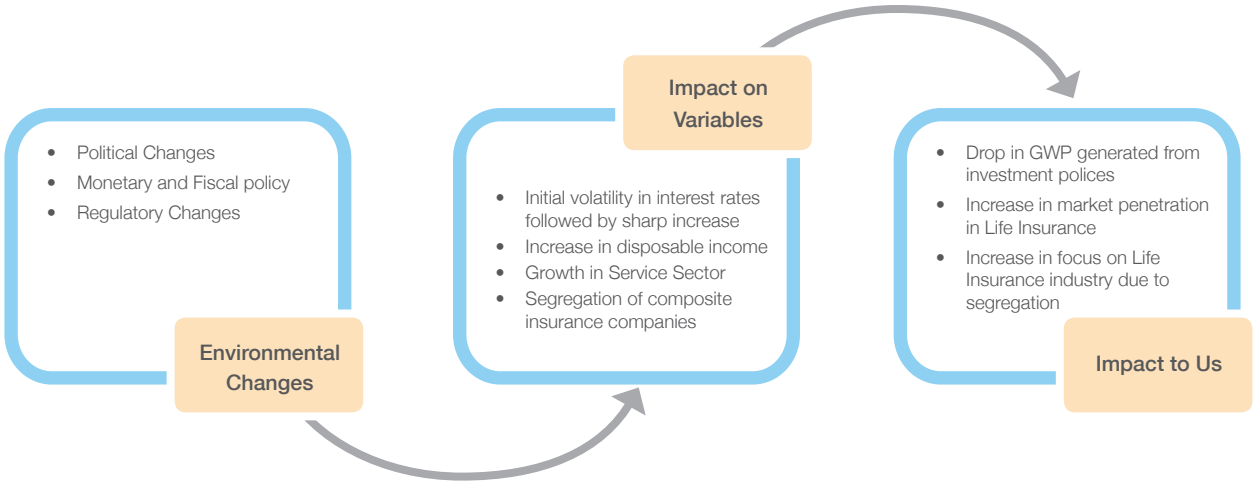
As a player in the Life Insurance industry, our goal is to provide our customers with security and stability, enabling them to live with confidence even after being faced with unexpected setbacks. This commitment to our customers has always strengthened our relationship with them, facilitating long term partnerships and creating sustainable value to both parties.

Providing Life Insurance solutions to the public is our core business. It involves the interaction of multiple forces that have tirelessly worked throughout the year to deliver outstanding results. This report tells you the intricate details that elaborate the story of our Life Insurance operation.

THE INDUSTRY: SHAPING THE BUSINESS

The year 2015 ended on a positive note for the Life Insurance industry in Sri Lanka, irrespective of the changes that occurred in the external environment. The industry achieved a growth of 20% during the year, which is recorded as the highest growth in post-war Sri Lanka. Meanwhile, the industry's customer base grew by an impressive 30% and the number of policies by 18%, demonstrating the increasing need of economic agents to protect their financial stability and loved ones.

The industry as a whole has been swift to adapt to changing market conditions and customer needs. Even though the prime role of a Life Insurance provider was traditionally identified as the provision of financial security to its policyholders, due to the increase in market demand for financial products, Life Insurance companies now play a vibrant role as a financial intermediary, rivalling banks and finance companies.



IMPROVING OUR PERFORMANCE

As a leading player in the market, we were cognizant of the need to continuously enhance our performance. The results depicted in the following table bear witness to the fertility of our efforts in this regard.

KPI	2015 Rs. Mn.	2014 Rs. Mn.	Change	Discussion
Gross Written Premium	2,789	2,343	19%	Revenue growth was driven by the impressive 25% growth in Endowment premiums and 52% growth in Mortgage Reducing Policies (MRP).
Reinsurance	108	127	(15%)	With the restructuring of reinsurance agreements, we were able to reduce the reinsurance premium paid, especially in the MRP business category.
Net Earned Premium	2,681	2,215	21%	High GWP growth, coupled with the decline in reinsurance costs, increased the NEP during the year.
Net Benefits and Claims	280	412	(32%)	With a 43% decrease in Maturity Claims, the overall claims cost declined considerably.
Other Operating and Administration Expenses	1,264	1,090	16%	Expenses of this category have increased in line with the expansion of the business. Business Acquisition Expenses, including commission expenses, have driven total expenses. Staff Expense is another significant component of this expense category.
Change in Insurance Contract Liabilities	1,462	1,192	23%	The Life Fund has increased considerably with the growth experienced in the top line and the reduction in Net Benefits and Claims.
Fee and Commission Income	51	28	82%	This significant growth is a result of the fund management fee earned by the Company by managing the investment portfolio of HNBGI.
Investment Income	732	680	8%	With the volatile interest rate conditions and sluggish equity market performance, the growth in Investment Income was limited to 8%.
Life Surplus Transfer to Shareholders	310	228	36%	Our business strategies are always focused on profitability and these efforts bore fruit this year with the high growth in the surplus distributable to shareholders.
Claims Ratio (Excluding Maturities)	6%	6%	NIL	The Claims Ratio (excluding maturities) remained unchanged.
Expense Ratio	46%	48%	(2%)	The efficient management of expenses resulted in a lower Expense Ratio compared to 2014.
Combined Ratio (Excluding Maturities)	52%	54%	(2%)	Lower Claims Ratio and Expense Ratio contributed towards a lower Combined Ratio.

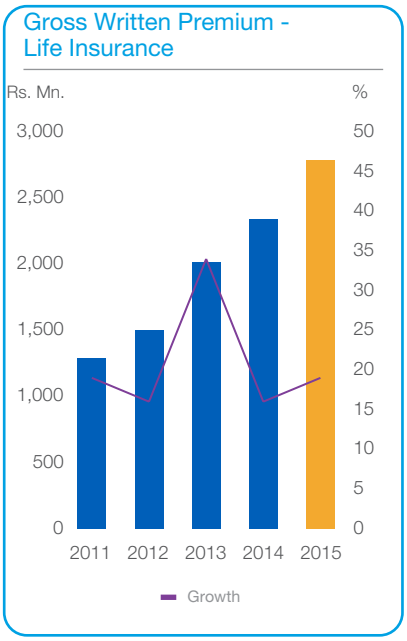
VALUE DELIVERED THROUGH STRATEGIC FOCUS

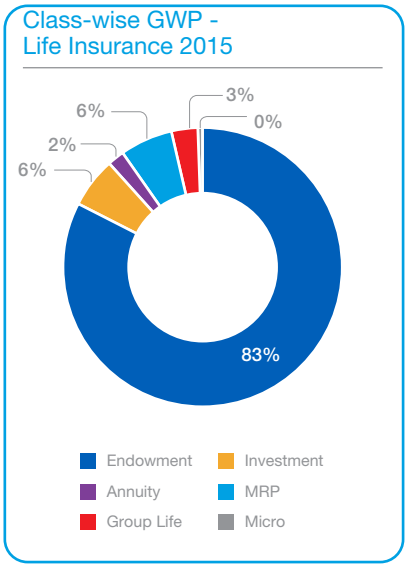
Focus: Business Growth

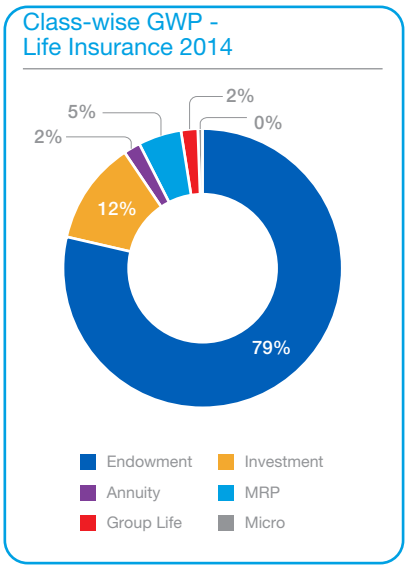
Achieving sustainable business growth has always been a primary focus at HNB Assurance PLC and the year 2015 was no exception. It is noted with great pride that we were able to achieve the set targets for the year beating our own records, and consequently we delivered value to all our stakeholders in diverse forms. Value created through our focus on business growth is discussed below.

Gross Written Premium

The Gross Written Premium increased to Rs. 2,789 Million in 2015 from Rs. 2,343 Million recorded in 2014. This showed a healthy growth of 19%, which is higher than the growth of 16% achieved in 2014. With the achievement of these notable growth rates, we were also able to strengthen our market presence in the Life Insurance industry and successfully maintained our rank as the 6th largest Life Insurance provider in the country.







GWP	2015	2014	2013	2012	2011
Industry (Rs. Mn.)	53,586	44,652	40,873	37,046	35,128
HNBA (Rs. Mn.)	2,789	2,343	2,015	1,500	1,291
Market Share	5.20%	5.25%	4.90%	4.00%	3.70%
Growth (Industry)	20%	9%	10%	5%	13%
Growth (HNBA)	19%	16%	34%	16%	19%
Rank	6	6	7	7	7

Business Mix

The following table presents a comparison of HNBA's business mix with the average business mix of the industry.

Type	HNBA					INDUSTRY				
	Rs. Mn.		Growth	Contribution		Rs. Mn.		Growth	Contribution	
	2015	2014		2015	2014	2015	2014		2015	2014
New Business Premium	781	594	32%	28%	25%	13,295	10,244	30%	25%	23%
Renewal Premium	1,539	1,268	21%	55%	54%	32,516	28,878	13%	61%	65%
Single Premium	384	445	(14%)	14%	19%	4,804	3,877	24%	9%	9%
Group Life	84	36	133%	3%	2%	2,970	1,651	80%	6%	4%
Total	2,789	2,343	19%	100%	100%	53,586	44,650	20%	100%	100%

We were able to surpass the industry and expand our business portfolio during the year by achieving a commendable 32% growth in the New Business category (2014: 25%). The Company achieved this admirable growth due to the long term strategies laid out in previous years.

During the year, the Renewal category also outperformed industry standards and grew by 21% (2014: 17%), largely assisted by the continuous efforts of our distribution channels.

Gross Written Premium from Investment Policies showed a decrease when compared to 2014, and we note here that this was the result of a conscious decision taken by the Company in consideration of its long term direction.

The low interest rates experienced during the year gave rise to an environment conducive to increased borrowings. The Company was able to capitalise on this market opportunity and consequently, GWP from Mortgage Reducing Policies (MRP) increased to Rs. 178 Million at a growth of 52% over the previous year.

The following table presents the details of our achievements in the Single Premium category.

	Rs. Mn.		Growth	Contribution	
	2015	2014		2015	2014
Single Premium Investment	152	278	(45%)	5%	12%
Mortgage Reducing Policies	178	118	52%	6%	5%
Annuity and Pension Policies	47	45	5%	2%	2%
Micro Insurance	7	4	54%	0%	0%
Total Single Premium	384	445	(14%)	14%	19%

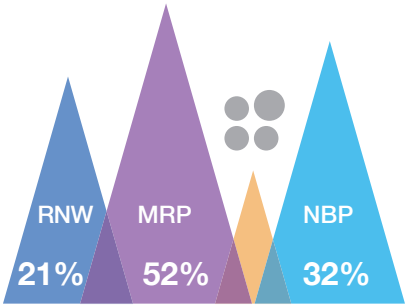
Focus: Improve Effectiveness of Distribution Channels

Distribution channels are the connecting pathways between our business and our valued customers. Our focus during 2015 was to improve the effectiveness of our network, to ensure higher levels of customer satisfaction through an efficient level of service.

Our Channel Mix

The table below presents a snapshot of our channel mix, along with a comparison of the performance of the previous year.

	Rs. Mn.		Growth	Contribution	
	2015	2014		2015	2014
Insurance Advisors	1,972	1,709	15%	71%	73%
Bancassurance	662	526	26%	23%	22%
Direct and Alternate Channels	155	108	44%	6%	5%
Total	2,789	2,343	19%	100%	100%



GWP Growth

Channel: Advisors

The Advisor channel has remained the dominating channel of the Life Insurance Business since inception, and the year 2015 was no exception. This channel grew by an impressive rate of 15% compared to the 13% growth recorded in 2014, thereby complementing the efforts of the Company in organising recruitment campaigns and activities for the professional development of the Advisor force.

It is further noted that although the growth has improved over last year, the contribution made by the Advisor channel has decreased slightly. We believe this to be a positive development for the future of the Company as it reduces dependence on a single channel in generating GWP.

Channel: Bancassurance

Even though the growth in the Bancassurance channel slowed down during the year recording a rate of 26% (2014: 35%), the contribution made through the channel improved. This development is in line with the Company's strategy of leveraging the HNB branch network and penetrating untapped customer bases in the market.

Channel: Direct and Alternate Channels

One of the prime focuses of HNB Assurance in the year 2015 was to strengthen the Direct and Alternate

channel with the objective of reducing over-dependence on any single channel. The need was also felt to strengthen this channel in order to prepare the business to achieve high growth in the next few years. In this regard, the challenge before us was identifying methods to develop the Direct and Alternate channel without disrupting other main channels. As a precaution, a separate unit was established to manage the activities of the channel, and this unit supported the channel to grow without conflict with traditional channels such as the Advisor, Broker and Bancassurance channels.

Consequent to these efforts, the Direct and Alternate channel has proven its worthiness by recording a significant growth of 44% (2014: -1%) and increasing its contribution to the total GWP of the Company.

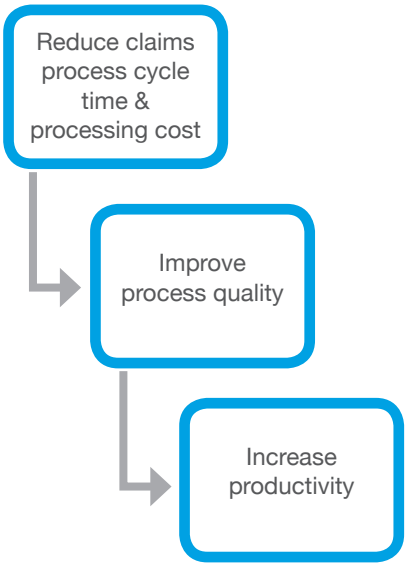
Focus: Managing Claims Cost and Expenses

Managing Claims Cost

It is our understanding that maximising the performance in claims management can drive value for the entire business. Therefore, paying the right benefit as fast as possible to the policyholders through accurate assessments was one of our key strategic focus areas during the year.

Claims Efficiency

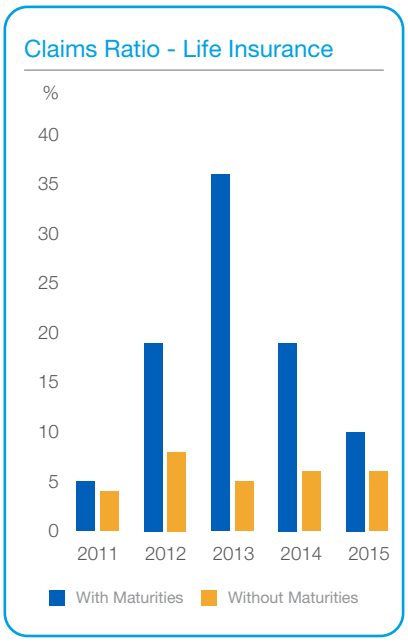
HNB Assurance PLC has consistently focused on increasing the efficiency of our processes to deliver a better service to our customers. Achieving and maintaining operational efficiency by minimising the processing time and process/ operating costs have therefore been key areas of focus for the Company.





Our Claim Ratios

There was a reduction in the Claims Ratio during the year 2015 due to the less number of Maturity Claims from Single Premium Investment policies. Maturity Claims decreased by 43% when compared to the previous year. The Claims Ratio excluding maturities remained unchanged at 6% during the year (2014: 6%).



Our Expense Management Efforts

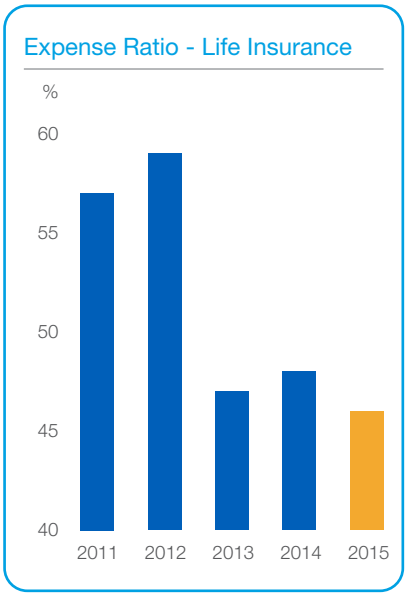
Despite the challenging economic environment that confronted us during the year, we managed to reduce our Expense Ratio to 46% from 48% in 2014, while managing it within the budget allocation.

A key achievement in this regard is that the Expense Ratio improved without compromising on growth and improvements in the Company. It is noteworthy that this is the lowest Expense Ratio recorded in the Life Insurance Business during the last five years.

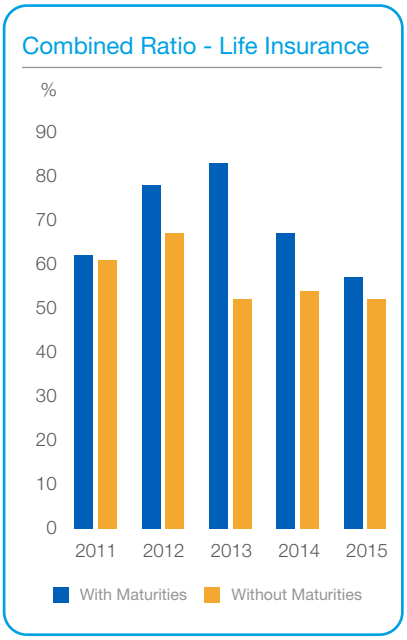
Cost Attractions during the year

46% of Net Earned Premium was spent on;

Improving sales channels, developing our staff and the sales force, developing the product mix, increasing geographical presence, and on developing technology.



Our Combined Ratio



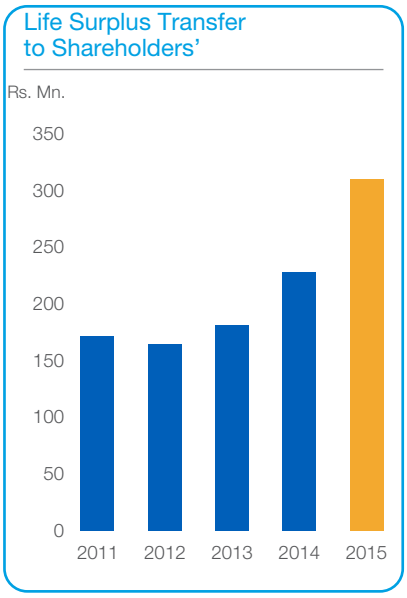
As a result of the low claims cost and effective expense management, our Combined Ratio, both including and excluding maturities, decreased during the year, contributing to superlative bottom line results.

Focus: High Returns to Shareholders and Policyholders

We at HNBA always have the best interests of our shareholders and policyholders in mind. Thus, we strive to ensure that their wealth is safeguarded and that they receive the maximum returns.

Surplus to Shareholders

Profitability is an indication of the financial stability of the Company and sound returns are essential to maintain our solid financial position in the long-term.



With the business growth experienced, we were able to record a high profit in terms of the Surplus Transfer from the Life Insurance Business. The Life Surplus Transfer recorded a significant growth of 36% over 2014 and stood at Rs. 310 Million, compared to the Rs. 228 Million recognised in 2014.

The Surplus Transfer was determined subsequent to the year-end valuation of the Life Insurance Business by the Consultant Actuary Mr. Hassan Scott Odierno, FSA, from Actuarial Partners Consulting Sdn Bhd; and after reserving due allowances for all liabilities, including bonuses and dividends for Life Insurance policyholders.

Bonus and Dividends to Our Policyholders

Bonuses and dividends to policyholders are a critical component of a sustainable Life Insurance Business. We, throughout our history, have rewarded our valued policyholders with attractive dividends and bonuses, which is evidenced thorough the Company's exceptional growth in New Business.

HNBA, together with the support of the newly appointed Actuary, developed a new Bonus and Dividend Policy to strengthen the eligibility of policyholders to share the returns of the Company whilst also bringing more transparency to the process.

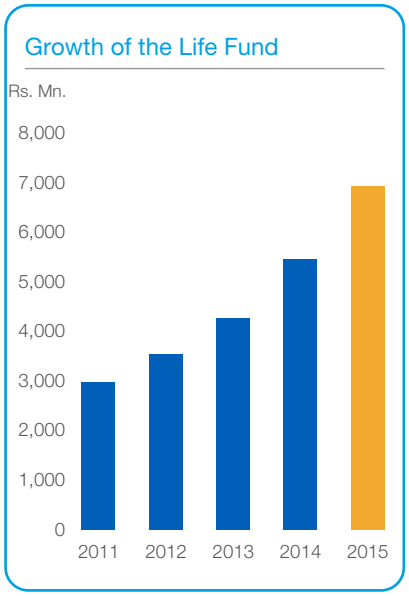
Despite the low returns on investments, and assisted by the efficient business processes in place, we were able to declare an annual bonus of Rs. 86 Million to our policyholders. The bonus entitlement depends on the type of product and the year of purchase of the policy and accordingly, the highest bonus rate of Rs. 54 per Rs.1,000 sum assured is enjoyed by the policyholders who purchased policies from 2002 to 2005.

The two fund-based products in the Company, "My Fund and "Ranmaga", are the biggest contributors to the Regular Premium GWP. These two products together reported a GWP of Rs.1,482 Million during the year. The Company declared a dividend

of 7.5% to these policyholders, slightly lower than the 8% dividend declared last year. This reduction was in consideration of the drop in investment returns due to economic volatility and market uncertainties. Nevertheless, a total amount of Rs.88 Million was declared as dividends during the year, higher than Rs. 73 Million declared as dividends last year.

Our Growing Life Fund

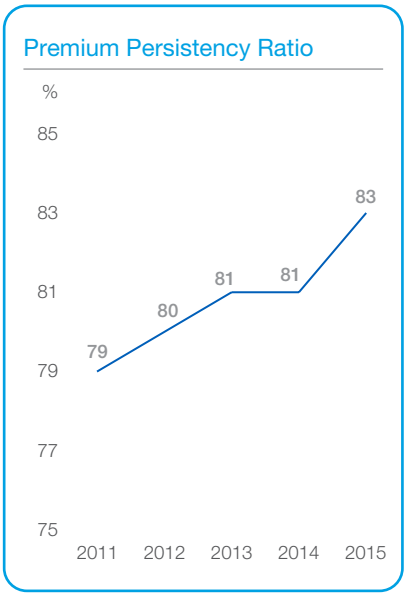
Indicating the stability of the Life Insurance Business, our Life Fund has showed continuous growth over the past years, mainly supported by the rapid growth in the New Business category and improvements in premium persistency. In 2015, the Life Fund grew by an impressive 27% over the previous year, reaching a value of Rs. 6,926 Million.



Focus: Improve Premium Persistency and Policy Retention

By providing special attention towards maintaining healthy levels of premium persistency, the Company was able to achieve a Premium Persistency Ratio of 83% in 2015, as against 81% achieved in 2014. The improved level of premium persistency is well above industry standards.

Additionally, the Company was able to further reduce the First Year Lapse Ratio to 46% during the year, indicating improved policy retention. The improved performance in policy retention was a result of actions taken by the entire branch network and operational teams to closely monitor policy lapses and to take timely corrective measures.



Focus: New Product Initiatives to Meet Changing Customer Needs

Functioning with the principal goal of satisfying customers, we have always taken measures to cater to evolving customer needs through our product portfolio. Therefore, many initiatives were taken to enhance customer satisfaction through better and improved product offerings during 2015 as well.

Focus: Enhancing Customer Service Experience



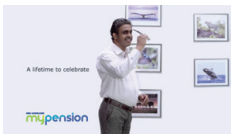
Medical Reimbursement Rider

To cater to the ever growing need for health care insurance in the community, HNBA set out to provide its customers with protection against untimely health costs. The medical reimbursement rider provides protection in the form of the policyholder being able to reimburse expenses incurred during hospitalisation as a result of an illness or accident.



Super Five Investment Product Series

The Company introduced 3 new products in the Super Five Investment Product series in 2015. These products were offered for a fixed term of five years and they offer a death benefit and a maturity benefit as well.



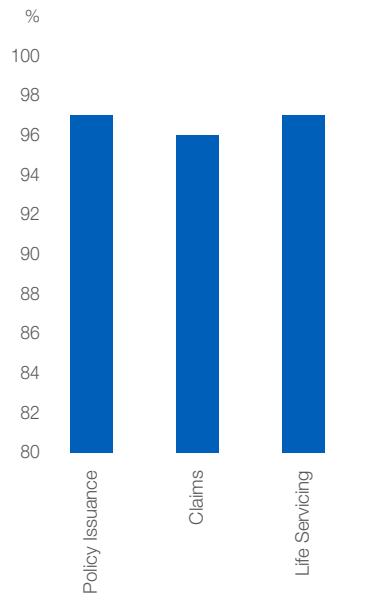
Revised **'MyPension' Policy**

Taking in to consideration the feedback received from various parties, HNBA re-launched the "My Pension" product with benefits extended to the long term in case of death of the policyholder.

Servicing our valued customers in the best possible way is a key factor contributing to our success story. We set high standards every year, with the objective of providing the best possible customer service experience.

We were able to achieve a service level of over 90% during the year, based on our internally set Customer Service Standard Scale. This proves that we are going in the right direction in delivering our customers a differentiated and enhanced service experience.

Achievement of Customer Service Standards - 2015



Focus: Capitalise on the Distribution Network

Our branch network is a key access point that enables us to connect with our customers and build a long standing relationship with them. All our branches are now segregated as Life and General Insurance Business entities with dedicated, well-trained staff available at each branch to fulfil customer expectations satisfactorily.

We added two new branches to the network during the year, whilst three branches were relocated in more spacious and convenient locations.

In addition to 53 of our own fully-fledged branches, we also reach our customers through 200 highly dedicated Bancassurance Officers located at HNB branches across the nation.

Our plans for the next three years include a rapid expansion drive through both our own branches and Bancassurance Officers, thereby enabling our customers and potential customers to enjoy our dedicated services.

A graphical illustration of our branch network appears on page 10.

Focus: Use of Technical Expertise for Business Growth

Product Development

Our Actuarial unit is actively involved in product development for the Life Insurance Business. The Company developed 3 new investment products during the year whilst revising the 'mypension' product. We further added a medical reimbursement rider to the portfolio, after careful analysis of market demand and product profitability.

Price Revisions

With the implementation of RBC, we delved in to greater detail in analysing our products, customer behaviour, macroeconomic factors and the future strategy of the Company. Using this new knowledge, we restructured the pricing models of some of our products, rendering them more suitable under the RBC framework.

Measuring Product Profitability

The Actuarial Department also paid special attention on measuring the profitability of existing products. These studies enabled the management to further understand the intricacies of the business in order to make efficient strategic decisions.

Experience Studies

We have now developed capabilities internally to analyse the lapses of regular premium policies, activity levels of agents and the product mix. The high quality information thus developed is communicated to relevant parties on a monthly basis. We also perform regular mortality studies and rider experience studies to review the profitability of the business.

Using the results of these studies, the Company is able to understand and make changes in existing products to improve the profitability of the business, while maintaining fairness to the policyholders.

Expense Studies

It is important to keep sight of the organisation's long term goals while ensuring adequate resource allocation for short term objectives. Therefore, we initiated a detailed expense analysis for the Life Insurance Business in the year 2014. This analysis was continued to the year under review as well. Findings of the study have given a clear view on the financial resources we can allocate to arrive at the desired level of performance in the future. This information has been used in the preparation of Company budgets for the next three years, i.e. 2016 – 2018.

Quarterly Actuarial Valuations

We carried out internal actuarial valuations on a quarterly basis to ensure continuous monitoring of the Life Insurance Business. This allowed the Company to understand the implications of certain business risks and take appropriate action on a regular basis.

Along with the help of the Appointed Actuary and his team, an optimised business plan was drafted for the next three years. This plan was based on standard actuarial assumptions, required business growth and the service delivered to all stakeholders of the Company. This task proved to be valuable for the strategic decision making process and also in understanding the behaviour of the business.

Improving Our Internal Policies

We have now taken steps to revise/ develop internal policies to provide value to all stakeholders of the Company, including shareholders and policyholders.

Key among policies thus developed is the Bonus and Dividend Policy that guides the dividend and bonus declaration to policyholders of participating products and fund based products. These policies were developed with the support of the Appointed Actuary and his team, in light of the impending RBC regime. These policies would ensure that optimal returns are given to the policyholders while maintaining the profitability of products.

Appointment of a New Actuarial Consultant for Life Insurance

Mr. Hassan Scott Odierno, a partner of Actuarial Partners Consulting Sdn Bhd based in Malaysia, was appointed as the new Actuary of HNB Assurance PLC with effect from 2015. He is an Appointed Actuary for both Conventional and Takaful Insurance, with an active practice extending from Malaysia to Mauritius and Kenya to Hong Kong.

During the year, the Appointed Actuary has contributed to the business in many ways, without being restricted to his statutory role. He and his team have extended their knowledge and services in scrutinising many key areas of the Company, helping the internal actuarial team to develop rapidly.

Focus: Meeting Regulatory Changes

Preparation to implement Risk Based Capital model

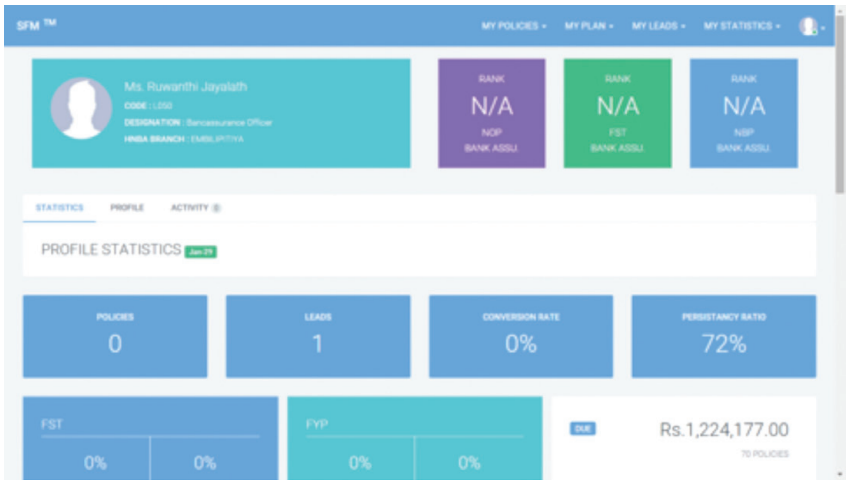
As a result of the continuous effort put in during the last few years, the Life Insurance Business is now fully equipped to face the Risk Based Capital (RBC) regime which would be mandatory by 2016. Based on the understanding we have developed on the RBC framework, we have done certain significant changes to the product portfolio and to the business model, to steer the Company towards a more efficient and profitable direction. This would ensure profitability for all stakeholders, including the policyholders.

Focus: Increase Efficiency with Technological Advancements

Managing the KPI's of Sales Channels

To support the rapid business growth, measuring and monitoring the KPIs encapsulating the entire distribution network was a key objective for the year 2015. Several IT initiatives were taken during the year to facilitate this objective.

We had introduced a Sales Force Management System to monitor the performance of Bancassurance and corporate business operations in 2013. The release of the up-scaled version in 2015 introduced benefits with enhanced functionality and extended the operations to the monitoring of the performance of the entire Advisor channel. The Lead Management, Need-Based Selling and Sales Diary functionality provides convenience in monitoring and managing sales activities and increasing lead follow-up, bringing greater efficiency to sales management activities.



Mobile Device Management Solution

HNBA IT selected a cloud-based, platform-independent solution MaaS 360 as the Mobile Device Management Solution. It provides IT staff with the agility and complete control of all company-owned mobile devices as well as personal devices. The ability to configure and monitor devices using centralised policies, for users experiencing various connectivity and access needs, minimises the support times and provides satisfaction to both users and IT staff.

Focus: Improving Financial Strength

Fitch Ratings Lanka Ltd. (Fitch) has reaffirmed HNB Assurance PLC's National Insurer Financial Strength Rating and National Long-Term Rating at 'A (lka)'. These ratings provide solid evidence to our existing and potential customers on the financial stability and liquidity position of the Company.

RISK MANAGEMENT

The expansion of the Life Insurance Business is strongly supported by a comprehensive risk management framework that ensures the sustainability of the business and sustenance to all our stakeholders. As demonstrated in our business model on page 15, risk management at HNB Assurance PLC is far ahead of the basic risk control processes and is spread throughout the business.

The risk management actions relating to core operational functions of the Life Insurance Business are discussed below.

Risk	Mitigation Strategies	Performance
Internal Risks		
Underwriting Risk		
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.	• Adequate level of segregation is ensured between underwriting and sales • Manual of Financial Authority is available to give guidance underwriting limits • Frequent audits and verifications • 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 • Only registered laboratories are used when obtaining medical reports and regular visits are made by the Company staff to such laboratories to monitor the quality of service. • Focused training is provided on proper selling in Sinhala, Tamil and English to Insurance Advisors. • A 'Customer Needs Analysis' Form is used to identify customer requirements and sell the most appropriate policy • Frequent expense studies and product profitability studies are carried out Further details on the underwriting risk management are given in Note 44.2 from pages 326 to 330.	The Life Business was able to deliver a surplus of Rs. 310 Million over Rs. 228 Million recorded in last year.

Well Managed Can Improve Further Need to Improve

Risk	Mitigation Strategies	Performance
Reinsurance Risk		
Reinsurance risk refers to: - retaining risks beyond the Company's net retention capacity without having adequate reinsurance; or - the inability of reinsurers to meet their commitments due to insufficient financial strength	• Frequent review of the outstanding Reinsurance receivables • A very close and professional relationship is maintained with all reinsurers and reinsurance brokers • Only reinsurers with A rating are used as reinsurers • Changes to the ratings of reinsurance companies are continuously monitored Further details on the Reinsurance risk management are given in Note 44.2 from pages 332 to 333.	The Company has managed Reinsurance risk satisfactorily during the year and there were no risk events reported during the year.
Claim Risk		
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.	• An independent actuary is engaged to carry out a valuation of the Life Fund twice a year. • An in-house actuarial department, headed by a qualified actuary, is in place to review Life Insurance business more closely and guide the management to take more informed pricing decisions. • Claims are reserved immediately at the intimation or on the availability of information on the death, injury or illness of an insured. • Frequent internal audits Further details on the Claims risk management are given in Note 44.2 from page 328.	The Company has managed the claims risk of the Life Insurance Business satisfactorily during the year.
External Risks		
Tax changes		
As per the tax calculation method applicable to Life Insurance Business (i.e. 'Investment Income' less 'Management Fees') most of the companies in the industry including our Life Insurance Business were making tax losses and hence were not liable for taxes. However, the budget presented for the year 2016 proposed to define the 'Management Fee' different to what the insurance companies refer now in practice.	• As at the date of this report, the Inland Revenue Department has not defined the term 'Management Fee' and the Company's representatives together with the industry experts are discussing with the Inland Revenue Department of a probable definition to the term 'Management Fee'.	If such change would take place, the cost of taxation may increase in future.

Well Managed Can Improve Further Need to Improve

Risk	Mitigation Strategies	Performance
Risk of Substitutes		
Interest rates in the country are on an increasing trend and as a result, 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 linked products.	• The Company is focusing on different promotion mechanisms to sell Investment linked products and is reducing the dependency on Single Premium products	There has not been any significant impact to the Endowment business during the year due to the risk of substitutes. However, the Company's new product "mypension" was not moving as expected due to high yielding banking products in the market.

Well Managed Can Improve Further Need to Improve

FUTURE MATTERS

Future with Innovative Solutions

The rapid acceleration of changes in the external market environment is a challenge we must overcome, and HNB Assurance PLC has taken initiatives on technical and technological aspects to become the market leader in providing innovative solutions.

A larger and longer-living population increasingly demands for retirement products. Identifying this requirement, we introduced the 'mypension' product in 2014. To match the growing and changing demand of the market, we have plans to further expand the sales of the product through corporate sales channels, without being restricted to the traditional distribution channels.

The growing need for wealth protection is identified to be another opportunity that we can capitalise on. Therefore our product development teams are geared to launch a few more investment products in the year 2016. Meanwhile, health and medical related rider covers will be actively promoted through the distribution channels to capture market opportunities.

Introducing bundled products by leveraging Group synergies is another area of focus for 2016. Our expert teams have already commenced their work and the objective is to offer high rewarding products and services to our customers, together with the parent company, HNB.

Future with Technology

Customers are today accustomed to the ease and elegance of the smartphone experience and it is not prudent for any business to compete without continuously upgrading its standards. The IT team of HNB Assurance is constantly involved in enhancing the look and feel of customer interfaces, to provide a better experience to our customers.

Future Frameworks

We have prepared ourselves to implement the Risk Based Capital (RBC) framework and the year 2016 will see a smooth transition to the RBC regime, as intended. The Company is also in the process of completing procedure manuals on all operational processes, which is expected to improve operational efficiency while structuring a framework to work within.

Even though the future is difficult to predict, it is definitely not impossible to prepare for. Therefore all our efforts are directed towards anticipating and adapting ourselves to be an innovative insurance solution provider, rather than merely reacting to external market conditions.

Subsidiary Performance Review

THE INDUSTRY: SHAPING THE BUSINESS

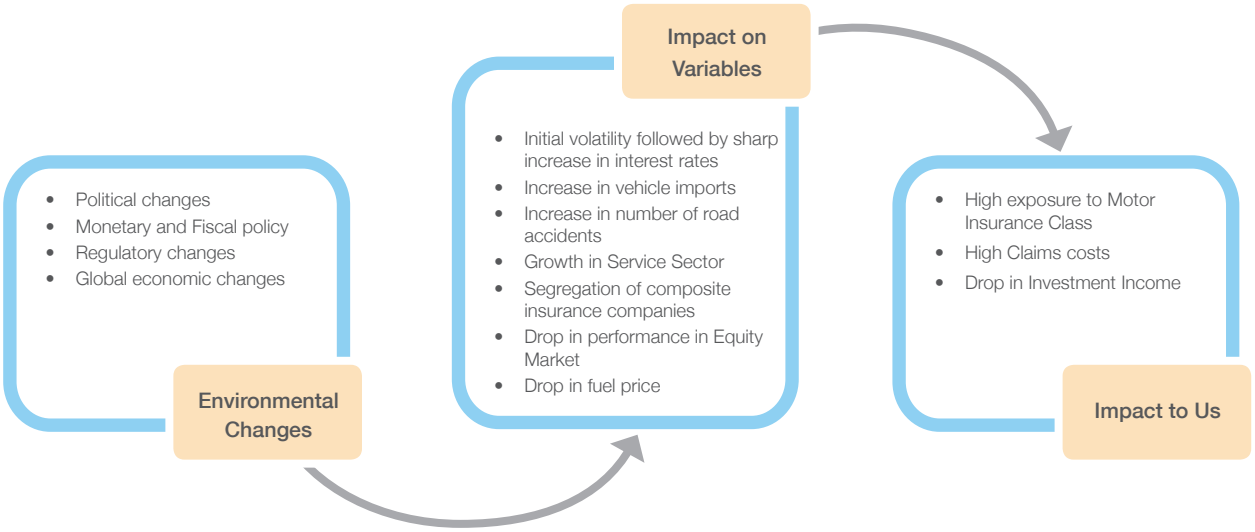
The General Insurance industry operated in extremely volatile market conditions and faced many challenges during the year.

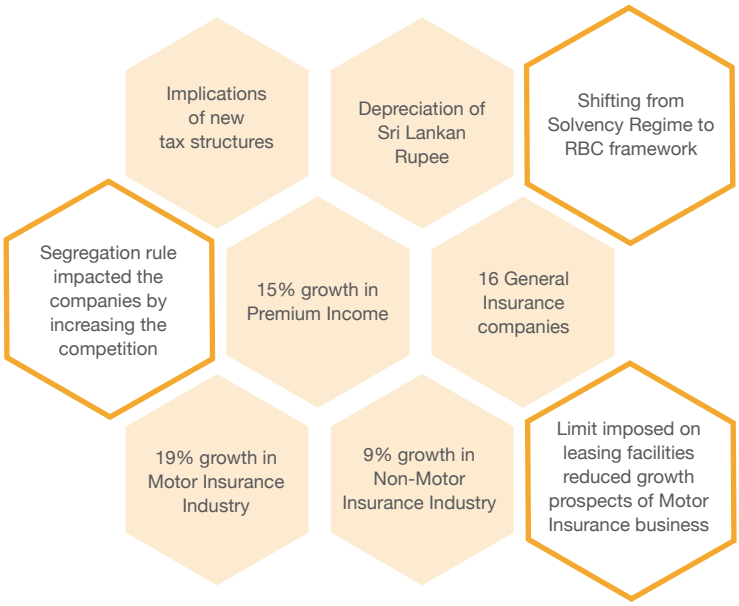
The year dawned with much optimism following the changes in the political arena. In keeping with the pledges given to the people, the new Government introduced many progressive initiatives, including increased income benefits to State Sector employees. This development, coupled with the reduction in the price of fuel and a low interest rate environment conducive to borrowings, had a significant impact on the General Insurance Business. Accordingly, we observed a sharp increase in the purchase of motor vehicles, construction of houses and small commercial enterprises, which created business opportunities for the Motor and Property Insurance segments.

In its first year of operation, our subsidiary had an exciting but challenging experience. The year was marked with fresh beginnings, mixed results and ended with a fresh outlook on its future operations. Read on; to find out how it sailed through a tempestuous year and how it plans to weather the storm in the coming years.

On a negative note however, the increase in the number of vehicles resulted in high vehicle density on the roads, as the road network had not expanded to accommodate the unexpected surge. The sudden influx of vehicle caused numerous accidents, and the frequency of accidents rose sharply. These factors, along with the depreciating currency which increased the prices of motor spare parts, had a negative impact on the cost of claims.

Concurrently, it was also observed that although the premium income increased as new Motor Insurance policies grew, margins began to erode





as aggressive competition in the market impacted pricing.

The revision in the vehicle import tax structure and the subsequent 70% ceiling imposed on leasing facilities saw the level of motor vehicle imports reducing during the latter part of the year. As the whole industry reviews their pricing strategies on Motor Insurance, we believe product differentiation and high service standards would become key components in this business segment, going forward.

Meanwhile, the Non-Motor classes of Insurance also exhibited growth, with the Marine Insurance business benefiting from increased imports, especially of motor vehicles and small commodities. The changing face of commercial transactions, with global interactions between entities on the rise, especially in "e-trade" areas, has created a need for 'Liability Insurance" which is yet to be deeply explored by corporate entities. With more awareness being created in the market place regarding the rights and responsibilities of business establishment and/or practices, this class of insurance, which currently accounts for only a small portion of the income mix, has the potential to become a major source of revenue generation in the future.

Another important component contributing to the profitability of the General Insurance Business is Investment Income. The volatility in the investment markets impacted the income of entities, especially those with higher exposures to the stock market. Nevertheless, through prudent exposure management, we were able to maintain a steady income, which proved essential in boosting profitability.

Following these developments, the General Insurance industry achieved a notable growth of 15% during the year (2014: 4%), with a premium income of Rs. 67.4 Billion (2014: Rs. 58.4 Billion). The contribution from the Motor Insurance class was Rs. 42.9 Billion (2014: Rs. 36.1 Billion), with an outstanding growth of 19% (2014: 6%), which was essentially due to the high growth in vehicle imports as a result of low interest costs. The GWP in the Non-Motor Insurance class grew by 9% to reach Rs. 24.4 Billion (2014: Rs. 22.4 Billion), as against the 2% growth recorded in the previous year.

Beginning of a New Era

HNB General Insurance Limited commenced its commercial operations as a fully owned subsidiary of HNB Assurance PLC with effect from 01st January 2015. The Company was formed as a result of the regulatory changes brought about by the Regulation of Insurance Industry (Amendment) Act, No. 03 of 2011, where all composite insurance businesses were required to segregate into Life and General Insurance companies with effect from 01st January 2015. Accordingly, the General Insurance Business carried out by HNB Assurance PLC prior to 2015 was transferred to HNB General Insurance Limited.

The Company provides various products under its General Insurance portfolio under Motor, Fire, Engineering, Marine, Medical and Other Miscellaneous classes of insurance. The Company has established multiple distribution channels, thereby creating a strong network to acquire business from all parts of the country. This is supported by a team of underwriters with knowledge and expertise in the diverse classes of business written by the Company.

While the core functions of underwriting, claims and business acquisition are built within the Company, it is also supported by the Shared Services teams established under HNBA in the areas of IT, Actuarial, Finance and Administration.

The Vision, Mission and values of the Company are shown below.



The first year in business was a challenging year for HNBGI and amidst such challenges the Company delivered mixed results to its stakeholders during the year.

The Company continued to record solid growth in Gross Written Premium (GWP), surpassing the industry growth during the year. However the high amount of claims experienced in the Motor and Medical Insurance classes impacted the profitability of the business, resulting in a loss being reported for the year under review.

In this section of the report, we present the story of HNB General Insurance Limited during the year 2015 and the future outlook of the Company.

Our Performance in brief

The following table captures the key financial data of HNB General Insurance Limited for 2015 and 2014. In order to provide a better understanding of our KPIs, we have added a brief description on each KPI.

KPI	2015 Rs. Mn.	2014 Rs. Mn.	Change	Discussion
Gross Written Premium	2,698	2,323	16%	Growth in GWP was driven by Motor Class which grew by 23%. Actions have been taken from the second half of 2015 to focus on the profitable segments in this class.
Reinsurance	491	474	4%	Reinsurance treaties were relooked at to facilitate the fast growth of the business. Low growth in Fire, Engineering and Marine Businesses has resulted in low growth in overall reinsurance cessions during the year.
Net Earned Premium	2,084	1,630	28%	Higher growth in NEP compared to the GWP growth is related to the change in Unearned Premium Reserves arising from the growth in business.

KPI	2015 Rs. Mn.	2014 Rs. Mn.	Change	Discussion
Net Benefits and Claims	1,837	1,161	58%	Claims cost shows a substantial growth due to an increase in Claims paid in Motor and Medical classes in particular. We expect a reduction in claims outflow in 2016 due to corrective actions taken during latter part of 2015 in Motor Insurance Class to remove unprofitable businesses and the introduction of pricing grid based on the risk experience of the Company.
Other Operating and Administration Expenses	683	631	8%	Growth in Expenses facilitated the business growth in 2015, which was the first year in business of HNBGI. The growth in expenses has been well managed below revenue growth. The expenses were also managed well below the budgeted expenses for the year.
Investment Income	189	353	(47%)	Restructure of Capital between Life and General Insurance companies is the main reason for the significant change in Investment in the Company. In addition, poor performance in investment markets also negatively impacted the Investment performance.
Profit/(Loss) Before Tax (PBT)	(284)	211	(235%)	HNBGI recorded a loss for the year mainly due to the increase in claims as discussed above. The Company has taken strong corrective actions to improve the profitability of the business in 2016.
Claims Ratio	88%	72%		High claims incurred have increased the Claims Ratio significantly.
Expense Ratio	35%	38%		Prudent management of expenses have helped the Company to improve the Expense Ratio over last year.
Combined Ratio	123%	110%		Combined Ratio increased as a result of high Claims Ratio. Company has targeted a lower Combined Ratio for 2016 with the targeted developments in the Claims Ratio.

VALUE DELIVERED THROUGH STRATEGIC FOCUS

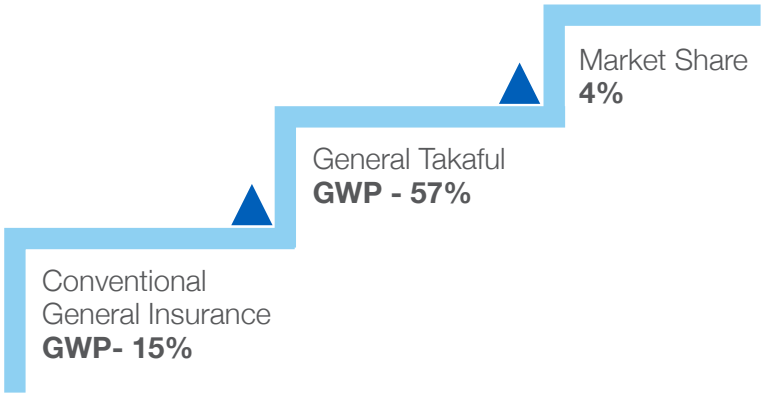
Focus: Business Growth

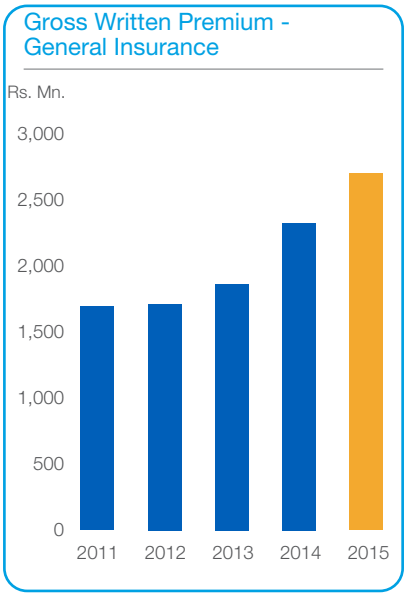
Business growth is a key focus of HNBGI, and value generated through this area of focus is discussed below.

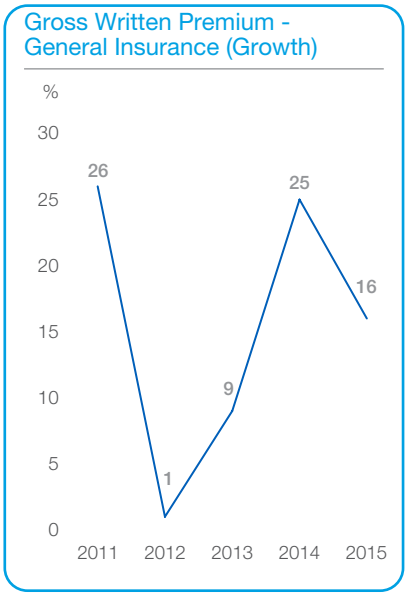
Gross Written Premium

The General Insurance Business recorded a growth of 16% in 2015, compared to the 25% growth achieved in the previous year. This performance was nevertheless, above the market growth and helped to maintain our position as the 8th largest General Insurance service provider in the country, highlighting the stability of the Company and strengthening the confidence placed on us by all stakeholders, despite our transformation in to a separate General Insurance entity following the segregation.

Meanwhile, the Takaful Insurance Business of the Company also recorded a growth of 57% during the year, generating a GWP of Rs.132 Million.





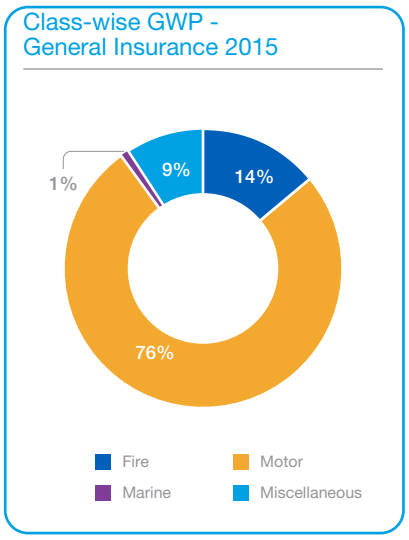


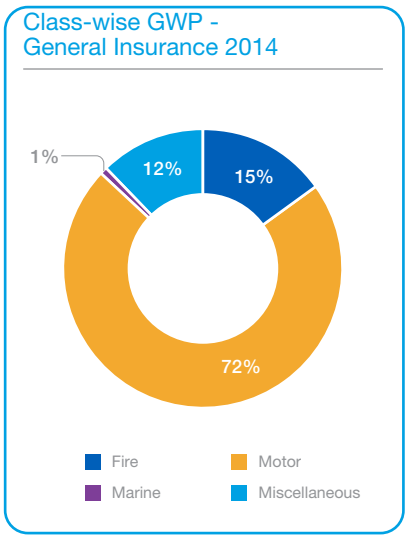
A comparison of the achievements of HNBGI against the industry, for the past five years, is given in the table below. As indicated in the table, the Company has outperformed the industry in last two consecutive years.

GWP	2015	2014	2013	2012	2011
Industry (Rs.Mn.)	67,382	58,439	56,236	49,694	43,329
HNBGI (Rs.Mn.)	2,698	2,323	1,863	1,711	1,694
Market Share	4.0%	3.9%	3.3%	3.4%	3.9%
Growth Industry	15%	4%	13%	15%	23%
Growth HNBGI	16%	25%	9%	1%	26%

The table below provides a class-wise GWP comparison of HNBGI and the industry.

GWP	Motor	Non-Motor					Total
		Fire	Marine	Medical	Miscellaneous	Total Non-Motor	
Industry (Rs. Mn.)	42,940	8,817	2,076	6,872	6,677	24,442	67,382
HNBGI (Rs. Mn.)	2,049	372	36	136	105	649	2,698
Growth Industry	19%	4%	15%	8%	17%	9%	15%
Growth HNBGI	23%	8%	7%	(15%)	(9%)	(1%)	16%
Market Share HNBGI							
2015	5%	4%	2%	2%	2%	3%	4%
2014	5%	4%	2%	3%	2%	3%	4%





The contribution to GWP from the different classes is presented below. The table also provides a summary comparison between the Company and the industry.

Class Wise Contribution to GWP	Motor	Non-Motor				
		Fire	Marine	Medical	Miscellaneous	Total Non-Motor
Industry						
2015	64%	13%	3%	10%	10%	36%
2014	62%	15%	3%	11%	10%	38%
Company						
2015	76%	14%	1%	5%	4%	24%
2014	72%	15%	1%	7%	5%	28%

Motor Class

As with previous years, our business mix was driven by the Motor Insurance class during 2015, with a contribution of 76% to the total GWP, which is above the industry average of 64%. Motor Insurance GWP generated from the Takaful operation amounted to Rs. 106 Million, contributing 5% to the total Motor Insurance GWP.

	2015	2014	2013	2012	2011
GWP (Rs. Mn.)	2,049	1,668	1,287	1,204	1,189
GWP Growth	23%	30%	7%	1%	30%
Contribution to General GWP	76%	72%	69%	70%	70%

Company has decided to move in to a Risk based pricing mechanism for Motor Class instead of following the market by competing on price

The loss in the Company during the year was mainly due to claims emanating from the Motor Insurance class. Therefore, numerous actions were undertaken during the latter part of the year to develop a sustainable Motor Insurance business in the coming years.

Risk Based Pricing

Based on an extensive study of the market and the claims experience of the Company, a risk based pricing approach was developed by the Company, enabling low risk consumers to enjoy competitive rates whilst compelling high risk drivers to pay a premium for the additional risk we undertake. In addition, the new methodology segments pricing based on factors such as the brand, model, make, year of manufacture of the vehicles and variations in the costs of repairs.

All our distribution channels have been given proper training about this new pricing mechanism. Moreover, the Company's business promotion activities and incentives have now been aligned to target desired business contracts as against a mere increase in business volumes. Accordingly, all our strategies in 2016 and beyond are focused on delivering profitable growth in the Motor Insurance business.

Non-Motor Insurance Classes

	2015	2014	2013	2012	2011
GWP (Rs. Mn.)	649	654	577	507	505
GWP Growth	(1%)	13%	14%	0%	18%
Contribution to General GWP	24%	28%	31%	30%	30%

During the year, the growth in the Company's Fire Insurance class surpassed the industry, although the Marine and Miscellaneous Insurance classes failed to keep up with industry growth.

There was a notable decline in the GWP generated in the Miscellaneous Insurance class, which was a negative 13%. This negative growth was predominantly due to the 15% drop in the Medical Insurance business, as part of the Company's strategy of weeding out loss-making business contracts from the Company. The negative growth in the Miscellaneous class in turn resulted in a slight drop in the performance of the Non-Motor Insurance class.

The Contribution from the Takaful Business to the Non-Motor Insurance class was just 4%, but it demonstrated a 78% growth compared to 2014, which sends out a positive signal for future business development.

As observed in the table above, the contribution by the Non-Motor Insurance class has been at healthy levels over the years. The Company made conscious changes to the composition mix during 2015, with the objective of further improving profitability.

Revisiting Product Portfolio

A key focus of the Company during the year was to eliminate unprofitable business from the product portfolio. As a result, certain large scale contracts of the Medical Insurance class were not renewed, leading to a slight drop in GWP generated through the Medical Insurance class. However, the Company views this as a positive move that will lead to improved profitability in the future.

HNBGI continued to offer hybrid products to the customers in 2015 and the Company is geared to achieve growth in Marine, Engineering and Travel Insurance classes in the coming years by introducing product bundling, price revisions and synergies with the parent company.

Focus: Improve Effectiveness of Distribution Channels

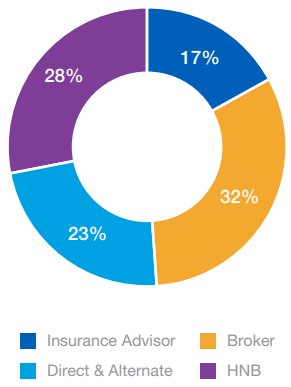
Distribution channels play a vital role in delivering our products to the customers and the efficiency of such channels determine the growth prospects of the business. Therefore the Company focused heavily on developing the effectiveness of distribution channels by placing key personnel to manage different lines and segments, with the objective of achieving high business growth.

Our Channel Mix

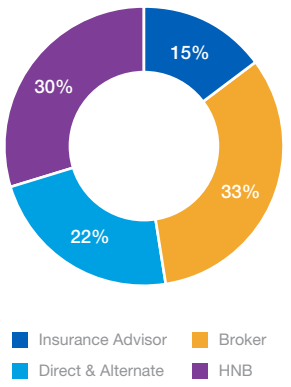
To achieve business growth of 16% during the year, immense support was received from all our business channels. The following table provides an analysis of the contribution made by the channels during the year under review, compared to 2014.

Channel	GWP (Rs.Mn.)		Growth	Contribution to GWP	
	2015	2014	2015	2015	2014
HNB	769	683	13%	28%	30%
Brokers	855	770	11%	32%	33%
Advisors	448	355	26%	17%	15%
Direct	626	515	22%	23%	22%
Total	2,698	2,323	16%	100%	100%

Channel-wise GWP - General Insurance 2015



Channel-wise GWP - General Insurance 2014



Brokers 11% Growth

The Broker channel was the most prominent channel amongst all, contributing 32% (2014: 33%) of the total GWP during the year. Tie ups with leading Brokers, developing the Broker network with the use of our branch network and recruiting sales personnel to cater to the Broker business enabled us to maintain the dominance of the Broker channel during 2015.

HNB 13% Growth

The strong brand of HNB and convenient access to an already established mass market through HNB branches has always been a massive stepping stone for us. Identifying the above, the management at HNBGI implemented significant initiatives during the year concerned, to penetrate the market and to introduce the Bancassurance model to the General Insurance Business.

Advisor 26% Growth

The Advisor channel recorded the highest growth of 26% during 2015, contributing 17% towards of the GWP. During the year, initiatives were taken to increase the Advisor force and improve their efficiency levels, as this channel is identified to be an important business channel in taking the Company forward.

Direct 22% Growth

The focus of this channel was to penetrate into high profile individual and corporate markets to enhance relationships and awareness on HNBGI to generate revenue. During the year, the Direct channel recorded a satisfying growth of 22%, contributing Rs. 626 Million to the top line.

Focus: Managing Claims Cost and Expenses

We believe that claims management is vital for the successful retention of customers in the insurance business. In most cases, the claim is often a customer's only direct interaction with their insurer. As such, it represents an opportunity for us to deliver a positive customer experience. On the other hand, managing the cost of claims is also an important strategy that an insurer should successfully implement to improve the performance of the business.

Claims Ratio

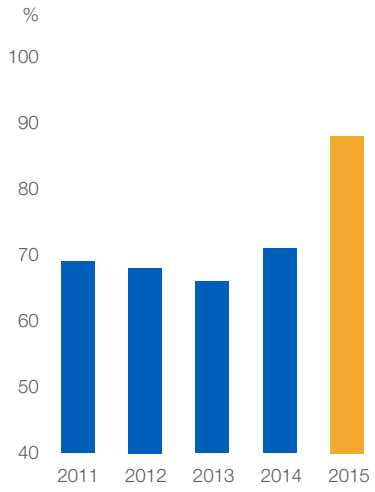
Our Claims Ratio increased to 88% in 2015 from 72% in 2014, mainly driven by Motor and Medical Insurance classes, as shown in the table below.

	Motor	Non-Motor				
		Fire	Marine	Medical	Miscellaneous	Total Non-Motor
Claims Incurred – 2015 (Rs. Mn.)	1,643	15	0.9	176	2	195
Claims Ratio – 2015	88%	38%	16%	126%	8%	91%
Claims Incurred – 2014 (Rs. Mn.)	978	13	2	156	12	183
Claims Ratio – 2014	70%	35%	52%	96%	34%	76%

The increase in the number of road accidents and repair costs, and the practice of competitive pricing as opposed to pricing based on risk were the main reasons for the high cost of claims in Motor Insurance during the year. Concurrently, engaging in competitive pricing to attract large corporate contracts was the main reason for the high claims cost in the Medical Insurance class.

The Company has already identified reasons for the high cost of claims and has implemented appropriate strategies to improve business performance while focusing on profitable growth. The management and the Board closely monitor specific KPIs to ensure that the desired shift in the business occurs and further action, if needed, would be taken to address areas of concern and to consequently improve the performance of the business.

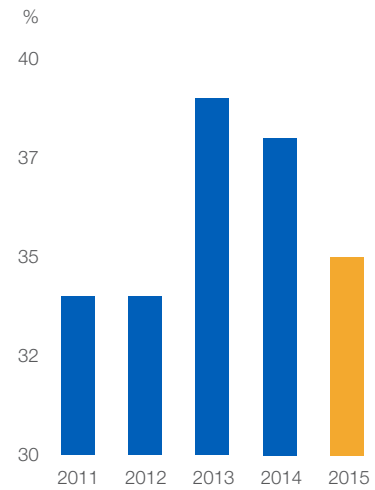
Claims Ratio - General Insurance



Expense Ratio

The Expense Ratio is a key aspect that impacts the underwriting profitability of the General Insurance Business. The Company has continuously improved its Expense Ratio over the last few years, as a result of the focused strategies in place.

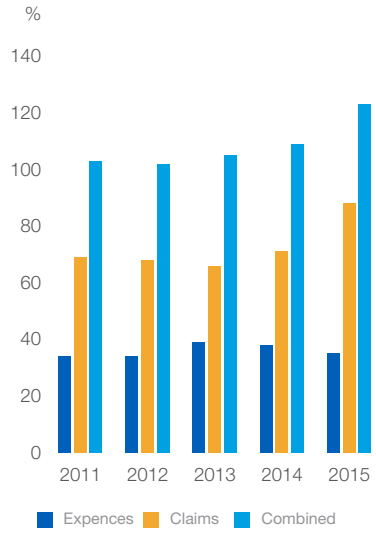
Expense Ratio - General Insurance



Combined Ratio

The Combined Ratio increased to 123% due to the increase in the Claims Ratio. The underwriting deficit increased to Rs. 482 Million, showing a substantial increase of 214% and the Company expects to reduce this deficit through strategies implemented in 2016.

Combined Ratio - General Insurance



Focus: Returns to Shareholders

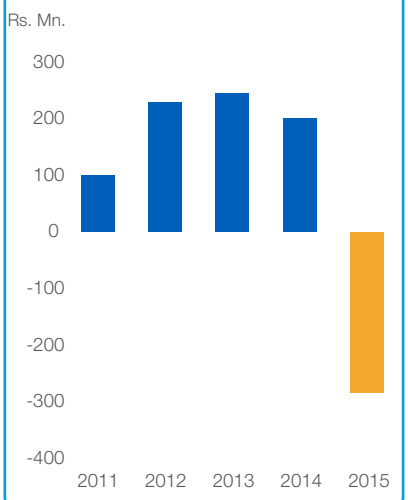
Profitability

We have been successful in delivering attractive returns to our shareholders from both Life and General Insurance Businesses, amidst various challenges in the past. However, the year 2015 became an exception to this trend.

In 2015, the Company recorded a Loss Before Tax amounting to Rs. 284 Million. This loss is mainly driven by the 58% increase in the Net Claims Incurred by the Company, as discussed in detail above.

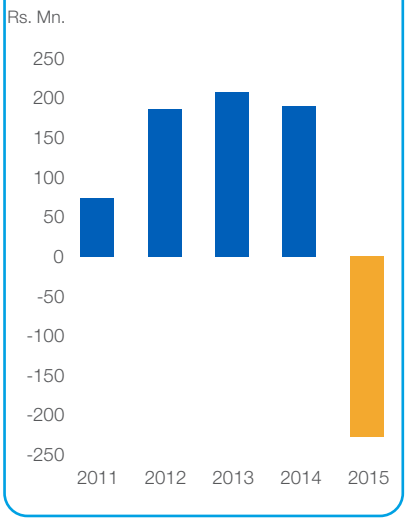
The Loss After Tax declined to Rs. 227 Million due to the recognition of a deferred tax asset by utilising the tax losses recorded by the Company. In recognising the deferred tax asset,

Profit Before Tax - General Insurance



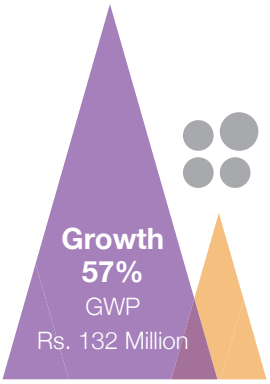
we applied a conservative approach, considering only the tax losses which can be utilised through the taxable profits in the reasonable future, estimated based on the past pattern of taxable profits in the General Insurance Business. This deferred tax asset recognised will be tested for impairment at each reporting date in the future.

Profit After Tax - General Insurance



Since the Company has incurred a loss, no dividend has been declared for the year under review. However, the Board of Directors and the management are confident that the loss recorded is temporary and that the business will return to profitability.

We have generated a GWP of Rs. 132 Million during the year, with a growth of 57% over the previous year. The table given below provides a detailed analysis of the performance of the Takaful Insurance window of the Company.



Performance of the Takaful Insurance Window

As an established provider of Takaful Insurance, having been in business for over two years, we offer insurance products in all classes of General Insurance to our valued customers.

	Fire	Motor	Marine	Medical	Miscellaneous	Total
GWP (Rs. Mn.)	18	106	3	2	2	132
GWP Mix	14.0%	80.5%	2.4%	1.9%	1.2%	
Takaful Contribution to Company GWP	5.0%	5.2%	8.7%	1.8%	1.5%	4.9%
Net Claims (Rs. Mn.)	1.1	74.6	0.0	1.6	0.1	77.4
Claims Ratio	52%	90%	4%	109%	24%	88%

Reflecting the trend in the conventional business, both Motor and Medical Insurance classes have generated losses in the Takaful Insurance operations as well.

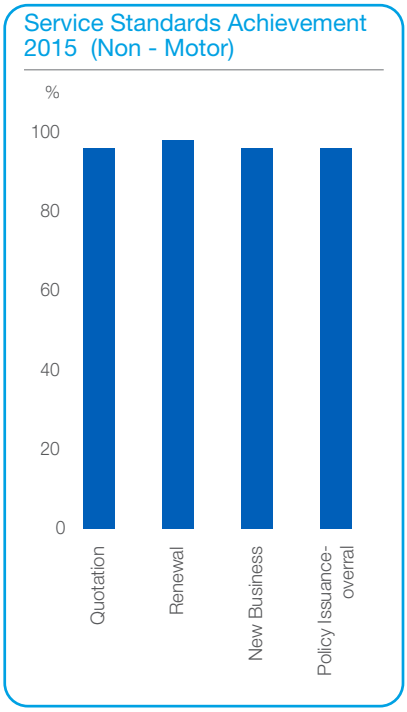
Therefore, the remedial action discussed above will be implemented in relation to the Takaful Insurance operation too, in order to ensure its profitable growth in the coming years.

Focus: Enhancing Customer Service Experience

Enhancing the services delivered to customers is a key aspect of value creation in any business entity. We, as a Company, have always understood the importance and many steps have been taken to ensure that our customers receive the best possible service delivery.

Within the context of our business, fulfilling customer expectations at the time of a claim is a key factor for developing long standing relationships. Hence, numerous initiatives were conducted during the year to achieve this objective successfully.

We restructured the claims management function by strengthening the team and implementing technological changes to improve the effectiveness and efficiency of the process. Consequently, the entire claims management operation is now centralised and a fully-fledged team is focusing on improving the function on a daily basis. The Company has set service standards on claims, which have been developed by benchmarking with industry best practices, and a transparent monitoring mechanism is also in place. Moreover, our 24/7 call assistance center was also improved during the year, with the aim of raising customer responsiveness.



Since the claim assessment process is a vital function in determining customer satisfaction, we took measures to enhance the process by recruiting in-house assessors and providing technologically advanced equipment for them. System infrastructure was improved further during the year, to facilitate easier access for viewing accident damage images relating to claims and to expedite the claim process. The Company also expanded the claims investigation panel to improve the speed and accuracy of the payment process.

Focus: Technical Expertise to Drive the Business

We believe that the success of the General Insurance Business is significantly dependent on the extent of data it possesses about its customers and the effectiveness of the Company in using such data in the decision making process. Dealing with large volumes of structured and unstructured data, it is observed that the assistance of subject experts is important to ensure their effective usage.

Thus, we have taken initiatives to substantively use the services of actuarial experts in the business operations from the current year onwards. Accordingly, instead of limiting its involvement to routine activities as in the past, the actuarial function has now been made a part and parcel of the pricing process of the Company. We have also taken initiatives to perform an expense study on the General Insurance Business, with the idea of improving its expense management process.

It is believed that the positive results of these actions would materialise in the business from the year 2016 onwards.

Focus: Meeting Regulatory Changes

HNBGI was successfully incorporated in line with guidelines set by the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011, and it took over the General Insurance Business of HNB Assurance PLC from 01st January 2015.

Preparation to implement Risk Based Capital model ✓

The Company has implemented sound processes to monitor full compliance with regulations in all aspects of the business, without any exceptions. Further, the Company is now fully geared to implement the Risk Based Capital Framework (RBC) from 2016, as per regulatory guidelines.

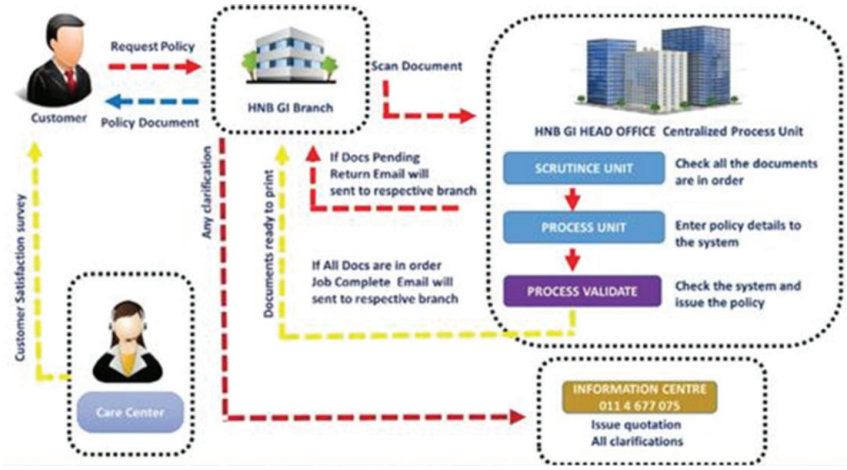
Focus: Increase Efficiency with Technological Advancements

The focus at HNBGI with respect to IT developments was to strengthen the infrastructure and processes for augmenting operational efficiencies, achieving cost savings and for improving customer experience in service delivery.

During the year, the Company paid attention towards implementing a cost-effective set of unified peripheral applications by re-engineering existing applications, to cater to the changing needs of the General Insurance Business.

Establishing the centralised processing of Motor Insurance policy issuing and servicing was a strategic initiative undertaken to improve operational efficiency, turnaround times and customer service. Moreover, the entire Motor Insurance policy issuing and servicing workflow was digitised, establishing collaboration and sustainability while reducing costs and shrinking our carbon footprint.

Process re-engineering resulted in establishing tighter underwriting controls in the risk selection process and ensuring the accuracy and completeness of the Motor Insurance underwriting process. Additionally, the initiative allowed branch staff to concentrate on front office activities without being tied-down to back office functions, which enhanced the levels of service provided to our customers.



Focus: Improving Financial Strength

Proving the solidity of our business strategies, our National Insurer Financial Strength Rating and National Long-Term Rating were set at 'A(lka)' by Fitch Ratings Lanka Ltd. This provides a strong reason for our stakeholders to remain confident in the Company, as we are committed to generate better results and benefits in the coming year and beyond.

RISK MANAGEMENT

Risk	Mitigation Strategies	Performance
Internal Risks		
Underwriting Risk		
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.	• Adequate level of segregation is ensured between underwriting and sales • Manual of Financial Authority is available to give guidance on underwriting limits • Frequent audits and verifications • Training of staff • Key Performance Indicators set both on turnover and profitability • Carrying out underwriting as per the guidelines set in the reinsurance arrangements. • Carrying out risk surveys and portfolio reviews **Actions taken during the year** • A Risk Based pricing mechanism has been introduced for Motor Insurance underwriting. • Reviewed some of the business agreements entered in to and discontinued some of the loss making agreements. • Minimum premium levels were set for certain vehicle types • Review of average premium prices with that of the average claims cost and the claims frequency Further details on the underwriting risk management are given in Note 44.2 from pages 329 to 330.	One of the main reasons for the losses recorded in HNBGI is due to inadequate pricing of some of the vehicle types in Motor Insurance and Medical Insurance policies.
Reinsurance Risk		
Reinsurance risk refers to: - retaining risks beyond the Company's net retention capacity without having adequate reinsurance; or - the inability of reinsurers to meet their commitments due to insufficient financial strength.	• Frequent review of the outstanding Reinsurance receivables • A very close and professional relationship is maintained with all reinsurers and reinsurance brokers. • No cover is issued without a confirmed reinsurance in place, except in the case of some selected classes which are written on a net basis. • Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Fitch, Standard & Poor's or A.M. Best is used. Please refer page 333 for the Credit Ratings of the Company's Reinsurer Portfolio.	The Company has managed Reinsurance risk satisfactorily during the year

Well Managed Can Improve Further Need to Improve

Risk	Mitigation Strategies	Performance
	• Changes to the ratings of Reinsurance companies are continuously monitored. • Further details on the Reinsurance risk management are given in Note 44.2 from pages 332 to 333.	
Claim Risk		
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 are over the budgeted levels.	• Claims intimation is conducted through a 24-hour fully fledged Customer helpline. • Assessments are carried out by an independent expert panel of assessors/loss adjustors working throughout the island on a 24 hour basis. • Claims are assessed immediately upon intimation and reserved accordingly. • The service of a qualified Independent Actuary is obtained bi-annually to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims. • All third party claim intimations are separately reviewed with the support of the Manager–Legal. • The Company has outsourced the medical claims management function to a third party specialized in claim handling and management operation. • Closed files reviews are conducted periodically **Actions taken during the year** • Expanded the network of spare parts dealers and garages. • Introduced incentive scheme for sales staff to promote business through profitable channels • Increased the review of Motor claims files by the internal audit. Further details on the Claims risk management are given in Note 44.2 from pages 330 to 331.	The Claims Ratios of General Insurance Business were significantly above the budgeted levels. The Company has taken a number of measures to reduce the Claims Ratio and improve the service standards of the Company.
External Risks		
Increased Number of Road Accidents		
There has been an increase of road accidents during 2015. The Company was also affected by this.	• 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.	The number of Motor accidents reported to the Company increased from 26,193 in 2014 to 40,517 in 2015.

Well Managed Can Improve Further Need to Improve

Risk	Mitigation Strategies	Performance
Increased Repair Cost of Vehicles		
As a result of the depreciation of the rupee during the year there was an increase in the spare parts prices leading to higher vehicle repair cost.	• The Company has entered into agreements with some of the spare parts dealers. During the year the Company expanded its spare parts dealer network to 10. • The Company has tied up with 20 garages, where the Company has agreements on special labour rates	Motor insurance claims cost has increased from Rs. 972 Million to Rs. 1,522 Million. The average cost of a Motor Insurance claim has also slightly increased during the year.
Tax Increases on Motor Vehicles Imports		
This has resulted in reduction in vehicle imports and will lead to a drop in the growth of the General Insurance market which is mainly driven by the Motor Insurance segment.	• Closely working with Hatton National Bank (HNB) to increase percentage of business channelled through the Bank. • Expanding the Agents channel to target more non-leasing business.	During the year the Company has managed the risk well by recording a GWP growth ahead of the industry.

Well Managed Can Improve Further Need to Improve

FUTURE MATTERS

Future with Innovative Solutions

Moving forward, HNBGI will place immense focus on "growth with profitability", and all efforts will be directed towards achieving this objective. Measures will be taken to diversify the product portfolio, concentrating on areas such as Property, Marine, House and Micro Insurance products, to increase the contribution made by Non-Motor Insurance to the topline.

Attention would also be given to capitalising on the synergies created via the relationship with the ultimate parent, HNB, for improving the generation of GWP.

Although being a relatively new player in the Takaful Insurance market, we see great potential in this business segment and hence, the Company would focus on expanding its Takaful Insurance market share in the coming years.

Process Enhancements

Managing the claims cost is identified as a vital factor contributing to the success and stability of HNBGI in the future, and the top management is paying special attention on minimising the claims cost by introducing innovative mechanisms, without compromising on the topline of the Company.

Future with Technology

A prime area of focus for 2016 is to enhance the support of information systems to the business growth of the Company. Numerous software applications are currently being developed in-house to cater to the changing requirements of the business operation.

Regulatory Frameworks

The Company will move in to the RBC regime in 2016 as required by the regulator, and with the expert support of our internal actuarial team, the General Insurance operation will be well equipped, with carefully analysed and evaluated information about the business, to perform exceptionally under this new regime.

Investment Review

Investment management is an art, where skills and competencies need to be applied in balancing risks and returns. The investment management function at HNBA has, over the years, mastered this art, enabling the Company to deliver great value to our stakeholders by increasing the income on investments, whilst safeguarding funds entrusted to us through the usage of sound risk management practices.

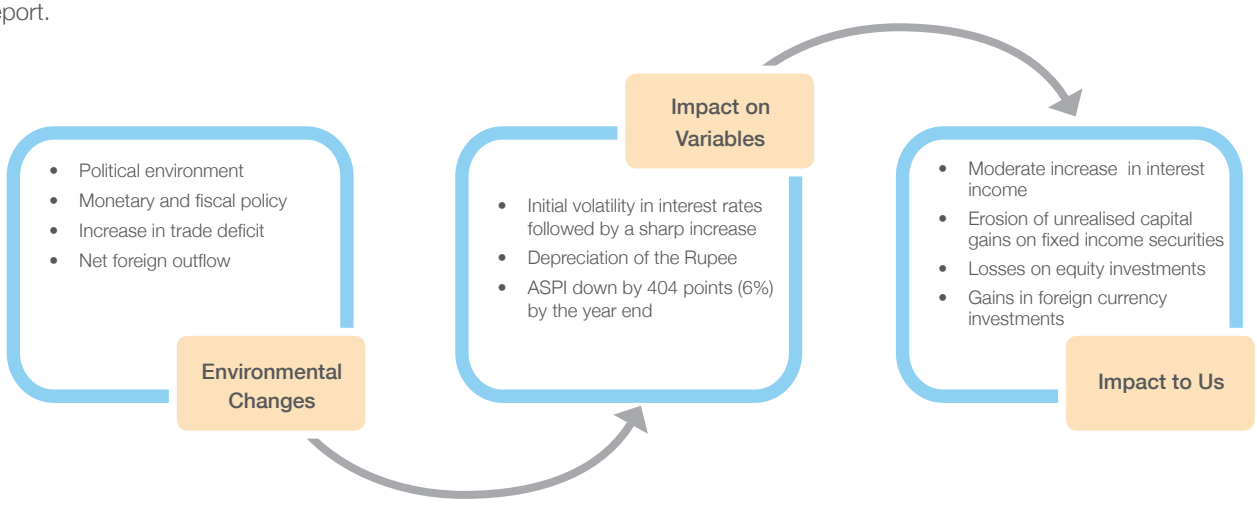
It is our responsibility to safeguard and multiply the wealth that has been entrusted to us. Although it is no easy feat, we have always been successful in obtaining superlative returns surpassing industry averages, and this year too we kept our promise. This is the story of how it was achieved.

THE MARKET: SHAPING THE INVESTMENT FUNCTION

Economic Conditions

The year under review saw many changes in the social and political environment of the country and in the world as a whole. These changes created waves of uncertainty in financial markets, as manifested in the volatility of interest rates, the indecisiveness of equity markets and the instability of the local currency. These uncertainties, in turn, affected our investment decisions and returns, details of which are discussed in this report.

The diagram below depicts how changes in the environment and economic variables affected our performance during the year.



Regulatory Changes

As per Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011 and subsequent guidelines issued by the Insurance Board of Sri Lanka (IBSL), all insurers were required to segregate Life and General Insurance businesses by 01st January 2015. Accordingly, we too segregated our Life and General Insurance businesses, and this segregation resulted in a significant change in the Funds Under Management of the two business lines.

During the past years, we maintained three main investment funds, i.e. the Life Fund (including the Family Takaful Fund), the Life Shareholders' Fund and the General Fund (including the General Takaful Fund). The Shareholders' Funds (Stated Capital + Retained Reserves) were maintained together with the General Fund.

With the segregation, the Shareholders' Funds were restructured between the two companies, based on their respective business and regulatory capital requirements.

In the discussion that follows, internal Funds Under Management are only compared with their respective figures as of 01st January 2015 and no comparison is made with prior years due to the incomparability of data on account of this change.

The diagram below shows the demarcation of Internal Funds managed by HNBA, following the segregation process.

Focus: Enhancing Funds Under Management

Amidst the volatile external environment, we were able to expand the total Funds Under Management of the Group by an impressive Rs. 1,648 Million, recording a growth of 19.9%. Accordingly, the total Funds Under Management reached Rs. 9.9 Billion by 31st December 2015 (2014: Rs. 8.3 Billion). Investment Income accounted for Rs. 918 Million of this growth, while the balance Rs. 730 Million was from net cash inflows to the two business lines.

Funds Under Management in the Life Insurance Business grew from both business development and investment income. However, due to high amount of claims experienced in HNBGI, the increase in the HNBGI Fund was mainly driven by Investment Income and the additional capital received following the segregation.

HNBA Funds

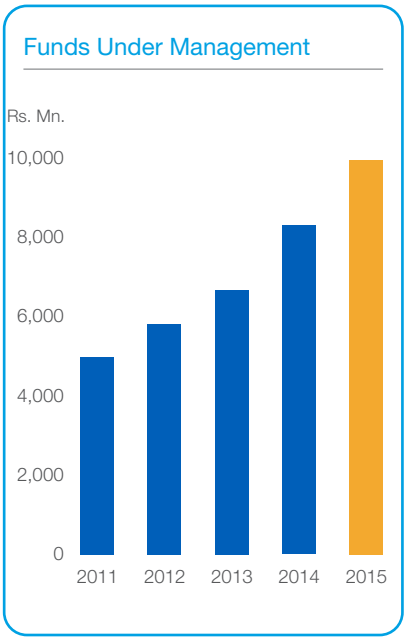
- Life Fund
- Family Takaful Fund
- Life Shareholders' Fund

HNBGI Funds

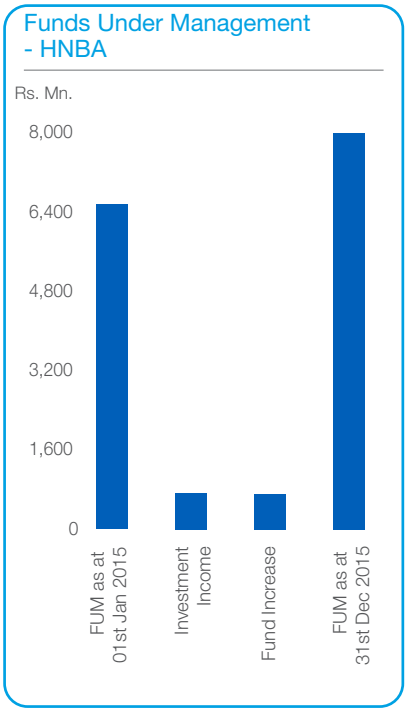
- HNB General Insurance Fund
- General Takaful Fund

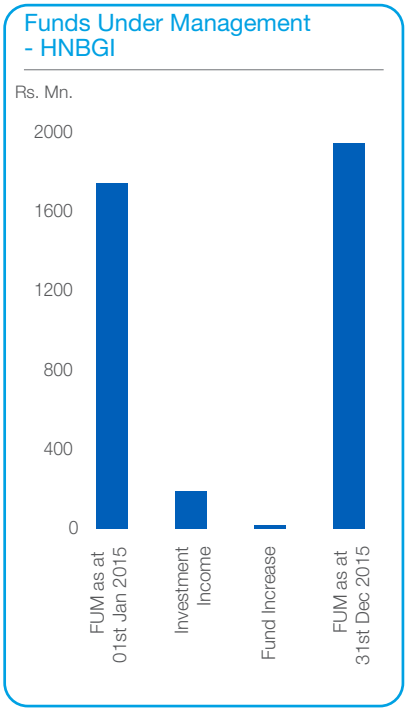
VALUE DELIVERED THROUGH STRATEGIC FOCUS

- Group Investment Income surpassed the budget by recording a total Investment Income of Rs. 918 Million
- Total Funds Under Management recorded an impressive 19.9% growth to reach Rs. 9.9 Billion
- Combined Fund recorded a commendable10.1% weighted average annual investment yield



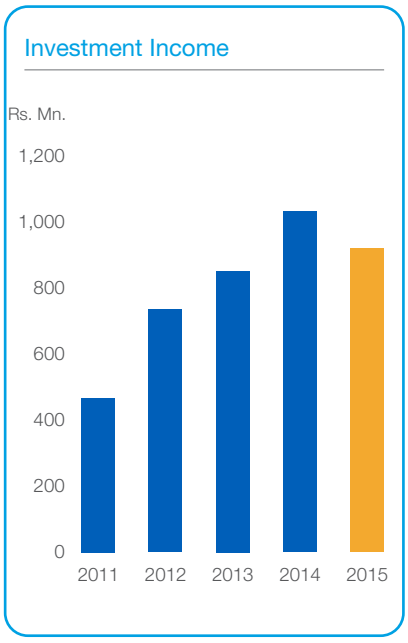
What's our story?





Focus: Increasing Investment Income

Year 2015 transpired to be one of the most challenging years in terms of achieving Investment Income targets. Nevertheless, despite this challenging environment, we were able to generate a total Investment Income of Rs. 918 Million at Group level, which is well above the target set for the year. However, a drop of 11% was witnessed in Investment Income over the achievement of the previous year.

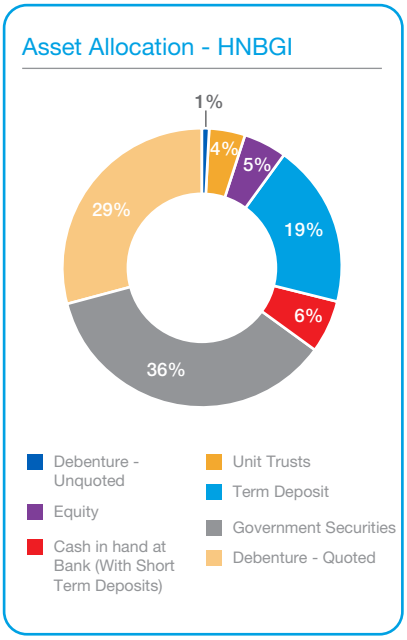


Considering the constituent elements of Investment Income, it is observed that although the Interest Income increased by 4% due to the favourable impacts of market interest rate movements, it also eroded the capital gains on our fixed income securities. Further, the sluggish behaviour of the equity market resulted in capital losses on our equity investments. The depreciation of the Rupee provided slight relief by enabling us to record gains on our foreign currency deposits.

It is positively noted that in spite of the adverse environmental impacts noted above, we were able to record an average annual yield of 10.1% (2014: 13.8%). This was made possible through careful measures targeted at aligning our strategic asset allocations with market conditions and by exploiting opportunities arising from market movements, for example, realising capital gains prior to an expected rate increase.

Focus: Strategic Asset Allocation to Improve Yields

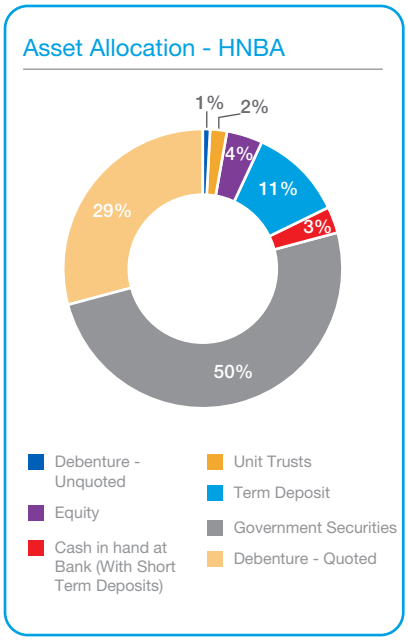
We take constant measures to maintain a strategic asset allocation, in order to achieve the objective of delivering the best investment return whilst minimising associated risks. The strategic asset allocation is determined by anticipating and forecasting impacts of macroeconomic variables, such as interest rates, inflation rates, and exchange rates, on each type of investment asset. Further, due consideration is granted to regulatory and internal investment guidelines, in order to safeguard our investments.



Government Securities

In response to the increasing yields in Government Securities and the lethargic developments in the debt and equity markets, we shifted our asset mix by placing greater weightage on Government Securities. Accordingly, investments in Government Securities increased to 51% of HNBA funds and to 38% of the HNBGI Fund.

We operated well within the stipulated regulatory limits for investments in Government Securities, by holding 57% of the Long-Term Fund (minimum 30% as per Solvency Margin Rules) and 47% of the Technical Reserves in HNBGI (minimum 20% as per Solvency Margin Rules) as Government Securities.



Equity Investments

We anticipated that uncertainties in the economic climate would result in a dip in the equity market performance and hence reduced our equity exposure during the first half of the year. As of the year end, only 4% of HNBA Funds and 5% of HNBGI Funds accounted for equity investments.

Meanwhile, investment decisions based on detailed analysis enabled the equity portfolio of HNBA to outperform the benchmark ASPI by 6.1%, while the equity portfolio of HNBGI outperformed the market by 4.0%. The unrealised losses on equity investments were limited to Rs. 9.4 Million in the HNBA equity portfolio and to Rs. 5.6 Million in the HNBGI equity portfolio.

Corporate Debt

Investments in corporate debt decreased to 30% of the HNBA Funds and 31% of the HNBGI fund, compared to 32% and 36% in HNBA and HNBGI funds, respectively, as of 1st January 2015. This decline was mainly due to the limited market opportunities available under this investment category.

Term Deposits and Unit Trusts

Interest rates on term deposits remained unattractive throughout the year, despite the increasing trend in the interest rates on Government Securities. Therefore, we reduced our exposure to Rupee denominated term deposit investments, but held on to foreign currency denominated term deposits, mainly in US dollars. Consequently, assisted by the depreciation of the local currency, we were able to record an unrealised gain of Rs 11.8 Million. Meanwhile, it is observed that no significant change was made in investments in unit trusts.

Focus: Managing the Maturity Mix

While making strategic alterations to the portfolio mix, close scrutiny was maintained on the maturity mix of each fund, in order to operate without any discrepancies from the guidelines stipulated by the Investment Policies of HNBA and HNBGI.

By the year end, 66.1% of the Life fund was invested in assets with maturities exceeding one year, while the General fund, which takes a more short term approach, had 57.6% of its funds invested in assets with maturities less than one year.

Focus: Managing Risk and Liquidity

We ensure that all our investments are made only after a fundamental risk-return analysis is conducted by our internal research team. External and internal investment risk guidelines are reviewed monthly as well as at the approval stage of any new investment. Immediate corrective measures are taken if any discrepancies are detected.

Investment risk is one of highest risk areas of the Group, as 85% of the Group's total assets are held in the form of investment assets. Further, with the onset of the Risk Based Capital regime in 2016, investment related risks will have a direct impact on the capital requirement of the Group.

Hence, we maintain a sound governance framework over investment assets and constantly review our risk management practices related to investments. For additional comfort, risk management has been in-built as an integral part of the investment management function itself.

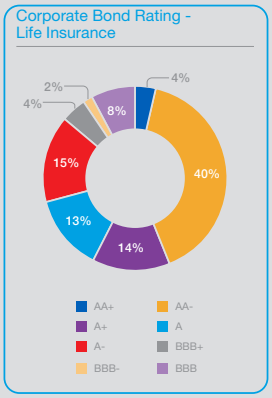
Governance: Investment Committee

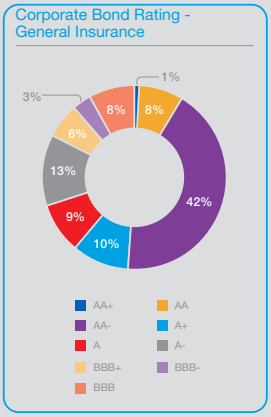
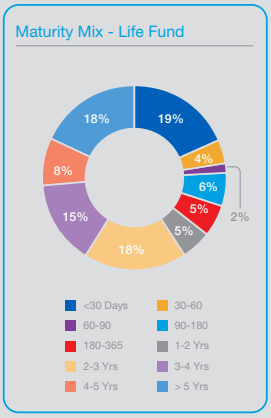
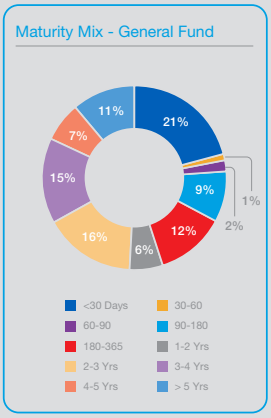
All investment related activities are reviewed by the Investment Committee, which comprises three Independent Non-Executive Directors.

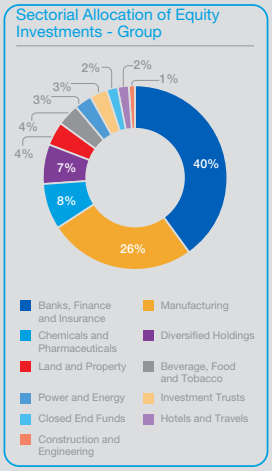
Please refer pages 212 to 213 for the Report of the Investment Committee.

RISK MANAGEMENT

Investment risk refers to the various types of risks associated with the significant portfolio of investments managed by the Group. Discussed below are the components of investment risk and how we manage them.

Type of Risk	How we Manage	Exposure
Concentration Risk The risk of over-exposure to a particular company or sector due to lack of diversification in the investment portfolio.	• A target asset allocation is set by the Investment Committee for HNBA Funds and HNBGI Fund by the Investment Committee in consultation with the Management and Risk Committee. • Sectorial limits are set for both equity and fixed income investments which are adhered to when placing new investments. • Adherence to target is reviewed monthly by Acting 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. • A checklist must be made to verify the compliance of all new placements other than Government Securities with all applicable rules and guidelines. This needs to be submitted for approval from the relevant financial authority as specified in the Group Investment Policy. Investment Committee meets on quarterly basis and reviews the investment portfolios, investment strategy and the future outlook. • Compliance with Investment Policy and best practices are reviewed by the Internal Auditors and the Risk and Compliance Department on a monthly basis. • Deviations from target asset allocation if any are reported to the Risk Committee on a monthly basis.	• For risk exposure please refer page 339 which is given as a part of the Consolidated Financial Statements • Please refer pages 99 to 100 for asset allocation
Credit Risk This relates to the risk of not being able to recover the capital and/or interest relating to investments.	• Investments are only made with banks and finance companies in the list approved by the Investment Committee. • Investments in other entities are carried out only with the explicit approval of the Investment Committee.	

Type of Risk	How we Manage	Exposure
	• Single party exposure limits are decided based on the credit ratings and regulatory requirements and are monitored closely at different levels. • Please refer page 338 (financial risk section) for actions taken.	
Liquidity Risk 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.	• The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy which is reviewed by Investment Committee regularly. • Please refer page 343 (financial risk section) for actions taken.	 
Market Risk It encompasses the risk of financial loss resulting from movements in interest rates, foreign exchange rate and equity prices. Therefore it is an aggregation of Interest Rate risk, Equity Price risk and Currency risk.	• Impact of movement of each variable on the Profit of the Group and Total Equity of the Group is monitored on a monthly basis by Risks and Compliance Department and reported to the Management and the Risk Committee.	• For risk exposure please refer pages 338 which is given as a part of the Consolidated Financial Statements

Type of Risk	How we Manage	Exposure
Market Risk – Interest Rate Risk The risk of fluctuation 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.	• The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy. The ALM guideline in 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 Committee on a monthly basis. • Necessary changes are made to the asset allocation and the maturity mix of investments on a periodic basis. • Investments are classified to different categories as required by Sri Lanka Accounting Standards (SLFRS/LKAS) considering both the intention and ability of the Company to hold such investments as per the classification.	• For risk exposure please refer pages 334 to 335 which is given as a part of the Consolidated Financial Statements
Market Risk – Equity Price Risk The risk of fluctuation in equity investments due to change in market equity market prices	• Total Exposure to equity investments is made strictly within the agreed target asset allocation and sectorial equity limits. • Equity investments are only made in fundamentally sound stocks which are identified after an in-depth research and evaluation process by the internal investment management team. • Equity portfolios are reviewed monthly by the Acting CEO, Chief Financial Officer and Head of Investment and by the Investment Committee on a quarterly basis. • Target processes are reviewed by the Investment Committee quarterly. • Impact of market movements is monitored on a daily basis and warnings sent to Acting CEO and Chief Financial Officer of high volatilities.	• For risk exposure please refer pages 336 to 337 which is given as a part of the Consolidated Financial Statements • Sectorial Equity Exposure graphs 

Type of Risk	How we Manage	Exposure
Market Risk – Currency Risk Risk of fluctuation in fair values or future cash flows of investments due to a change in foreign exchange rates	• Total exposure to foreign currency investments is determined based on the probability of future liabilities of insurance policies denominated in USD and Euro. This is reviewed on a quarterly basis. • Movements of the foreign exchange rates are closely monitored and conversions are made considering currency requirement determined as above with the approval of the Investment Committee.	• For risk exposure please refer page 336 which is given as a part of the Consolidated Financial Statements

FUTURE MATTERS

With the challenging year 2015 behind us now, we expect market conditions to progress towards a positive direction in the next few years. The gradual stability in the political environment is expected to re-enact investor confidence, which augurs well for the economy. We believe that the equity market has currently reached its lowest level and we do not expect a major correction in the situation immediately, although an improvement may materialise towards the second half of 2016. However, limited foreign participation and increasing interest rates will remain a concern for the Colombo Bourse. We are geared to continuously be on the lookout for fundamentally strong counters and to alter our equity portfolios for the best interests of the Company.

Increasing interest rates are expected to positively impact the interest income of the Group for the year 2016. However, we believe that the timing of the placing of fixed income investments will be crucial, and hence will work prudently to reap the best possible advantage. Further, we also expect to expand our investments to new opportunities such as SME Focused Venture Capital/Private Equity Funds, Real Estate Investment Trusts (REITs) and Sukuk Bonds, as and when opportunities arise in the market place.

With the Risk Based Capital (RBC) regime due to be effective from 2016 onwards, the Group has already aligned its investment strategies to be in line with the new requirements, and the Capital Adequacy Ratios (CAR) of both companies are well above the regulatory requirements. In order to maintain compliance with the RBC requirement of matching assets with liabilities, we will engage in a review of our Asset and Liability Management Guidelines and Investment Policy in the coming year. A study will also need to be undertaken on our risk appetite on investment assets, as high risk assets would require the backing of additional capital under the RBC regime. In the coming year therefore, we will continue to check for avenues to further improve our investment strategies to manage the requirements of the RBC regime.

Reference: GRI-G4 G4-25

Stakeholder Engagement

We believe that our relationship and interactions with our stakeholders are vital in evolving our sustainable progress. Therefore we continue to actively engage with our stakeholder groups to identify their views and concerns. Their input provides us a direction to satisfy their expectations and to address issues that are likely to impact the business in an informed manner. Engagement is also a method to help build better relationships with all stakeholders, ultimately resulting in improved business planning and performance. This is a focal point of our strategy.

In order to cater the competing expectations we first identify and prioritize the stakeholder groups based on two criteria;

- Parties who have the ability to influence our value creation process (Influence)
- Parties who are influenced by our value creation process (Interest)

The list of stakeholders thus recognised, is reviewed periodically by the Management to ensure that we have a sustainable process. However, the extent of our engagement with our stakeholders is determined on whether we have a legal, financial or ethical responsibility towards them.

Our engagement with stakeholders encompasses a range of activities and interactions that include formal and informal consultations, participation, negotiations, communication, and building relationships with them.

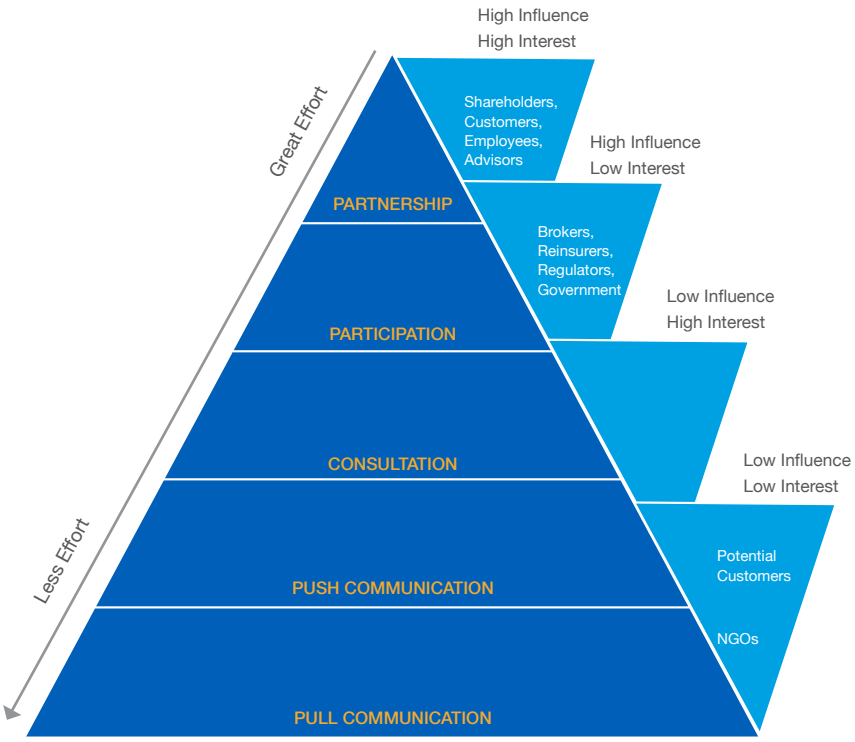
This process, and the stakeholders identified, is illustrated below along with the extent of engagement and the engagement strategies used by our Company. Concerns raised through such engagement mechanisms are absorbed into the strategy formulation process of HNBA on a continuous basis. In the pyramid presented below stakeholders are mapped based on the level of influence they have over us and the level of interest they have in us.

Focus: An Integrated Approach

Our desire is to take an integrated approach towards stakeholder engagement rather than having an isolated discussion around specific topics.

This untiring effort was carried out from the ground level where our staff meets client to the top level where the business strategies are discussed.

Further, the engagement mechanisms listed were not prepared for the purpose of preparation of this report and the Company is committed to act according to what has been mentioned here.



Reference: GRI-G4 G4-24



Reference: GRI-G4 G4-26 G4-27

STAKEHOLDER ENGAGEMENT MECHANISMS

Stakeholder Group	Purpose of Engagement	Engagement Activity	Frequency	Concerns Raised	Our Response	Engagement Strategy
Shareholders and Investors	Timely and relevant information to existing/potential investors	Interim Financial Reports	Quarterly	Attractive dividends	Dividend was reduced in light of the drop in profits during the year. However, we increased the Dividend pay-out to 51% of the profits from 45% in last year	Partnership
	Decisions via the exercise of voting rights	Annual Reports	Annually	Maintaining liquidity of shares	HASU traded 83% of market days	
	Raise concerns	Annual General Meeting	Annually	Clarification about Financial / Operational Ratios	Shareholder suggestions are taken into account in providing financial/ operational information in Annual Report	
		Access to Chairperson/ CEO (Acting)/ Board Secretary via email/ letter/telephone	Any Working Day	Information about the Company in other languages	Sinhala and Tamil language translations of Reviews of Chairperson, CEO (Acting) and key financials are provided with the Annual Report	
Employees	Create and maintain a motivated workforce	HNBA/HNBGI intranets	Regularly	Attractive remuneration	Increased salaries on par with industry	Partnership
	Be a responsible and sought after employer	Staff conference	Annually	Training opportunities	A wide array of training opportunities provided	
	Get valued input from employees to improve the value creation process	Management Meetings/Distribution Management Meetings	Quarterly	Work-life equilibrium	Training provided to management level employees on good HR practices	
		Employee Satisfaction Survey	Annually	Improved relations between superiors and subordinates	Survey results/ exit interview results shared with the management teams for improvement	
		CEO's forums	Annually			
		Whistle-blowing policy and process	All employees are educated on policy			
		Exit interviews	At all resignations			
		Open-door culture	Continuously maintained			
		Performance reviews	Bi-annually			

Reference: GRI-G4 G4-26 G4-27

Stakeholder Group	Purpose of Engagement	Engagement Activity	Frequency	Concerns Raised	Our Response	Engagement Strategy
Customers	Information on HNBA products	Online help-desk and 24 hour customer hotline	365 days x 24 hours	Assistance during accidents	A state-of the-art Customer Service Centre to assist customers 24/7	Partnership
	Identify insurance needs	Number of branches increased up to 54 plus the Customer Service Center	On all working days	Improved service levels	Targeted training programmes for all front line staff and Motor assessors	
	High level of service	Customer news letter	Bi-annually	Hassle free claims settlement	Service counters at Customer Service Center rearranged at ground floor for the convenience of customers	
	Assistance in the event of a claim	Propaganda vehicle travelling island-wide creating product awareness	Visited 92 villages during the year	Innovative products		
	Improve customer loyalty	Interactive trilingual website	Could be accessed anytime on payment receipt			
		Web inquiries				
		25 SMS services				
		Facebook page				
		Android Applications				
Regulator (IBSL)	Adherence to rules and regulations	Submission of returns as stipulated by the IBSL	As per stipulated dates given by the IBSL	Clarifications about information provided by us	Prompt response to queries	Participation
	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.			Submitting of statutory returns well before target dates	
	Approval for new products	Prompt and appropriate responses to queries raised by the IBSL				

Reference: GRI-G4 G4-26 G4-27

Stakeholder Group	Purpose of Engagement	Engagement Activity	Frequency	Concerns Raised	Our Response	Engagement Strategy
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	Monthly	Need for Training	328 training programmes were carried out for Advisors with over 4,000 participants	Partnership
	Gain the financial backing of our Reinsurers	Sales Clinics conducted for Advisors	Monthly	Prompt payments	Payments made on a monthly basis for Advisors and Brokers on an agreed date	
		Award ceremony for HNB branches	Annually	Rewards	Top performing Advisors are recognised annually	
		Training offered to Advisors and Brokers	Based on an agreed training calender		Top performing HNB branches are recognised bi-annually	
		Get-togethers organised for Business Partners and our own staff	Annually or Bi-annually			
		Communication via e-mail with Reinsurers	Continuously			
		Regular meetings with Reinsurers	Throughout the year			
Community	Contribute to the development of the communities which we are a part of	Media statements	When there is a need to release information	Community needs such as water facilities for schools, equipment needs of hospitals/ sports teams and other community groups	Review such requests and fulfil them if they fall in to our CSR criteria	Participation
	Discharge our responsibility as a good corporate citizen	Consultation of community members through our branch network to identify community needs	On a continuous basis	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.	On a continuous basis			

Reference: GRI-G4 G4-DMA G4-EC1

Value added to Stakeholders

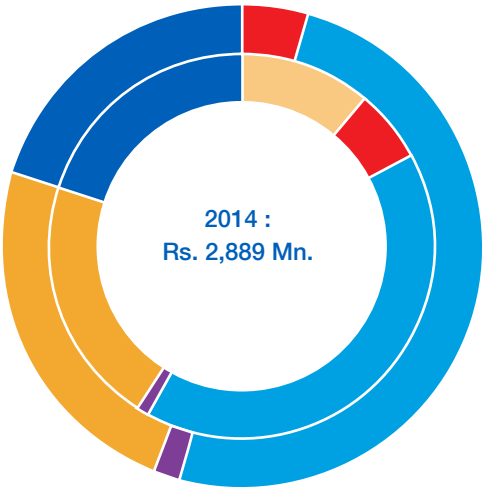
Our business model functions to generate sustainable economic returns, not only to our investors but to all stakeholders. Thus, we take measures to effectively leverage on all our resources to generate higher value, and thereby offer higher returns to our stakeholders. Illustrated below is how we have added value to all our stakeholders.

Employees
2015 Rs. 597 Mn.
2014 Rs. 576 Mn.

Intermediaries
2015 Rs. 753 Mn.
2014 Rs. 598 Mn.

Government
2015 Rs. 60 Mn.
2014 Rs. 19 Mn.

2015 : Rs. 2,985 Mn.



2014 : Rs. 2,889 Mn.

Life Policyholders
2015 Rs. 1,463 Mn.
2014 Rs. 1,193 Mn.

Shareholders
2015 Rs. 100 Mn.
2014 Rs. 187 Mn.

Society
2015 Rs. 3 Mn.
2014 Rs. 3 Mn.

Expansion and Growth
2015 Rs. 9 Mn.
2014 Rs. 313 Mn.

The Risk Takers: Investors

Investors, both existing and potential, are the providers of the financial capital of our business. Hence we consider it as our primary duty to create sustainable value for them through our value creation process.

The confidence that our investors have placed on us shows their solidarity with our strategies, goals and values. We place great respect on our investors and are committed to provide them with the best possible returns. Here unravels the story of how we put this commitment in to action.

VALUE DELIVERED THROUGH STRATEGIC FOCUS

At HNBA we believe that creating sustainable value to our investors in the current highly competitive market environment could be done only by exercising a holistic approach which addresses the expectations of all our valued stakeholders. The diagram below gives a snapshot of how we meet these expectations, while our actions in this regard are discussed in detail throughout this Annual Report.



Focus: Increase Return on Investment

Investors are a crucial stakeholder category within our business model and hence, we pay immense attention on ensuring that their returns are stable and attractive. During the year under review, we recorded a Profit After Tax of Rs. 197 Million (2014: Rs. 418 Million), attributable to our shareholders. The decrease in profits compared to the previous year is due to the high claims costs experienced by our subsidiary, HNB General Insurance Limited. A detailed discussion on the General Insurance business, the reasons for the losses, and actions taken to address the concerns, is available on pages 82 to 96. We are confident that this drop in profitability is only temporary and that the corrective actions we have implemented would deliver better results from the year 2016 onwards.

The following table provides a snapshot of all investor-related performance indicators for the past five years.

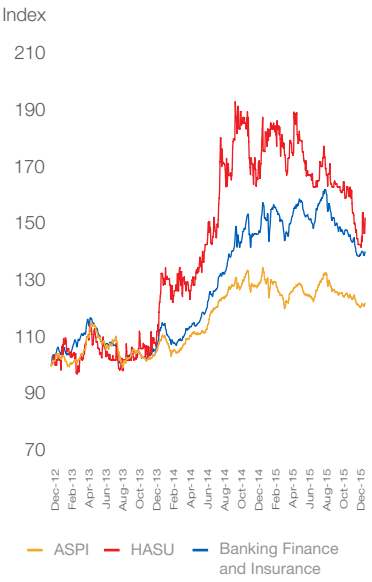
Year	2015	2014	2013	2012	2011
Market price per share (Rs.)	74.60	83.50	52.50	49.00	56.90
Number of shares in issue (Mn.)	50	50	50	50	50
Market capitalisation (Rs. Mn.)	3,730	4,175	2,625	2,450	2,845
Earnings Per Share (Rs.)	3.95	8.35	7.78	7.02	5.14
Book value Per Share (Rs.)	45.68	48.27	42.26	37.34	32.32
Price to Earnings (times)	18.89	10.00	6.75	6.98	11.07
Price to Book (times)	1.63	1.73	1.24	1.31	1.76
Earnings yield	5.29%	10.00%	14.82%	14.33%	9.03%
Dividend yield	2.68%	4.49%	6.19%	5.61%	3.69%
Dividend pay-out ratio	50.63%	44.91%	41.77%	39.17%	38.23%
Dividend per share	2.00	3.75	3.25	2.75	2.10

Share Price Performance

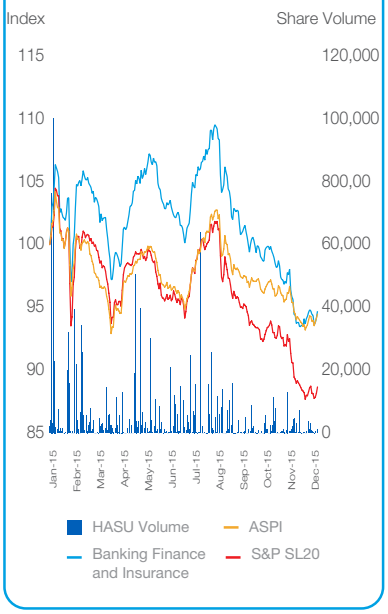
Following the general trend of the equity market, where the All Share Price Index (ASPI) and S&P SL20 at the CSE declined 6% and 11%, respectively, HASU too experienced a rough time in 2015 and closed at Rs.74.60 (2014: Rs. 83.50).

Although this indicates a 10.66% dip in the share price in comparison to the previous year, it is positively noted that HASU posted a strong level of capital appreciation at Compound Annual Growth Rate (CAGR) of 15.03% for the three year period from 31st December 2012 to 31st December 2015. Its market liquidity level was also high, at 83%, trading on 200 market days out of a total of 241. The performance of HASU against the ASPI and the Banking, Finance and Insurance Index (BFI) over the past three years is graphically presented below.

HASU Performance vs Market (over 3 years)



HASU Share Volumes and Relative Performance vs Market

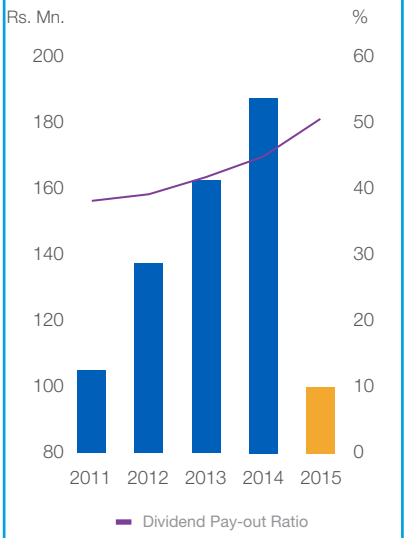


Attractive Dividends

For the year ending 31st December 2015, the Board of Directors declared a first and final dividend of Rs. 2.00 per share (2014: Rs. 3.75). This dividend distribution recommendation was taken by the Board of Directors after a careful review of the regulatory and business capital requirements of the two companies, and after retaining adequate capital to assist future business development.

It is noted that although the total dividend pay-out in absolute terms was limited to Rs. 100 Million due to the Group's lower profitability, the Group increased its pay-out percentage to 51% (2014: 45%) to ensure that an attractive return is provided to our investors.

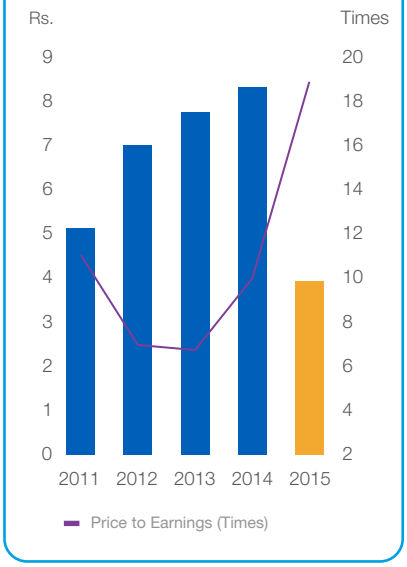
Gross Dividend Vs Dividend Pay-out



Earning Value of HASU

Following the dip in profitability, Earnings Per Share (EPS), which represents the portion of profits allocated to each issued ordinary share, declined by 53% to reach Rs. 3.95 (2014: Rs. 8.35). Consequently, the Earnings Yield, which depicts EPS as a percentage of the closing price of the share, declined to 5.3% during the year under review (2014: 10%).

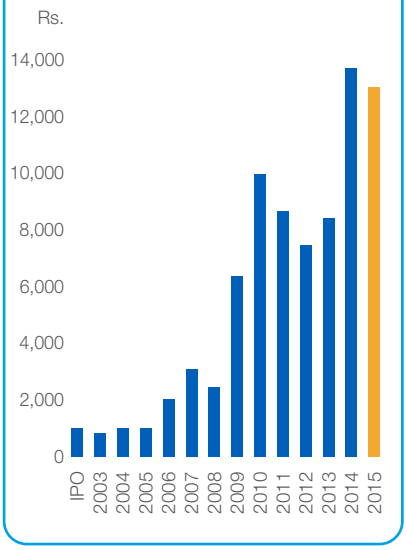
Earnings Per Share vs Price to Earnings



Rs. 1,000 Invested at HASU IPO

Rs. 1,000 invested at the HASU IPO in 2003 would have accumulated to a total wealth of Rs. 13,044 by the end of 2015. Accordingly, the HASU IPO investor is rewarded with a CAGR of 21.84% over a time horizon of 13 years.

Rs.1,000/- Invested at HASU IPO



Focus: Accurate and Timely Information

We believe that it is our duty to engage with our investors and provide accurate, timely information. Hence, we have in place a formal Shareholder Communication Policy, to which we strictly adhere. Further details in this regard can be read in Corporate Governance Report on page 171.

With regard to the provision of accurate and timely information to investors, we do not merely adhere to the regulatory requirements such as complying with the Listing Rules of the CSE and posting Annual Reports to our investors. We also undertake numerous additional voluntary measures. Please refer page 107 for further details on investor engagement mechanisms.

Details on the dissemination of financial information to investors can be read in our Financial Calendar in page 216.

FUTURE MATTERS

In and beyond 2016, our investors will remain a core component of our business model. Going forward, our main aim is to improve the profitability of our subsidiary, thereby improving their wealth. We will strive to continue our past legacy of continuously improving the returns of our investors, while acting transparently and following good corporate governance practices.

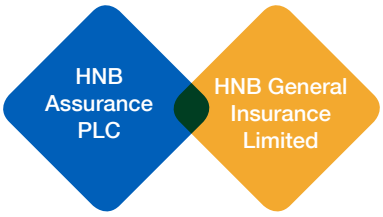
Share Information

Total number of shares in issue as at 31st Dec 2015	50,000,000
Public shareholding as at 31st Dec 2015	39.21%
CSE Ticker	HASU.N0000
Bloomberg Code	HASU: SL

Please refer pages 359 to 362 for more information on shares

The Reason Why We Exist: Customers

Customers are the reason for our existence. It originated right from the birth of our Company, HNB Assurance. Since then we have been strengthening our bond with our valued customers and continue to work towards meeting their insurance needs professionally with spirit of caring. The birth of our subsidiary, HNB General Insurance Limited further expanded horizons for us and now we are equipped to serve you better with more focus under two brands.



Being an insurer, our customers trust us to care for the most precious people and items of their lives. We treat this trust with utmost respect, and are committed to ensure that we are worthy of this trust. This is the story of how we dedicate ourselves to bring them peace of mind.

VALUE DELIVERED THROUGH STRATEGIC FOCUS

The loyal customer base we have earned in this 14 year journey is diverse in many aspects and our multiple brands, products and distribution channels enable us to cater to all our customer's needs exceeding their expectations.

Through the Life Insurance Business Review on pages 70 to 81 and Subsidiary Performance Review on pages 82 to 96 we have discussed the value delivered through strategic focus to our customers during the year 2015.

Brand Building

- Promotions
- Research
- Marketing campaigns
- Social media campaigns
- Publications
- Website
- TV and Radio
- Advertisements

Customer Service

- Competent staff
- Call center
- Customer service
- Mobile applications

Education and Awareness

- TV and Radio Discussions
- Events
- Brochures
- E flyers

Loyalty of Our Customers

What We Offer Them

- Dividends and Bonuses
- Opportunities
- Innovative products
- Protection

Focus: Understanding Our Customer Needs

Understanding the changing needs of our customers is vital in being able to satisfy them. It also assists us to develop insurance solutions which are attractive while maintaining an optimized balance between affordability of products, competitive pricing and delivering our promise of being the 'most admired and trusted partner in meeting insurance needs'.

Our Engagement in Market Research

- With the aim of providing innovative insurance solutions and efficient customer service, both HNBA and HNBGI carry out regular market studies and analysis to identify trends in changing consumer behaviour.

- During the year HNBA's propaganda unit conducted research activities to identify the affordability of insurance policies in rural areas covering Ampara, Monaragala, Polonnaruwa, Aranaganvilla, Thissamaharama and certain other areas.

- Further, a research was conducted by HNBGI covering the entire branch network to identify shops that have not obtained any insurance cover to protect themselves against the possible risks.

- Comparisons with competitor sites are constantly carried out and we also use the expertise of intermediary agents to gather information on competitor activities.

Focus: Enhancing Customer Service

Customers and the service we provide them are at the core of our business. Therefore we continuously strive to improve accessibility through our products and business model to serve their evolving needs.

Service Improvement Through Redesign

Our sales force and the branch staff ensure a positive customer experience is delivered in a consistent manner and at the same time we focus on improving servicing experience through continuous process improvement and redesigning of our operating model. As a result during the year Life Insurance Business was able to,

> lower the time taken for new business policy conversion by use of technology

> improve underwriting standards while making the processes easier for customers

> enhanced claim settlement ratio (please refer pages 77 and 93 for more details)

The General Insurance Business arm also took on initiatives to minimize the time taken to issue policies, settle claims and maintain service standards.

Accessibility through Multi Facet Distribution Network

Over the years we have developed strong distribution capabilities to reach our customers and potential customers across the country through our branch network and the diverse insurance channel mix.

This multi-faceted distribution network is a mediator between the customers and us to obtain feedback of their changing needs and adapt ourselves to meet those requirements.

Our distribution network is given on page 10.

Payment Convenience

Accessibility of premium payment is a major factor contributing to customer satisfactions as modern customers seek convenience when choosing their insurance partner. Keeping this in mind we offer many access points covering 6 leading commercial banks of the country and 2 major mobile service providers to our customers to make the premium payment process hassle free.

Focus: Innovative Product Design

Meeting insurance needs of our customers innovatively determines the success of our business and hence we continuously introduce new products to the market and also redesign existing products to suit the changing needs of the customers. The development of the products are carried out by a dedicated professional team along with the consultation of the expert support of Actuaries.

Details of the products developed and redesigned can be read on page 76 and our portfolio of products meeting multiple customer needs can be read on pages 12 to 13.

Focus: Distinct Brand and Market Positioning

Brand name is what makes us visible in the market place and brand positioning is an important tool which enables us to achieve competitive edge. Hence, the brand is an asset owned by us which conveys customer promise, business values and company stability in the market. During the year we have taken several measures to clearly communicate our brand to consumers and thereby build brand awareness in the hearts of consumers.

Promotions to Enhance Brand Awareness

We carried out many promotional activities to increase our brand visibility and awareness among our existing and potential customers.

SLIM Nielsen People's Award

We were the official insurance partner for SLIM Nielsen People's Award 2015, one of the most prestigious and renowned award shows in Sri Lanka.

Liya Harasara – Third Edition

In 2015 HNBA successfully carried out "Liya Harasara" third edition during the month of March to commemorate International Women's Day. Liya Harasara is our tribute to womanhood and recognises the importance of insurance for women in Sri Lanka. This policy offered a free life cover up to one million rupees and if a male obtains a policy the free life cover was given to the wife.

Partnering with HNB Grameen

During the year HNBA partnered with HNB Grameen Micro Finance Limited to offer Life Insurance covers to their clientele. Through this insurance solution, the beneficiary and the family is protected against the risk of loan default obtained from HNB Grameen as the proceeds of the Life Insurance cover can be used to settle the loan outstanding balance.

First Short Film on Safe Driving

HNBGI produced the first ever public service announcement short film under the tag line "It can wait" informing the general public of ill effects of using a mobile while driving. This film received recognition at the 23rd Annual Raindance Film festival, in London.

Digital Marketing Drive

HNB Assurance PLC and HNB General Insurance Limited both put great effort to position our brands in the hearts of consumers via digital marketing. The target market of this campaign is Generation Y (males and females born between the 1980's and early 2000's), who are the future of the business. While traditional marketing methods are used to cater to the traditional and mass market, we were able to be the top in attracting the attention of social digital media users.

Reference: GRI-G4 G4-DMA G4-SO7 G4-PR4 G4-PR6 G4-PR7 G4-PR9

Digital Assets

A well-defined digital strategy for Facebook, Twitter, Linkedin and YouTube, enables the highest engagement rates amongst peers, the largest fan following and a robust e-commerce channel.

Social Media

130,000

Active Members in Twitter and LinkedIn

Awareness Campaigns

- SuperHero Art Competition
- My Passion Quiz Competition
- World Cup Cricket Tag Share Competition
- My Car Snap and Win Competition

SMS Based Products

Ranmedura - Household Insurance Policy

Online Based Products

e-home
e-travel
e-motor

Insurance Blogs

www.hnbassuranceblog.com
- Over 5,800 Views

www.hnbgeneralblog.com
- Over 2,000 Views

Focus: Enhanced Customer Relationship Management

Maintaining a healthy relationship with our customers is vital for the continuity of the business as happy customers will contribute to our growth.

Safe Products and Compliance

We deliver safe and trustworthy insurance solutions to our customers while adhering to all regulatory requirements enforced by the regulator and any voluntary codes concerning marketing communications in the country. Therefore no monetary fines have been imposed upon the Company. Head of the relevant operational divisions, CFO, Head of Marketing, Actuary and Manager Legal are held responsible for the product development process and all products are designed by a well experienced team operating in the Company.

Comprehensive Product Details

All relevant product information is included in policy documents and hence our customers have the full discretion of selecting or rejecting the solutions offered by us. Relevant information is available on policy agreements, promotional brochures, and in media advertisements. We have also taken measures to train our staff and agents about policy terms and conditions to enable them to serve our customers better catering to all concerns raised by the customers. And no product of HNB Assurance has been banned by the Regulator during 2015 (2014: 0). Also no fines were imposed on the Company for non compliance of laws and regulations concerning the provision and use of products and services.

Healthy Competition

Our customers possess a great amount of knowledge on the products available in the market and are always concerned about the ethical behaviour of the players in the industry and no legal action was filed against the Company for anti-competitive behaviour during 2015. Hence, we always discourage collusive behaviour and adhere to all regulatory requirements applicable. Furthermore, necessary approvals are taken from the regulator when introducing a new product or carrying out a product revision to ensure high levels of customer satisfaction.

Grievance Management

We identify the significance of Customer Grievance Mechanism as a grievance indicates a failure of delivering our promise of giving them the best possible service and

satisfaction. We have established two units; Policy Conservation Unit (PCU) and Customer Grievance Management Unit (CGMU) to address concerns and grievances of our customers. PCU handle customer complaints, customer inquiries and issues related to continuing insurance and CGMU address grievance related to Advisors. Complaints with regard to claim settlement is directed to the claim panel where an independent review is conducted on the matters directed. Also, disciplinary actions are taken against employees found guilty of misappropriation of funds.

Protecting Privacy of Customers

Given the nature of the relationship we create, our customers disclose much personal information to us and it is our duty to protect the confidentiality of information disclosed by them with utmost responsibility. We have embedded the importance of protecting the confidentiality of our customers in our Code of Ethics for employees and ensure our Advisors give due attention in protecting the confidential information of the customers at all times. Therefore during the year 2015 we did not receive any complains regarding loss of customer information.

Delivering Social Benefits

Low income earning customers are also a customer segment that we deal with daily. Their inability to create substantial impact on our business is not a reason for us to reduce our focus on them. Therefore with the support of our parent company HNB, we have carried out many activities to reach this market and support them to develop their business by providing them security and guidance against specific perils in exchange for regular premium payments.

HNB Assurance PLC has introduced two main products, Micro Insurance and Ranaswanu, to cater this market.

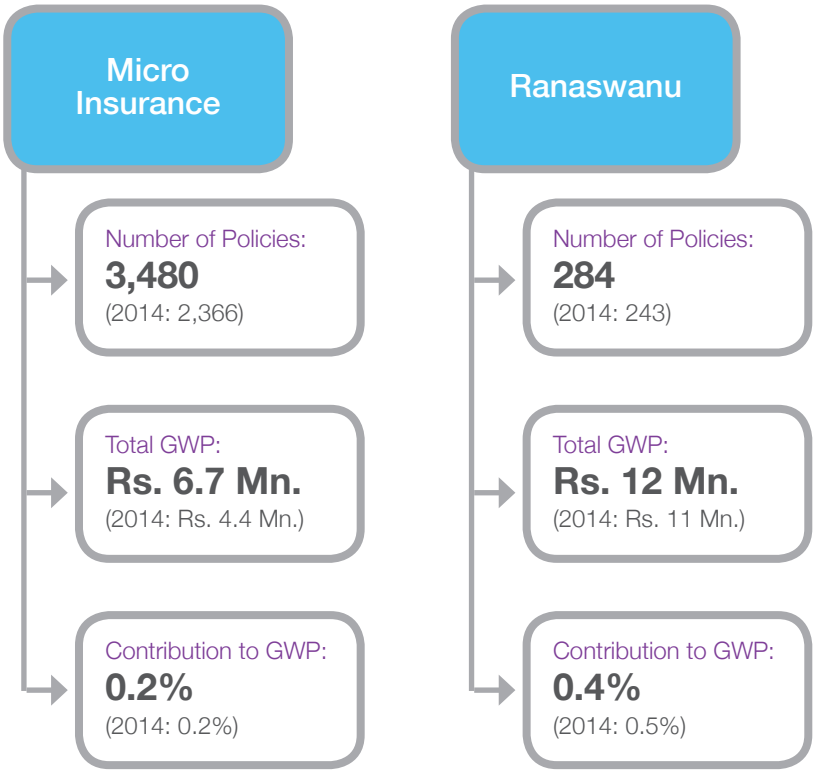
FUTURE MATTERS

The Group's strategy for the next year builds on the past yet addresses emerging future challenges and opportunities. 2015 was the first year in which we segregated our Life and General Insurance activities and the main focus of 2016 is given to establish HNBA as a Life Insurance solution provider and HNBGI as a General Insurance solution provider in the minds of the customers and satisfy all their Life and General Insurance needs.

Right Selling

Key product features, charges etc. are shared with the customer in a transparent manner before issuance of a policy. This helps prevent any potential mis-sale, while reducing cheque returns and refunds and improving overall persistency.

This leads to ↓ in policy cancellations



Reference: GRI-G4 G4-DMA

Our Life Line: Employees

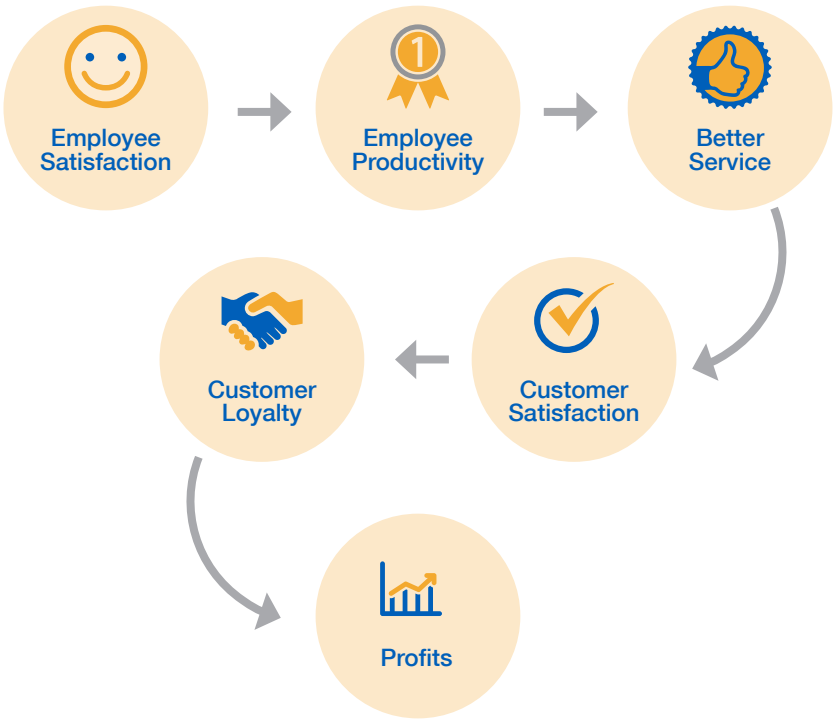
Our employees are the drivers of our value creation process without whose untiring efforts, all other forms of capital will remain unproductive. Further, as an insurance solutions provider, our competitive advantage lies in the level of service provided by our employees. Hence, strengthening and sharpening our human capital is considered a key priority in our corporate strategy.

Our employees take our brand to the market. They are the Company's symbol within the society. It is due to their unwavering efforts that we have been able to reach great heights within our short life span. Read on to discover the story of how we have created a place where our employees can shine.

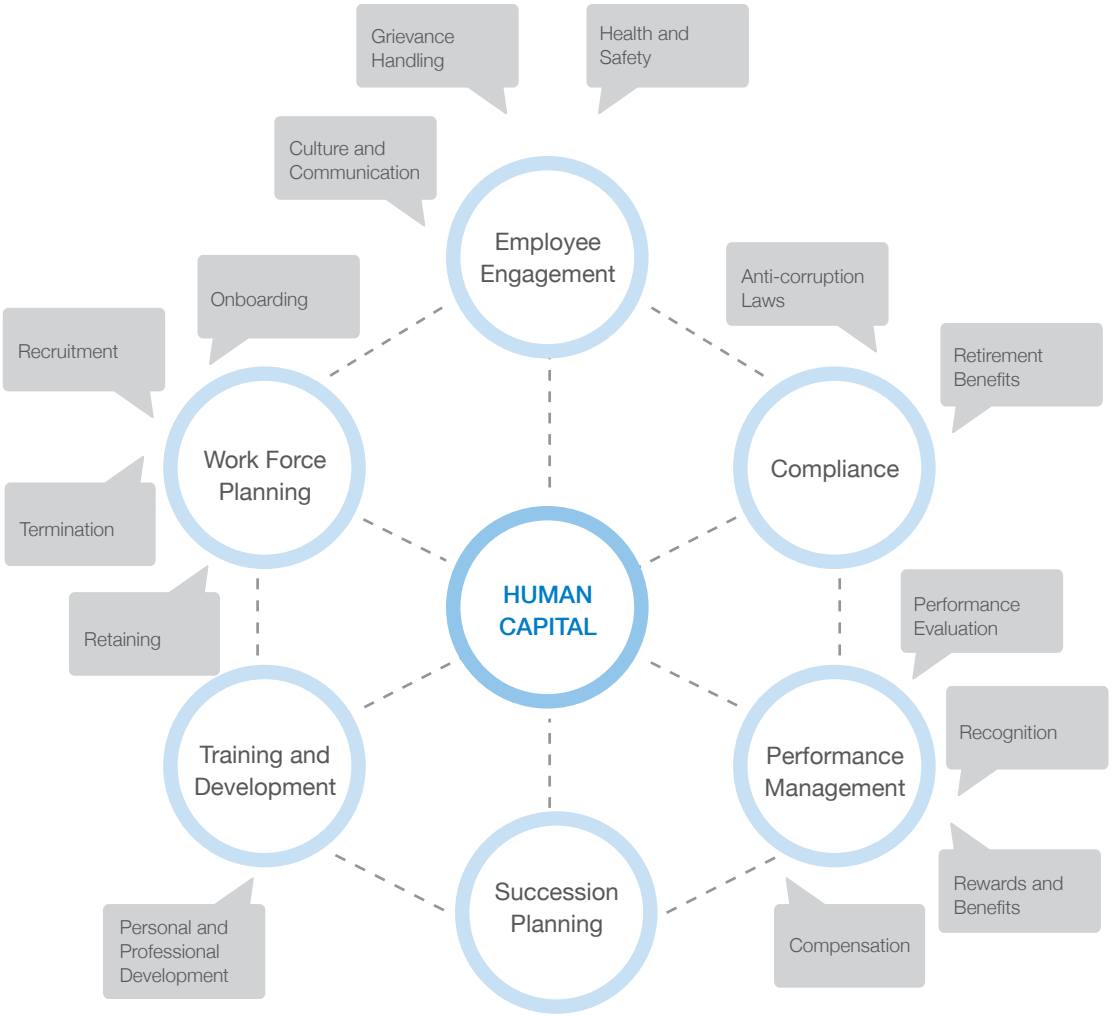
VALUE DELIVERED THROUGH STRATEGIC FOCUS

We engage in continuous efforts to expand, refine and upgrade our diverse pool of talent, with the core objective of offering our employees a fulfilling career in a place where they can shine. Our long term human resource strategy is fully aligned to our corporate strategy and focuses on recruiting the right caliber of people, training, developing, empowering and retaining them to drive the value creation process of the Group. Further, we ensure that we offer a safe, conducive environment for work, adhering to all labour laws applicable in the country and have structured grievance handling and change management processes in place.

All employee policies and procedures are common to employees of the Group.



Reference: GRI-G4 G4-DMA



Focus: Strengthening our work force through diversity and equal opportunity

Attracting the Best whilst Ensuring Diversity

We strongly believe our success is a function of the talent we possess. Hence we strive to attract the best talent to our team. We source internally, filling positions from our existing cadre, and externally, through career fairs, leads through social media and other forms of media to attract fresh blood.

As an equal opportunity employer, our recruitments are based on qualifications, merit and capabilities, regardless of race, faith or gender. In line with our corporate value of fostering diversity as a corporate strength, our employment opportunities are not restricted to any part of the country but span across the entire nation.

Reference: GRI-G4 G4-LA1

Presented below are our new recruitments according to gender, staff category and as per geographic distribution.

New Recruits by Gender

Gender	2015		2014	
	Number of New Recruits	As a % of Average Staff	Number of New Recruits	As a % of Average Staff
Male	109	22%	115	24%
Female	126	37%	90	26%
Total	235	28%	205	25%

New Recruits by Staff Category

Category	2015		2014	
	Number of New Recruits	As a % of Average Staff	Number of New Recruits	As a % of Average Staff
EXCO	-	-	-	-
Management	22	21%	19	23%
Executive	19	8%	41	18%
Non-Executive	194	40%	145	29%
Total	235	28%	205	25%

New Recruits by Province

Province	2015		2014	
	Number of New Recruits	As a % of Average Staff	Number of New Recruits	As a % of Average Staff
Western	146	29%	14	38%
North Central	12	41%	9	37%
Central	7	13%	11	37%
Southern	16	27%	13	36%
Northern	9	20%	14	33%
Eastern	20	45%	18	33%
North Western	6	17%	14	30%
Uva	10	33%	103	21%
Sambaragamuwa	9	23%	9	15%
Total	235	28%	205	25%

Reference: GRI-G4 G4-10 G4-LA12

Accordingly, we have recruited 235 employees, 46% males and 54% females across all staff categories and geographic regions of the country.

True to our intentions we have maintained a good gender balance during the year maintaining female participation at 42% of the total cadre with no significant variation across the geographic distribution as seen in the tables presented below. We note that female participation in managerial and above grades is lower than 15% and have taken steps to increase females in managerial grades. Nevertheless, female participation at Board level is 25%.

Employees by Gender

Gender	2015	2014	2013	2012	2011
Male	58%	58%	57%	58%	60%
Female	42%	42%	43%	42%	40%

Employees by Staff Category and Gender

Staff Category	2015			2014			
	Male	Female	Total	Male	Female	Male	Female
EXCO	9	-	9	100%	-	100%	-
Managers and Assistant Managers	102	17	119	86%	14%	82%	18%
Executives	103	48	151	68%	32%	71%	29%
Non-Executives	275	282	557	49%	51%	43%	57%
Total	489	347	836	58%	42%	58%	42%

Employees by Province and Gender

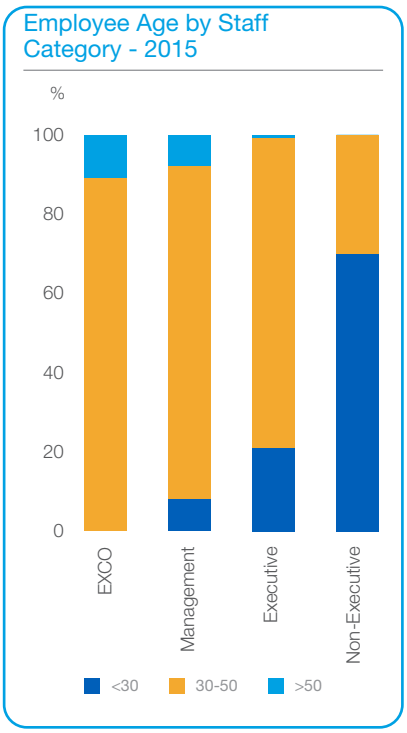
Province	2015					2014				
	Male	Female	Total	Male	Female	Male	Female	Total	Male	Female
Western	300	206	506	59%	41%	285	202	487	59%	41%
North Central	21	12	33	64%	36%	14	12	26	54%	46%
Central	27	22	49	55%	45%	34	27	61	56%	44%
Southern	31	27	58	53%	47%	34	27	61	56%	44%
Northern	27	16	43	63%	37%	29	18	47	62%	38%
Eastern	27	20	47	57%	43%	27	14	41	66%	34%
North Western	19	14	33	58%	42%	20	16	36	56%	44%
Uva	14	14	28	50%	50%	17	15	32	53%	47%
Sambaragamuwa	23	16	39	59%	41%	22	16	38	58%	42%
Total	489	347	836	58%	42%	482	347	829	58%	42%

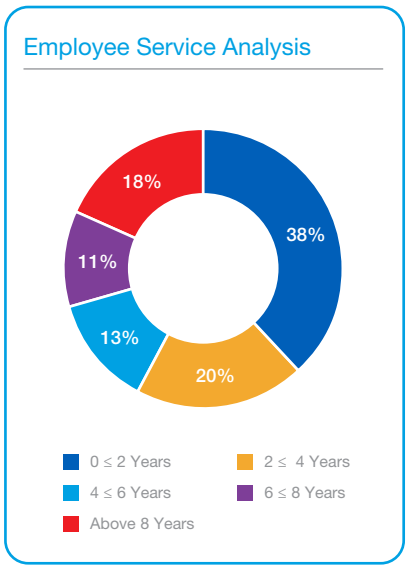
Reference: GRI-G4 G4-10 G4-LA12

Our team consists of a sound blend of youth who bring fresh ideas and more experienced personnel. 51% of our staff is below the age of 30 while 47% are between 30 and 50 years. Given below is a detailed breakdown of our age mix across staff categories according to gender.

Employees by Staff Category, Age and Gender

Staff Category	2015									2014								
	Age Group									Age Group								
	<30			30-50			>50			<30			30-50			>50		
	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total	Male	Female	Total
EXCO	-	-	-	6	-	6	3	-	3	-	-	-	8	-	8	1	-	1
Managers and Assistant Managers	6	3	9	91	12	103	7	-	7	2	2	4	67	15	82	7	-	7
Executives	26	7	33	81	41	122	1	1	2	54	27	81	158	59	217	1	1	2
Non-Executives	167	220	387	102	62	164	-	-	-	134	201	335	50	42	92	-	-	-
Total	199	230	429	280	115	395	11	1	12	190	230	420	283	116	399	9	1	10
Percentage of Total Staff	24%	28%	51%	33%	14%	47%	1%	0%	1%	23%	28%	51%	34%	14%	48%	1%	0%	1%





Employees by Employment Contract and Gender

	2015					2014				
	Male	Female	Total	Male	Female	Male	Female	Total	Male	Female
Permanent Employees	476	295	771	62%	38%	469	299	768	61%	39%
Fixed Term Contract	13	52	65	20%	80%	13	48	61	21%	79%
Total	489	347	836	58%	42%	482	347	829	58%	42%

Reference: GRI-G4 G4-LA12

Employees by Service Range

Service Range	No. of Employees 2015	2015	No. of Employees 2014	2014
0 ≤ 2 Years	320	38%	326	39%
2 ≤ 4 Years	165	20%	153	18%
4 ≤ 6 Years	107	13%	122	15%
6 ≤ 8 Years	93	11%	94	11%
Above 8 Years	151	18%	134	16%
Total	**836**	**100%**	**829**	**100%**

Majority of our employees have a long service with us as 42% of our staff have been with us for over four years and 18% over eight years.

Making Them Comfortable: The New Recruits

We consider welcoming new employees and familiarizing them to our organization as a critical factor which would enhance their performance and productivity during their stay. Hence we first familiarise the recruits by introducing them to line managers, explaining Group procedures and assigning a buddy who will act as a guide during the first few months of his/her employment.

We allow time for the employee to settle down at his/her new location and then call them for an induction programme within two months of recruitment. At this stage they are addressed by the top management of the Company and are given an opportunity to voice their concerns. This is a unique opportunity given to new recruits with the intention of creating and instilling the open and friendly culture while inculcating the values and ethics of the Group.

In addition, all new recruits are called on for a review after 3 months which is conducted for the purpose of obtaining feedback from the recruit and this is used for future improvement of the on-boarding process.

Retaining the Best is a Challenge

In a highly competitive environment it is extremely challenging to retain staff, especially the highly talented as new and even existing industry players attract experienced staff. Retention of staff is vital for the smooth functioning of the operations of the Group and it also mirrors the motivational level of the employees. Hence, retention is a very important facet of our human resource strategy.

However, it is regretting to note that our employee turnover ratio increased to 27% in 2015 compared to the 22% recorded in 2014. Turnover excluding fixed term contract employees is 21%, which too has increased compared to last year.

We have taken steps to address this issue by understanding the reasons for the high turnover and addressing the specific concerns of the employees at various levels.



Wesak Bhakti Gee Competition 2015



Christmas Celebrations at Head Office Premises

As part of the process, we conducted a salary survey with an independent expert and adjusted the gaps in compensation to our employees, if any.

During the year 2016, we have planned to conduct a number of employee engagement and motivational activities throughout the year targeting the improvement of employee retention in both companies.

Employee Turnover by Gender

Gender	2015	2014	2013	2012	2011
Male	21%	20%	22%	24%	22%
Female	37%	25%	23%	25%	27%
Total	**27%**	**22%**	**22%**	**25%**	**24%**

Employee Turnover by Contract

	2015	2014
Employee Turnover (with Fixed Term Contract Staff)	27%	22%
Employee Turnover (without Fixed Term Contract Staff)	21%	13%

Employee Turnover by Staff Category

Staff Category	2015		2014	
	Number of Resignations	Turnover Ratio	Number of Resignations	Turnover Ratio
EXCO	3	33%	1	10%
Managers and Assistant Managers	20	19%	8	10%
Executives	36	16%	35	16%
Non-Executives	169	34%	136	27%
Total	**228**	**27%**	**180**	**22%**

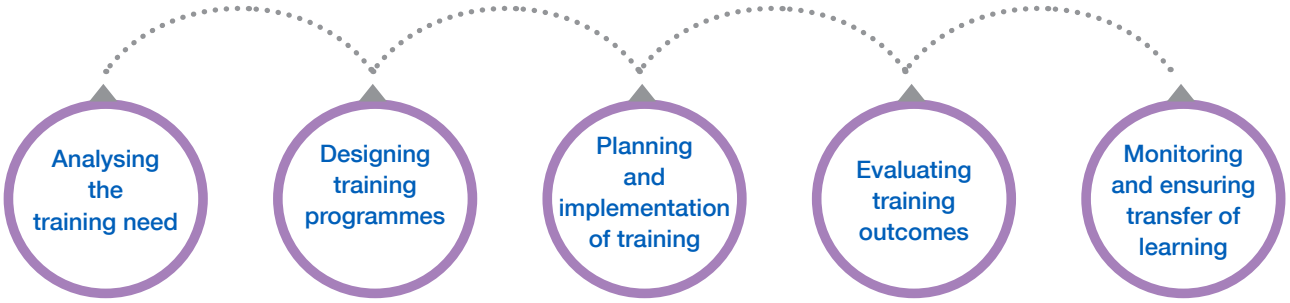
Employee Turnover by Province

Province	2015		2014	
	Number of Resignations	Turnover Ratio	Number of Resignations	Turnover Ratio
Western	134	27%	14	38%
North Central	11	37%	15	35%
Central	13	24%	11	31%
Southern	17	29%	12	26%
Northern	10	22%	6	24%
Eastern	14	32%	98	20%
North Western	7	20%	11	18%
Uva	14	47%	5	17%
Sambaragamuwa	8	21%	8	15%
Total	**228**	**27%**	**180**	**22%**

Reference: GRI-G4 G4-DMA G4-LA9

Focus: Training and Developing Our Employees

Training and development of staff is a vital factor to maintain a productive and motivated workforce. Hence, we continuously invest in the development of our people in technical, functional and managerial competencies. We have a comprehensive training policy in our Human Resource Handbook which is followed by the Group. Further, training and development of subordinates is considered as a key role of all managers and is a criteria used in their evaluation. Illustrated below is our approach to training.



We offered 154 training programs to our employees during the year, a break-up of which is given below. Although there is a slight decrease in the number of programs compared to the previous year the training hour per employee has been maintained at almost the same levels.

Number of Training Programmes	2015	2014
Internal Trainings	47	29
External Trainings	96	130
Overseas Trainings	11	10
Total Training	154	169

Training Hours per Employee	2015 Hrs.	2014 Hrs.
Managers and Assistant Managers	29.7	36.0
Executives	9.5	13.4
Non Executives	17.8	16.3
All Staff	17.2	17.8

Given below are the facilities we offer our employees to improve their technical and soft skills.

- Insurance academic programmes offered by our in-house HNBA General and Life Insurance Academy. The programmes in the academy are conducted by our senior management team who are well qualified professionals in the field. 18 staff members successfully completed the General Insurance Academy – foundation level in 2015.
- We have entered into a Memorandum of Understanding with the Sri Lanka Institute of Marketing (SLIM) to conduct in-house sales and marketing programmes and during the year 49 employees successfully completed the Diploma in Professional Selling conducted by SLIM.
- Career Guidance programme are held to guide employees. The objective of this programme was to address employee career concerns and to have one to one discussion with the Senior Management and external mentors.
- Outbound training programmes are conducted for each department to build team working abilities
- Reimbursement of approved professional exam fee charges based on the area of specialisation of the employee. The Company would reimburse the fee upon the successful completion of the exam.



Career Guidance Programme

Reference: GRI-G4 G4-DMA G4-11 G4-LA11 G4-LA13



Rewarding Our Staff

- The Company bears the annual subscriptions of employees who hold membership of professional bodies.
- An E- learning system is available for employees to enhance their knowledge on a variety of areas.
- Honorarium payments are provided for completion of exams approved by the Company in addition to the exam fee reimbursement.
- We maintain an in-house library, which is constantly updated with new additions
- Corporate membership at British Council library service
- To support employees in their professional education, we offer duty leave and study leave for examinations
- Facilities are given to obtain interest fee loans to finance educational needs
- Recognition of professional achievements of employees via the intranet, social media and the bi-annual staff magazine 'Puwath'

Focus: Performance Management to Maximize Performance

Performance evaluation process of employees is of vital importance to us as it is where the achievements of the Company and the employees are compared against the set KPI's. The objectives for each individual or division, trickles down from the overall Company goals which are identified through the corporate plan conducted every year. These objectives are directly linked to employee rewards, enticing employees towards positive achievement. This review also acts as a platform for a constructive two way discussion between superiors and subordinates and also enables to identify areas for improvement, training needs and to obtain feedback. Apart from the year end performance evaluation we also carry out a bi-annual employee review to give employees a feedback of their performances and how they could improve performance to achieve the year-end targets or objectives.

In 2015, 628 employees received performance reviews, and this number translates to 75.12% of total employees (2014: 74%). Probationary employees are excluded from the overall performance appraisal mechanism, but are also subjected to two appraisals, one during the interim of their period of probation, and another during the end of such period, with the objective of assessing their eligibility for confirmation.

Compensating Their Efforts

In order to attract and retain the best talent, the Group offers lucrative remuneration on par with industry standards. We ensure an equitable and fair remuneration policy free of discriminatory factors relating to gender, race, faith or any other diversity related facts. Hence there is no difference between salary scales of males and females.

All Employees are entitled to a fixed component of remuneration comprising salary and allowances with the variable component being bonuses and other monetary and non-monetary benefits. No employees were covered under collective bargaining agreements.

Our employees are compensated based on their performance levels and all salary increments, bonuses and promotions are recommended based on performance. This evaluation is made at the year end appraisals of employees and is applicable for employees of all categories, inclusive of EXCO. The Remuneration Committee then reviews the promotions and recommends to the Board the remuneration package based on the remuneration policy of the Company.

Reference: GRI-G4 G4-LA2

Self Esteem

Our employment policies are not merely restricted to remuneration but include elements of recognition, acknowledgement and rewards

Our working environment promotes contact and friendship with fellow workers, social activities and opportunities

Sense of Community

Benefits for Our Employees Include:

- Personal and Professional Development
- Attractive Remuneration
- Insurance Covers and Medical Benefits
- Loan facilities*
- Recreational facilities
- Retirement benefits*
- Statutory Leave*
- Employee Welfare
- Annual Events

Self Actualisation

We provide an opportunity for employees to realise their dreams and potential

We provide a safe, non-discriminatory work environment and job security

Personal Financial Security

** Available for full time employees only*

Rewarding and Recognising

Giving due recognition is a vital aspect of our Human Resource strategy as it is one of the ways in which we can motivate our employees to be better performers. This also creates a sense of passion towards what they do. During the year under review, 8 outstanding performers who performed beyond the call of duty were honoured with one of the most prestigious rewards offered by the respective Companies, to an employee in the form of the "Chairman's Award for Excellence".

In addition, employees in the distribution channels are recognized for their achievements with special monetary and non-monetary awards annually.



Chairman's Awards - HNBGI



Chairman's Awards – HNBA

Focus: An Engaged Workplace

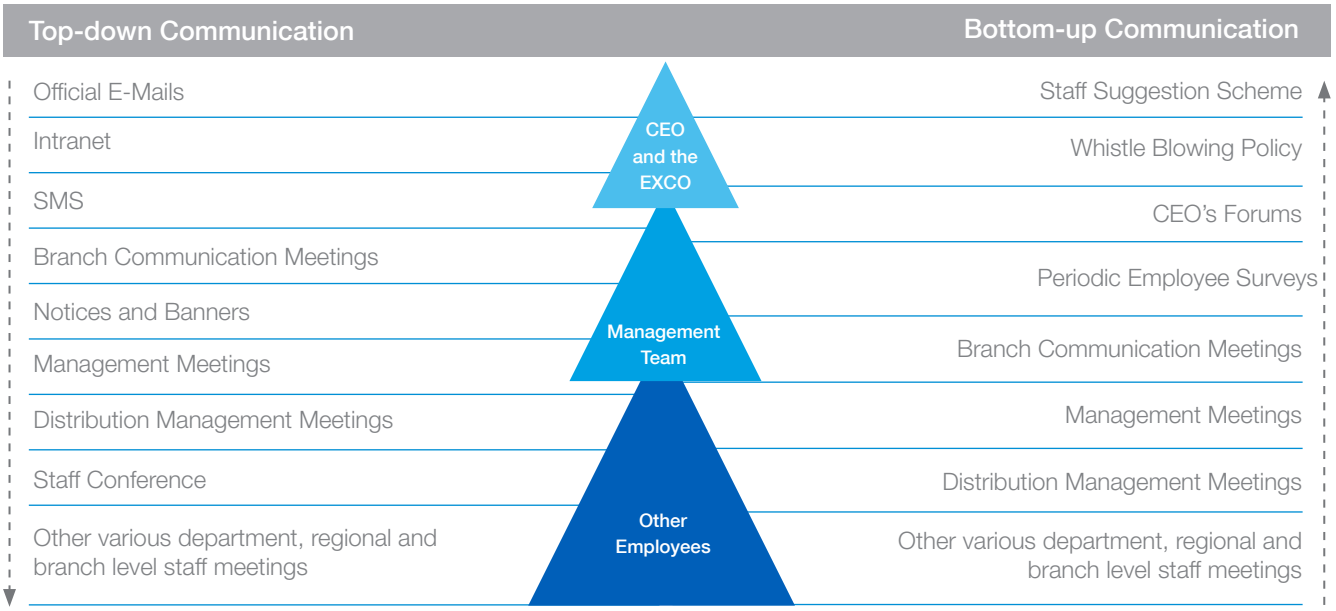
We promote the concept of an 'Engaged Workplace' by creating a workplace where employees are kept well informed of Group/ Company decisions, paying due consideration to their views to the decision making process which result in them willingly contributing to the success of the Group. Our employee engagement is driven by leadership, effective rewards, culture and values that support performance and development. Further details of our employee engagement activities are given under stakeholder engagement on page 107.

An Open Culture

Our Group culture is a very open and friendly one that nurtures learning and development. There is much ease for employees to discuss their concerns with the EXCO team or even the CEO. We have had many sessions which have opened the door for such free communication between employee and the CEO of the Group. A few of these sessions include the CEO's Forum and the Do's and Don'ts trainings at all zones with Senior Management participation.

In addition, both companies hold annual staff conferences where prior year performance is reviewed and future company plans are communicated to employees. As these events bring together the entire staff to one place, it also facilitates networking among the different teams.

Illustrated below are the different methods we use for employee communications.



Reference: GRI-G4 G4-DMA G4-LA16 G4-HR3

Employee Health, Safety and Welfare

Ensuring a safe and conducive work environment is one of our top priorities. Hence, we have taken several actions in this regard. We have appointed a First Aid Committee with representatives from each division and provided them with special training on First Aid during the year. We have also organized monthly free medical clinics for our employees and dedicated a week in the year for health and safety in which we educated employees on health related matters. We also conducted an eye clinic, Ayurvedha campaign, a sports health session during this year and educated staff through health and safety related emails.

In addition to the above initiatives we have also provided the following facilities to our employees;

- Each division/ branch has its own First Aid box
- Sick room for employees at the Head Office
- Special sick leave for critical illnesses/accidents
- Recreational facilities - the use of St. Josephs College's gym, badminton courts and swimming pool
- Death donation scheme

While the Human Resource Division is responsible for the health, safety and welfare of our employees, we also have a Group Welfare Society which plays a vital role in employee welfare. Listed below are some of the initiatives taken by the Group for entertainment and relationship building of employees.



Its X'mas time – Kiddies party organized for the kids of our staff members.

- An annual sports day was organized to encourage employees to improve teamwork
- Launched a sports club in the Company to promote physical and mental well-being of employees under the tag line 'Super Heroes'
- A Christmas carols competition, Christmas decoration competition, arts competition for children, kiddies party, Vesak Bathi Ghee and Lantern Competition were organized during the year to promote religious harmony and team building.

Handling Grievances

We have a formal process in place to handle employee grievances fairly and immediately whilst maintaining confidentially. This ensures restoring the satisfaction of our people as well as a minimum disruption to work. Our grievance handling policy is communicated to the staff at induction programmes and is also available through the intranets of the two companies, translated into Sinhala and Tamil for easy reference.

The responsibility of fairly resolving grievances lies with all Managers, Heads of Divisions and the Head of Human Resources. A few such grievances of a minor nature that were brought to the notice of the Head of Human Resources have been dealt with in accordance to the policy.

Focus: Compliance on Internal Policies and External Regulations

Being a responsible corporate citizen we abide by all external regulations governing employment practices in the country and have many internal policies in place to create a good working environment for our employees.

Human Rights at the Workplace

We are committed to protecting human rights in our workplace through non-discrimination and adherence to all labour laws. These are embedded into our recruitment policy and daily operations and our management is required to abide by the Group Code of Ethics. All branch and Head Office managers are made aware of these requirements. No cases of discrimination were reported during the year (2014: 0).

Reference: GRI-G4 G4-DMA G4-G10 G4-EC3 G4-HR5 G4-HR6

We are a strong advocate against child labour and hence we only employ individuals over the age of 18 years and abide by all labour laws in Sri Lanka. Also, all employees working with us are engaged in their job role of their own free will and there is no forced or compulsory labour entertained in the Group.

Further, as all recruitments are made centrally by the Human Resources Division and working hours and leave utilisation are closely monitored. We ensure that there is no significant risk of child or forced/ compulsory labour within the Group.

Similar to the previous years, there were no cases of child labour, compulsory/ forced labour in our workplace or at any of the suppliers we deal with during the year. Any case of human rights violation was also not reported during the year (2014: 0).

However, with regard to our supply chain, risks on child/ forced/ compulsory labour may exist, and this is discussed on page 138 in the Business Partner section of this report.



Our Annual Sports Day

Employee Retirement Benefits

Complying with the regulations of the country we contribute to two compulsory defined contribution plans; Employee Provident Fund (EPF) and Employee Trust Fund (ETF). According to the provisions made by the regulators, the Group contributes 12% and 3% respectively to the funds on behalf of its employees. All contributions are paid to the EPF and ETF Boards on the due dates.

In addition to the above two plans, all permanent employees who have completed five years of service are entitled to gratuity as per the Payment of Gratuity Act No. 12 of 1983. According to the provisions of this Act, the employees are entitled to receive an amount equal to half a month's basic salary for each year served at the Company as the retirement gratuity. The gratuity liability of the Company is valued by the Consultant Actuary Mr. Hugh Terry, Fellow of the Institute of Actuaries, U.K, annually using the Projected Unit Credit (PUC) method.

During the year under review, although we transferred 343 employees to HNB General Insurance Limited as part of the segregation of businesses, we ensured that this did not have an adverse effect on their Gratuity entitlement. Hence, upon the retirement of any such transferred employee, Gratuity payments are made with effect from the date they first joined the Group.

Presented below are the contributions made to these defined contribution and defined benefit plans during the year.

Defined Contribution Plans	2015 Rs. Mn.	2014 Rs. Mn.
EPF	45.96	41.35
ETF	11.49	10.34

Defined Benefit Plans	2015 Rs. Mn.	2014 Rs. Mn.
Opening Liability	71.50	56.60
Additional Provision made for the year	22.20	19.10
Actuarial gain during the plan year	2.27	1.00
Payments during the year	(14.96)	(5.20)
Closing Liability	81.01	71.50

Resignation, Termination and Transfer Policy

We have clearly laid out our policy for resignations, terminations and transfers in our Human Resource Manual. All employees are expected to resign adhering on the terms and conditions stipulated in their appointment letter, while retirement of employees would be at the age of 55.

Reference: GRI-G4 G4-DMA G4-SO4 G4-SO5 G4-SO8

Upon the resignation of an employee, he/she will be called for an exit interview which will be conducted by the Human Resource Division in order to get feedback from the employee. These are used to fine-tune the HR policies or any other area of concern of the Group. The Group may terminate the services of an employee due to reasons specified in the Manual, but should such a situation occur a fair and equitable procedure will be followed.

Employee transfers are made to accommodate employee request provided vacancies exist. Any transfers initiated by the Company are made in consultation with the employee and with their consent. All employee transfers to HNBGI were made with full consent of employees.

Zero Tolerance on Corruption

All employees are advised to strictly adhere to the following internally developed policies which are clearly communicated and made available not only through the two companies' intranets but via emails as well.

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

The Whistle Blowing policy acts as a base through which any frauds or any corruption is brought to the notice of senior management with the guarantee of confidentiality. Further details on this policy could be read on page 207 of the Corporate Governance Section of this report.

The staff handbook acts as a guide for employees while other policies are in place to mitigate the risk of corruption.

These policies are described and explained initially at the induction of new recruits and are reminded at the review trainings or via email.

We maintain maximum adherence to all laws applicable within the jurisdiction of Sri Lanka. Our Senior Management, along with the Human Resource Division and Risk and Compliance Departments maintain strict vigilance in this regard. No fines or monetary sanctions were levied on the Company for non-compliance with laws and regulations during 2015 (2014: 0).

RISK MANAGEMENT

Risk	Mitigation Strategies	Performance
Internal Risks		
High staff Turnover Ratio		
	• Motivating employees through rewarding schemes and trainings. • Counseling employees as and when they need counselling. • Conducting exit interviews • Periodically carrying out induction programs • Analysis on staff turnover is reviewed by the Management and the Board • Employee surveys are carried out on a periodic basis • Opportunities are given to the staff to meet the CEO (Acting) and exchange ideas without the presence of their superiors, through CEO's forums • An 'Open Door' culture is promoted to enable any employee to access the highest levels of management in order to report or discuss issues requiring their attention	The Company's staff turnover was 21.28% in HNBA and 18.29% in HNBGI during 2015 which was above the targeted levels. Even though most of the employees left were new recruits, we consider this as an area of concern. Therefore, a number of actions are being taken to improve the employee motivation levels from the year 2016 onwards.

Well Managed Can Improve Further Need to Improve

Risk	Mitigation Strategies	Performance
Retaining key people in the Company		
	• Remuneration packages are aimed to be in line with the industry to retain and attract qualified and talented staff. • Salary surveys are conducted periodically to ensure competitive salaries are given to the staff • 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. • A succession plan is available for key employees of the Company	Having identified the reasons for concerns, we have already planned a number of actions to address the concerns from the year 2016 onwards.

Well Managed Can Improve Further Need to Improve

FUTURE MATTERS

We will continue to strengthen our cadre by improving our Human Resource Best Practices in the coming year. Special focus will be placed on reducing the turnover levels of the Group for which actions are already underway.

A thorough analysis of training and development needs are in the pipe line and through this new analysis we wish to create a more comprehensive and all inclusive training plan covering technical as well as soft skill aspects of employees.

The year ahead will also focus on the enhancement and strengthening of succession planning process through focus given to key individuals in developing their skills and knowledge to reach the desired level.

In summary we will strive to create a better work place and more satisfied employees.

Reference: GRI-G4 G4-13

Stronger Together: Business Partners

Our 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

Partnerships are a crucial factor that determines the success of our operation. By providing win-win solutions, we ensure that each business partner feels the value we place on our relationships. Here is the story of the numerous steps we have taken to maintain healthy relationships with our business partners.

VALUE DELIVERED THROUGH STRATEGIC FOCUS

After careful review of the impacts that multiple stakeholders have on our value chain, we have identified the following groups as our key business partners. Our goal with respect to each business partner is to foster a nurturing relationship that leads to win-win outcomes for both parties. As in previous years, in year 2015 too we engaged in many activities directed towards achieving this goal.



Key Business Partners



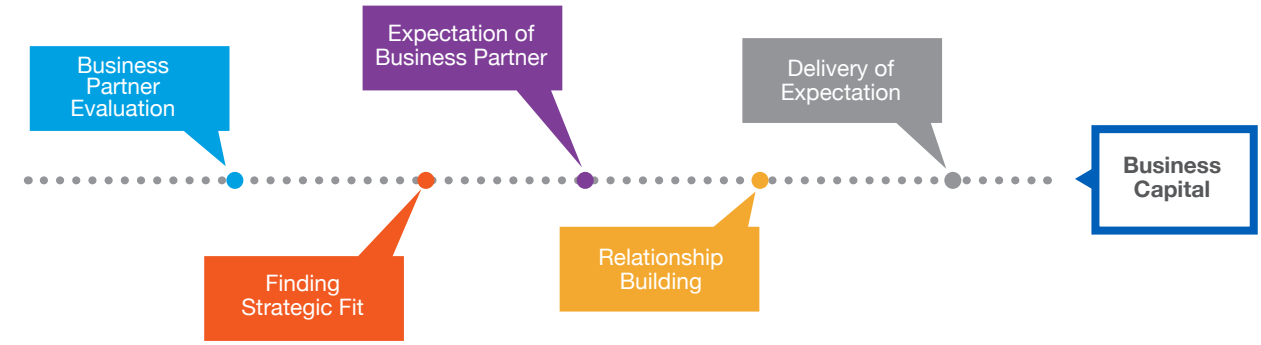
NASCO Awards Winners

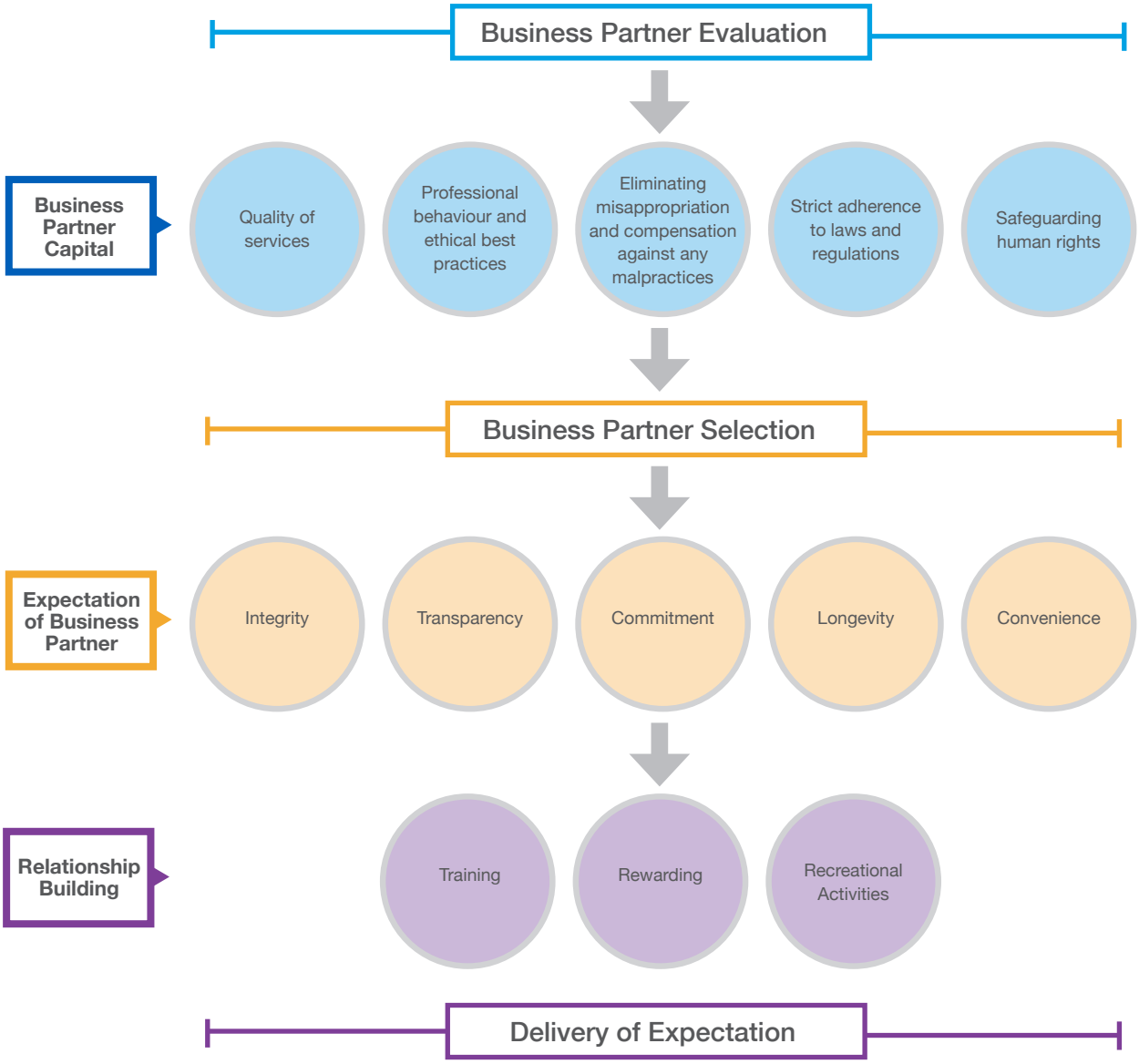


Recognising the contribution made by HNB - HNB Awards Ceremony

Reference: GRI-G4 G4-13

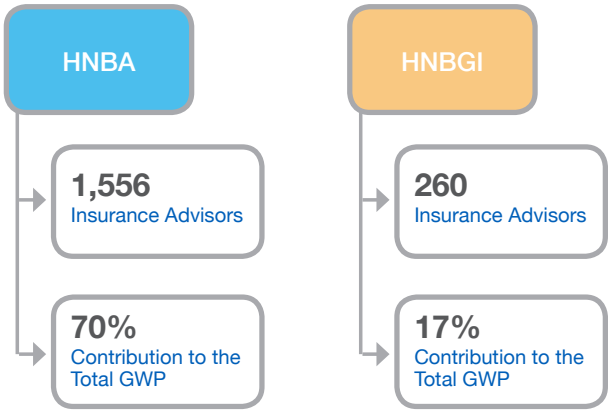
Illustrated below is the process we adopt to build our business partner capital





Insurance Advisors

The Advisor force is a key intermediary connecting us with our valued customers. As the first contact point of our customers, the Advisors are responsible for identifying and catering to their insurance needs, becoming an effective linchpin in the communication process and upholding our image and values. More details on the strength of our Advisor force and their contribution to our top line are given on pages 73 to 89.



Achievements

10 of our Advisors were qualified for the Million Dollar Round Table Award (MDRT), with one of them being qualified for the Court of the Table Award for exceptional sales achievement

The following diagram illustrates our policy towards Advisors



Recruit Best Talent

As Advisors play a pivotal role in our business model, we ensure that only the best talent is absorbed into our value creation process. We recruit both new and experienced Advisors from across the country, after careful screening of their educational qualifications, selling skills and integrity.

Paving the Path for Development

At the initial stage, Advisors are familiarised to our Group culture. We believe this to be an important aspect of training, which will come in handy when they later interact with existing/ potential customers. It is only after this familiarisation that their training and development activities commence. All training sessions are planned by the Sales Training and Development Units of HNBA and HNBGI, respectively, for Life and General Insurance Advisors. Training sessions are conducted by both in-house and expert consultant trainers, and cover multiple areas such as selling skills, technical knowledge and personal development.

Enhancing Professionalism

We have embarked upon multiple endeavours to ensure that our Advisors possess appropriate professional qualifications and that their behaviour is guided by professional ethics at all times.

Accordingly, our partnership with Sri Lanka Institute of Marketing (SLIM) facilitates our Advisors to obtain professional qualifications by following programmes such as the Certificate in Marketing (PCM) and the Diploma in Professional Selling (DPS).

Further, treasuring our corporate values of integrity and ethical conduct, all measures are taken to ensure the professional behaviour of Advisors. If any misconduct comes to light, such incidents are investigated immediately and, if the allegations are established, the service of the relevant Advisor



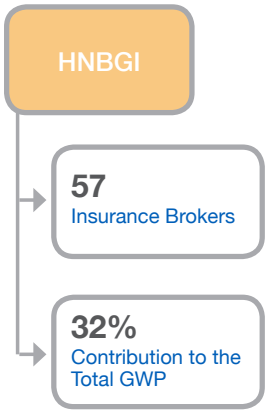
Diploma in Professional Selling Awards Ceremony

is terminated with immediate effect. As a practice, information on such misconduct is also updated on the website maintained by the Insurance Association of Sri Lanka (IASL).

Rewards for Work Well Done

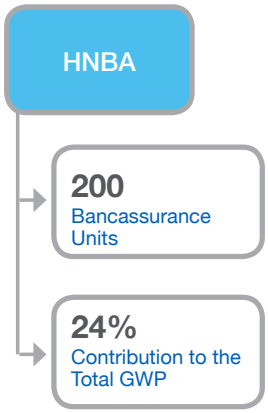
We greatly value the contribution made by our Advisors in taking us to greater heights. Therefore we ensure that their efforts are duly recognised in order to continuously motivate them to soar higher. The efforts of both parties in this regard have returned rich dividends, with 5 awards at the National Sales Congress Awards (NASCO) organised by Sri Lanka Institute of Marketing (SLIM) being won by HNBA and HNBGI Advisors.

Brokers



Brokers play a vital role in the value creation model of our subsidiary, HNBGI, by bringing in 32% of the GWP. We carried out training activities for selected broker firms during 2015 to update their knowledge on our products and services. Details on the contribution of brokers to our top line appear on pages 89 to 90.

HNB Group



Maintaining a win-win relationship with our parent, Hatton National Bank (HNB), is vital for us as it delivers an unmatchable competitive advantage in the market place. Further, we have continuously capitalised on the HNB branch network by placing our officers at their branch premises to attract their customer base through our Bancassurance channel. More details on the contribution of HNB to our top line are given on pages 73, 89 to 90.

With a view of further strengthening this bond, we recognise the contribution made by them through mid-year and year-end award ceremonies. We also extend our gratitude for the support rendered to us by the management of HNB by sponsoring their branch-level events.

Training Calendar for Life Insurance Advisors

40	Life Technical Competency & Revision
27	Super Starter
29	Keep in Track
16	Know Your Products
15	Product Refresher
02	MDRT Aspirants
18	C&D Forum

Training Calendar for General Insurance Advisors

09	Radiance
04	Brilliance
02	Excellence

- Recognition at the Annual Sales Convention Awards - 180 HNBA Advisors and 49 HNBGI Advisors
- Overseas tours to China, Thailand, and Dubai for super performers
- Sponsorships for 4 HNBA Advisors for participation at the MDRT Annual Forum
- Organising a six-a-side cricket tournament, a spell-master competition and a quiz competition for HNBGI Advisors
- Life and Surgical Insurance covers for all Advisors

Other Business Partners

In addition to the above key business partners, we deal with many other entities such as reinsurers, claims assessors, garages, laboratories and other suppliers, in our value creation process. We have briefly detailed below their importance to us and how we strive to maintain sound relationships with them.

Reinsurers

We only deal with reinsurers with a rating of "A" and above from "Standard and Poor" or an equivalent rating from AM Best. Financial soundness, service standards and reputation in the industry are also considered when building long term relationships with our reinsurers.

Information on our panel of reinsurers and their respective ratings are given on page 333.

Claim Assessors

Claim Assessors are the first to extend their support to a customer who has met with an accident. As such, the service they offer become the most important service in the eyes of the customers. With this in mind we engage with 89 well-qualified and experienced personnel as our Assessors.

Garages, Spare Parts Suppliers, Laboratories and Hospital

We have entered into strategic relationships with garages, laboratories and hospitals around the country to better serve our customers, as well as to gain a cost advantage. During the year, we maintained partnerships with 175 garages, 110 laboratories and many hospitals. Furthermore, HNBGI entered into MOUs with 10 sizeable spare parts suppliers in the country, in order to reduce the hassle of finding spare parts, introducing a greater level of service to Motor Insurance customers.

Other Suppliers

In delivering value to our stakeholders, other suppliers also play a vital role. Hence, we carefully select the suppliers with whom we deal, after running them through a rigorous screening process, considering factors such as quality, reliability, ethical standards, after sales services, references and value offered. Fair pay, working hours and compliance to labour laws that prevail in the country are key criteria considered in our supplier selection process for janitorial and security services. Similar screening processes are used to prevent forced or compulsory labour, including the use of children, and to provide opportunities for differently-abled persons.

FUTURE MATTERS

In the coming year, the Group will require extensive support from our business partners, as we have set ambitious business growth targets which we are keen to achieve. Hence, we will remain committed to strengthening our relationships through continuous training and development activities and the implementation of financial benefits and recognition schemes to encourage their active participation in business development. We are confident that our business partners will extend us their maximum support, as with previous years, in delivering win-win outcomes for all.



HNB Awards Ceremony

Reference: GRI-G4 G4-DMA G4-EC1 G4-EC7

We Rise by Lifting Others: Community

As a responsible corporate citizen, we believe it is our duty to give back to the communities within which we operate. We also believe that our success for the past 14 years would not have been possible without the blessings of the communities around us. Therefore, investing in the community is an indispensable element in our corporate strategy.

The greater we rise as a corporate entity, the more important it is for us not to forget our roots. We recognise that the community has provided us with immense opportunities and it is our duty to ensure the sustenance of our community in return. This report relates the story of how we have attempted to assist those in need.

VALUE DELIVERED THROUGH STRATEGIC FOCUS

Our policy on community investment is simple. We invest resources in needy sectors of the community where the positive impacts could be felt by many people. Further, we ensure that our community investments are not limited to any specific geographic region but spans across the country and cover different areas. All community investments are made with a sincere intention of adding value and are devoid of gaining any commercial benefit.

Community investments are made with the full approval and support of the Sustainability Committee, chaired by our Chief Executive Officer (Acting). The Committee only approves projects based on Company capabilities, public relationships, and expectation to make a genuine contribution to the communities that we live in.

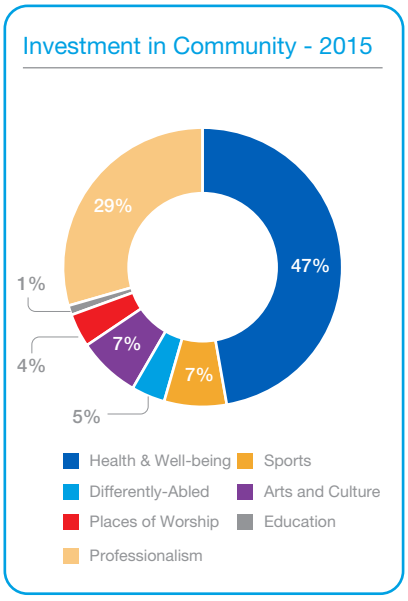
We concentrate on eight areas when carrying out our community service activities and follow a formal and transparent process in selecting suitable initiatives. The key areas of concentration and the formal process in place is presented in page 140,

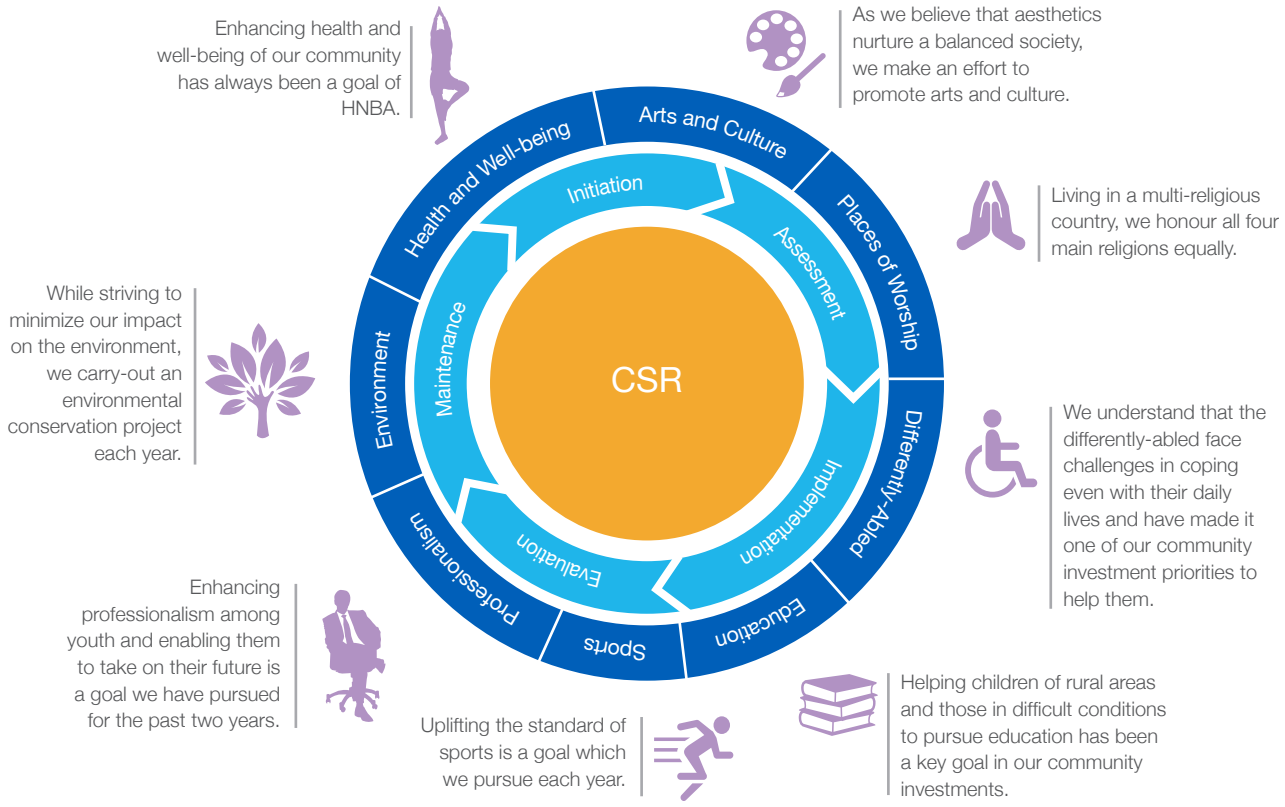
Focus: Lend a Helping Hand to Make the World a Better Place

We have graphically illustrated our commitments made to the community in the year 2015 below. This is followed by a brief description of the key projects.

"WITHOUT A SENSE OF CARING THERE CAN BE NO SENSE OF COMMUNITY"

- Anthony J. D'Angelo





Helping the Differently Abled

Sponsorship for International White cane Safety Day Commemoration

"White Cane Safety Day" is an international event which has greatly contributed to the social acceptance of the white cane as a symbol of the independence and of the visually impaired citizens in our society.

Therefore we were happy to provide financial assistance to "The Society of the Handicapped Women's Ltd" in celebrating the International White Cane's day to sponsor gift parcels and Scholarships and school equipment to those who cannot meet their expenses in education.



White Cane Safety Day

Encouraging Sportsmanship

Sponsoring a Young Upcoming Sportsmen

In 2013 we provided financial assistance to a rising star, D.M Srimali, who showed great potential in the international field of sports. She was a talented weight lifter from Habarana Maha Vidyalaya, a school located in Polonnaruwa, who was facing many hardships due to financial constraints. The sponsorship we offered to the school to purchase sport equipment gave her the opportunity to excel in the sport.

In 2015 also we extended financial assistance to prepare herself for the Youth Commonwealth Games and we are happy to note that she became the silver medalist at the event.

Reference: GRI-G4 G4-EC7

Felicitation of Sports Personality

The Company provided financial assistance to a veteran sports personality in Sri Lanka Mr. P.D. Sirisena. He was the captain of Sri Lanka soccer team for 10 years and was also the National Coach for Sri Lanka soccer team for more than a decade. To appreciate the services rendered by him to the nation, we recognised him at our annual sales convention with a token of appreciation and a cash award.



Felicitation of veteran personalities



Srimali Samarakoon - Weightlifting 48kg



Access to clean water for patients in Thambuttegama Hospital

Fostering Arts and Culture

Felicitation of Veteran Artists

We felicitated two veteran artists at our Annual Sales Convention to appreciate the contribution they have made to the Arts and Culture of the nation. Appreciation was made in the form of financial assistance to Mrs. Irin de Alwis Boralassa and Mrs. Roopa Indumathi.

Improving Health and Well-being

Clean Water for a Healthy Life

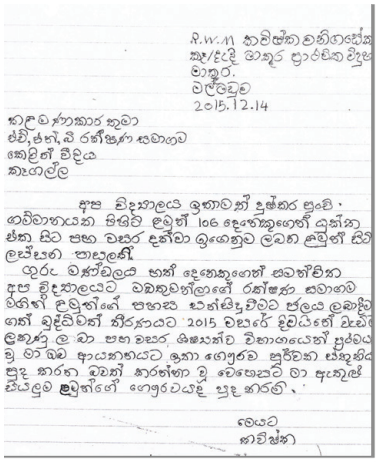
Clean water is a luxury for many in our society even today. Considering this we have made providing communities with access to clean and safe drinking water a key priority in our community investments.

Palutawa Vidyalaya

People living in this area suffer from kidney diseases due to the consumption of unpurified water. We donated a Water Filtration System along with the other fittings to provide clean drinking water to Palutawa Vidyalaya, and protect the children from Kidney diseases.

Thambuttegama Hospital

A water purification unit was established at the hospital to provide access to clean drinking water to the patients visiting the hospital on a daily basis. This area has seen an increase in victims of kidney disease and therefore our endeavour was greatly appreciated by the community.



Makura Primary School

We implemented a complete water system as there were no infrastructure facilities in this School to supply water. Our project alleviated the thirst of 130 students as well as 07 teachers of Makura Primary School. This school produced the island number one student in 5 Year scholarship

Enhancing Womanhood

We worked together with an organization, Emerge Lanka Foundation, which supports young women who have survived abuse in domestic environment to rediscover and celebrate their lives. We gave financial support to provide them basic toiletries to uphold their state of living.

We also extended our sponsorship for a cricket camp fund raiser which was conducted with the idea of supporting and making a difference to the lives of many young girls who are sheltered with this Foundation.

A New Look to the Blood Bank of Negombo Hospital

Financial assistance was granted to refurbish the premises of the Blood Bank of the Negombo Base Hospital which is the main hospital for the people in the area.

Access to Proper Sanitary Facilities

Dehigahalanda Maha Vidyala presently operates with minimum infrastructure facilities and lacks proper sanitary facilities for the primary school section. We made a monetary contribution to purchase material for the construction of proper sanitary facilities for this section.

Blood Drive – 2015

We organized a blood donation camp "Blood Drive – 2015" for the 10th consecutive year on the 18th of September 2015 at our Head Office premises, facilitated by the Blood Bank. The participation of 238 donors enabled us to collect 154 pints of healthy blood and help save many lives.

Places of Worship

Similar to previous years' cash donations were made to four places of worship with each representing a major religion in Sri Lanka.



Donations for religious places



Rewarding winners of all island arts competition



Blood Drive – 2015



Sanitary facilities to Dehigahalanda Maha Vidyalaya

Education

Rewards for Winners

School bags were provided to the winning students of the All Island Inter School Arts Competition organized by the Ministry of Education.

Promoting Professionalism

Opening Doors for the Future (School to Office Programme)

For the 3rd consecutive year, we successfully completed the School to Office (S2O) programme under the initiative of the Human Resource Division. Extensive awareness programmes were carried out all around the country and out of the many applications received, 400 students were chosen to undergo the regional level workshops. Subsequently, 50 students were selected to participate in the extensive final training programme designed to mould them to become future professionals in the corporate world. Delivering our promise of being a responsible corporate citizen, 20 students showcasing the best talent were absorbed into our cadre.

Sponsoring 'CIMA - Tour de Colombo'

HNB Assurance was the main sponsor to 'Tour de Colombo' organised by the Chartered Institute of Management Accountants (CIMA) which was aimed at developing team working and strategic thinking skills of the participants.





Enthusiasm of S2O - 2015



CIMA – Tour de Colombo - 2015

FUTURE MATTERS

Our commitment to ongoing engagement with our communities offers us opportunities to get insights in to their needs and expectations. It is our resolve that we will continue with our endeavours to make a meaningful contribution to the society at large in the coming years as well.

Reference: GRI-G4 G4-DMA G4-EN3

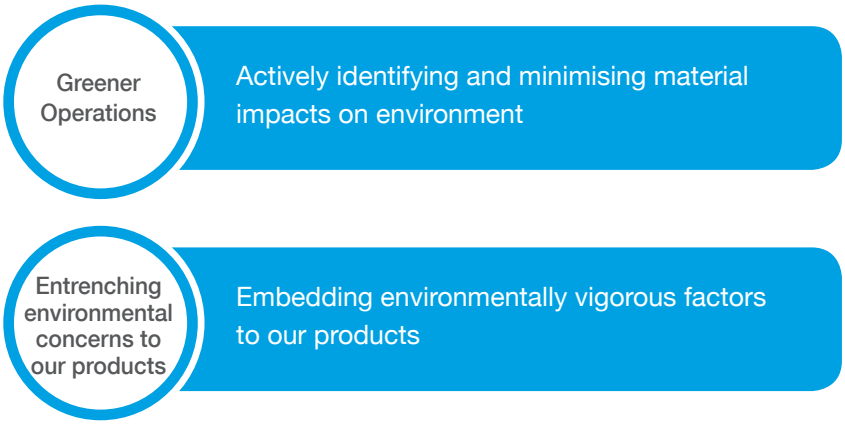
Conserve for Future Generations: Environment

It is Mother Nature who gives sustenance to all beings on this planet and we are no exception.

Mother Nature has sustained human kind thus far, and our generation has a responsibility to ensure that future generations too receive this sustenance. We have always been aware of this responsibility, and this is the story of how we have put it in to action.

VALUE DELIVERED THROUGH STRATEGIC FOCUS

As a service organisation, our impact to the Mother Nature is substantially low compared to manufacturing organisations. However we fully understand that any small impact we make to the environment today will affect the Mother Nature substantially in the long run. Our Environmental Policy is to minimise the impact of our operations on the environment and inspire employees and society towards constructing a greener environment. Given below are the key areas we focus on in this regard.



Focus: Greener Operations

We focus on reducing the negative impact we make on the environment through management of energy, optimizing our resource utilization and by complying with all applicable environmental rules and regulations. During the year, we concentrated on reducing our carbon footprint through three main aspects.

- Reducing Energy Consumption
- Efficient Effluents and Waste Management
- Complying with environmental rules and regulations

Reducing Energy Consumption

As a service oriented organization we use energy in the form of electricity and fuel. Electricity is primarily consumed to run our office premises while our employees consume fuel to commute daily to work and for business travel while our Advisors and Assessors consume fuel for business travel.

Our managers at Head Office and Branches are entrusted with the responsibility of reducing electricity consumption and this is highly monitored at Head Office level in order to have better control.

Aiming at conserving fuel, we have implemented a policy on reimbursing fuel costs of employees up to pre agreed limits for their personal

Reference: GRI-G4 G4-DMA G4-EN3 G4-EN23

and business travelling and this policy discourages excessive fuel usage. However, fuel consumption by members of our Advisor force cannot be captured as it is difficult to obtain data and quantify accurately. Therefore it is not captured in this report.

Go Green

This year we implemented centralised multifunctional printer systems in Head Office and branches replacing several printers, scanners and copiers. Further, we have used a centralised wireless network which minimises the number of routers used and have replaced high energy consuming air conditioners and thereby reducing the power consumption. In addition, energy efficiency is set as a key criteria in equipment procurement decisions.

Presented below is a summary of the initiatives to save energy by the Group.

	2015	2014	2013	2012
No of computers with LCD/LED Screens purchased	86	45	60	55
No of laptops Computers purchased	50	73	11	18
Total No of SMS based services	25	21	20	31
Sever Virtualisations	16	18	39	32

The following table presents data on energy consumption by the Group as a result of business operations.

Energy Consumption by HNBA Group	2015		2014	
	% For electricity		% For electricity	
Fuel used for Company (litres)		482,682		473,573
Energy from Fuel (GJ)		17,377		17,049
Electricity Consumed (Kwh)		1,423,382		1,298,854
Energy from Electricity (GJ)		5,124		4,676
Total Energy used (GJ)		22,501		21,725
Non-Renewable (GJ)	30%	20,321	30%	18,475
Renewable (GJ)	70%	2,180	70%	3,250

We have experienced an increase in the usage of energy of the Group as seen above. However, this is primarily due to operation as two entities in 2015 compared to one in the previous year.

Efficient Effluents and Waste Management

As a financial service provider our main form of waste is paper. However, we occasionally produce electrical waste in the form of used computers and other used electrical equipment. As such we have taken several measures to reduce these forms of waste and thereby reduce our negative impact on the environment.

Paperless Workplace

Applying the 3R concept is one of the major initiatives taken by us in the journey of moving to a paperless workplace. Key initiatives implemented under the 3R concept are outlined below.

- Reduce - discourage paper usage
- Re-architect key business processes
- Recycle



Reduce- Discourage Paper Usage

Using both sides of the paper to print documents, printing appropriate internal communication matter on used paper, using multipurpose and efficient printers are some of the major actions taken by the Group to reduce paper usage. In addition, the following are measures used in moving to a paperless workplace.

- Photographs of accidents taken from the mobile phones and directly upload to the Claims System and not printed
- Usage of electronic communications and moving to e-documents
- Using scanned documents for Claims management workflow

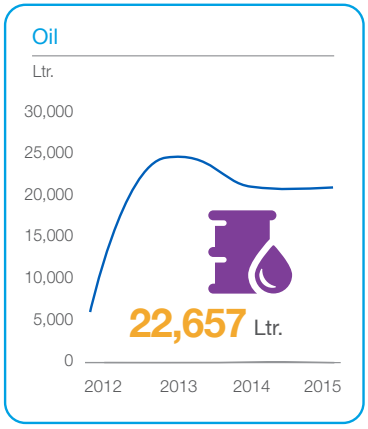
Re-architect Key Business Processes

We have taken initiatives to replace many paper based business processes with electronic processes over the years. This year we introduced an E-Pay Slip for the employees and an E-Commission Statements for the distribution channels. These two process improvements will reduce the use of paper drastically minimising the negative impact caused by us on the environment.

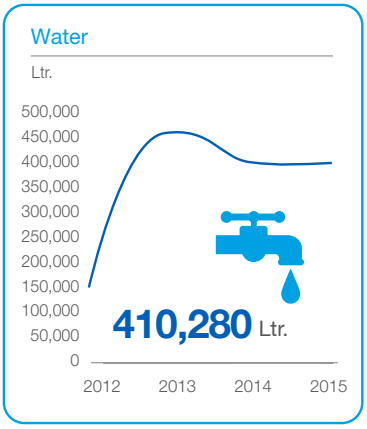
Reference: GRI-G4 | G4-DMA | G4-EN23 | G4-EN29 | G4-FS8

Recycle

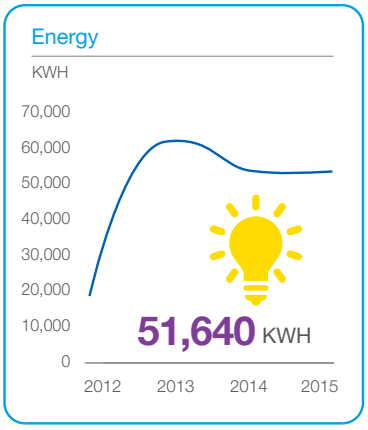
We recycle all waste paper used at Head Office through Neptune Papers (Pvt) Ltd. Illustrated below are the annual savings we have achieved since implementation of initiative.



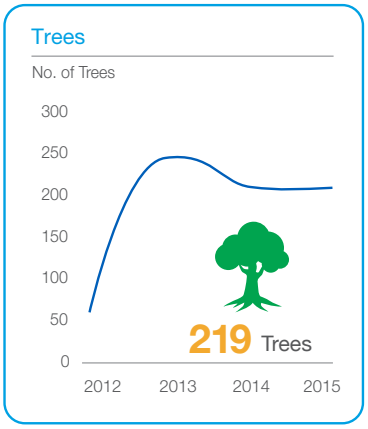
Measurements and Controls are applied to minimise the oil consumption



We believe it is our responsibility to preserve the 'Resource of the Nature', Water



It is our focus to reduce energy usage and carbon footprint



Several initiatives are undertaken to move towards greener work place

Compliance with Laws and Regulations

We have implemented a strict policy to comply with all applicable laws and regulations relating to the environment. In demonstrating the effectiveness of this mechanism, no fines were levied on the Group during 2015 for non-compliance with environment-related regulations (2014: 0).

Focus: Entrenching Environmental Concerns to our Products

We offer MotorGuard 'Eco Insurance' which is an extension to our existing to MotorGuard policy as a product with specific environmental benefits. This product is designed for users of eco-friendly hybrid cars. During the year 5,354 policies were issued and Rs. 268 Million GWP arose from this product.

FUTURE MATTERS

We will continue in our endeavours to create a paperless environment by reducing paper usage and re-architecting processes. Further we also intend to carry out an environmental conservation project in 2016.

Reference: GRI-G4 G4-G32



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.	16,17	None
ORGANIZATIONAL PROFILE			
G4-3	Report the name of the organization.	6,8	None
G4-4	Report the primary brands, products, and services.	12,13	None
G4-5	Report the location of the organization's headquarters.	7	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.	8	None
G4-7	Report the nature of ownership and legal form.	8	None
G4-8	Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries).	10	None
G4-9	Report the scale of the organization, including:	11	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		
G4-10			None
a.	Report the total number of employees by employment contract and gender.	123	
b.	Report the total number of permanent employees by employment type and gender.	123	
c.	Report the total workforce by employees and supervised workers and by gender.	122	
d.	Report the total workforce by region and gender.	123	
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).	131	
G4-11	Report the percentage of total employees covered by collective bargaining agreements.	127	None
G4-12	Describe the organization's supply chain.	15,134	None
G4-13	Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including:	8	None
a.	Changes in the location of, or changes in, operations, including facility openings, closings, and expansions	8	
b.	Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations)	8	
c.	Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	134,135	

Reference: GRI-G4 G4-G32

GENERAL STANDARD DISCLOSURES		Page	External Assurance
G4-14	Report whether and how the precautionary approach or principle is addressed by the organization.	46	None
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	6,7	None
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization:	46	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		6	None
a.	List all entities included in the organization's consolidated financial statements or equivalent documents.		
b.	Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.		
G4-18		47 - 50	None
a.	Explain the process for defining the report content and the Aspect Boundaries.		
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.	47 - 50	None
G4-20	For each material Aspect, report the Aspect Boundary within the organization, as follows:		None
	Report whether the Aspect is material within the organization	47 - 50	
	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	47 - 50	
	Report any specific limitation regarding the Aspect Boundary within the organization	47 - 50	
G4-21	For each material Aspect, report the Aspect Boundary outside the organization, as follows:	48 - 50	None
	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		
	Report any specific limitation regarding the Aspect Boundary outside the organization		
G4-22	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements.	7	None
G4-23	Report significant changes from previous reporting periods in the Scope and Aspect Boundaries.	48	None

Reference: GRI-G4 G4-G32

GENERAL STANDARD DISCLOSURES		Page	External Assurance
STAKEHOLDER ENGAGEMENT			
G4-24	Provide a list of stakeholder groups engaged by the organization.	106	None
G4-25	Report the basis for identification and selection of stakeholders with whom to engage.	105	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.	107 - 109	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.	107 - 109	None
REPORT PROFILE			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	6	None
G4-29	Date of most recent previous report (if any).	7	None
G4-30	Reporting cycle (such as annual, biennial).	6	None
G4-31	Provide the contact point for questions regarding the report or its contents.	7	None
G4-32			
a.	Report the 'in accordance' option the organization has chosen.	7	None
b.	Report the GRI Content Index for the chosen option.		
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.	147 - 152 7	
G4-33			
a.	Report the organization's policy and current practice with regard to seeking external assurance for the report.	7	None
b.	If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided.	N/A	
c.	Report the relationship between the organisation and the assurance providers.	N/A	
d.	Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report.	N/A	
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.	6,155	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.	9	None

Reference: GRI-G4 G4-G32

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	G4-DMA and Indicators	Page	Omissions	External Assurance
Category: Economic				
Economic Performance	G4-DMA	110,139	None	None
	G4-EC1 Direct economic value generated and distributed	110,139	None	None
	G4-EC3 Coverage of the organisation's defined benefit plan obligations	131	None	None
Indirect Economic Impacts	G4-DMA	139	None	None
	G4-EC7 Development and impact of infrastructure investments and services supported	139,141	None	None
Category: Environmental				
Energy	G4-DMA	144,145	None	None
	G4-EN3 Energy consumption within the organisation	144,145	None	None
Effluents and Waste	G4-DMA	145,146	None	None
	G4-EN23 Total weight of waste by type and disposal method	145,146	None	None
Compliance	G4-DMA	146	None	None
	G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	146	None	None
Category: Social				
Subcategory: Labour Practices and Decent Work				
Employment	G4-DMA	119,120	None	None
	G4-LA1 Total number and rates of new employee hires and employee turnover by age group, gender and region	121	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	128	None	None
Training and Education	G4-DMA	126	None	None
	G4-LA9 Average hours of training per year per employee by gender, and by employee category	126	None	None
	G4-LA11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	127	None	None
Diversity and Equal Opportunity	G4-DMA	120	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	122,123, 124	None	None
Equal Remuneration for Women and Men	G4-DMA	127	None	None
	G4-LA13 Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	127	None	None

Reference: GRI-G4 G4-G32

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	G4-DMA and Indicators	Page	Omissions	External Assurance
Labour Practices Grievance Mechanisms	G4-DMA	130	None	None
	G4-LA16 Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	130	None	None
Subcategory: Human Rights				
Non-Discrimination	G4-DMA	130,131	None	None
	G4-HR3 Total number of incidents of discrimination and corrective actions taken	130	None	None
Child Labour	G4-DMA	131	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	131	None	None
Forced or Compulsory Labour	G4-DMA	131	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	131	None	None
Subcategory: Society				
Anti-Corruption	G4-DMA	132	None	None
	G4-SO4 Communication and training on anti-corruption policies and procedures	132	None	None
	G4-SO5 Confirmed incidents of corruption and actions taken	132	None	None
Anti-competitive Behaviour	G4-DMA	117	None	None
	G4-SO7 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	117	None	None
Compliance	G4-DMA	132	None	None
	G4-SO8 Monetary value of significant fines and total number of non-monetary sanctions for non compliance with laws and regulations	132	None	None
Grievance Mechanisms for Impacts on Society	G4-DMA	117, 118	None	None
	G4-SO11 Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	45	None	None
Subcategory: Product Responsibility				
Product and Service Labelling	G4-DMA	117	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	117,118	None	None

Reference: GRI-G4 G4-G32

SPECIFIC STANDARD DISCLOSURES				
Material Aspects	G4-DMA and Indicators	Page	Omissions	External Assurance
Marketing Communications	G4-DMA	117	None	None
	G4-PR6 Sale of banned or disputed products	117	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	117	None	None
Customer Privacy	G4-DMA	118	None	None
	G4-PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	118	None	None
Compliance	G4-DMA	117	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	117	None	None
Product Portfolio	G4-DMA	118	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	118	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	146	None	None

Enterprise Governance

Chairperson's Statement

Dear Stakeholders,

We firmly believe in Corporate Governance practices in the conduct of our business operations. We have ensured that the Company is managed on the basis of these principles not only to comply with the regulations as well as in the interest of all its stakeholders and for the achievement of sustainable long term development of the Company. The Board has set the governance framework based on the core values of the Company across all our business processes bringing in transparency and accountability. The underlying theme of this framework is to create professionalism and good ethics. Creating a conducive environment for implementation of such practices within this framework takes priority among the main responsibilities of the Board of Directors.

The Board sets the tone for good Corporate Governance at the top, by promoting professional standards through measures such as the Charter of the Board of Directors, which sets out the main responsibilities of the Board, a Share Dealing Policy, which provides guidance in dealing in shares of the Company, and a Code of Conduct and Ethics, which guides their behaviour. Moreover, Charters have been adopted for all Board sub-committees, clearly outlining their duties and responsibilities. At the end of each year the Board as well as Board sub-committees carry out an evaluation of their performance and necessary actions are implemented based on the outcome of such evaluations for further improvement.

With a view to keeping up with latest developments, our Corporate Governance practices are reviewed continuously in line with internationally and domestically recognised principles and standards. The Company has also focused on strengthening the role and responsibilities of the Board of Directors, improving the control environment of the Company, promoting disclosure and transparency and protecting the rights of stakeholders.

The Annual Reports of the Company which gave details of its business operations have been recognised as best reports in the insurance sector, in Sri Lanka and internationally and won many accolades continuously over the years.

The report that follows demonstrates the governance framework of the Company and how it has complied with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka (the Code) and Rule Number 7.10 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange.

As required in the above Code, I hereby confirm that I am not aware of any material violations of provision of the Code of Conduct and Ethics by any Director or any member of the Corporate Management of the Company.



Rose Cooray
Chairperson

09th February, 2016

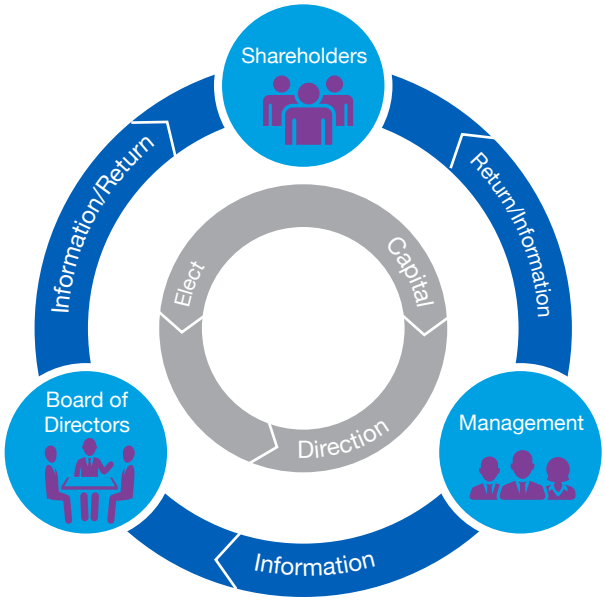
Corporate Governance

THE CORPORATE GOVERNANCE STRUCTURE OF HNB ASSURANCE PLC

A standard corporate governance model interconnects the dynamic relation between three key stakeholders – the Shareholders, the Board of Directors and the Management. The roles of these stakeholders are distinct but complementary to the core objectives and the smooth functioning of the institution.

Accordingly, HNB Assurance's Corporate Governance structure is modelled to establish the fundamental relationship among Shareholders, the Board, the Management, and other stakeholders. Policies, charters and procedures, through which ethical values and corporate objectives are set and the plans for achieving those objectives are determined, also form an integral component of the structure.

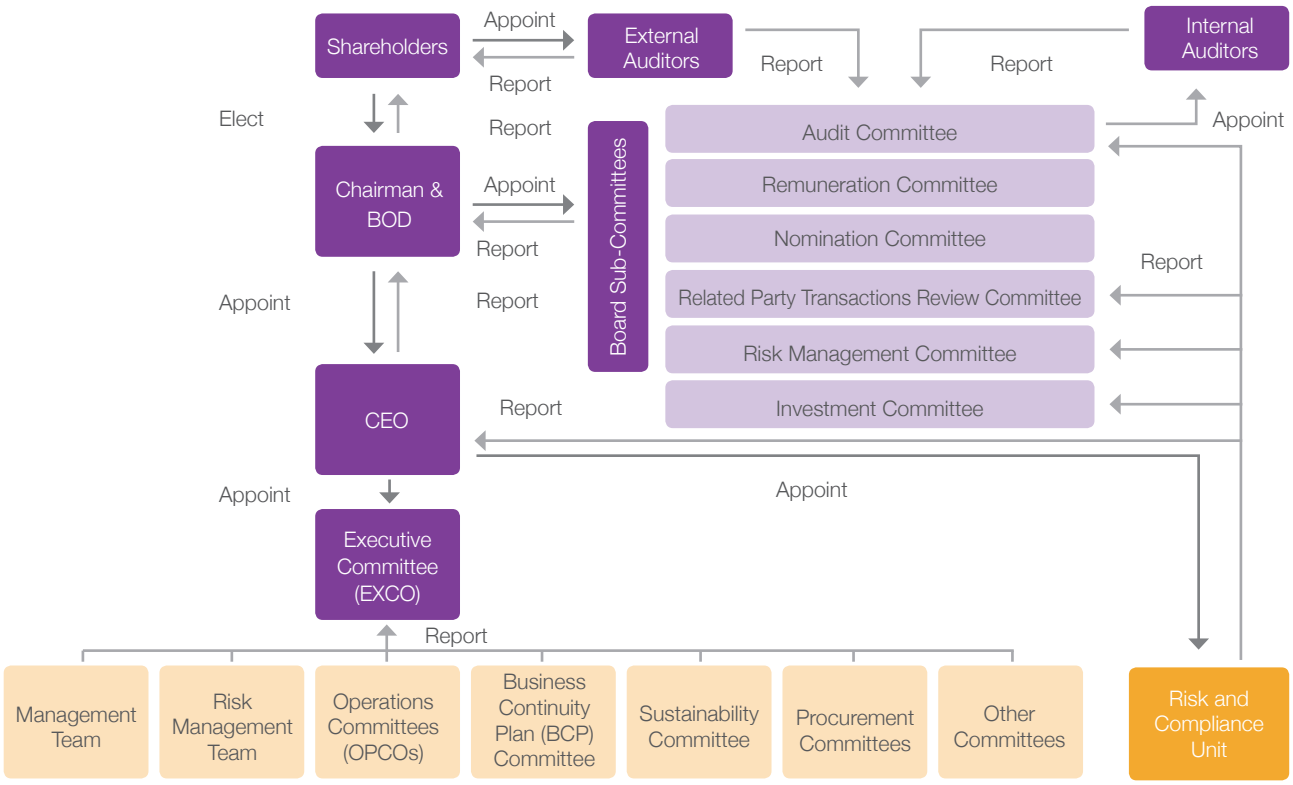
Good corporate governance is a highlight of a sustainable business organisation that respects the interests of all its stakeholders. At HNBA, we place Corporate Governance at the heart of all activities, because we acknowledge this responsibility. Unravelling in the following pages is the story of how we ensure that good Corporate Governance is always our priority.



What's our story?

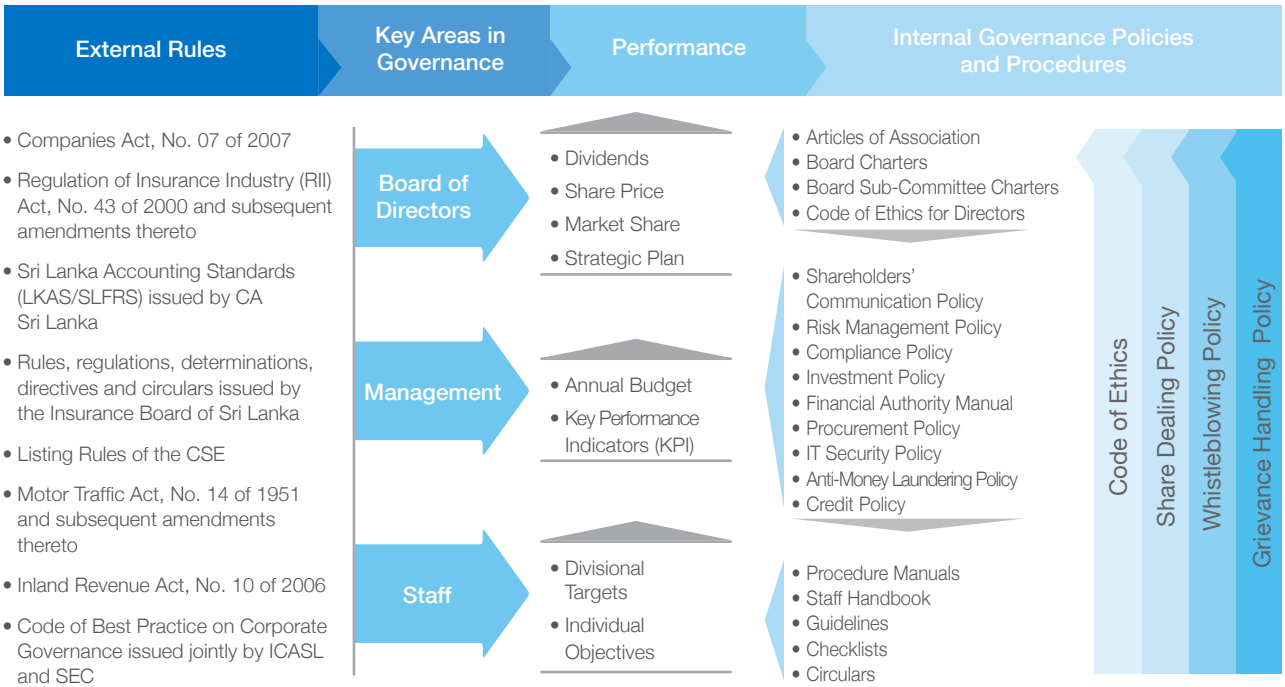
Reference: GRI-G4 G4-G34

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



GOVERNANCE POLICY FRAMEWORK OF HNB ASSURANCE (HNBA)

Policies, charters and procedures of HNBA which also form an integral part of the Company's governance structure is given below.



OUR CORPORATE GOVERNANCE FRAMEWORK

HNB Assurance is guided by a resolute commitment to uphold moral values and ethical business practices at all levels of the Company. Comprehensive Corporate Governance policies and practices adopted by the Board of Directors reinforce this commitment.

These Corporate Governance policies, charters and values, together with the laws applicable to the Company, constitute the Corporate Governance framework of the Company. Broadly, our Corporate Governance framework rests on two important principles:

- The need to adopt and improve Corporate Governance principles and practices continuously, in light of our experiences, regulatory requirements, international developments and stakeholder expectations
- The need to comprehensively disclose the Company's Corporate Governance principles and practices

Accordingly, this report aims to provide an overview of the Corporate Governance framework of the Company, including the structure, principles, policies and practices of Corporate Governance at HNB Assurance.

Our efforts in this regard have been recognised on a number of instances. We were recognized with a merit award for the Corporate Governance Disclosures in our Annual Report 2014 at the South Asian Federation of Accountants (SAFA) Best Presented Annual Report Awards. Further, in 2014 we were awarded the second place for the Corporate Governance Disclosures in our Annual Report 2013 at the 50th Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka (ICASL).

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

HNB Assurance's practices are consistent with the requirements given in the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) ('Code') as well as Rule Number 7.10 of Listing Rules on Corporate Governance issued by the Colombo Stock Exchange (CSE). The principles set out in these codes have been adopted by us to shape our corporate governance structure.

Section D.5 of the Code issued by the ICASL and SEC requires the Directors to disclose the extent to which the Company adheres to established principles and practices of good corporate governance and to include a Corporate Governance Report in the Company's Annual Report, setting out the manner and extent to which the Company has complied with the principles and provisions of this code. Accordingly, this report from pages 157 to 184 provides the details of the Company's compliance with the relevant requirements of the Code.

Furthermore, we wish to state that our commitment to good Corporate Governance is not solely based on the need to comply with such requirements, but also on our recognition of sound Corporate Governance as an effective management tool. Therefore, we have also provided enhanced disclosures relating to the Company's corporate governance policies and practices in instances where they extend beyond the requirements of the Code issued by the ICASL and SEC.

Statement of Compliance

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

Our status of compliance with each Section of the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC appears on pages 157 to 184. 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 193 - 195.

COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED JOINTLY BY THE ICASL AND SEC

This Code was issued in 2008 and was revised in 2013, with the primary objective of establishing good corporate governance practices in Sri Lanka, and deals with seven key areas a company should focus on when developing its corporate governance structure.

Section - 1

A. Directors
B. Directors' Remuneration
C. Relations with Shareholders
D. Accountability and Audit

} Focuses on the Company

Section - 2

E. Institutional Shareholders
F. Other Investors
G. Sustainability Reporting

} Focuses on the Shareholders

The Company has complied with all sections of the above Code and the status of compliance with each Section is given below;

Section - 1

A. Directors

A.1 The Board – Principle: *Every public company should be headed by an effective Board* - **Complied**

A.1.1 – Requirement: *The Board should meet regularly. Board meetings should be held at least once in every quarter of a financial year* - **Complied**

Number of meetings

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. In addition, sub-committee meetings are held depending on the requirement. 11 Board meetings were held during 2015. The number of Board meetings and sub-committee meetings held during 2015, together with individual attendance of Board members, is given on page 224.

Agenda-setting process, information and minutes of the meetings

The Board Secretary draws up the agenda in consultation with the Directors prior to each Board meeting, as delegated by the Chairperson. A comprehensive set of Board Papers is sent to all Directors seven days in advance of each Board meeting, in order to allow sufficient time to review the affairs to be discussed.

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.

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.

Minutes are sent to all Directors in a timely manner for their comments and record. Similar processes apply to Board sub-committee meetings as well. Minutes of all Board sub-committee meetings are tabled at the immediately following Board meeting.

A.1.2 – Requirement: *Responsibilities of the Board* - **Complied**

- *Ensuring the formulation and implementation of a sound business strategy* - **Complied**

  The CEO, together with the management team, develops corporate strategies, annual budgets and action plans to implement corporate strategies, in accordance with the direction prescribed by the Board, on an annual basis. The resultant corporate plan and the annual budget are approved by the Board every year, and the achievement of the objectives set out in the plan is monitored closely by the Board.

  Accordingly, the CEO and the management presented the Company's strategy for the years 2016 – 2018 to the Board in December 2015. Moreover, the implementation of the corporate plan and the budgets of previous years was monitored through Key Performance Indicators (KPI) presented at each Board meeting.

- *Ensuring that the Chief Executive Officer (CEO) and the management team possess the skills, experience and knowledge to implement the strategy* - **Complied**

  The Board actively works to ensure that the 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.

The Board gets involved in the recruitment of the senior management, paying due attention to knowledge, skills and experience. The profiles of the CEO, the members of the Executive Committee (EXCO) and the members of the management team are provided on pages 32 to 40.

- *Ensuring the adoption of an effective CEO and key management personnel succession strategy* - **Complied**

  Succession plans are in place for the CEO and for all other key managerial positions, and are monitored continuously by the Remuneration Committee. The key aspect of succession plans is to develop people internally, so that there are adequate internal options available for the replacement of key management personnel, as and when required.

  Mr. Manjula de Silva, who worked as the MD/CEO, resigned from the Company with effect from 31st March 2015. In line with the Company's succession plan, Mr. Niranjan Manickam, who was functioning as the Chief Operating Officer of the Company's fully owned subsidiary HNB General Insurance Limited, was appointed as the Chief Executive Officer (Acting).

- *Ensuring effective systems to secure integrity of information, internal controls, business continuity and risk management* - **Complied**

  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.

  The Company has a Business Continuity Plan (BCP), which is implemented through the BCP team led by the Chief Financial Officer. During the year, a BCP drill on the systems of the Company was conducted.

  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 and the Risk Management Committee, to ensure that the Company has proper systems and controls in place. Please refer Board sub-committee reports on pages 203 to 215 for more information on the functions of these committees.

- *Ensuring compliance with laws, regulations and ethical standards* **- Complied**

  The Board, having identified the importance of compliance requirements, have adopted a Compliance Policy to direct compliance-related activities of the Company.

  A compliance checklist, covering all applicable laws and regulations, is signed-off by the management on a monthly basis and is tabled at meetings of the Audit Committee and the Risk Management Committee.

  Additionally, the Compliance Officer monitors compliance with all applicable laws, rules and regulations. Compliance reports prepared by him are presented to the Board, the Audit Committee, the Risk Management Committee and the Investment Committee, on a regular basis.

  Upholding the Company's commitment to abide by the rules set out by the regulator, the Company submitted all returns to the IBSL within the stipulated time limits. Further, all IBSL returns were subject to the review of the Risk and Compliance Department and the Audit Committee, prior to their release.

Summary of the Compliance Policy

Compliance Policy and Principles
- Compliance policy
- Compliance principles

Compliance at HNB Assurance
- Compliance objective
- Duties of the management towards compliance
- Compliance function and responsibility
- Scope of the compliance function
- Independence and authority of the compliance function
- Reporting of the compliance function

Compliance Officer

Anti-Money Laundering

Training and Education

Submissions and Payments to Regulatory Authorities

The Company has submitted the following returns and payments to the Insurance Board of Sri Lanka (IBSL), Colombo Stock Exchange (CSE), Department of Inland Revenue, Central Bank of Sri Lanka, Registrar General of Companies, National Council for Road Safety and Commissioner of Motor Traffic, within the stipulated time period.

Information	Frequency of submission	Compliance Status
Insurance Board of Sri Lanka (IBSL)		
Annual Fee	Annually	√
CESS Payment	Quarterly	√
Colombo Stock Exchange (CSE)		
Listing Fee	Annually	√
Department of Inland Revenue		
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	√
Central Bank of Sri Lanka		
EPF Payment and Return	Monthly	√
ETF Payment	Monthly	√
ETF Return	Half Yearly	√
Registrar General of Companies		
Annual Accounts	Annually	√
Annual Returns	Annually	√
Change of Directors and Company Secretary (Form 20)	As required	√
National Council for Road Safety		
Contribution to Road Safety Fund Payment	Monthly	√
Commissioner of Motor Traffic		
Luxury and Semi-Luxury Tax Payment	Monthly	√

Regulatory reports submitted to IBSL during 2015 are given below;

Submissions to IBSL	Date of submission	Deadline set by IBSL
Annual Audited Financial Statements for the year ended 31st December 2014	05th March 2015	30th June 2015
Annual Statutory Returns for the year ended 31st December 2014	30th April 2015	30th June 2015*
Circular 29 Auditor's Compliance Certificate	30th April 2015	30th June 2015*
Risk Assessment Summary	31st March 2015	31st March 2015
Quarterly Returns and Compliance Certifications		
- 31st December 2014 (4th Quarter)	12th February 2015	15th February 2015
- 31st March 2015 (1st Quarter)	15th May 2015	15th May 2015
- 30th June 2015 (2nd Quarter)	14th August 2015	15th August 2015
- 30th September 2015 (3rd Quarter)	13th November 2015	15th November 2015
Statement of Reinsurance Arrangements		
- Life	11th February 2015	15th March 2015
- General	14th March 2015	15th March 2015
Actuarial Report and Abstract in respect of Long Term insurance business	30th April 2015	30th June 2015*
Management Letter issued by the External Auditors for the year ended 31st December 2014	30th April 2015	30th June 2015*

**As per the segregation guidelines issued by the IBSL, these documents were required to be submitted on or before 30th April 2015.*

Compliance with the Colombo Stock Exchange (CSE) Listing Requirements
During the year, the Company complied with all the Listing Requirements with regard to dividend payments, submission of interim financial statements, circulation of annual reports, contents of annual reports, corporate governance and announcements to the CSE. Further details on these instances of compliance appear on the following pages.

- Listing Rules on the contents of the annual report, as applicable for the Annual Report of 2015, are given in detail on pages 359 to 362.
- Announcements to the CSE during 2015 are given on pages 174 and 175.

- *Ensuring all stakeholder interests are considered in corporate decisions* - **Complied**

  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 46 to 152.

- *Recognising sustainable business development in corporate strategy, decisions and activities* - **Complied**

  The Board recognises the necessity of sustainable business development in the corporate strategy, decisions and activities. Please refer to the Management Discussion and Analysis on pages 46 to 152 for more information on the Company's activities with regard to sustainable business development.

- *Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations* - **Complied**

  The Company's accounting policies are fully in line with Sri

Lanka Accounting Standards (SLFRS/LKAS) which were adopted from the financial year 2012. Further, the accounting policies are reviewed annually to be in line with the changing business requirements and best practices of the industry.

Please refer to the Independent Auditor's Report, which affirms that the Company's Financial Statements are in line with Sri Lanka Accounting Standards, on page 237.

- *Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned* - **Complied**

  The Board takes all its decisions paying due attention to the interests of all stakeholders.

  During the year, the Company's fully owned subsidiary HNBGI made losses mainly due to the increase in the motor vehicle accidents reported and thereby increasing the cost of claims. Therefore, a considerable amount of time was spent by the Board, the Audit Committee and the Risk Management Committee, analysing reasons for such losses, discussing potential remedial actions and monitoring their implementation.

A.1.3 Requirement - *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* - **Complied**

Directors' compliance with the laws of the country, as applicable to the business enterprise

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. 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. Further, Directors are also expected to promote ethical behaviour and create a culture of compliance with all applicable laws, rules and regulations.

Access to independent professional advice

The Charter of the Board of Directors permits all Directors to seek independent professional advice, at the Company's expense, if considered appropriate and necessary, at any time. However, no such advice has been taken by any of the Directors during the year.

A.1.4 Requirement - *All Directors should have access to the advice and services of the Company Secretary and the role of the Company Secretary* - **Complied**

Ms. Shiromi Halloluwa, an Attorney-at-Law by profession, serves as the Company Secretary since 2012. Her role is to support the Chairperson, the Board and the sub-committees of the Board by ensuring a proper flow of information and also by ensuring that Board policies and procedures are followed. The Company Secretary is an employee of the parent company, Hatton National Bank PLC, and was appointed by the Board.

Although the Company Secretary reports to the Chairperson, 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.

The role of the Company Secretary is in line with Schedule F of the Corporate Governance Code issued by the ICASL 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 Colombo Stock Exchange, etc.

A.1.5 Requirement - *All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments) and standards of business conduct* - **Complied**

All Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.

The Board is conscious of its obligation to ensure that Directors avoid conflicts between their duty towards the Company and towards their other interests. All Directors of the Company are expected to

make decisions objectively, avoiding conflicts of interest and in the best interest of the Company.

Members of the Board are therefore required to disclose all transactions with the Company, including those of their close family members, as obligatory under Sri Lanka Accounting Standard 24 – Related Party Disclosures and the Companies Act, No. 7 of 2007. This has been fully complied with and adequately disclosed in this Annual Report. Please refer pages 316 to 323 and 231 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 of Board members.

A.1.6 Requirement - *Dedicating adequate time and effort by the Directors* - **Complied**

Directors ensure that they are able to render sufficient time and attention to the affairs of the Company. Directors' attendance at Board and Board sub-committee meetings is given on page 224. The number of Board seats held by Directors, other than in HNB Assurance PLC, is given in the table below.

Moreover, Board papers are circulated seven days in advance of Board meetings, allowing Board members time to review them and call for additional information and clarification, where necessary.

A.1.7 Requirement: *Training for new and existing Directors* - **Complied**

The Board acknowledges the need for continuous development of the 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.

Moreover, adequate knowledge sharing opportunities are provided to both new and existing Directors on a continuous basis, at the Company's cost, in respect of matters relating to the general aspects of directorship as well as matters specific to the industry and the Company.

Name of the Director	Number of Board seats held, other than in HNB Assurance PLC	
	Listed	Non-Listed
Rose Cooray	03	03
M U de Silva	-	02
Sarath Ratwatte	01	-
Mahendra Jayasekera	03	04
K Balasundaram	-	32
Dilshan Rodrigo	-	05
Siromi Wickramasinghe	01	-
Dr. Sivakumar Selliah	08	06

Directors are also constantly updated on the latest market trends and issues facing the Company and the Insurance Industry as a whole.

A.2 Chairman and Chief Executive Officer – Principle: *Division of responsibilities at the head of the Company* – **Complied**

A.2.1 – Requirement: *Disclosure required if the positions of the Chairman and the CEO are combined* – **Complied**

The posts of Chairperson and MD/CEO were held separately by Dr. Ranee Jayamaha and Mr. Manjula de Silva, respectively, until 30th and 31st March 2015. From 06th July 2015 Mrs. Rose Cooray functions as the Chairperson and from 01st April 2015 Mr. Niranjan Manickam functions as the Chief Executive Officer (Acting). This segregation ensures a clear distinction between the Chairperson's responsibility to manage the Board and the CEO's responsibility to manage the Company's business, and thereby ensures the balance of power and authority.

A.3 Chairperson's Role - Principle: *The Chairperson's role in preserving good corporate governance* – **Complied**

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 opinions of all Directors are appropriately considered in decision making. She fulfils 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 Executive 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:

- Chairing the Board and shareholder meetings
- Ensuring that the operations of the Board are managed effectively
- Ensuring that all key and relevant issues are discussed by the Board in a timely and constructive manner
- Taking appropriate steps to maintain effective communication with shareholders and ensuring that shareholders' views are communicated to the Board
- Ensuring that good corporate governance practices are followed

Enhanced Disclosure Relating to the Role of the CEO

Role of the Chief Executive Officer

The Chief Executive Officer 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 towards fulfilling the objectives set by the Board. The Board has given the Chief Executive Officer broad authority to conduct the business and he is accountable to, and reports to, the Board on the performance of the business. A summary of the responsibilities of the CEO is given as follows;

- Developing, recommending and implementing the Company's policies and strategies so that they reflect the long term objectives and priorities approved by the Board
- Assuming full accountability to the Board for all aspects of the Company's operations and performance
- Maintaining a continuous dialogue with the Chairperson and other Directors
- Representing the Company and managing the Company's day-to-day business
- Monitoring operational and financial results closely, in accordance with plans and budgets
- Establishing adequate operational, planning and financial control systems

The Chief Executive Officer is supported by the Executive Committee, which provides the Board with high quality information and recommendations, to help yield informed decisions on all areas regarding the strategies of the Company.

A.4 Financial Acumen - Principle:

Availability of sufficient financial acumen and knowledge to offer guidance on matters of finance – **Complied**

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.

Members of our Board and their experience in finance are as follows:

- **Rose Cooray B.A. (Hons) (University of Ceylon, Peradeniya), MSc. (Strathclyde University U.K.)** - *Chairperson and Non-Executive Director (Former Deputy Governor with over 35 years in the Central Bank of Sri Lanka and nearly 06 years experience in the Ministry of Finance.)*
- **Sarath Ratwatte FCMA (UK), CGMA -** *Independent Non-Executive Director (Chartered Global Management Accountant and experienced Treasurer)*
- **Mahendra Jayasekera FCA, BSc. Special (Hons) (University of Sri Jayawardenapura)** - *Independent Non-Executive Director (Chartered Accountant with over 20 years of experience in Accounting, Capital Markets and General Management)*
- **K Balasundaram** - *Independent Non-Executive Director (Over 45 years of experience in Finance)*
- **Dilshan Rodrigo MBA (Cranfield University, UK), FCMA (UK), FCCA (UK), CGMA** – Non-*Executive Director (Chartered Global Management Accountant and a senior banker with extensive experience in the banking sector)*
- **Siromi Wickramasinghe Attorney–at–Law** – *Non-Executive Director (Banker with over 30 years of multifunctional and progressive experience in the Sri Lankan banking sector)*
- **Dr. Sivakumar Selliah MBBS, M.Phil** - *Independent Non - Executive Director (Investor with over 20 years of experience as an investor in the CSE and a company director)*
- **Thimal Perera ACA** - *Non-Executive Director (Chartered Accountant and a senior banker with over 20 years of experience in the banking sector)*

Further details of the Directors are given in their profiles on pages 28 to 31.

A.5 Board Balance - Principle: *The Board should have a balance of Executive and Non-Executive Directors* – **Complied**

A.5.1 – Requirement: *Presence of Non-Executive Directors - two or one third of the total number of Directors, whichever is higher, should be Non-Executive* – **Complied**

As at the date of this report, the Board comprised eight Directors, all of whom are Non-Executive.

Enhanced Disclosure Relating to the Role of the Non-Executive Directors

The Non-Executive Directors scrutinise the management's performance in achieving agreed corporate goals and objectives, and monitor the reporting of the Company's performance.

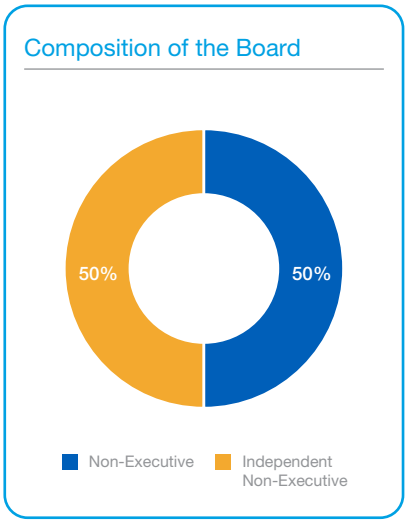
They also assure clarity and accuracy on the reporting of financial information, and ensure that controls and systems of risk management are effectively in place. They constructively challenge the management in all areas, which is vital for upholding objectivity.

A.5.2 – Requirement: *Independent Directors - two or one third of Non-Executive Directors appointed to the Board, whichever is higher, should be 'independent'* – **Complied**

50% of the Directors of the Company are Independent. Mr. Sarath Ratwatte, Mr. Mahendra Jayasekera, Mr. K Balasundaram and Dr. Sivakumar Selliah are Independent Non-Executive Directors. Therefore, the number of Independent Non-Executive Directors is in excess of 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.

A.5.3 – Requirement*: Criteria to evaluate "independence" of Non-Executive Directors* – **Complied**



All four Independent Non-Executive Directors meet the criteria for independence as per the Code of Best Practice on Corporate Governance 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.

A.5.4 – Requirement*: Annual declaration of Non-Executive Directors* – **Complied**

All Non-Executive Directors have submitted a declaration of independence or non-independence as per the Code.

A.5.5 – Requirement*: Annual determination of 'Independence' of Non-Executive Directors by the Board* – **Complied**

The Board, on page 223 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 2016.

A.5.6 – Requirement*: Criteria to be an Alternate Director* - **Not Applicable to the Company**

The Company does not have any Alternate Directors

A.5.7 and A 5.8 – Requirement: *Appointment and disclosure of "Senior Independent Director" and availability of the Senior Independent Director for confidential discussions with other Directors-* **Not Applicable to the Company**

The roles of the Chairperson and the CEO of the Company are separated and hence, a Senior Independent Director has not been appointed.

A.5.9 – Requirement: *Meeting without the presence of the Executive Directors at least once each year* – **Complied**

As at the date of this report, the Company does not have any Executive Directors. However, the Company had a process where the Chairperson met with other Non-Executive Directors at least once a year, without the presence of the MD/ CEO. One of the main areas of focus at this meeting was the performance of the MD/ CEO and his remuneration package. Any other such meeting would be held as and when the need arises.

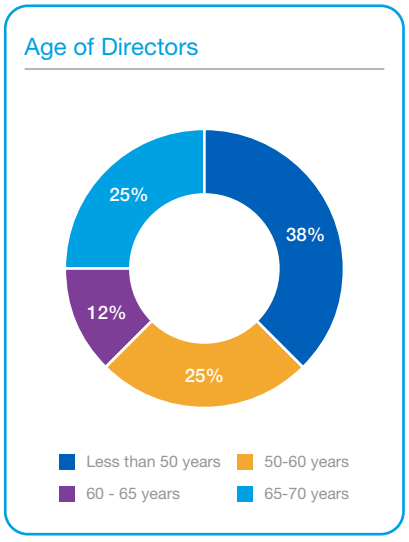
A.5.10 – Requirement: *Recording of concerns which cannot be unanimously resolved, in Board minutes* – **Complied**

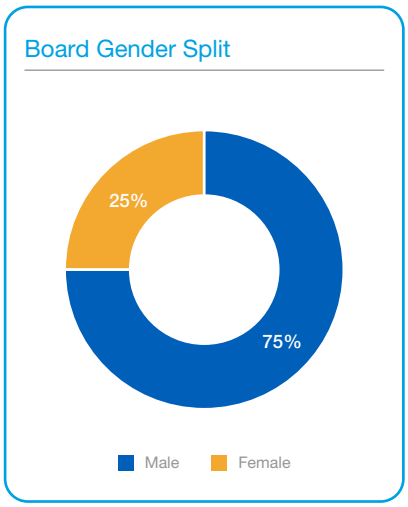
All decisions of the Board were taken unanimously and during the year no concerns, which needed to be recorded in the Board minutes, were raised by the Directors. However if such concerns do arise, the Company's policy is to record them accordingly.

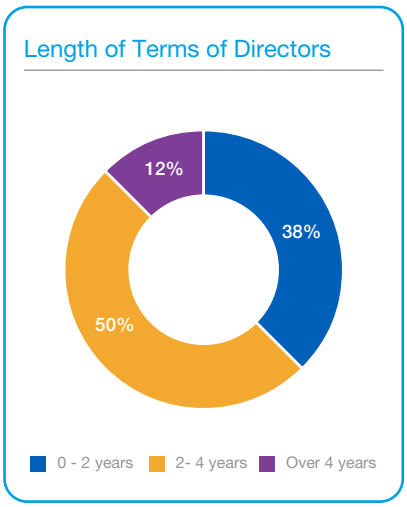
Enhanced Disclosure Relating to Board Balance

Board Diversity

In line with one of the Company's core values, "foster diversity as a corporate strength", the Board recognises the benefits of diversity in its widest sense – i.e. both at Board level and throughout all levels of the Company. As a general objective, the Board ensures that it is composed of members with diverse backgrounds and personal traits, as well as competencies and expertise that add value to the Company. This diversity enriches the debates and dialogues within the Board.







A.6 Supply of Information - Principle: *The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties* – **Complied**

A.6.1 – *Requirement: Management's responsibility to provide the Board with appropriate and timely information* – **Complied**

The management ensures that a set of timely, accurate, relevant and comprehensive information is provided to the Directors before the Board meeting every month, with adequate time for them to review the same and prepare for discussions. All significant financial and non-financial information for the period are included in these analyses.

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.

A.6.2 – Requirement: *Minutes, agenda and papers required for a Board Meeting should ordinarily be provided to Directors at least seven (7) days before the meeting* – **Complied**

All Board papers and papers for sub-committee meetings are circulated one week (seven days) prior to such meetings.

A.7 Appointments to the Board - Principle: *There should be a formal and transparent procedure for the appointment of new Directors to the Board* – **Complied**

A.7.1 – Requirement: *Presence of a Nomination Committee* – **Complied**

The Nomination Committee comprises three Directors including the Chairperson. During the year one Nominations Committee meeting was held. Details on the composition, responsibilities and other information of the Nomination Committee are disclosed in the following table.

A summary of the main functions of the Nomination Committee

Criteria	Comment
Membership	Three Directors
Chairperson	Mrs. Rose Cooray Chairperson /Non-Executive Director (appointed with effect from 06th July 2015)
Other Members	M U de Silva - Non-Executive Director (Resigned with effect from 08th January 2016) A J Alles - Non-Executive Director (Resigned with effect from 03rd December 2015)
Secretary	Board Secretary
Invitees	Acting CEO
Minimum Meeting Frequency	As and when necessary (one meeting was held during the year)
Circulation of Agenda and Papers	As and when necessary
Main Functions of the Committee	• Identifying and nominating for the approval of the Board candidates to fill Board vacancies, as and when they arise • Periodically review the composition of the Board and recommend changes required, if any

A.7.2 – Requirement: *Annual assessment of the composition of the Board* - **Complied**

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.

A.7.3 – Requirement: *Disclosure of details of new Directors to shareholders* – **Complied**

All appointments of new Directors are informed to shareholders, with sufficient details, via immediate notification to the CSE. Since the last Annual General Meeting, Mrs. Rose Cooray and Mr. Thimal Perera were appointed to the Board, and these were communicated to the CSE on 06th July 2015 and 08th January 2016 respectively.

In addition, according to the terms of the Regulation of Insurance Industry Act, prior approval from the Insurance Board of Sri Lanka (IBSL) is obtained for all new appointments.

The Annual Report of the Board of Directors also carries details of new appointments of Directors. Please refer page 223 for details of new appointments.

A.8 Re-election - Principle: *All Directors should be required to submit themselves for re-election at regular intervals and at least once every three years* – **Complied**

A.8.1 – Requirement: *Appointment and re-election of Non - Executive Directors* – **Complied**

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 the 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.

Accordingly during the year, the names of Mrs. Rose Cooray and Mr. Thimal Perera were recommended by the parent company, HNB. These recommendations were approved by the Board of Directors unanimously.

A.8.2 – Requirement: *Election of Directors by shareholders* – **Complied**

Mrs. Rose Cooray and Mr. Thimal Perera were appointed to the Board in the period since the last Annual General Meeting. Accordingly, they are eligible for re-election by the shareholders at the Annual General Meeting (AGM) to be held on the 29th of March 2016.

Further, according to Section 86 of the Articles of Association of the Company, Directors other than the Chairman and Nominee Directors have to retire by rotation at least once in every three years. Accordingly,

Mr. Mahendra Jayasekera and Mr. K Balasundaram are to retire by rotation and to offer themselves for re-election at the Annual General Meeting to be held on 29th March 2016. Mr. Mahendra Jayasekera and Mr. K. Balasundaram have offered themselves for re-election, with the unanimous support of the board.

A.9 Appraisal of Board Performance - Principle: *The Board should periodically appraise its own performance in order to ensure that Board responsibilities are satisfactorily discharged* – **Complied**

A.9.1 – Requirement: *Appraisal of Board performance* – **Complied**

The Board appraised itself on its performance in the discharge of its key responsibilities.

A.9.2 – Requirement: *Annual self-evaluation of the Board and its committees* – **Complied**

Annual self-evaluation of the Board
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.

Evaluation of the Audit Committee and the Risk Management Committee
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. In addition, the management also assessed the performance of the Audit Committee and the Risk Management Committee using a checklist, which was prepared so as to cover the responsibilities of the committees, as derived from their Charters.

The results of both the self-assessments and the management's assessments of the Audit Committee and the Risk Management Committee were tabled at the Board meeting and these are expected to be used to further enhance the effectiveness of these two committees.

A.9.3 – Requirement: *Disclosure of evaluation procedure* – **Complied**

Self-evaluations were carried out as given in A.9.2 above.

A.10 Disclosure of Information in Respect of Directors - Principle: *Shareholders should be kept advised of relevant details in respect of Directors* - **Complied**

A.10.1 – Requirement: *Disclosures on Directors in the Annual Report* - **Complied**

Required information in respect of all Directors is disclosed in this Annual Report, where relevant. Disclosure requirement for each Director and the relevant page numbers are given below.

Disclosure Requirement	Page Numbers
Name, qualifications and brief profile	26-31
The nature of his/her expertise in relevant functional areas	26-31
Immediate family and/or material business relationships with other Directors of the Company	231 and 316 to 323
Executive, Non-Executive and/or Independent Director	223
Names of listed companies in Sri Lanka in which the Director concerned serves as a Director	28-31
Names of other companies in which the Director concerned serves as a Director	28-31
Number of Board meetings of the Company attended during the year	224
The total number of Board seats held by each Director in listed and non-listed companies and whether in an Executive or Non-Executive capacity	162
Names of Board sub-committees in which the Director serves as Chairman or a member	224
Number of committee meetings attended during the year	224

A.11 Appraisal of Chief Executive Officer - *Principle: The Board should be required, at least annually, to assess the performance of the CEO* - **Complied**

A.11.1 – Requirement: *Setting Annual Targets* - **Complied**

The Board, in consultation with the 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 CEO every year.

These corporate objectives are included in the corporate plan for the year, which in turn is reviewed and approved by the Board. The main focus areas of the Corporate Plan 2015 were;

- Market Share
- Gross Written Premium for Life (HNBA) and General Insurance (HNBGI)
- Underwriting Results
- Profitability
- Premium Persistency
- Dividend Payout
- Remuneration of Employees

The Board monitored the achievement of these targets throughout the year and provided guidance to the CEO where necessary.

A.11.2 – Requirement: *Evaluation of the performance of the CEO* - **Complied**

The performance of the CEO is evaluated by the Board at the end of each year, based on the agreed objectives described above. Remuneration for the CEO is determined based on the achievement of these set targets.

B DIRECTORS' REMUNERATION

B.1 Remuneration Procedure – 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* - **Complied**

B.1.1 – Requirement: *Presence of a Remuneration Committee* – **Complied**

A Remuneration Committee has been appointed and functions within agreed Terms of Reference. Please refer pages 208 and 209 for the Remuneration Committee Report.

B.1.2 – Requirement: *Composition of the Remuneration Committee* - **Complied**

The Remuneration Committee consists of Non-Executive Directors and the Chairman is an Independent Non-Executive Director. Members of the Remuneration Committee are given below

K Balasundaram – *Chairman* - Independent Non-Executive Director

M U de Silva – *Member* - Non-Executive Director (Resigned with effect from 08th January 2016)

Sarath Ratwatte – *Member* - Independent Non-Executive Director

Rose Cooray – *Member* – Non-Executive Director (Appointed with effect from 08th January 2016)

B.1.3 – Requirement: *Disclosure of the members of the Remuneration Committee in the Annual Report* - **Complied**

Names of the Chairman and the members of the Remuneration Committee are given under B.1.2 and in the Remuneration Committee Report on page 208.

B.1.4 – Requirement: *Determination of remuneration of Non-Executive Directors* - **Complied**

Non-Executive Directors who are nominees 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.

B.1.5 – Requirement: *Ability to consult the Chairman and/or CEO and to seek professional advice by the Committee* - **Complied**

The Committee consults the Chairperson and the CEO, where necessary, and has access to professional advice from within and outside the Company.

B.2 The Level and Make-up of Remuneration – 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* - **Complied**

The responsibilities of the Remuneration Committee during 2015 and up to the date of this report, and a summary of the work undertaken on behalf of the Board, are given in the following table:

Criteria	Comment
Membership	Three Non-Executive Directors (two of whom are Independent)
Chairman	K Balasundaram - Independent Non-Executive Director
Other Members	Sarath Ratwatte - Independent Non-Executive Director Rose Cooray - Non-Executive Director (Appointed with effect from 08th January 2016) M U de Silva - Non-Executive Director (Resigned with effect from 08th January 2016)
Secretary	Board Secretary
Invitees	Chief Executive Officer, Head of HR, Chief Operating Officer and Chief Financial Officer
Minimum Meeting Frequency	Once a year (three meetings were held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Remuneration Committee Charter, which is reviewed annually. Some such key responsibilities are: • Reviewing and recommending to the Board on the remuneration package for the CEO, top management and other employees of the Company • Reviewing and making recommendations to the Board on annual increments, promotions, etc. • Reviewing and ensuring that the Company has a sound performance appraisal process for employees at all levels • Reviewing the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace Please refer the Remuneration Committee Report on pages 208 and 209 for more details.

B.2.1 – Requirement: *Remuneration packages of Executive Directors* - **Complied**

The Company does not have any Executive Directors as at the date of this report. However, the Remuneration Committee and the Board ensures that the CEO is provided with an appropriate remuneration package.

B.2.2 – Requirement: *Comparison of remuneration with other companies* - **Complied**

The 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.

B.2.3 – Requirement: *Comparison of remuneration with other companies in the Group* - **Complied**

The Remuneration Committee considers remuneration levels of the Group when deciding HNBA's remuneration packages.

B.2.4 – Requirement: *Performance-based remuneration of Executive Directors* - **Complied**

The performance-related elements of the remuneration package of the CEO and other executive employees are linked to corporate and individual performance.

B.2.5 – Requirement: *Executive share options* - **Not Applicable**

The Company does not have any share option scheme for the Directors or employees at present.

B.2.6 – Requirement: *Designing performance-based remuneration for Executive Directors* - **Complied**

The Company does not have any Executive Directors as at the date of this report. Objectives for the 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.

The Company does not have any long term incentive schemes or share option schemes.

Performance-related remuneration schemes are not applied retrospectively.

Non-Executive Directors are not eligible for performance-based remuneration schemes

B.2.7 & B.2.8 – Requirement: *Compensation commitments on early termination* - **Complied**

Termination of the CEO is governed by his contract of service/employment.

B.2.9 – Requirement: *Remuneration of Non-Executive Directors* - **Complied**

Non-Executive Directors are paid only for their attendance at meetings. Non-Executive Directors who are nominees of the parent company are paid a nominal fee for their services. Other Non-Executive Directors are remunerated in line with market practices.

B.3 Disclosure of Remuneration – Principle: *The Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole* - **Complied**

B.3.1 – Requirement: *Disclosure of Remuneration* - **Complied**

The aggregate remuneration paid to the MD/CEO and Non-Executive Directors is disclosed on page 225 of this Report. The Remuneration Committee Report, which highlights the Remuneration Policy of the Company, is given on pages 208 and 209.

C RELATIONS WITH SHAREHOLDERS

C.1 Constructive Use of the Annual General Meeting (AGM) and Conduct of General Meetings – Principle: *The Board should use the AGM to communicate with shareholders and should encourage their participation* - **Complied**

The AGM is the most awaited meeting by 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 allow shareholders 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.

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 13th Annual General Meeting (AGM) of the Company held on 27th of March 2015, at the Auditorium on Level 22 of "HNB Towers", at No. 479, T.B. Jayah Mawatha, Colombo 10.

The main items discussed and the percentage of votes cast in favour of the resolutions relating to those items, are set out below under C.1.2.

C.1.1 – Requirement: *Use of proxy votes* - **Complied**

The Company has in place a mechanism to count all proxy votes, to indicate to the Chairperson the level of proxies lodged on each resolution and the number of votes for and against such resolution.

C.1.2 – Requirement: *Separate resolutions for substantially separate issues and for the adoption of annual report and accounts* - **Complied**

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 percentage of votes cast in favour of the resolutions relating to those items, are set out in the following table:

Resolution	Percentage of Votes
Declaration of a dividend of Rs. 3.75 per share	100%
Re-election of Dr. Sivakumar Selliah as a Director of the Company	100%
Re-appointment of Mr. M. U. de Silva as a Director of the Company	100%
Ratification of the appointment of Messrs. Ernst & Young (EY), Chartered Accountants, who were appointed as the Auditors w.e.f. 31st October 2014 to fill the casual vacancy for the financial year 2014, and the re-appointment of Messrs Ernst & Young, Chartered Accountants, as the Auditors for the ensuing year and authorising the Directors to fix their remuneration	100%
Authorising the Directors to determine payments for charitable and other purposes	100%

C.1.3 – Requirement: *Availability of Chairmen of Board committees at the AGM* - **Complied**

The Chairperson of the Board ensures that the Chairmen of Board sub-committees are present at the AGM to answer any queries raised by shareholders.

All chairmen of the Board Sub-Committees attended the last Annual General Meeting held on 27th March 2015.

C.1.4 – Requirement: *Adequate notice of the AGM* - **Complied**

The Annual Report, together with the Notice of Meeting, related documents and other resolutions, if any, is circulated to the shareholders at least 15 working days prior to the date of the AGM.

The Annual Report of 2014 was submitted to the CSE on 27th February 2015 and was posted to all shareholders by 03rd March 2015. The AGM was held on 27th March 2015.

Please refer page 368 for the Notice of Meeting of the 14th AGM to be held on 29th March 2016.

C.1.5 – Requirement: *Summary of procedures governing voting at the General Meeting* - **Complied**

The proxy form, which is given on page 369 and 370, includes a summary of the procedures governing voting at the General Meetings, and is circulated to all shareholders.

C.2 Communication with Shareholders – Principle: *The Board should implement effective communication with shareholders* - **Complied**

C.2.1 – Requirement: *A channel to reach all shareholders of the Company in order to disseminate timely information* - **Complied**

All financial information released to the shareholders and the public is authorised by the Chief Executive Officer and/or Chief Financial Officer. All price sensitive information is first communicated to the Colombo Stock Exchange by the Company Secretary prior to communication to the public through mass media. Any other information released to the public is approved by the Chief Executive Officer and/or Chief Operating Officer and communicated through the Head of Marketing.

C.2.2 – Requirement: *Disclose the policy and methodology for communication with shareholders* - **Complied**

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 enable shareholders and the investment community to engage actively with the Company.

Summary of the Communication Policy

1. Purpose
2. General Policy
3. Reports to Shareholders
   - Annual Report
   - Quarterly Reports / Interim Financial Statements
   - Sustainability Reporting
4. Corporate Website
5. Annual General Meetings
6. Shareholders' Enquiries and Feedback
7. Responding to Shareholders' Enquiries and Feedback
8. Submission of Information to the Colombo Stock Exchange
9. Investment Market Communications
10. Media Releases

C.2.3 – Requirement: *Disclose how the Company has implemented the above policy and methodology -* **Complied**

The Company uses numerous channels to keep its shareholders informed of the performance and operations of the Company.

Reports to Shareholders

Annual Report

The Annual Report is the main document the Company uses to inform its shareholders on the affairs of the Company. As a responsible corporate citizen, efforts are made by the Company to include a significant amount of important non-financial information that extends beyond regulatory requirements, in the Annual Report.

Awards Won by the 2014 Annual Report

51st Annual Report Awards conducted by CA Sri Lanka

- Gold Award – Insurance Companies Sector

South Asian Federation of Accountants (SAFA) Best Presented Annual Report Awards

- 1st Runner up – Insurance Sector
- Merit Award – Corporate Governance Disclosures

Awards Won by the 2013 Annual Report

50th Annual Report Awards conducted by CA Sri Lanka

- Gold Award – Insurance Companies Sector
- Silver Award – Corporate Governance Disclosures

South Asian Federation of Accountants (SAFA) Best Presented Annual Report Awards

- 1st Runner up – Insurance Sector

Our efforts in providing a comprehensive report have been recognised at numerous awards ceremonies, both local and international.

Equitable Treatment to all Shareholders

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. The Company will continue the distribution of above reports in Sinhala and Tamil languages along with this Annual Report of 2015 as well.

Timely Communication of Financial Statements

In addition to enhance 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 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 previous Annual Reports of the Company have been released to the CSE.

Annual Report	Date of Submission to the Colombo Stock Exchange (CSE)
Annual Report – 2014	27th of February 2015
Annual Report – 2013	04th of March 2014
Annual Report – 2012	01st of March 2013
Annual Report – 2011	28th of February 2012
Annual Report – 2010	03rd of March 2011

Interim Financial Statements

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;

- Circulating printed copies of interim financial statements amongst all shareholders
- Publishing interim financial statements in print media
- Publishing interim financial statements on the Company's website

All efforts are taken to ensure the accuracy of information published, and accordingly, a voluntary interim audit was performed for the 6 months period ended 30th of June 2015. 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 ending 30th of June 2015 were based on audited numbers.

Further, in order to ensure the accuracy of the information disseminated to the public, all press releases and other communication relating to financial results are approved by the CEO and/or Chief Financial Officer.

Sustainability Reporting
Information on the Company's sustainability policies and practices is given on pages 46 to 152 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.

Corporate Website
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 other announcements are available on this website, which could be accessed at www.hnbassurance.com.

C.2.4 – Requirement: *Disclose the contact person for such communication* - **Complied**

The Company Secretary and the CEO function as the main contact persons with regard to any public disclosures. The Chief Financial Officer can be contacted with regard to any clarifications on financial information published.

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 are encouraged to use the 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 371 for the Investor Feedback Form.

Responding to Shareholders' Enquiries
Shareholder matters 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. will be 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 Chief Executive Officer for necessary action. Any major issues and/or concerns are brought to the attention of all Directors.

However, no such issues and/or concerns were raised by shareholders during the year.

C.2.5 – Requirement: *A process to make all Directors aware of major issues and concerns of shareholders* - **Complied**

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 shareholders during the year.

C.2.6 – Requirement: *The person to contact in relation to shareholders' matters* - **Complied**

Shareholders are encouraged to maintain direct communication with the Company. The Company Secretary is the main contact person in relation to shareholders' matters. They may raise inquiries and concerns with the Board by contacting the Company Secretary, Ms. Shiromi Halloluwa, through the following channels:

Telephone	- +94 11 2661856
E-mail	- Shiromi.Halloluwa @hnb.lk
Address	- Company Secretary - HNB Assurance PLC No. 479, T. B. Jayah Mawatha, Colombo 10, Sri Lanka.

Any other person of the Company who receives any shareholder correspondence is required to forward the same to the Company Secretary for necessary action, as per the Shareholder Communication Policy.

C.2.7 – Requirement: *The process for responding to shareholder matters* - **Complied**

The Company's aim is to provide a substantive reply within a reasonable time to written shareholder queries. 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 with all our shareholders.

C.3 Major Transactions – Principle: *All material transactions i.e. which if entered into, would materially alter/vary the net asset value of the Company, should be disclosed* - **Complied**

C.3.1 – Requirement: *Disclosures on proposed major transactions* - **Complied**

The Company was segregated on 01st January 2015 into two companies, in line with the requirement to segregate Life and

General Insurance businesses under the Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011.

This was a major transaction of the Company and hence, shareholder approval was obtained for this transaction at the 12th Annual General Meeting held on 27th March 2014.

Details of the transaction were communicated to the CSE on 02nd January 2015. Details of this transaction are also given in Note 42 on pages 314 and 315.

Extended Disclosure Relating to Communication with Institutional Shareholders, Analysts and Media Releases

Submission of Information to the Colombo Stock Exchange/ Shareholders

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. The table given below demonstrates the dates on which important information was released to the CSE/ shareholders during the year 2015.

Important CSE/Shareholder Communications during 2015

Nature of the Information	Date in 2015
Disclosure relating to the segregation of the Company	02nd January
Dividend announcement to the CSE	09th February
Submission of unaudited interim financial statements for the year ended 31st December 2014 to the CSE	11th February
Circulation of unaudited financial statements for the year ended 31st December 2014 to shareholders	16th February
Publication of unaudited financial statements for the year ended 31st December 2014 in the print media (Daily FT)	16th February
Submission of audited financial statements (Annual Report) for the year ended 31st December 2014 to the CSE	27th February
Circulation of audited financial statements (Annual Report) for the year ended 31st December 2014 to shareholders	03rd March
Annual General Meeting (AGM)	27th March
Announcement to CSE on the resignation of Mr. Manjula de Silva (Managing Director) from the Board and the appointment of Mr. Niranjan Manickam as Acting CEO	27th March
Announcement to the CSE on the resignation of Dr. Ranee Jayamaha (Chairperson) from the Board	01st April
Further announcement to the CSE on the shareholding in the Company of Mr. Manjula de Silva and Mr. Niranjan Manickam	02nd April
Submission of unaudited interim financial statements for the 1st quarter (31st March 2015) to the CSE	13th May
Circulation of unaudited interim financial statements for the 1st quarter (31st March 2015) to shareholders	20th May
Publication of unaudited interim financial statements for the 1st quarter (31st March 2015) in the print media (Daily FT)	18th May
Announcement to the CSE on the appointment of Mrs. Rose Cooray to the Board as the Chairperson	06th July
Submission of unaudited interim financial statements for the 2nd quarter (30th June 2015) to the CSE	12th August
Circulation of unaudited interim financial statements for the 2nd quarter (30th June 2015) to shareholders	14th August

Nature of the Information	Date in 2015
Publication of unaudited interim financial statements for the 2nd quarter (30th June 2015) in the print media (Daily FT)	21st August
Submission of unaudited interim financial statements for the 3rd quarter (30th September 2015) to the CSE	13th November
Circulation of unaudited interim financial statements for the 3rd quarter (30th September 2015) to shareholders	16th November
Publication of unaudited interim financial statements for the 3rd quarter (30th September 2015) in the print media (Daily FT)	19th November
Announcement to the CSE on the resignation of Mr. Jonathan Alles from the Board	03rd December
Announcement to the CSE on the date of the Annual General Meeting	03rd December
Announcement to the CSE on purchase of shares by Mrs. Rose Cooray	09th December

Communication with Institutional Shareholders, Analysts and Media Releases

We are committed to maintaining 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/analyst briefings, 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 the confidentiality of price sensitive information.

Further, the management reviews research and valuation 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, provided such information is already in the public domain and is not price sensitive.

Inquiries on Media Releases

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 website and social media. Any clarification or further information with regard to any information thus published should be directed to the Chief Executive Officer (Acting), Mr. Niranjan Manickam, through the following channels:

Telephone - +94 11 2436182/
+94 11 4793701

E-mail - niranjan@
hnbassurance.com

Address - Chief Executive officer
(Acting) – HNB
Assurance PLC
No. 10, Sri Uttarananda
Mawatha,
Colombo 03,
Sri Lanka.

Further, for clarification or information with regard to any published financial information, the Chief Financial Officer, Mr. Vipula Dharmapala, can be contacted via the following channels:

Telephone - +94 11 2421909 /
+94 11 4793702

E-mail - vipula@
hnbassurance.com

Address - Chief Financial Officer -
HNB Assurance PLC
No. 10, Sri Uttarananda
Mawatha,
Colombo 03,
Sri Lanka.

D ACCOUNTABILITY AND AUDIT

D.1 Financial Reporting – Principle: Board responsibility for statutory and regulatory reporting - Complied

D.1.1 – Requirement: *Board responsibility for statutory and regulatory reporting* - **Complied**

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 page 232. Further, the interim annual Financial Statements were published on a timely basis during 2015. All regulatory reports were filed by the 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 2015 are disclosed on pages 174 and 175.

D.1.2 – Requirement: *Declarations by Directors in the Directors' Report* - **Complied**

Contents of the Directors' Report in the Annual Report;

- Declaration that the Company has not engaged in any activity which contravenes laws and regulations, is given on page 227
- Declaration that the Directors have declared all material interests in contracts involving the Company, is given on page 225.
- Declaration that the Company has made all endeavours to ensure the equitable treatment of shareholders, is given on page 226.
- Declaration that the business is a going concern, is given on page 219.
- 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 220.

D.1.3 – Requirement: Statements by Directors and Auditors on responsibility for financial reporting - Complied

Page 232 contains the statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements.

The Auditor's Report is provided on page 237.

D.1.4 – Requirement: *The Annual Report should contain a 'Management Discussion and Analysis'* - **Complied**

The Management Discussion and Analysis is given on pages 46 to 152 of this Annual Report. It covers the disclosure requirement as per this Code, details of which appear in the pages listed below:

Required disclosure	Page Numbers
Industry structure and developments	57 to 59
Opportunities and threats	51 and 52
Risks and concerns	196 to 200
Internal control systems and their adequacy	201 and 202
Social and environmental protection activities carried out by the Company	139 to 146
Financial performance	60 to 104
Material developments in human resource management/ industrial relations	119 to 133
Prospects for the future	56, 81, 96 113, 118, 133, 138, 143 and 146

D.1.5 – Requirement: *Declaration by the Board on the going concern nature of the business* - **Complied**

The declaration that the Company is a 'going concern' is given in the Directors' Report on page 219.

D.1.6 – Requirement: *To summon an Extraordinary General Meeting (EGM) to notify serious loss of capital* - **Complied**

Although the likelihood of such a situation is remote, if it arises, an EGM would be called to inform shareholders.

D.1.7 – Requirement: *Disclosure of related party transactions in the Annual Report* - **Complied**

Related party transactions during the year are given on pages 316 to 323.

The Board has established a Related Party Transactions Review Committee to review and approve all related party transactions of the Company. The Committee met three times during the year.

A summary of the main functions of the Related Party Transactions Review Committee are given in the table below.

Criteria	Comment
Membership	Three Directors
Chairman	Sarath Ratwatte - Independent Non-Executive Director
Other Members	Mahendra Jayasekera, Independent Non-Executive Director Thimal Perera - Non-Executive Director (Appointed with effect from 09th February 2016) Manjula de Silva – Executive Director (Resigned with effect from 31st March 2015)
Secretary	Manager – Risk and Compliance
Invitees	Chief Executive Officer, Chief Financial Officer and other EXCO Members
Minimum Meeting Frequency	Quarterly (The Committee met only three times during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Charter of the Related Party Transactions Review Committee. Some such key responsibilities are: • Ensuring that the Company complies with the Rules set out in the Code of Best Practices on Related Party Transactions issued by the SEC • Reviewing all proposed related party transactions, subject to the exceptional transactions given in the Code, in advance • Sharing information with the Audit Committee and the Board of Directors as necessary and as appropriate, to permit the Audit Committee to carry out statutory, regulatory and other responsibilities with regard to related party transactions. Please refer to the Related Party Transactions Review Committee Report on page 210 and 211 for more details.

D.2 Internal Control – Principle: *The Board should maintain a sound system of internal controls to safeguard shareholders' investments and the Company's assets* - **Complied**

D.2.1 – Requirement: *Directors to conduct an annual review of internal controls* - **Complied**

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 and the Investment Committee.

D.2.2 – Requirement: *The need for an internal audit function* - **Complied**

Internal Auditors play a vital role in the governance structure of the Company. They monitor the Company's adherence to procedures and guidelines developed based on the policies adopted by the Company, as well as compliance with laws and regulations.

In order to strengthen the independence of the internal audit function, the Company's internal audit function has been outsourced to Messrs. KPMG (Chartered Accountants).

During 2015, the Internal Auditors issued 11 reports to the Senior Management and the Audit Committee, covering various operational and financial aspects of the Company, including the operation of the branch network.

The Internal Auditors were given the opportunity during the year, to meet with the Audit Committee without the presence of the management.

D.2.3 – Requirement: *Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls* - **Complied**

The Audit Committee is responsible for ensuring that the Company has an effective internal control system. The Audit Committee reviews the effectiveness of the internal control

system through the Internal Auditors and the Risk and Compliance Department.

In order to strengthen the review of the risk management function of the Company, the Board has established a Risk Management Committee. The minutes of the Risk Management Committee meetings are tabled at the Audit Committee meetings for review, since the Audit Committee carries the overall responsibility for risk management.

Minutes of both the Audit Committee and the Risk Management Committee meetings are tabled at Board meetings, for review by the entire Board.

D.2.4 – Requirement: *Statement of internal control* - **Complied**

The Board's Statement of Internal Control is given on pages 201 and 202.

D.3 Audit Committee - 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* - **Complied**

D.3.1 – Requirement: *Composition of the Audit Committee* - **Complied**

The Audit Committee comprises three Directors, all of whom are Non-Executive. Two Directors of the Audit Committee are Independent Non-Executive Directors. The Chairman of the Audit Committee is an Independent Non-Executive Director.

Please refer the Audit Committee Report on pages 203 to 207 for details on the functions of the Audit Committee.

D.3.2 – Requirement: *Duties of the Audit Committee on the review of objectivity of the External Auditor* - **Complied**

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.

Messrs. Ernst & Young, the External Auditors of the Company, has given a declaration of its independence to the Audit Committee, as per the relevant rules.

Extended Disclosure Relating to External Auditors

Independence of External Auditors

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.

During the year, the External Auditors provided the following audit and permissible non-audit services to the Company:

- Statutory Audit for the Year Ended 31st December 2015
- Review for the period ended 30th June 2015
- Special purpose audit for segregation of insurance business as at 1st January 2015
- Special purpose audit for Insurance Solvency
- Special purpose audit for Solvency Report for the purpose of dividend declaration
- Agreed upon report on Compliance with Circular 29

Details regarding the fees paid to External Auditors appear on page 220.

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 as well.

Auditor Rotation Policy

The Company has adopted an Auditor Rotation Policy, whereby the Company's External Auditor is required to be changed every five years. Therefore, the Company's previous Auditor Messrs. KPMG, who had been functioning in this capacity since the inception of the Company, was changed from the financial year 2014.

D.3.3 – Requirement: *Terms of Reference of the Audit Committee* - **Complied**

The Audit Committee operates with clearly defined terms of reference, which are reviewed annually. The main areas of focus in the Charter of the Audit Committee are:

- Composition
- Meetings
- Internal audit
- External audit
- Financial reporting
- Compliance and litigation
- Risk management and internal control
- Reporting responsibilities
- Related party transactions
- Other responsibilities

D.3.4 – Requirement: *Disclosures required by the Audit Committee in the Annual Report* - **Complied**

- Names of the Directors comprising the Audit Committee are set out on page 203 of the Annual Report.
- Determination of the independence of the Auditors and the basis of such declaration is given on page 205.
- Report by the Audit Committee is given on pages 203 to 207.

A summary of the main functions of the Audit Committee are given below

Criteria	Comment
Membership	Three Non-Executive Directors (two of whom are Independent)
Chairman	Mahendra Jayasekera (FCA), Independent Non-Executive Director
Other Members	Sarath Ratwatte - Independent Non-Executive Director A J Alles - Non-Executive Director (Resigned with effect from 03rd December 2015) Thimal Perera - Non-Executive Director (Appointed with effect from 08th January 2016)
Secretary	Board Secretary
Invitees	Managing Director/Chief Executive Officer, Chief Financial Officer, Other EXCO Members, Head of Finance, Finance Manager, Manager – Risk and Compliance, External & Internal Auditors, Consultant Actuaries and other officers when required. Mr. Faizal Salieh - Director HNB General Insurance Limited, also attends the meetings as an observer.
Minimum Meeting Frequency	Quarterly (five meetings were held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Charter of the Audit Committee, which is reviewed annually. Some of the key responsibilities of the Committee are: • Overseeing the process of preparation and presentation of Financial Statements (both interim and annual) • Reviewing the Company's internal control and risk management process • Monitoring and reviewing the effectiveness of the external and internal audit functions • Making recommendations to the Board on the remuneration, appointment, re-appointment and removal of External and Internal Auditors • Continuous review of the Company's compliance with financial reporting requirements such as Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act, Regulation of Insurance Industry Act and other regulations of the Insurance Board of Sri Lanka Please refer the Audit Committee Report on pages 203 to 207 for more details.

Extended Disclosure of the Functions of Other Board Sub-Committees

The responsibilities of other Board sub-committees during 2015 and up to the date of this report, and a summary of the work undertaken on behalf of the Board, are given below:

Investment Committee

Criteria	Comment
Membership	Three Directors (two of whom are Independent) and one External Expert
Chairman	Sarath Ratwatte - Independent Non-Executive Director
Other Members	Siromi Wickramasinghe- Non-Executive Director Dr. Sivakumar Selliah - Independent Non-Executive Director Rajive Dissanayake – Chief Manager Strategic Planning at HNB PLC Manjula de Silva - Managing Director (Resigned with effect from 31st March 2015)
Secretary	Chief Financial Officer
Invitees	Chief Executive Officer, Head of Investment, Manager - Risk and Compliance and middle management of the investment front office and back office
Minimum Meeting Frequency	Quarterly (four meetings were held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Charter of the Investment Committee. Some such key responsibilities are: • Developing and setting guidelines and policies to manage the investment portfolios of the Company • Making recommendations on investment strategies by evaluating and reviewing the performance of the investment portfolios • Monitoring compliance with laws, regulations and internal guidelines relating to investments • Monitoring the implementation of the Investment Policy of the Company Please refer the Investment Committee Report on pages 212 and 213 for more details.

Risk Management Committee

Criteria	Comment
Membership	Three Non-Executive Directors
Chairman	Dilshan Rodrigo - Non-Executive Director
Other Members	M U de Silva – Non-Executive Director (Resigned w.e.f. 08th January 2016) K Balasundaram – Independent Non-Executive Director Rose Cooray - Non-Executive Director (Appointed with effect from 08th January 2016)
Secretary	Manager – Risk and Compliance
Invitees	Managing Director/Chief Executive Officer, Chief Financial Officer and other EXCO members
Minimum Meeting Frequency	Quarterly (five meetings were held during the year)
Circulation of Agenda and Papers	One week in advance
Main Functions of the Committee	The Committee's responsibilities are clearly defined in the Charter of the Risk Management Committee. Some such key responsibilities are: • Reviewing the Company's risk management framework, including significant policies, processes and systems, as well as risk measurement methodologies and approaches to stress testing • Reviewing and approving the Company's Risk Register and receiving reports on the Company's adherence to significant risk limits • Developing a Risk Appetite Statement for the Company and reviewing the same with the management by periodically assessing the performance against the established risk appetite • Receiving reports from, review with, and provide feedback to, the management on the categories of various risks the Company faces • Ascertaining whether the decisions relating to functions with high risks are taken in accordance with established delegated authorities • Reviewing and discussing the progress of the implementation of the Risk Based Capital (RBC) framework in the Company as required by the Insurance Board of Sri Lanka Please refer the Risk Management Committee Report on pages 214 and 215 for more details.

D.4 Code of Business Conduct & Ethics – Principle: *Companies must adopt a Code of Business Conduct & Ethics for Directors and members of the senior management team, and must promptly disclose any waivers of the Code by Directors or others-* **Complied**

D.4.1 – Requirement: *Disclosures on presence of Code of Business Conduct and Ethics -* **Complied**

The Company introduced a Code of Business Conduct and Ethics for Directors in 2013. Further, the Company has in place a Code of Business Conduct and Ethics for all its employees, and has mandated that it should be followed without exception.

Code of Conduct & 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.

A Summary of the Company's Code of Conduct and Ethics for Directors

Conflict of Interest - Directors should avoid conflict of interest and the code provides examples of common conflicts.

Corporate Opportunities - 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.

Confidentiality - 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.

Dealings with Third Parties - Only the persons named in the Code are authorised to deal with third parties on behalf of the Company.

Compliance with Laws and Regulations and Fair Dealing - 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.

Encouraging the Reporting of any Illegal or Unethical Behaviour - Directors are expected to promote ethical behaviour and create a culture of compliance with all applicable laws, rules and regulations.

Protection and Proper use of the Company's Assets - All Directors must protect the Company's assets and ensure their efficient use.

Enforcement - 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 a report.

Dealing with Shares of the Company
In view of strengthening governance, a Share Dealing Policy and Code has been adopted by the Company. This code is applicable to the following officers and employees;

- Chairperson
- Managing Director/Chief Executive Officer
- 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 Risk and Compliance Department
- Members of the Actuarial Department
- All other employees in possession of any insider information

Key Restrictions as per the Policy
The following key restrictions are applicable for persons identified in the policy, when dealing with shares of the Company.

- Clearance from the required officers as per the policy shall always be sought before dealing in shares of the Company, even during open periods.
- The 'open period' commences after four (4) market days upon announcing the quarterly results of the Company and terminates after the 15th day of the last month of each quarter.
- If clearance is given, dealing must be completed within five market days. A fresh clearance must be sought if dealing is not completed within this period.
- Dealing in the Company's 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.
- The terms of this Policy applies to all connected/related persons of persons named in this policy.

D.4.2 – Requirement: *Affirmation by the Chairperson that there is no violation of the Code of Business Conduct & Ethics* - **Complied**

Chairperson's Statement on page 153 provides an affirmative statement in this regard.

D.5 Corporate Governance Disclosure – Principle: *Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good corporate governance* - **Complied**

D.5.1 – Requirement: Disclosure of compliance with the Corporate Governance Code - **Complied**

Pages 157 to 184 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 ICASL (Code).

2. Shareholders

E. Institutional Investors

E.1 Shareholder Voting - Principle: *Should ensure institutional shareholders' voting intentions are translated into practice* - **Complied**

E.1.1 Requirement: *Communication with shareholders* - **Complied**

Please refer pages 171 to 175 for details on shareholder communication under C.2.1 and C.2.2.

E.2 Evaluation of Governance Disclosures - Principle: *Institutional investors should be encouraged to give due weight to relevant governance arrangements* - **Complied**

Sufficient attention has been given to the interests of institutional investors. The Group's Corporate Governance structure and practices are discussed in detail on pages 154 - 200.

F. Other Investors

F.1 Investing /Divesting Decision – 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* - **Complied**

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.

F.2 Shareholder Voting – Principle: The Company must encourage individual shareholders to participate in General Meetings and exercise voting rights - Complied

All shareholders are encouraged to participate at General Meetings and cast their votes.

G. Sustainability Reporting

G.1 Principles of Sustainability Reporting– Principle: *Importance of Sustainability Reporting* - **Complied**

The Company, having identified the importance of sustainability reporting, provides a detailed review of its sustainability initiatives. Sustainability reporting requirements as per the Code and the page numbers for the relevant disclosure in this Annual Report are given in the following table.

Code Reference	Disclosure Requirement	Page Reference
G.1.1	Principle 1 – Economic Sustainability	60 to 69 and 110
G.1.2	Principle 2 – The Environment	144 to 146
G.1.3	Principle 3 – Labour Practices	119 to 133
G.1.4	Principle 4 – Society	139 to 143
G.1.5	Principle 5 – Product Responsibility	114 to 118
G.1.6	Principle 6 – Stakeholder Identification, Engagement & Effective Communication	105 to 109
G.1.7	Principle 7 – Sustainable Reporting to be Formalised	06 and 07

Extended Disclosure on Other Governance Activities of the Company

Governance Activities Relating to the Management

The Company has adopted various policies, procedures and guidelines in order to strengthen its governance structure.

Additionally, various committees have been appointed to overlook the management function.

Chief Executive Officer
The Chief Executive Officer is responsible to the Board for managing the business of the Company. Functions of the CEO and the procedure for the appraisal of the CEO's performance are given on pages 163 and 168 respectively.

Executive Committee
The CEO has appointed an Executive Committee (EXCO) to support him in managing the Company according to the directions set by the Board. Accordingly, the Company's management function is headed by the EXCO, which is chaired by the Acting CEO and includes seven other members.

Names and brief profiles of the members of the EXCO are given on pages 32 to 35.

Operations Committees
The decisions taken at the EXCO are communicated and implemented through various divisional Operations Committees (OPCOs). OPCOs are headed by Chief Officers or the Heads of Divisions, and comprise members of the senior management teams of the respective divisions.

Other Committees
Within the governance structure of the Company, various cross-functional committees, such as the Business Continuity Plan (BCP) Committee, Risk Management Team, Sustainability Committee, Product Development Committees, Procurement Committees etc. are formed to complete tasks that require the support of many divisions.

Risk and Compliance Department
It is in view of the need to strengthen governance over its internal controls that the Company has established the Risk and Compliance Department. The tasks of the Risk and Compliance Department include:

- Monitoring the effective implementation of internal controls and the adherence to such controls
- Coordinating with Internal Auditors, External Auditors, management and the Audit Committee; and ensuring the Auditors' recommendations are properly implemented
- Conducting special reviews on areas of concern identified by the management or the Audit Committee
- Ensuring that an effective risk management process is in place to identify, measure and manage the risks faced by the Company and following up on actions required to mitigate identified risks
- Ensuring that the Company's activities are within the limits set in the Risk Appetite Statement
- Ensuring that the Company's risk management and compliance activities are carried out in line with the Risk Management Policy and the Compliance Policy
- Monitoring the Company's compliance with all applicable laws and regulations
- Ensuring that the Company has an effective Business Continuity Plan (BCP) and monitoring the implementation of the same

Manager - Risk and Compliance reports directly to the Chief Executive Officer and the Chairmen of the Risk Management Committee and Audit Committee, and has the right to consult the Audit Committee and the

Risk Management Committee without reference to the management. Further, he submits reports to the Board sub-committees on compliance activities relating to the respective areas.

Segregation of the Life and General Insurance Businesses of the Company

As per Section 53 of the Regulation of Insurance Industry (Amendment) Act, No. 3 of 2011 and subsequent guidelines issued by the Insurance Board of Sri Lanka (IBSL), all insurers were required to segregate their Life Insurance and General Insurance businesses into two separate companies by 01st January 2015.

In order to comply with this requirement, HNBA incorporated a fully owned subsidiary, namely HNB General Insurance Limited (HNBGI) (PB 5167), and obtained the approval of IBSL to carry out General Insurance business and the approval of the District Court to transfer the existing General Insurance business of HNBA to HNBGI.

This segregation of the Company had an impact on all stakeholders of the Company. Therefore, the Company ensured that this segregation was carried out in a transparent manner. The Company was able to successfully conduct the segregation and transfer the General Insurance business to its fully owned subsidiary, HNB General Insurance Limited, on 01st January 2015.

Complying with Regulatory Deadlines

The Company complied with all post segregation deadlines set out in the guidelines on segregation issued by the IBSL, given as follows;

Requirement	Deadline	Submitted/ Complied date
Actuarial Valuation Reports and Abstracts of both classes of insurance businesses for the year ending 31st December 2014	30th April 2015	30th April 2015
Audited Financial Statements of the composite insurance company as at 31st December 2014	30th April 2015	30th April 2015
Annual Returns of the composite insurance company for the financial year ending 31st December 2014	30th April 2015	30th April 2015
Management Letter issued by the External Auditor of the composite insurance company for the financial year ending 31st December 2014	30th April 2015	30th April 2015
Statement clearly explaining how the Assets and Liabilities had been transferred to the segregated insurance companies.	30th April 2015	30th April 2015
Audited Financial Statements of the segregated insurance companies as at 01st January 2015	30th April 2015	30th April 2015

Internal Controls at HNBA

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, while minimising the impacts of surprises along the way.

The Company's internal control process has been designed to achieve the following objectives:

- Effective and efficient operations
- Effective risk management systems
- Reliable financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of the Company's assets

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. The Board's Statement on Internal Control is given on pages 201 and 202.

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 ICASL 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 four Non-Executive Directors, one of whom is Independent. Details on the Board of Directors appear in the table below:

Name of the Director	Independent / Non-Independent	Appointed / Resigned Date
Mrs. Rose Cooray – Chairperson	Non-Executive Director	Appointed on 30th June 2015
Mr. Faizal Salieh	Independent Non-Executive Director	Appointed on 2nd September 2014
Mr. Dilshan Rodrigo	Non-Executive Director	Appointed on 21st December 2015
Mr. Thimal Perera	Non-Executive Director	Appointed on 21st December 2015
Dr. Ranee Jayamaha	Non-Executive Director	Resigned with effect from 30th March 2015
Mr. Manjula de Silva	Executive Director	Resigned with effect from 31st March 2015
Mr. Jonathan Alles	Non-Executive Director	Resigned with effect from 30th November 2015
Mr. Pratapkumar de Silva	Non-Executive Director	Resigned with effect from 15th October 2015

COMPLIANCE WITH CORPORATE GOVERNANCE CODES

Non-Executive Directors

All 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 only one Independent Director. As per the Corporate Governance Codes, a minimum of two or one third of the Non-Executive Directors is required to be independent. Accordingly, HNBGI does not meet this requirement currently. This requirement is intended to be satisfied with the appointment of another Independent Non-Executive Director in 2016.

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. Niranjan Manickam held the positions of Chairperson and the Chief Executive Officer (Acting), respectively, as at the end of the year.

Board Meetings

11 Board meetings were held during 2015 and the attendance of each Director at such Board meetings is given in the following table:

Name of the Director	Board Meetings	
	A	B
Mrs. Rose Cooray – Chairperson	6	6
Mr. Faizal Salieh	11	10
Mr. Dilshan Rodrigo*	0	0
Mr. Thimal Perera*	0	0
Dr. Ranee Jayamaha	3	3
Mr. Manjula de Silva	3	3
Mr. Jonathan Alles	11	10
Mr. Pratapkumar de Silva	8	3

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

B = *Number of meetings attended*

* *No meetings were held during the year after the appointment of these two Directors to the Board*

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
- Remuneration Committee
- Related Party Transactions Review Committee
- Risk Management Committee
- Investment Committee

Therefore, the reports of the Board sub-committees given on pages 203 to 215 relate to the operations of HNBGI as well.

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.

Mr. Faizal Salieh, who is the Independent Non-Executive Director of HNBGI, attends the Audit Committee and the Related Party Transactions Review Committee meetings by invitation. Mrs. Rose Cooray and Mr. Dilshan Rodrigo, who are members of the Board of HNBGI, are also members of the Group Risk Management Committee of HNB Assurance PLC. Further Mrs. Rose Cooray is a member of the Group Remuneration Committee. Therefore, these Directors ensure that the matters relating to HNBGI are addressed/discussed adequately at such meetings. Even though currently there is no representation from HNBGI at the Remuneration Committee and the Investment Committee, Chairmen of the Committees ensure adequate time is allocated to the operations of HNBGI. Minutes of all Board sub-committee meetings of HNB Assurance PLC are tabled at the Board meetings of HNBGI, for review of the Board.

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 CONTROLS, RISK MANAGEMENT AND COMPLIANCE OF HNBGI

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.

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 developed for HNBGI. A separate Risk Appetite Statement has also been prepared for HNBGI, based on its operations. Additionally, a statement of Key Risk Indicators (KRI), covering the high/ critical risks of the Company, is prepared on a monthly basis. This KRI statement is tabled at the Risk Management Committee meetings as well as at the Board meetings of HNBGI.

A Compliance Checklist, assessing 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, Remuneration Committee, Risk Management Committee and Related Party Transactions Review Committee, to maintain adequate supervision over performance.

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, analyses the external environment and evaluates the results of each company by benchmarking it against competitors. Further, an assessment is performed to identify major internal strengths and weaknesses of the Group/Company. Subsequent to both analyses, the corporate planning team, under the patronage of the Chief Executive Officer, 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 and using the input from the branch and field management.

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 Chief Executive Officer, 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 Chief Executive Officer 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. Systematic mid-year appraisals are carried out to ensure the objectives assigned to each employee are on track to being met.

Moreover, the Risk and Compliance Department follows up with other departments on the progress, while the Executive Committee also 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 as well.

Key Performance Indicators

Key Performance Indicators (KPIs) are devised to facilitate performance review and the process is evaluated monthly by 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 44 and 45.

Further details about the performance governance mechanism on each operational area are summarised in the table below.

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 - Review and approval of the Corporate Plan by the Board of Directors - Monitoring by the Risk and Compliance Department	- Review of the Corporate Plan by the Board - Corporate plan review system (dashboard) - Performance review by EXCO on a monthly basis via a special EXCO meeting - 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 - Immediate notification to responsible officers via SMS and e-mail, in the event policies are issued beyond reinsurance limits - Regular Operational Committee meetings
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
Investment Management	- Investment Policy - Financial Authority Manual	- Segregation of Investment Front Office and Back Office to ensure compliance with set policies - Investment Committee - Risk and Compliance Department	- Monthly meetings with CEO and CFO - Providing frequent updates of investment related KPIs and KRIs - Independent monitoring by the Risk and Compliance Department - Quarterly review by Investment Committee

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
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 - 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
Use of Information Technology and IT Governance	- IT Security Policy - Disaster Recovery Plan	- Operations Committee - IT - Segregation of IT operations and IT system development - IT Security Administrator - Risk and Compliance Department	- Regular meetings with other departments to obtain user feedback - IT Help Desk - 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 - Annual Budgets	- Sustainability Committee - Executive Committee (EXCO)	A detailed review of the Company's actions towards Corporate Social Responsibility is given on pages 139 to 146.

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Human Resources	- Remuneration Policy - Code of Ethics - Share Dealing Policy - Staff Handbook - Whistleblowing Policy - Grievance Handling Policy - Performance Appraisal Process	- CEO's forums to provide opportunities for the operational staff to raise their concerns directly with the CEO, without the presence of the management - 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 Remuneration Committee
Risk Management	- Risk Management Policy - Business Continuity Plan	- Risk Management Team - Business Continuity Plan (BCP) Committee - Risk Management Committee - Audit Committee - Risk and Compliance Department - External assistants as needed	- Preparation of Risk Registers identifying key risks faced by the Company - Preparation of Key Risk Indicators (KRIs) based on the main risks faced by the Company and its risk appetite - Frequent monitoring of the KRIs and the implementation of risk mitigating actions agreed on by the management - Review of KRI reports by the Board and the Risk Management Committee - Conducting BCP drills to identify gaps in the BCP
Legal and Compliance	- Compliance Policy - Document Retention Policy	- Operations Committee – Corporate Services Division - Audit Committee - Risk and Compliance Department	- Tabling a monthly Compliance Report to the Board on the Company's compliance with applicable laws and regulations by Manager – Risk and Compliance - Tabling a Compliance Report at the Audit Committee meeting on a quarterly basis by Manager – Risk and Compliance - Preparation of a monthly Compliance Checklist on all applicable regulations - 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

Corporate Governance - The Way Forward

We firmly believe that good corporate governance is not only fundamental in ensuring that the Company is well-managed in the interest of all its stakeholders, but also for attaining long term sustainable growth. We also believe that good Corporate Governance is a journey and not a destination. Therefore, we are committed to reviewing our governance principles and practices continuously, based on internationally and domestically recognised principles and standards of best practice.

Actions on refining good governance will focus on strengthening the roles and responsibilities of the Board of Directors, improving accountability of the management, improving the control environment, promoting disclosure and transparency and protecting stakeholder rights. The Company will continue to reflect on its new needs and the new opportunities derived from its governance model, and will strive for continuous improvement in 2016.

CORPORATE GOVERNANCE INITIATIVES PLANNED FOR 2016

Composition and the Role of the Existing Board Sub-Committees

Considering the changes in the Board during 2015, the composition of the Board sub-committees will be reviewed and reconstituted as required. Further, considering the challenges of the business environment it operates in, the Board has identified the importance of more frequent review of its operations. With this objective in mind, the Risk Management Committee and the Investment Committee will meet more frequently during 2016.

Evaluation of Board Sub-Committees

Currently the Audit Committee and the Risk Management Committee conduct self-evaluations. During 2016, the self-evaluation process will be extended to other Board sub-committees as well.

Establishment of a Strategic Review Committee

A new Board sub-committee, i.e. Strategic Review Committee, will be formed with the objective of reviewing and closely monitoring the implementation of the three year strategic plan of the Company, and to keep the Board of Directors informed about its progress.

Enhancing Internal Controls

Currently the Company has outsourced its internal audit function to Messrs. KPMG and the Company does not have an in-house internal audit department. Therefore, in order to strengthen the internal control environment of the Company, the Risk and Compliance Department will be strengthened to perform a risk-based internal audit function.

Adoption of New Policies

Considering the present dynamic and customer-centric business environment, it is important to place greater focus on the aspect of customer service, as well as to have a proper policy on frauds. Therefore, in 2016 the Board will adopt a Customer Complaints Management Policy and an Anti-Fraud Policy.

Entering a Risk Based Capital (RBC) Regime

The Insurance Industry is set to enter a RBC regime from 2016, and hence it is important to review our business model in order to ensure we remain competitive in the new environment. Therefore, the Company will obtain the services of independent consultant actuaries to review the business models of both HNBA and HNBGI and to advise the management on required changes, if any.

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
7.10.1	Non-Executive Directors	Two or one-third of the total number of Directors, whichever is higher, shall be Non-Executive Directors.	Compliant	All 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	Four 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 2015.
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 223 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 26 to 31.
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Exchange for dissemination to the public.	Compliant	Appointments of Mrs. Rose Cooray and Mr. Thimal Perera were informed to the Exchange on 06th July 2015 and 08th January 2016, respectively, including their brief resumes.
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee.	Compliant	Details of the Remuneration Committee is given on pages 208 and 209.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.5 (a)	Remuneration Committee (Contd.)	The Remuneration Committee shall comprise of Non-Executive Directors, a majority of whom shall be independent.	Compliant	The 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	Mr. K. Balasundaram (Independent Non-Executive Director) functions as the Chairman of the 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 Remuneration Committee on page 169.
7.10.5 (c)		The Annual Report should set out names of the Directors serving in the Remuneration Committee	Compliant	Please refer page 224 for the composition of the Remuneration Committee.
		Statement of Remuneration Policy	Compliant	Please refer the Remuneration Committee Report on pages 208 and 209.
		Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer page 225 of the Annual Report of the Board of Directors.
7.10.6	Audit Committee	A listed entity shall have an Audit Committee.	Compliant	Details of the Audit Committee are given on pages 203 to 207.
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. Mahendra 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 CEO and the CFO attend the meetings by invitation.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.6 (a)	Audit Committee (Contd.)	Chairman or one member of the Committee should be a member of a recognised professional accounting body.	Compliant	All members are members of recognised professional accounting bodies. Please refer page 203 for qualifications of the members of the Audit Committee. The Chairman is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL).
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 page 179 for a brief description of the functions of the Committee and pages 203 to 207 for the Report of the Audit Committee.
7.10.6 (c)		The Annual Report should set out:		
		- Names of the Directors serving in the Audit Committee	Compliant	Please refer page 224 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 205 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 207 for the Report of the Audit Committee

Risk Management

Insurance Industry and Risk Management

Risk management can be defined as activities that are undertaken to reduce exposure to loss. For insurance companies risk management is of utmost importance because insurance is necessarily the business of risk acceptance. Hence, risk management is a fundamental aspect of the industry's business activities.

Risks Faced by the Company

Considering the current developments in the macroeconomic 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:

- 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
- Increasing regulatory requirements such as requirement for all insurance companies to be listed, moving into a Risk Based Capital (RBC) regime, Anti-Money Laundering requirements, changes in Accounting Standards, foreign regulatory requirements such as FATCA, etc.

Detailed analyses of risks faced by the Group and mitigation actions with the exposure of the main operational areas are given in the following pages.

- Life Insurance risks from pages 79 to 81
- General Insurance risks from pages 94 to 96
- Investment risks from pages 101 to 104
- Human Resource risks from pages 132 and 133
- Financial Risk Management from pages 324 to 345

Thus, all insurance companies in particular are compelled to focus on the fundamentals of risk management.

Risk Management Responsibility

As a part of the overall Corporate Governance framework and to ensure a safe and sound operation of the Group/Company, the Board is responsible for overseeing that the Group/Company has in place effective systems and functions to address

SUMMARY OF THE RISK MANAGEMENT POLICY

- 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

the key risks it faces. Accordingly, the Board has adopted a Risk Management Policy to give direction to the management on carrying out the Risk Management activities of the Group/Company.

The Board has also established a Risk Management Committee to oversee the Risk Management activities of the Group/Company.

Risk Management Objectives

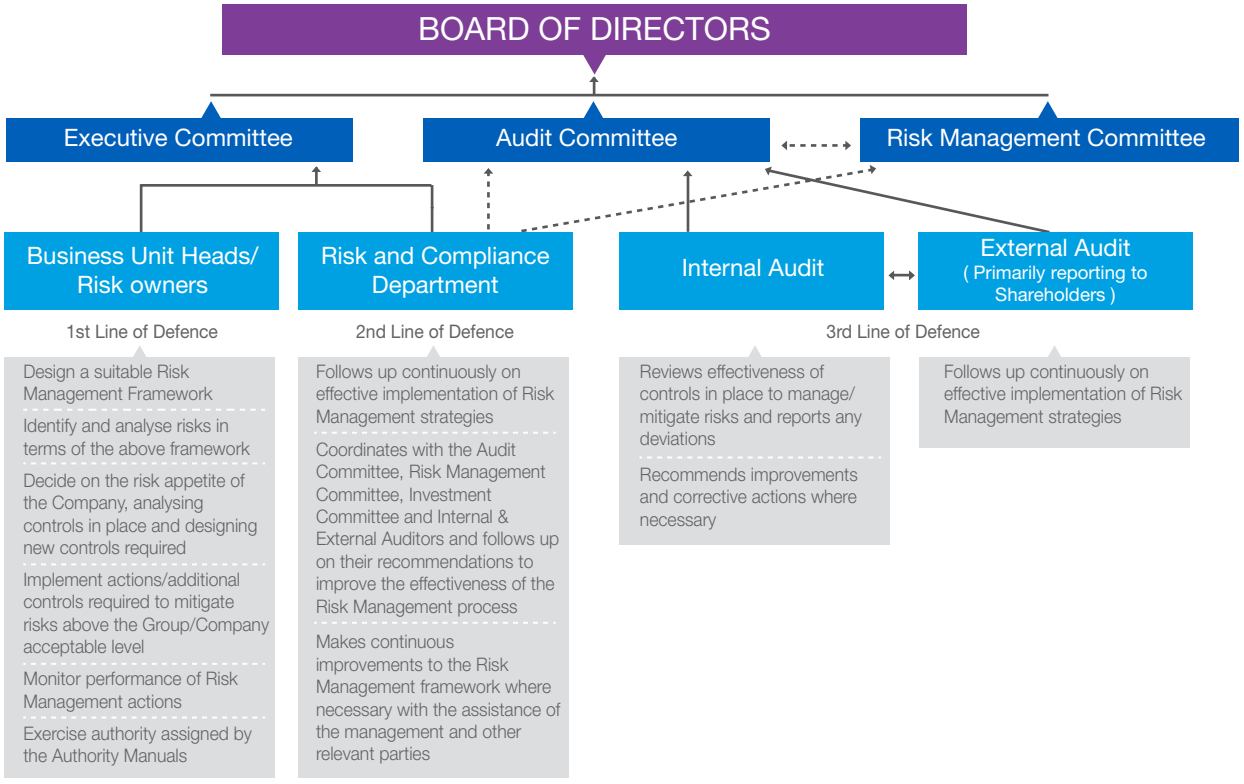
The Group's Risk Management programme is designed to achieve the following objectives:

- Establish a culture of "No Surprises" and avoid losses greater than expected
- Provide a common framework, language and systems to foster a consistent approach to managing risks
- Develop and disseminate tools to allow line managers to foresee, evaluate, and measure risks in a manner which facilitates improved decision making
- Enhance returns, sustainable earnings, growth and shareholder value via more effective use of capital and risk mitigation
- Create a differentiating reputation for HNB Assurance in Risk Management and Corporate Governance

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 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, Remuneration Committee and Related Party Transactions Review Committee to oversee and critically review the operations of the respective areas.
- Appointing a Risk and Compliance Department to ensure that the Company's practices are in line with the set policies and procedure.
- 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 and Board Sub-Committees

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 are 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.

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 are given in the Risk Management Committee Report on pages 214 and 215.

Three Lines of Defence for Risk Management

HNBA's Risk Management structure is formulated with Lines of Defence to manage the risks effectively.

1st Line of Defence

Business Unit Heads 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. To aid them in fulfilling their risk management responsibilities, the Management has established an internal Risk Management Team.

The Risk Management Team is responsible for the overall identification, assessment and management of risks throughout the Group/Company. The team is also charged with the responsibility of proposing ways to mitigate or manage risks of the Group/Company. The Team is headed by the CEO and includes members of the Executive Committee and heads of all key departments, in addition to other selected members of the management.

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. Business unit managers maintain procedures and systems to ensure that regulations and guidelines are followed.

3rd Line of Defence

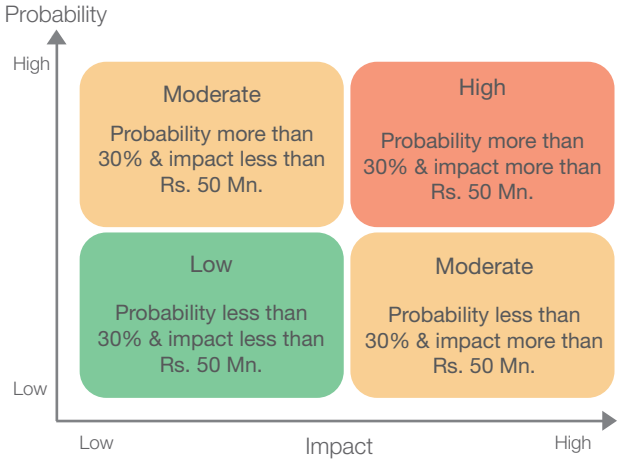
The Internal Auditor is responsible for ensuring the adequacy of the overall risk management and internal control processes of the Group/Company and also to monitor the effectiveness of implementation of agreed actions to mitigate identified risks. They report their findings to the management on a monthly 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

Product development, pricing, underwriting, claims management, reinsurance management, investment management and financial and regulatory reporting represent the core activities conducted by our Group/ Company. In carrying out these 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.

HNBA Risk Grid



RISK IDENTIFICATION

As an insurance company, the Group/ Company is exposed to a number of risks specific to our business in addition to generic risks faced by all others in the environment we operate in. Each of these risks has the potential to harm our financial performance or hinder the achievement of our strategic objectives.

The risks we face can be divided into seven main categories:

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

Risk Register

The Group/Company has developed a Risk Register identifying the key risks faced by the Group/Company, considering both core and supporting activities of the business. The Risk Register that was initially prepared in the year 2009 was updated this year by the Risk Management Team.

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 Monitoring

Key Risk Indicators

The Group/Company has identified Key Risk Indicators (KRIs) on all major risks faced by the Group/Company. All identified KRIs were monitored on a continuous basis and the results are reported at the Risk Management Committee meetings.

Monitoring by the Risk and Compliance Department

The Risk Register includes the risk management actions taken by the Group/Company for all identified risks. As a matter of routine, a follow-up on the Risk Register is carried out by the Risk and Compliance Department in order to ensure that all agreed actions have been implemented and also to update the risk profile of the Group/Company to suit the changing environment.

Monitoring by Internal Auditors

Internal Auditors have developed their internal audit plan to ensure that all controls identified in the Risk Register are effectively implemented. Therefore, any control lapses identified during audits are reported in their audit reports which are tabled at Audit Committee meetings.

Monitoring by the Risk Management Committee

The Risk Management Committee reviews the Risk Register prepared by the Management. 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.

The Risk Management Committee also reviewed the operations of General Insurance Reinsurance function and the motor claim settlement process during the year.

Monitoring by the Audit Committee

The minutes of the Risk Management Committee meetings are reviewed by the Audit Committee. Further, the Audit Committee reviews all Internal Audit Reports and Management Letters issued by Internal and External Auditors.

The Audit Committee also communicates with the Risk Management Committee on areas where the attention of the Risk Management Committee is deemed necessary. Accordingly, and as required by the Audit Committee, a review of the General Insurance Reinsurance operation was carried out by the Risk Management Committee.

Monitoring by the Board

The Board reviews the KRIs on a quarterly basis. In addition the minutes of the Risk Management Committee meetings and the Audit Committee meetings are also tabled at the Board for review by all Directors. A report on the Group's compliance activities with the applicable rules and regulations is reviewed by the Board on a monthly basis.

Monitoring by the Board Integrated Risk Management Committee (BIRMC) of Hatton National Bank PLC (HNB)

During the year, the Group/Company continued to report to the 'Board Integrated Risk Management Committee' (BIRMC) of Hatton National Bank PLC (HNB), the parent Company. Accordingly, four reports providing details of the Group's risk management activities, summary of the financial results, KRIs and the details of the high risks faced by the Group/Company and the risk mitigation steps taken on those identified risks were submitted to the said committee.

Risk Control

All identified risks in the Risk Register are evaluated at the Risk Management Team meetings to check the adequacy of existing controls. If the existing controls are adequate to mitigate/manage the risk identified, no additional controls are established. However, if the Risk Management Team is of the view that the existing controls are not adequate, further action is discussed and agreed upon. Relevant members of the Risk Management Team are given the responsibility to ensure that new controls agreed upon are implemented to mitigate/manage the identified risks within a given timeframe.

The Board's Statement on Internal Control

RESPONSIBILITY

The Board of Directors ("Board") is responsible for ensuring the adequacy and effectiveness of the internal control and risk management mechanism in place at HNB Assurance PLC ("the Company").

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal controls as and when there are changes to 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 Committee and Risk Management Committee which is supported by the Internal Auditors. The Board with the assistance of its sub committees reviewed deficiencies identified in Internal Controls during the year and has taken appropriate actions to improve the control environment.

The management assists the Board in implementing policies and procedures on risk and control by identifying and assessing the risks faced by the Company, as well as in the design, operation and monitoring of suitable internal controls to mitigate these risks.

While the system of internal controls covers risk management as well as financial, organisational, operational and compliance controls, it is nevertheless acknowledged that 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 the material misstatement of financial information, records, financial losses or fraud.

Considering the activities pursued during the year under review, the Board is of the view that the system of internal controls in place is sound and adequate to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

KEY PROCESSES OF THE INTERNAL CONTROL SYSTEM FOR FINANCIAL REPORTING

The key processes established to review the adequacy and integrity of the system of internal controls related to financial reporting include the following:

- Various committees are established by the Board to assist in ensuring the effectiveness of the Company's daily operations and its alignment with the corporate objectives, strategies, annual budget, and approved policies.
- The Company 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 in respect of any instance of non-compliance. Audits are carried out over the main areas of operations and branches island-wide, the frequency of which is determined by the level of risk assessed. The annual audit plan is reviewed and approved by the Audit Committee. Internal Auditors report their findings to the Audit Committee and the reports are discussed at the periodic Audit Committee meetings.
- The Audit Committee of the Company 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 function with particular emphasis on the scope and quality of internal audits. The minutes of the Audit Committee meetings are tabled at Board meetings on a periodic basis. Further details of

the activities undertaken by the Audit Committee are set out in the Audit Committee Report on pages 203 to 207.

- A Risk Management Committee has been established to assist the Board in overseeing the risk management framework of the Company. The management has prepared a Risk Register identifying all key risks faced by the Company, including existing controls and proposed new controls to mitigate such identified risks. The Risk Register has been shared with the Internal Auditors to ensure compliance with existing controls. The implementation of the proposed new controls is followed up by the Risk and Compliance Department.

- Key Risk Indicators (KRIs) have been identified for all major operations of the Company and a KRI report is prepared on a monthly basis. The KRI report is presented to the Risk Management Committee and the Board, on a quarterly basis.

- The Risk and Compliance Department follows up on audit recommendations and ensures their implementation. A report on the progress of such implementation is tabled at each Audit Committee meeting by the Risk and Compliance Department.

- A compliance checklist, covering all applicable laws and regulations, is signed-off by the management on a monthly basis and is tabled at Audit Committee meetings. Compliance reports prepared by the Manager – Risk and Compliance are also presented to the Audit Committee, the Risk Management Committee and the Investment Committee on a regular basis. Moreover, a report on the Company's compliance with applicable laws and regulations is submitted by the Manager – Risk and Compliance to the Board, on a monthly basis.

- Procedure checklists covering key control aspects have been designed for Life Insurance operations, finance-related activities and the operations of the Company's fully owned subsidiary, HNB General Insurance Limited. These checklists are prepared on a monthly basis and any deviations noted in the checklists are reported to the Audit Committee.

CONFIRMATION

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting. The preparation of Financial Statements for external purposes was done in accordance with the Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL), Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto.

By order of the Board,



Mahendra Jayasekera
Chairman - Audit Committee



Rose Cooray
Chairperson

Colombo, Sri Lanka
09th February, 2016

Audit Committee Report

INTRODUCTION

The Audit Committee ("the Committee") of HNB Assurance PLC ("the Company" or "HNBA") is a standing committee of the Board of Directors ("Board"). The purpose of the Committee is to assist the Board in fulfilling its responsibility in relation to the oversight of the financial reporting process, the system of control, the audit process and the process for monitoring compliance with laws and regulations of the Company as well as of its fully owned subsidiary, HNB General Insurance Limited ("HNBGI"). The functions of the Audit Committee are governed by the Charter of the Audit Committee, which is reviewed annually.

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee of HNB Assurance PLC, appointed by and responsible to the Board, comprises three Non-Executive Directors, two of whom are independent. The Chairman of the Audit Committee is a fellow member of the Institute of Chartered Accountants of Sri Lanka. The members bring a multitude of varied expertise and knowledge to the Audit Committee, which enables the effective conduct of operations. The members of the Committee during the year were:

Name	Position	Date of Appointment to the Committee	Qualifications
Mahendra Jayasekera – *Chairman*	Independent Non-Executive Director	11th of December 2012	FCA, BSc Special (Hons) (University of Sri Jayawardenapura)
Sarath Ratwatte – *Member*	Independent Non-Executive Director	30th of January 2009	FCMA (UK), CGMA
Jonathan Alles - *Member**	Non-Executive Director	11th of December 2012*	MBA (University of Stirling–Scotland), AIB (SL)
Thimal Perera – *Member*	Non-Executive Director	08th of January 2016	ACA

**Resigned with effect from 30th November 2015*

Brief profiles of the members of the Committee as at the date of this report are given on pages 28 to 30 of this Annual Report.

The Board Secretary functions as the Secretary to the Audit Committee.

MEETINGS OF THE AUDIT COMMITTEE

The Committee met five (05) times during the financial year, and the attendance of each member at these meetings is given on page 224. The Managing Director/Chief Executive Officer and Chief Financial Officer attended all meetings by invitation. Other Executive Committee members of HNBA and HNBGI ("Group"), Head of Finance, Accountant and Manager – Risk and Compliance of HNBA were invited to attend these meetings where necessary. Additionally, Internal Auditors, External Auditors and Consultant Actuaries also attended meetings by invitation, when required.

OBJECTIVES OF THE AUDIT COMMITTEE

The Audit Committee, whose primary purpose is to assist the Board in performing its duties effectively and efficiently, works towards meeting the following objectives:

- To ensure that the financial reporting system is able to present accurate and timely financial information to the Board of Directors, regulators and shareholders

- To 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 other relevant laws and regulations
- To liaise with the 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
- To review the design and implementation of internal control systems and to take steps to strengthen them where necessary
- To ensure that the conduct of the business is in compliance with the applicable laws and regulations of the country and the policies and procedures of the Company
- To assess the independence of the External Auditors and to monitor the performance of both Internal and External Auditors
- To evaluate the Company's ability to continue as a going concern into the foreseeable future

The Audit Committee is empowered to seek any information it so desires from the management and staff of the Company 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 in order to achieve the objectives stated above.

RESPONSIBILITIES AND ACTIVITIES CARRIED OUT DURING THE YEAR

The responsibilities of the Committee and the activities carried out during the year are detailed below.

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 the External Auditors and the management where necessary:

- Significant accounting and reporting issues
- Developments in the financial reporting framework (Sri Lanka Accounting Standards – SLRFS/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 and the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto

The Committee also reviewed all four (04) Interim Financial Statements and the Annual Financial Statements for the year 2015 before the statements were recommended to the Board.

In the absence of significant changes in accounting standards, it is noted that there were no material changes to the Company's accounting policies in the year 2015.

COMPLIANCE WITH LAWS AND REGULATIONS

The Committee reviewed the monthly compliance checklists signed-off by the management incorporating all the compliance requirements under the prevailing laws and regulations, thus completing twelve (12) for the year concerned. Further, the Committee also reviewed four (4) compliance reports submitted by the Manager - Risk and Compliance, in order to ensure that the Company adheres with all statutory requirements, including those stipulated by the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

Statutory Reporting to the Insurance Board of Sri Lanka (IBSL)

The Committee reviewed and approved all quarterly and annual returns submitted during the year to the Insurance Board of Sri Lanka (IBSL) under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto.

EXTERNAL AUDIT

During the year, the Committee continued to review the external audit plan and the methodology, with the objective of understanding the quality control/assurance processes adopted by the External Auditors. The Committee conducted meetings with the External Auditors to discuss the audit scope and plan. Discussions were also carried out between the Committee, the management and the External Auditors regarding the co-ordination of the audit effort to assure the External Auditors of access to required information and co-operation from all employees.

Additionally, the Committee scrutinised the Report of the Auditors and the Management Letter, in consultation with the External Auditors and the management, and regularly overlooked the implementation of the prescribed corrective actions.

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.

The Audit Committee also reviewed and recommended for approval to the Board, the fees payable to the statutory auditors for the interim and final audits for the financial year ended 31st December 2015.

APPOINTMENT OF EXTERNAL AUDITORS

Messrs. Ernst & Young, Chartered Accountants, were appointed as the External Auditors of the Company for the financial year ended 31st December 2015, at the Annual General Meeting held on 27th March 2015. The Committee reviewed the performance of the External Auditors during the year and has recommended to the Board that Messrs. Ernst & Young be re-appointed as the External Auditors of the Company for the financial year ending 31st December 2016, subject to the approval of the shareholders at the Annual General Meeting to be held on 29th March 2016.

Provision of Non-Audit Services

The Committee is responsible for reviewing the nature of non-audit services the External Auditor may undertake to provide, in order to ensure that auditor independence is not impaired. It is noted that no advisory services were provided by Messrs. Ernst & Young to the Company during the year.

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 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 Company which may have a bearing on their independence within the meaning of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC), as well as the Guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka (SEC).

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 Committee is also responsible for reviewing and approving the internal audit plan, scope and reporting requirements of the Company annually.

During the year, the Committee requested the Internal Auditors, Messrs. KPMG, Chartered Accountants, to align their audit approach with the Company's Risk Register and to prioritise the audit work based on identified risks.

Additionally, during 2015, the Committee reviewed 11 internal audit reports covering the operations of 45 branch locations and several head office functions i.e. underwriting, claims, reinsurance, credit control, finance, investments, etc. Audit findings presented in the reports were then prioritised based on the level of risk, while the progress of the implementation of internal audit recommendations was also monitored regularly by the Committee. The Committee took steps to make the internal audit reports available to the External Auditors as well.

The Committee is also tasked with approving the fees for the Internal Auditors on an annual basis.

The Audit Committee met the Internal Auditors without the presence of the management, once during the year.

REPORTS OF EXTERNAL ACTUARIES

The Audit Committee received written reports from independent External Actuaries for both Life and General Insurance businesses. These reports included observations and comments with regard to the valuation of Life Insurance Policyholder Liabilities as well as Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER) of the General Insurance business. The Committee reviewed the assumptions underlying these valuations with regard to their rationality and compliance with the regulations and guidelines issued by the Insurance Board of Sri Lanka (IBSL).

During the year, the Committee also supervised the conducting of the Liability Adequacy Tests (LAT), as required by SLFRS 4 – Insurance

Contracts, with the support of External 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 2015 were adequate. Please refer to pages 292 and 294 of the Financial Statements for a detailed disclosure on LAT.

In addition, the Committee reviewed the Gratuity Valuation Report produced by the appointed Actuary (as required by LKAS 19 – Employee Benefits) and discussed the methodology and rationality of assumptions used by the Actuary, with the management. All reports produced by External Actuaries were made available for the review of the External Auditors.

INTERNAL CONTROL AND RISK MANAGEMENT

The review of the Internal Control environment of the group is a routine task of the Committee which is carried out through various mechanisms including review of management reports, audit reports, discussion with management, auditors, etc. Appropriate actions have been taken to address the gaps identified during the year in internal controls and risk management activities of the group.

The Committee conducted an evaluation on the efficacy of the Group's risk management process via the Risk Management Committee. (Please refer to the Risk Management Committee Report on pages 214 and 215). Moreover, in continuing past practices, the 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 overlooked the implementation of the actions recommended.

(The Board's Statement on Internal Controls appears on pages 201 and 202).

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 Internal Auditors in respect of controls related to IT systems, and discussed with the management regarding the appropriate actions required to mitigate identified risks.

Fraud Risk

Numerous measures are in place to reduce the risk of fraud, including the following:

- The Procurement Policy, approved by the Board, is complied with in respect of all procurement activities.
- Procurement Committees comprise members from functions other than the Department/Division which initiates the procurement activity.
- The formal Whistleblowing Policy enables employees to raise concerns on fraudulent activities on the condition of anonymity.

Manager - Risk and Compliance, Internal Auditors and External Auditors review all processes of the Company continuously to identify and mitigate the risk of fraud.

The Audit Committee makes a conscious effort to ensure that the risk of fraud is minimised.

RISK MANAGEMENT COMMITTEE

The Board has appointed a Risk Management Committee assigned with direct responsibility for monitoring the risk management activities of the Company. Accordingly, some of the responsibilities that were assigned to the Audit Committee previously in respect of risk management, have now been assigned to the Risk Management Committee. However, the Audit Committee continues to be responsible for establishing a sound risk management framework.

The Risk Management Committee provides information pertaining to the risk management function including the minutes of Committee meetings to the Audit Committee, with the purpose of keeping the Audit Committee abreast of the latest developments and in order to carry out its statutory, regulatory and other responsibilities.

The Risk Management Committee consists of four (04) Non-Executive Directors and the Committee had five (05) meetings during the year.

A detailed report of the Risk Management Committee is given on pages 214 and 215.

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Board of Directors has voluntarily adopted the Code of Best Practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC) and thus established the Related Party Transactions Review Committee.

The Related Party Transactions Review Committee operates with the intention of evaluating the related party transactions of the Group to ensure that such transactions take place in

a manner acceptable to the Code of Best Practices on Related Party Transactions issued by the SEC. Thus, the Committee has assumed duties which were previously under the Audit Committee in relation to related party transactions.

The Committee includes two (02) Independent Non-Executive Directors as made mandatory by the Code. During the year, the Committee met three (03) times.

A detailed report of the Related Party Transactions Review Committee appears on pages 210 and 211.

WHISTLEBLOWING

The Audit Committee is supervising a formal Whistle Bowing Policy which was implemented to encourage employees to raise their concerns in relation to suspected wrongdoing at work - whether by the management, peers or any other employee. The employees are being 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/Chief Executive Officer
- Head of Human Resources
- Manager - Risk and Compliance

All concerns brought forward during the year under the Whistleblowing Policy were duly investigated and appropriate action taken.

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 Colombo Stock Exchange (CSE) and 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 (ICASL).

Please refer pages 157 to 184 and 193 to 195 for further information.

PERFORMANCE EVALUATION OF THE 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.

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. Summary results of both evaluations were tabled and discussed at the Board meetings as well.

SEGREGATION OF INSURANCE BUSINESSES

The Company successfully segregated its business into two companies on 01st January 2015. Accordingly, the General Insurance business which was previously under HNBA was transferred to HNBGI.

Financial Statements as at 01st January 2015 were prepared after the segregation and were audited by the External Auditors Messrs. Ernst & Young, as required by the Segregation Guidelines issued by the Insurance Board of Sri Lanka (IBSL).

CONCLUSION

The Committee reviewed with the management the system of Internal Controls and Risk Management procedures in the group and actions were taken to improve the same. With the actions taken to address the gaps identified, 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, 2016

Remuneration Committee Report

The Remuneration Committee operates within the agreed terms of reference and is committed to the principles of accountability and transparency, and ensuring that rewards and remuneration align with the performance of the Company and individual performance.

Composition of the Remuneration Committee;

The Remuneration Committee comprises of three Non-Executive Directors and two of them are independent in conformity with the requirements of Corporate Governance. Members of the Committee are shown in the table below;

Name of the Member	Position	Category	Date of Appointment to the Committee
Mr. K Balasundaram	Chairman	Independent Non-Executive Director	11th December 2012
Mr. Sarath Ratwatte	Member	Independent Non-Executive Director	25th February 2009
Mr. Upali de Silva*	Member	Non-Executive Director	29th March 2005
Mrs Rose Cooray	Member	Non-Executive Director	Appointed with effect from 08th January 2016

** Resigned with effect from 08th January 2016*

A brief profile of each member is given on pages 28 to 30 of this Annual Report.

The Board Secretary functions as the Secretary to the Remuneration Committee.

Members of the management including Chief Executive Officer (Acting), Chief Financial Officer and Head of Human Resources attend the meeting by invitation as necessary.

Remuneration Committee Charter

The Committee is governed by a formal charter approved by the Board. The Charter defines the objectives, duties and responsibilities, Composition, etc of the Committee. The Committee during its last meeting decided to review and amend the Charter by expanding its scope.

Responsibilities of the Remuneration Committee;

- Maintaining a competitive, attractive and reasonable remuneration package for employees at all levels on par with industry standards bearing in mind business performance and long term shareholder returns.
- Making sure that the remuneration packages of employees are linked to individual performance, responsibility, expertise and contribution.
- Formulating formal and transparent procedures in implementing the remuneration policy of the Company.
- Recommending annual increments, and changes in perquisites and incentives.
- Reviewing the management development plan of the Management Team and the Succession Plan.
- Ensuring that no Director is involved in setting his own remuneration package.
- The Committee decided during the last meeting to discuss about employee related issues, their welfare, their satisfaction levels, etc., also as part of the meeting agendas in the future.

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

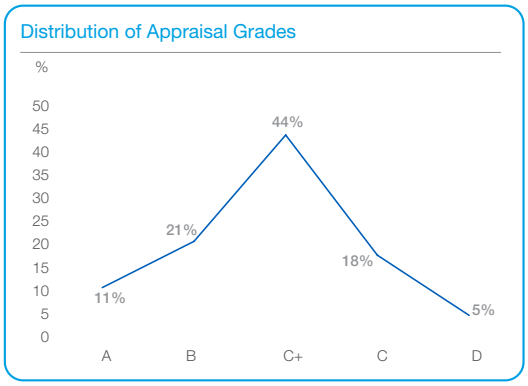
Remuneration Package

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
	Production Bonus for Distribution Management Team, other Marketing Personnel and Bancassurance Officers	Other Loans (Emergency, Wedding, etc.)
		Insurance Benefits
		Holiday Bungalow (selected categories of staff) and recreational facilities

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 below.



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 five 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 is disclosed on page 225 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 225.

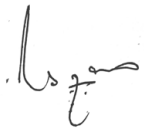
Personal Loans for Directors

No Director is entitled to Company loans.

Remuneration Committee Meetings

The Committee met three (03) times during the financial year under review. The attendance of each member is given on page 224. The Committee at its last meeting decided to meet at least on a quarterly basis from the year 2016 onwards.

The minutes of the meetings are circulated to the Board.



K Balasundaram
Chairman - Remuneration Committee

Colombo, Sri Lanka
09th February, 2016

Related Party Transactions Review Committee Report

ADOPTION OF THE CODE OF BEST PRACTICES ON RELATED PARTY TRANSACTIONS

The Board of Directors of the Company voluntarily adopted the Code of Best Practices on related party transactions ("the Code") issued by the Securities and Exchange Commission of Sri Lanka (SEC), and established the Related Party Transactions Review Committee in 2014.

PURPOSE OF THE COMMITTEE

The purpose of the Related Party Transactions Review Committee ("the Committee") of HNB Assurance PLC ("HNBA") is to conduct an appropriate review of all related party transactions of HNB Assurance PLC and its fully owned subsidiary, HNB General Insurance Limited, and to ensure that the Group/Company complies with the rules set out in the Code. 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 or substantial shareholders from taking advantage of their positions.

COMPOSITION OF THE COMMITTEE

As at the date of this report, the Committee consists of three (03) Non-Executive Directors. The members of the Committee during the year were:

- **Sarath Ratwatte -** *Chairman* (Independent Non-Executive Director)
- **Mahendra Jayasekera -** *Member* (Independent Non-Executive Director)
- **Thimal Perera -** *Member* (Non-Executive Director)*
- **Manjula de Silva -** *Member* (Executive Director)**

*Appointed *with effect from* 09th February 2016)

***Resigned with effect from 31st March 2015.*

Brief profiles of the Directors representing the Committee as at the date of this report are given on pages 28 to 31 of this Annual Report.

The Manager – Risk and Compliance functions as the Secretary to the Committee.

The Chief Executive Officer, Chief Financial Officer, other EXCO members, Head of Finance and the Finance Manager attend meetings by invitation.

MEETINGS

The Committee held three meetings during the year under review. The attendance of the members at meetings is given on page 224 of this Annual Report.

The minutes of the Committee meetings were tabled at Board meetings, for the review of the Board.

CHARTER OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE

The Charter of the Related Party Transaction Review Committee clearly sets out the purpose, membership, authority and the duties and responsibilities of the Committee. In order to discharge the duties and responsibilities effectively and efficiently, the Committee has been authorised to:

- Receive regular reports from the management, and be provided with any information it requests 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, conditions, and 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 full Committee at its next meeting

RESPONSIBILITIES

The following key responsibilities have been set out in the Charter;

- Ensure that the Company complies with the rules set out in the Code
- Subject to the exceptions given under Rule 27 of the Code, review, in advance all proposed related party transactions
- 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 necessary and appropriate, to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities with regard to related party transactions

REVIEW OF RELATED PARTY TRANSACTIONS

The Committee reviewed all related party transactions of the Company for the year 2015. It was observed that except for the transaction in respect of the transfer of General Insurance business to HNB General Insurance Ltd., as a result of the legal requirement to segregate Life and General Insurance businesses, details of which are given below, all related party transactions entered 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 available to the public. The details of related party transactions entered into during the year are given in Note 43 to the Financial Statements, on pages 316 to 323 of this Annual Report.

SEGREGATION OF THE COMPANY AND THE TRANSFER OF GENERAL INSURANCE BUSINESS TO HNB GENERAL INSURANCE LIMITED

As required by the Regulation of Insurance Industry (Amendment) Act, the Company segregated its Life and General Insurance businesses into two companies with effect from 01st January 2015. Accordingly, the Company invested Rs. 100 Million in its fully owned subsidiary HNB General Insurance Limited (HNBGI) on 28th March 2014. On 01st January 2015, the Company invested a further Rs. 900 Million in HNBGI to meet business and regulatory capital requirements. The transfer of assets was made based on the values recorded in the Statement of Financial Position as at 01st January 2015. Detailed information on this transaction is given on pages 314 and 315.

The Board of Directors of the Company was given authority to carry out the above transaction at the 12th Annual General Meeting held on 27th March 2014 through a Special Resolution. The details of this transaction were announced to the Colombo Stock Exchange (CSE) on 02nd January 2015.

Further, in November 2015 the Company invested Rs. 150 Million in HNB General Insurance Limited in order to meet regulatory and business capital requirements.

POLICIES AND PROCEDURES

The Chief Financial Officer (CFO) is responsible for reporting to the Committee, for its review and approval/disapproval, the information set out under Rule 30 of the Code at the minimum, in respect of each related party transaction proposed to be entered into other than the exceptions given in Rule 27 of the code. Moreover, on a quarterly basis, the CFO is required to report to the Committee on the approved related party transactions actually entered into by the Company.

The Committee has approved the Related Party Transactions Declaration Form required to be filled by the Directors and key management personnel of the Company. The Company uses this form to capture the related party transactions at the end of every quarter.

DECLARATION

A declaration by the Board of Directors on compliance with the rules pertaining to related party transactions appears on pages 225 and 226 of this Annual Report.



Sarath Ratwatte
Chairman - Related Party Transactions Review Committee

Colombo, Sri Lanka.
09th February, 2016

Investment Committee Report

COMPOSITION OF THE INVESTMENT COMMITTEE

The Investment Committee of HNB Assurance PLC, appointed by and responsible to the Board of Directors of both HNB Assurance PLC (HNBA) and HNB General Insurance Ltd. (HNBGI), consists of the following members, all of whom possess expertise in numerous relevant areas including, but not limited to, investments, risk management, fund management and finance.

Name	Position	Category	Qualifications
Sarath Ratwatte	Chairman	Independent Non-Executive Director (HNBA)	FCMA (UK), CGMA
Siromi Wickramasinghe	Member	Non-Executive Director (HNBA)	Attorney-at-Law
Dr. Sivakumar Selliah	Member	Independent Non-Executive Director (HNBA)	MBBS, M.Phil
Manjula de Silva*	Member	Managing Director	BA Hons (Colombo), MBA (London),FCMA (UK), CGMA
Rajive Dissanayake	Member	Chief Manager – Strategic Planning (HNB)	BBA (Colombo), ACMA (UK), CFA (USA)

** Resigned with effect from 31st March 2015*

The primary purpose of the Investment Committee is to assist the Board in reviewing investment policies, strategies and the performance of the investment portfolios of HNBA and HNBGI. The Chief Financial Officer functions as the Secretary to the Investment Committee. CEO – (Acting), Head of Investment, Manager – Risk and Compliance, and the middle management of the investment front office and back office attend meetings by invitation.

INVESTMENT COMMITTEE MEETINGS

The Committee met on four (04) occasions during the year 2015, with the objective of discussing, in detail, 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.

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 also bestowed upon the investment function continuously throughout the year.

Moreover, the Committee maintained regular communication with the management, discussing matters as and when they arose, in order to identify the optimum course of action that should be embarked upon.

AUTHORITY AND RESPONSIBILITIES

As per the Charter of the Investment Committee, in furtherance of its duties, the Committee is authorised to have direct access to, and receive regular (i.e. at least quarterly) reports from the management, and to request for any additional information relating to its responsibilities. The Committee is further empowered to review and amend policies and programmes falling under its purview and recommend to the Board for their adoption.

The Charter defines the following functions as the key responsibilities of the Investment Committee:

- 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 of the Company
- Recommending to the Board, any changes to the Investment Policy deemed by the Committee to be necessary
- Evaluating and granting approval for any investment activities which require the specific approval of the Committee as per the Investment Policy
- Evaluating the performance of investments through a periodic comparison of actual returns with expected returns
- Regularly reporting to the Board on the Committee's activities
- Reviewing its own performance on an annual basis
- Reviewing and assessing the adequacy of the Charter annually, and recommending any proposed changes to the Board for approval
- Performing other activities as requested by the Board

ACTIVITIES CONDUCTED DURING 2015

- The Committee met after the expiry of each quarter and held four (04) meetings in 2015. The management tabled a report depicting the state of the macro-economy, the investment strategy and the performance of each investment portfolio, at each meeting.
- Extensive discussions were held during these meetings, 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 the agreements reached during such discussions.
- Apart from these scheduled meetings, the Committee also maintained a 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 top management.
- After careful review and discussions with the management, certain revisions were made to the Maturity Mix and Asset Allocation Guidelines of the Investment Policy during the year, in order to meet the changing business requirements, and these revisions were approved by the Board of Directors.
- The Committee provided guidance on achieving maximum risk-adjusted investment returns, to ensure the achievement of the budgeted investment income while adhering to all internal guidelines and external regulations. Assistance was also extended towards other aspects of fund management, such as asset allocation, maturity mix and asset and liability management.
- Regular and strict scrutiny was maintained throughout the year with regard to complying with applicable criteria, guidelines and policies, stipulated in the Company's Investment Policy as well as with statutory rules and regulations. Manager – Risk and Compliance tabled a separate report at each meeting, affirming the state of compliance with all such requirements.

CONCLUSION

Considering the tough market conditions and limited opportunities that prevailed during the year, the Committee is of the opinion that HNBA and HNBGI performed impressively in managing its investment portfolios to surpass set targets, while maintaining total adherence to the framework stipulated by Investment Policy of the Company as well as external rules and regulations.



Sarath Ratwatte
Chairman - Investment Committee

Colombo, Sri Lanka
09th February, 2016

Risk Management Committee Report

OBJECTIVE

The Risk Management Committee ("the Committee") of HNB Assurance PLC ("the Company" or "HNBA") is a standing committee of the Board of Directors ("Board"). The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to oversight of the risk management framework, including the significant policies and practices used in managing risks of the Company as well as of its fully owned subsidiary, HNB General Insurance Limited ("HNBGI").

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 be provided with any information it requests relating to its responsibilities. The Committee has the authority to engage independent professional advisors on matters within its purview.

COMPOSITION

The Risk Management Committee of HNB Assurance PLC comprises four Non-Executive Directors. During the year Mrs. Rose Cooray joined the Committee as a member. The members of the Committee have vast experience in risk management, finance, banking and business management. The members of the Committee during the year are as follows:

- **Mr. Dilshan Rodrigo**
  – Chairman
  (Non-Executive Director)
- **Ms. Rose Cooray**
  – Member
  (Non-Executive Director)
- **Mr. M U De Silva***
  – Member
  (Non-Executive Director)
- **Mr. K Balasundaram**
  – Member
  (Independent Non-Executive Director)

** Resigned with effect from 08th January 2016.*

Brief profiles of the Directors representing the Committee are given on pages 28 to 31 of this Annual Report.

The Manager – Risk and Compliance, functions as the Secretary to the Risk Management Committee.

The Chief Executive Officer, Chief Financial Officer, and other Executive Committee members attend meetings by invitation.

CHARTER OF THE RISK MANAGEMENT COMMITTEE

The Risk Management Committee Charter clearly sets out the purpose, membership, authority and the duties and 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 management uses to manage risk exposures, as well as risk measurement methodologies and approaches to 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 same with the management by periodically assessing the performance with the established risk appetite.
- Review and discuss with 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 delegated authorities.
- Review and discuss the progress on Risk Based Capital (RBC) implementation of the Company as required by the Insurance Board of Sri Lanka.

MEETINGS

The Committee met five (05) times during the financial year under review, and the attendance of each member at these meetings is given on page 224 of this Annual Report.

ACTIVITIES OF THE COMMITTEE

In order to discharge the above duties and responsibilities, the Committee carried out the following activities during the year.

- Discussed and reviewed the actions taken on the emerging risks and high risks faced by the Group.
- Reviewed the Compliance Checklists prepared and confirmed compliance with all applicable laws and regulations.
- Examined the impact to the Group (HNBA and HNBGI) from new regulations.
- Evaluated the Group's progress in implementing the Risk Based Capital (RBC) framework which will come into effect from 2016.
- Reviewed the claims process, claims reserving process, pricing structure and emerging risks of the Motor Insurance business of HNBGI
- Discussed the investment strategy and reviewed the Assets and Liability Management Policy of the Group.
- Reviewed the Key Risk Indicators (KRIs) of the Group against internal tolerances developed covering credit, reinsurance, market, operational and strategic risks facing the Company and management actions taken to address internal breaches.
- Reviewed the Risk Committee Charter and carried out a self-evaluation on the performance of the Committee.

ACTION TAKEN ON LOSSES MADE BY HNB GENERAL INSURANCE LIMITED

During the year HNB General Insurance performance was impacted by higher than anticipated claims which significantly dented profitability. The Committee together with the management analysed the root causes for the losses and actions were taken to overcome the situation. This included reviewing business strategy, strengthening KPI's, restructuring key departments, increasing claim provisioning, reviewing staff incentive schemes and exiting unprofitable business lines.

Further, the Risk Management Committee met on a monthly basis from October 2015 onwards to ensure the monitoring the implementation of corrective actions taken.

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 and at the Board meetings of HNBA and HNBGI for the information of other members of the Board.



Dilshan Rodrigo
Chairman - Risk Management Committee

Colombo, Sri Lanka.
09th February, 2016

Financial Calendar 2016

Requirement	Achievements in 2015	Targets set for 2016
Interim Financial Statements		
1st Quarter (ended 31st March)	13th May 2015	Before 15th May 2016
2nd Quarter (ended 30th June)	12th August 2015	Before 15th August 2016
3rd Quarter (ended 30th September)	13th November 2015	Before 15th November 2016
4th Quarter (ended 31st December)	11th February 2016	Before 28th February 2017
Annual Report and Financial Statements to Shareholders		
2014	27th February 2015 (Annual Report submission to CSE)	
2015		On or Before 03rd March 2016
Annual General Meetings		
13th Annual General Meeting	27th March 2015	
14th Annual General Meeting		29th March 2016
Dividend Payments	08th April 2015	07th April 2016

Annual Report of the Board of Directors on the Affairs of the Company

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

The Board of Directors of HNB Assurance PLC has pleasure in presenting its Annual Report on the state of affairs of the Company and the Group for the financial year ended 31st December 2015 to the shareholders of HNB Assurance PLC, together with the audited Financial Statements of the Company for the year, consolidated Financial Statements of the Group for the year, and the Auditors' Report on those Financial Statements, conforming to the 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), other rules and regulations of the Insurance Board of Sri Lanka and Best Practices on Corporate Governance. The Financial Statements were reviewed and approved by the Board of Directors on 09th February 2016.

HNB Assurance PLC was incorporated on the 23rd of August 2001 as a limited liability company under the Companies Act, No. 17 of 1982, was re-registered as per the requirements of the Companies Act, No. 07 of 2007 on 09th of August 2007, and bears the Company Registration Number PQ 108. The Company is domiciled in Sri Lanka and its registered office is situated at No. 479, T B Jayah Mawatha, Colombo 10, while its principal place of business is at No. 10, Sri Uttarananda Mawatha, Colombo 03.

The ordinary shares of the Company are listed on the CSE.

HNB Assurance PLC's National Insurer Financial Strength Rating and National Long Term Rating were reaffirmed by Fitch Ratings Lanka (Fitch) at 'A (lka)' during 2015. Further, Fitch has also assigned HNB Assurance PLC's fully owned subsidiary, HNB General Insurance Limited, a National Insurer Financial Strength Rating and a National Long Term Rating of 'A (lka)'. Ratings of both companies have a Stable Outlook.

The following information is included in this report as required by Section 168 of 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	Level of compliance by the Company
Nature of the business of the Company and its subsidiary	Section 168 (1) (a)	Refer Section 5 and 6 on page 218
Signed Consolidated Financial Statements of the Group for the accounting period completed	Section 168 (1) (b)	Refer Section 7 on page 219
Auditors' Report on Consolidated Financial Statements of the Group	Section 168 (1) (c)	Refer Section 8 on page 219
Changes in Accounting Policies made during the accounting period - Group and the Company	Section 168 (1) (d)	Refer Section 9 on page 219
Particulars of entries in the Interests Register of the Company during the accounting period	Section 168 (1) (e)	Refer Section 18.1 on page 225
Remuneration and other Benefits paid to the Directors of the Company and its subsidiary during the accounting period	Section 168 (1) (f)	Refer Section 18.4 on page 225
Total amount of Donations made by the Company	Section 168 (1) (g)	Refer Section 21 on page 226
Information on the Directorate of the Company during and at the end of the accounting period	Section 168 (1) (h)	Refer Section 17.1 on page 222
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)	Refer Section 12.2 on page 220
Auditors' relationship or any interest with the Company and its subsidiary	Section 168 (1) (j)	Refer Section 12.3 on page 220
Annual Report of the Board signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Refer Section 42 on page 230

Annual Report of the Board of Directors on the Affairs of the Company

2. VISION, MISSION AND CORPORATE CONDUCT

The Company's Vision and Mission are available on page 09 of this Annual Report. The Company's business activities have been carried out within the framework of the Vision and Mission statements, which reflect our commitment to the highest ethical standards and integrity as set out in the Code of Business Conduct and Ethics, and in conformity with the values of the Company stated on page 09 of this report.

3. PRINCIPAL ACTIVITIES

Adhering to the segregation requirements of Life and General Insurance businesses as per Section 53 of the Regulation of Insurance Industry (Amendment) Act, No. 03 of 2011 and subsequent guidelines issued by the Insurance Board of Sri Lanka, the principal activity of the Company is limited to conducting Life Insurance business with effect from 01st of January 2015. The General Insurance business of the Company was transferred to its fully owned subsidiary, HNB General Insurance Limited, with effect from the same date. Other than these, no other significant changes occurred in this regard during the financial year under review. Further, we declare that the Company has not engaged in any activities contravening the laws and regulations of the country.

Within the framework of the main business of the Company, we offered Family (Life) Takaful products to the market while HNB General Insurance Limited offered General Takaful products to the market, with the approval of the Insurance Board of Sri Lanka. The Takaful operations are structured as window units, and are considered as a part of the Group's/Company's operations for both financial and regulatory reporting purposes.

4. CHANGES TO THE STRUCTURE OF THE COMPANY AND THE NATURE OF THE OPERATION

As per Section 53 of the Regulation of Insurance Industry (Amendment) Act, No. 03 of 2011, all insurers were required to segregate their Long Term Insurance business and the General Insurance business into two separate companies by 01st January 2015. HNB Assurance PLC complied with this requirement by transferring its General Insurance business to HNB General Insurance Limited (PB 5167) with effect from 01st January 2015.

Further, we submitted all reports and statements, including audited Financial Statements of both HNB Assurance PLC and HNB General Insurance Limited as of 01st January 2015, to the Insurance Board of Sri Lanka as required by the segregation guidelines. We successfully completed the segregation process, including the transfer of all assets and liabilities relating to the General Insurance business to HNB General Insurance Limited, and ensured the smooth functioning of the operations of both companies.

After the transfer of the General Insurance business, HNB Assurance PLC is now a Life Insurance Company with a fully owned subsidiary conducting General Insurance business. As the holding company, HNB Assurance PLC provides shared services, such as Finance, IT, Investment Management, HR, Administration, Marketing, Legal, Risk Management and Compliance to HNB General Insurance Limited, as per the segregation proposal submitted to the Insurance Board of Sri Lanka.

The stated capital of HNB General Insurance Limited was increased from Rs. 100 Million as of 31st December 2014 to Rs. 1 Billion as of 01st January 2015 and to Rs. 1.15 Billion as of 13th November 2015. The increase in capital was made through two issues of new shares to HNB Assurance PLC. HNB General Insurance Limited continues to be a fully owned subsidiary of HNB Assurance as of the reporting date.

The Group structure and the names of the Directors are available in pages 08 and 26 to 27, respectively.

5. REVIEW OF OPERATIONS OF THE COMPANY

A review of the financial and operational performance of the Group/Company, together with important events that took place during the year 2015, as required by Section 168 (1) (a) of the Companies Act, No. 07 of 2007 is contained in the Chairperson's Message (pages 16 to 20), the CEO's Review (pages 21 to 25), the Management Discussion & Analysis (pages 46 to 152) and the Audited Financial Statements (pages 238 to 347). These reports form an integral part of the Annual Report of the Board of Directors.

6. FUTURE DEVELOPMENT

As required under Section 168 (1) (a) of the Companies Act, No. 07 of 2007, an overview of the envisaged development of the Company is given in the Chairperson's Message (pages 16 to 20), the CEO's Review (pages 21 to 25) and the Management Discussion & Analysis (pages 46 to 152).

These reports form an integral part of the Annual Report of the Board of Directors.

7. FINANCIAL STATEMENTS

The Financial Statements of the Group and the Company have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), and comply with the requirements of the Companies Act, No. 07 of 2007. They also provide the information required under the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, other rules and regulations of the Insurance Board of Sri Lanka and the Listing Rules of the CSE.

The aforementioned Financial Statements for the year ended 31st December 2015, duly signed by the Chief Financial Officer together with two Directors, are given on pages 238 to 347 (as per Sections 151 and 152 of the Companies Act, No. 7 of 2007) which form an integral part of this Annual Report of the Board of Directors (as per Section 168 (1) (b) of the Companies Act).

8. AUDITORS' REPORT

The Financial Statements of the Company and the consolidated Financial Statements of the Group for the year ended 31st of December 2015 have been audited by Messrs. Ernst & Young, a firm of Chartered Accountants, and their report on the Financial Statements, as required by Section 168 (1) (c) of the Companies Act, No 07 of 2007, which forms an integral part of the Annual Report of the Board of Directors, is given on page 237.

9. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 250 to 266, complying with Section 168 (1) (d) of the Companies Act, No. 07 of 2007.

In the absence of significant changes in accounting standards, it is noted that there were no material changes to the Company's Accounting Policies in the year 2015.

10. DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation and presentation of the financial statements of the Group and the Company in a manner that reflects a true and fair view of its state of affairs. The Directors are of the view that the financial statements appearing on pages 238 to 247 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act, No. 7 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 and the Corporate Governance Code for listed companies 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 page 232 and forms an integral part of this report.

11. GOING CONCERN

The Board has conducted necessary reviews and inquiries to assess the Group's/Company's ability to apply the assumption of going concern in the preparation of these Financial Statements. These included, amongst others, a review of the Company's and its subsidiary's budget and corporate plan for ensuing years, future prospects and risks, capital expenditure requirements and cash flows. Following such review, the Board is satisfied that the Company and its subsidiary possess adequate resources to continue their operations into the foreseeable future and hence endorses the continuous adoption of the assumption of going concern.

As discussed above, since HNB Assurance PLC became a Life Insurance Company with effect from 01st January 2015, the financial results of the General Insurance business will not be included under the Company financial statement of HNB Assurance PLC from the financial year 2015 onwards. However, the results of both Life and General Insurance businesses will be included in the Consolidated Financial Statements of HNB Assurance PLC.

12. AUDITORS

12.1 Reappointment of Auditors

The Board of Directors, in terms of the provisions in Section 154 (2) of the Companies Act, No. 07 of 2007, appointed Messrs. Ernst & Young, Chartered Accountants, as the Company's External Auditors for the financial year ending 31st December 2014 with effect from 31st October 2014, and this was approved by the membership at the Annual General Meeting of the Company held on the 27th of March 2015. Further, they were reappointed for the financial year ending 31st December 2015 at the same Annual General Meeting. In addition, Messrs. Ernst & Young, Chartered Accountants, were appointed as the External Auditors of HNB General Insurance Limited for the financial year ending 31st December 2015 at the Annual General Meeting of HNB General Insurance Limited.

Annual Report of the Board of Directors on the Affairs of the Company

The retiring Auditors, Messrs. Ernst & Young, Chartered Accountants, have expressed their willingness to continue in office as the Company's Auditor and as the Auditor of HNB General Insurance Limited. In accordance with the Companies Act, No. 07 of 2007, separate resolutions relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting of HNB Assurance PLC to be held on 29th March 2016 and at the Annual General Meeting of HNB General Insurance Limited, to be held on the same date.

12.2 Remuneration of Auditors and Interests with the Company

As required by Section 168 (1) (i) of the Companies Act, No 7 of 2007, the fee amount paid/payable for the services provided by the Auditors, Messrs. Ernst & Young, Chartered Accountants, to the Group and the Company during the year is presented below, together with the fees paid to both Messrs. Ernst & Young Chartered Accountants and Messrs. PricewaterhouseCoopers (PwC) who were the Auditors for the corresponding year.

	Group		Company	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Audit Fee and Expenses	2,149	1,872	1,287	1,822
Audit Related Fees	653	838	323	838

Note: Audit related fees and expenses consist of fees for the interim audit and fees for reports issued to authorities such as the Commissioner General of Inland Revenue (CGIR) and the Insurance Board of Sri Lanka.

12.3 Independence of Auditors

Based on the declaration provided by Messrs. Ernst & Young, and to the extent that the Directors are aware, the Auditors do not have any relationship with (other than that of the Auditor), or interest in, the Group and the Company, which in our judgment may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), applicable on the date of this Annual Report. This information is disclosed as required by Section 168 (1) (j) of the Companies Act, No 07 of 2007.

13. RISK AND INTERNAL CONTROL

The Board understands that strong internal controls are integral to the sound management of the Company and therefore is committed to maintain strict financial, operational, and risk management controls.

The Board is ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is sought to be designed to minimise, rather than eliminate, the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board's Statement on Internal Control is given on pages 201 to 202 and forms an integral part of this report.

In order to strengthen the risk management practices of the Company, the Board has set up a Board sub-committee for the subject. The responsibility for the design and implementation of a sound risk management framework is under the purview of the Risk Management Committee, and some of the relevant responsibilities assigned to the Audit Committee have now been transferred to the Risk Management Committee. This Risk Management Committee comprises three (03) Non-Executive Directors of the Board as at the date of this report and held five (05) meetings during the year.

The Company has an on-going process for identifying, evaluating and managing risks faced, and during the year the Directors reviewed this process through the Risk Management Committee and the Audit Committee, supported by the Internal Auditors. Accordingly, the deficiencies identified in internal controls during the year were reviewed and appropriate actions were taken to improve the control environment. The Board is of the view that the system of internal controls in place is sound and adequate to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Reports by the Audit Committee and the Risk Management Committee, highlighting their roles and responsibilities on internal controls, are given on pages 203 to 207 and pages 196 to 200, respectively.

14. CORPORATE GOVERNANCE

14.1 Directors' Declaration

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 declared 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 process, and to be in compliance 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).

The endeavours made by the Company in this regard are detailed under Enterprise Governance on pages 153 to 215.

15. TURNOVER / GROSS WRITTEN PREMIUM (GWP)

The total turnover of the Group/Company is identified as Gross Written Premium (GWP). The table below shows the GWP of the Group/Company for each line of business for the current year, together with the comparative figures for the previous year.

Line of Business	Group		Company	
	2015	2014	2015	2014
	Rs. Mn.	Rs. Mn.	Rs. Mn.	Rs. Mn.
Life Insurance	2,769	2,343	2,789	2,343
General Insurance	2,678	2,323	-	2,323
Total	5,447	4,666	2,789	4,666

Note: The Company figures for the corresponding year include both Life and General Insurance businesses, which were segments of HNB Assurance PLC prior to their segregation on 01st January 2015.

A detailed analysis of the total GWP recorded by the Group/Company is given in Note 25 to the Financial Statements on page 297.

16. FINANCIAL RESULTS AND APPROPRIATIONS

a) Results

The profit before tax of the Company for the year amounted to Rs. 457 Million (2014: Rs. 428.9 Million), while the profit after tax amounted to Rs. 427.6 Million (2014: Rs. 409.7 Million). The Group recorded a profit before tax of Rs. 169.8 Million (2014: Rs. 438.6 Million), indicating a drop of 61%, while the profit after tax also marked a decrease of 53% to reach Rs. 197.3 Million (2014: Rs. 417.7 Million). The drop in profitability is due to the loss made in HNB General Insurance Limited.

Annual Report of the Board of Directors on the Affairs of the Company

The Statement of Profit or Loss and Other Comprehensive Income of the Group/Company is given on page 239 and the details of the appropriation of profits are given below.

Line of Business	Group		Company	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit Before Taxation (PBT)	169,773	438,583	457,028	428,986
Income Tax Reversal/(Expenses)	27,571	(20,857)	(29,383)	(19,267)
Profit for the Year	197,344	417,726	427,645	409,719
Unappropriated Profit Brought Forward	1,196,546	941,820	1,189,039	941,820
Super Gain Tax	(31,378)	-	(31,378)	-
Share Issue Transaction Costs - Subsidiary	(750)	(500)	-	-
Profits Available for Appropriation	1,361,762	1,359,046	1,585,306	1,351,539
Dividends Paid	(187,500)	(162,500)	(187,500)	(162,500)
Unappropriated Profit Carried Forward	1,174,262	1,196,546	1,397,806	1,189,039

The Company's dividend pay-out ratio for the year was 51% (2014: 45%), which is well above the minimum dividend pay-out ratio of 10% stated in the Deemed Dividend Tax Rule.

b) Dividends

The Board of Directors is satisfied with the Solvency Test, in terms of the provisions of Section 56 (3) of the Companies Act, No. 07 of 2007, immediately after the distribution of the first and final dividends proposed and to be paid on the 07th of April 2016.

The Statement of Solvency prepared by the Board was audited by Messrs. Ernst & Young, External Auditors.

The Board of Directors recommends a first and final dividend of Rs. 2.00 (2014 - Rs. 3.75) per share, payable on the 07th of April 2016, to holders of issued and paid-up ordinary shares of the Company as at the close of business on 29th of March 2016.

The dividend will be paid partly out of dividends received and partly out of taxable profits of the Company. Dividends to be paid out of profits will be subject to withholding tax.

c) Reserves

Transfers to/from reserves of the Group/Company are shown in the Statement of Changes in Equity appearing on pages 240 and 241, a summary of which is given in the following table.

	Group		Company	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Rs' 000	Rs' 000	Rs' 000	Rs' 000
Retained Earnings	1,174,262	1,196,546	1,397,806	1,189,039
Available for Sale Reserves	(4,748)	3,590	53	3,523
Other Reserves	(1,093)	1,177	(2,039)	1,177
Life Policyholders' Available for Sale Reserve Fund	(56,350)	40,748	(56,350)	40,748
Total	1,112,071	1,242,061	1,339,470	1,234,487

17 THE BOARD OF DIRECTORS

17.1 Composition

The Board of Directors of the Company consists of eight (08) (2014 – ten (10)) Directors, each of whom possesses wide financial and commercial knowledge and experience.

The names of the Directors who held office during the year, as required by Section 168 (1) (h) of the Companies Act, No 07 of 2007, is given given in the following table. Brief profiles of the Directors as at the date of this Annual Report are given on pages 28 to 31.

Name of Director	Executive/ Non-Executive	Independent/ Non-Independent
Rose Cooray – Chairperson (appointed w.e.f. 06th July 2015)	Non-Executive	Non-Independent
Dr. Ranee Jayamaha – Chairperson (resigned w.e.f. 30th March 2015)	Non-Executive	Non-Independent
Manjula de Silva (resigned w.e.f. 31st March 2015)	Executive	Non-Independent
M U de Silva (resigned w.e.f. 08th January 2016)	Non-Executive	Non-Independent
Sarath Ratwatte	Non-Executive	Independent
A J Alles (resigned w.e.f. 03rd December 2015)	Non-Executive	Non-Independent
Mahendra Jayasekera	Non-Executive	Independent
K Balasundaram	Non-Executive	Independent
Dilshan Rodrigo	Non-Executive	Non-Independent
Siromi Wickramasinghe	Non-Executive	Non-Independent
Dr. Sivakumar Selliah	Non-Executive	Independent
Thimal Perera (appointed with effect from 08th January 2016)	Non-Executive	Non-Independent

17.2 Appointment of Directors

Mrs. Rose Cooray was appointed to the Board as the Chairperson and a Non-Executive Director with effect from 06th July 2015, in terms of Article 92 of the Articles of Association of the Company.

Mr. Thimal Perera was appointed to the Board as a Non-Executive Director with effect from 08th January 2016, in terms of Article 92 of the Articles of Association of the Company.

17.3 Resignation of Directors

Dr. Ranee Jayamaha (Chairperson and Non-Executive Director) resigned from the Directorship of the Company on 30th March 2015.

Mr. Manjula de Silva (Managing Director) resigned from the directorship of the Company on 31st March 2015.

Mr. A J Alles (Non-Executive Director) resigned from the Directorship of the Company on 03rd December 2015.

Mr. M U de Silva (Non-Executive Director) resigned from the Directorship of the Company on 08th January 2016.

17.4 Retirement and Re-election/ Re-appointment of Directors Recommended

Mrs. Rose Cooray and Mr. Thimal Perera retire at the AGM under Article 92 of the Articles of Association of the Company and offers herself for re-election under the said Article.

Mr. Mahendra Jayasekera and Mr. K Balasundaram retire by rotation at the AGM and offers themselves for re-election under Article 86 of the Articles of Association of the Company.

The re-election of the aforesaid Directors has the unanimous support of the Board.

17.5 Board Sub-Committees

The Board, while assuming the overall responsibility and accountability for the management of the Company, has also appointed Board sub-committees to ensure more effective control over certain affairs of the Company, conforming to the Corporate Governance Standards of the Listing Rules of the CSE and industry best practices. Accordingly, the following Board sub-committees have been constituted by the Board.

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Risk Management Committee
- Related Party Transactions Review Committee
- Investment Committee

Annual Report of the Board of Directors on the Affairs of the Company

17.6 Directors' Meetings

The number of Directors' meetings, which comprise Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings, Investment Committee meetings, Risk Management Committee meetings and Related Party Transactions Review Committee meetings, together with the attendance of each Director at these meetings during the year, is tabulated below.

Name of Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings		Investment Committee Meetings		Risk Management Committee Meetings		Related Party Transactions Review Committee meetings	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Rose Cooray – Chairperson (appointed w.e.f 06th July 2015)	06	06					01	01			03	03		
Dr. Ranee Jayamaha – Chairperson (resigned w.e.f. 30th March 2015)	03	03												
Manjula de Silva – Managing Director (resigned w.e.f. 31st March 2015)	03	03							01	01			01	01
M U de Silva (resigned w.e.f. 08th January 2016)	11	10			03	03	01	01			05	05		
Sarath Ratwatte	11	11	05	05	03	03			04	04			03	03
A J Alles (resigned w.e.f. 03rd December 2015)	11	10	04	01			01	01						
Mahendra Jayasekera	11	11	05	05									03	03
K Balasundaram	11	08			03	03					05	04		
Dilshan Rodrigo	11	11									05	05		
Siromi Wickramasinghe	11	11							04	04				
Dr. Sivakumar Selliah	11	10							04	03				
Thimal Perera (I)	01	01												

Note: A = Number of meetings held in the period during the year when the Director held office
B = Number of meetings attended
I = Attended by invitation

18. DIRECTORS' INTEREST

18.1 Directors' Interest Register

The Company maintains a Directors' Interest Register conforming to Section 168 (e) of the Companies Act, No. 7 of 2007. All Directors of the Company have disclosed their interests in other companies to the Board and those interests are recorded in the Directors' Interest Register, conforming to Sections 192 (1) and 192 (2) of the Companies Act, No. 7 of 2007.

The particulars of those entries are set out on page 316 of the Financial Statements, which forms an integral part of the Annual Report of the Board of Directors.

18.2 Directors' Interest in Contracts or Proposed Contracts

No Director has had direct or indirect interest in any contracts or proposed contracts with the Company, other than those disclosed on page 23. Further, Directors have refrained from voting on any contract or matter in which they have a material interest.

18.3 Directors' Interests in Shares as at the Reporting Date

The following table discloses the Directors' interest in shares of the Company.

Name of Director	31st December 2015	31st December 2014
Rose Cooray – Chairperson (appointed w.e.f 06th July 2015)	5,000	-
Dr. Ranee Jayamaha – Chairperson (resigned w.e.f. 30th March 2015)	N/A	100
Manjula de Silva – (resigned w.e.f. 31st March 2015)	N/A	38,332
M U de Silva (resigned w.e.f. 08th January 2016)	3,000	3,000
Sarath Ratwatte	14,666	14,666
A J Alles (resigned w.e.f. 03rd December015)	N/A	1,000
Mahendra Jayasekera	5,000	5,000
K Balasundaram	10,000	10,000
Dilshan Rodrigo	180	180
Siromi Wickramasinghe	52,500	52,500
Dr. Sivakumar Selliah	100,000	100,000
Thimal Perera	Nil	N/A

There has been no change in their interests in shares between the 31st of December 2015 and the 09th of February 2016, the latter being the date of this report.

18.4 Directors' Remuneration and Other Benefits

The details of the Directors' fees and emoluments, including post-employment benefits, for the financial year ended 31st of December 2015 are given in Note 36 to the Financial Statements as per the requirements of Section 168 (1) (f) the Companies Act, No. 07 of 2007.

Directors are not entitled to obtain loans of any kind from the Company.

Further, no remuneration is paid to Non- Executive Directors other than the fees paid for the attendance of each Director at Board and sub-committee meetings.

19. RELATED PARTY TRANSACTIONS

The Directors have disclosed transactions 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.

Such transactions disclosed by the Directors are given in Note 43 to the Financial Statements on pages 316 to 323, and form an integral part of the Annual Report of the Board.

The Related Party Transactions Review Committee set up by the Board as required by the Code of Best practices on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC), is responsible for reviewing the related party transactions of the Company. The Committee comprises three (03) Non-Executive Directors.

Annual Report of the Board of Directors on the Affairs of the Company

During the year, there were no transactions which exceeded the threshold values of 10 percent of equity or 5 percent of total assets, which require immediate disclosure to the CSE and separate disclosure in the Annual Report, except for the transfer of the General Insurance business of the Company to its fully owned subsidiary, HNBGI. The Company has complied with the requirements of the Code of Best Practices on Related Party Transactions issued by SEC and with all disclosure requirements as per the code.

20. SHARE INFORMATION

Information relating to earnings, dividends, net assets, market price per share and on share trading, appear on page 362 of this report.

20.1 Shareholding

The number of registered shareholders of the Company as at the 31st of December 2015 was 3,525 (2014 - 3,480). The distribution and analysis of shareholding appear on page 361.

20.2 Equitable Treatment to all Shareholders

The Company has, at all times, ensured that all shareholders are treated equitably. Accordingly, while this Annual Report and the Financial Statements are primarily prepared and presented in the English language, Sinhala and Tamil language translations of the Chairperson's Statement, CEO's Review, Statement of Financial Position, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity, are available on request.

20.3 Major Shareholders

Information on the twenty largest shareholders of the Company as at the 31st of December 2015, together with comparative shareholding as at the 31st of December 2014, is given on page 359.

Hatton National Bank PLC holds 59.99% (2014 - 59.99%) shares of HNB Assurance PLC. Mrs. Rose Cooray, Mr. Dilshan Rodrigo, Chief Operating Officer of HNB, Mr. Thimal Perera, DGM – Retail & SME Banking of HNB, and Ms. Siromi Wickramasinghe, represent the main shareholder in the Company's Board.

21. CORPORATE DONATIONS

The Company made charitable donations amounting to Rs. 300,000/- (2014 - Rs. 300,000/-) during the year, in line with the Resolution passed at the Annual General Meeting held on the 27th of March 2015.

This included providing material for the construction of a sanitary facility at the H/Dehigahalanda Maha Vidhayala, Amabalantota. Although around 920 students in Dehigahalanda area in Ambalantota gain education from this school, it operates without the most basic facilities for its students. Considering this dire situation, the Company donated Rs. 200,000/- from its approved donation to provide much needed sanitary facilities for the primary section of the school.

In addition, the Company donated a sum of Rs. 100,000/- to places of worship belonging to the four main religions, in line with past practice. These donations were made to support identified activities of these religious institutions.

No donations were made by the Company to political parties or politically influential activities during the year.

This information on donations forms an integral part of the Annual Report of the Board of Directors as per the requirements of Section 168 (1) (g) of the Companies Act, No 7 of 2007.

22. TAXATION

Income taxes are computed based on rates enacted or substantively enacted as at the reporting date. The income tax rate applicable to the Company and the Subsidiary for the year under review is 28% (2014 - 28%).

The income tax expense of the Company and the subsidiary is given in Note 38 to the Financial Statements, appearing on pages 304 and 306.

As further explained in Note 38 to the Financial Statements, no deferred tax asset is recognised in Life Insurance since it is not probable that future taxable profits will be adequate to utilise the available tax losses fully in the foreseeable future.

The Company has utilised tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from temporary taxable differences in the Life Insurance business. The unrecognised Deferred Tax asset as at 31st December 2015 in the Life Insurance business amounted to Rs. 954 Million (2014 - Rs. 740 Million).

As explained in Note 38 to the Financial Statements, a deferred tax asset has been recognised in HNB General Insurance Limited due to the probable extent that future taxable profits will be available.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits.

The Group and the Subsidiary are liable to pay a Crop Insurance Levy of 1% (2014:1%) of the after tax profit of the Group and the Subsidiary, on a quarterly basis, to the National Insurance Trust Fund.

23. STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and related institutions, the Insurance Board of Sri Lanka and the employees, have been made on time.

24. COMPLIANCE WITH LAWS AND REGULATIONS

The Group/Company has complied with all applicable laws and regulations. A compliance checklist is signed-off on a monthly basis by responsible officers and is reported to the Boards of HNBA and HNBGI, Audit Committee and the Risk Management Committee. Additionally, a report on the Company's compliance with important compliance requirements is tabled at the Board Meeting on a monthly basis.

The Group/ Company has submitted all returns and other required details to the relevant regulators on or before the due dates.

25. IMPLEMENTATION OF RISK BASED CAPITAL (RBC)

The Insurance Board of Sri Lanka has decided to implement a Risk Based Capital (RBC) module in Sri Lanka to monitor the financial strength of insurance companies in the country, replacing the Solvency Regime. The deadline given by the Insurance Board of Sri Lanka for the implementation of RBC is January 2016.

In order to ensure a smooth transition from the Solvency Regime to RBC, the Insurance Board of Sri Lanka launched the RBC Road Test from September 2012 to June 2013. Based on the results of the Road Test, the Insurance Board of Sri Lanka issued the final draft of the RBC framework and it was decided that a compulsory parallel run would be conducted in 2014 and 2015 to help insurers shift to the RBC regime.

HNB Assurance PLC participated in the RBC Road Test from its inception till the end and provided all information required by the Insurance Board of Sri Lanka. We also provided required information in a timely manner to Insurance Board of Sri Lanka under the compulsory parallel run, which started from the beginning of 2014. Further, over the period of the parallel run, both HNB Assurance PLC and HNB General Insurance Limited have developed internal processes to implement the RBC model, including training of employees, investing in systems and obtaining external support from Consultant Actuaries. Accordingly, both HNB Assurance PLC and HNB General Insurance Limited are confident that the RBC framework can be implemented smoothly in the Company with effect from 01st of January 2016.

26. FINANCIAL INVESTMENTS

Financial investments of the Group and the Company mainly comprise the investment portfolios, which have been segregated into different categories as required by Sri Lanka Accounting Standards (SLFRS/LKAS).

The amount of financial investments held by the Group as at 31st of December 2015 amounted to Rs. 9,751.6 Million (2014 - Rs. 8,277.9 Million).

A detailed description of the financial investments is enclosed in Note 06 to the Financial Statements on pages 271 to 284.

27. PROPERTY, PLANT AND EQUIPMENT (PPE)

The capital expenditure on acquisition of Property, Plant and Equipment during the year by the Company amounted to Rs.39.7 Million (2014 - Rs. 37.7 Million) and Group Rs.53.6 Million (2014 - Rs. 37.7 Million). The carrying value of Property, Plant and Equipment as at the Reporting Date of the Company amounted to Rs. 94 Million (2014 - Rs. 134 Million) and the Group Rs. 136 Million (2014 - Rs. 134 Million).

An analysis of the Property, Plant and Equipment of the Group/ Company, additions and disposals made, together with the depreciation charge for the year, is set out in Note 4 to the Financial Statements on pages 268 and 269.

Following their initial recognition, Property, Plant and Equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Annual Report of the Board of Directors on the Affairs of the Company

28. INTANGIBLE ASSETS

The capital expenditure on acquisition of intangible assets of the Group/ Company during the year amounted to Rs. 10.8 Million (2014 - Rs. 15.8 Million), which mainly includes the expenditure incurred on the acquisition of computer software. The carrying value of intangible assets as at the Reporting Date of the Group/ Company amounted to Rs.45.2 Million (2014 - Rs. 51.6 Million).

Movement of intangible assets from the balance as at the 1st of January 2015 to the balance as at the 31st of December 2015, additions and disposals made, together with the amortisation charge for the year, are set out in Note 05 to the Financial Statements on page 271.

Following their initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

29. CAPITAL COMMITMENTS

At the year end, no capital expenditure approved by the Board and contracted for which no provision has been made in Financial Statements (2014 - Nil).

30. LIABILITIES AND PROVISIONS

The Directors have taken all reasonable steps to ensure the adequate provisioning of all known liabilities. Accordingly, the Directors have arranged a Consultant Actuary to value the Life Fund and the relevant report is given on page 234.

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. The Directors have also consulted an independent Actuary in the process of valuing IBNR and IBNER reserves and his report is given on page 235.

Moreover, the Group/ Company also carried out Liability Adequacy Tests (LAT) in respect of both Life and General Insurance Contract Liabilities (Insurance Provisions) as required by SLFRS 4 - Insurance Contracts, with the assistance of External Actuaries, and were able to conclude that the recorded liabilities are adequate to meet future obligations arising from insurance contracts. The Group/ Company has decided to perform the LAT on a semi-annual basis.

The gratuity liability of the Group/ Company was also valued by an independent Actuary as required by LKAS 19 - Employee Benefits.

As at the date of this report, the Directors are not aware of any circumstances which would render provisions made in the Financial Statements, inadequate.

31. CONTINGENCIES

After due consultation of the Lawyers of the Group/ Company, the Directors are of the opinion that litigation currently pending against the Company would not have a material impact on the reported financial results of the Group/Company. All pending litigations for claims of the Group/Company have been evaluated and adequate provisions have been made in the Financial Statements, where necessary.

32. EVENTS OCCURRING AFTER THE REPORTING DATE

The payment of a first and final dividend of Rs. 2.00 per share for the year ended 31st December 2015 (2014 - Rs. 3.75 per share) is to be approved at the Annual General Meeting to be held on 29th March 2016. More information with respect to the dividend declaration is given on Note 40.

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.

33. STATED CAPITAL AND RESERVES

The Stated Capital of the Company as at the 31st of December 2015 was Rs. 1,171,875,000/- (2014 - Rs. 1,171,875,000/-) comprising 50,000,000 ordinary shares.

There were no changes in the Stated Capital during the year.

The total retained earnings of the Company as at the 31st of December 2015 amounted to Rs. 1,398 Million (2014 - Rs. 1,189 Million) and Rs. 1,174 Million (2014 - Rs. 1,197 Million) for the Group. The movement of reserves is shown in the Statement of Changes in Equity on pages 240 to 241.

34. MINIMUM CAPITAL REQUIREMENTS TO CONTINUE GENERAL AND LIFE INSURANCE BUSINESSES

The Insurance Board of Sri Lanka, by its Gazette dated 07th May 2013, increased the minimum capital requirement for all insurance companies to Rs. 500 Million with effect from 11th February 2015.

HNB Assurance PLC has an issued and fully paid stated capital of Rs. 1,171.9 Million (2014 - Rs. 1,171.9 Million) and therefore has already fulfilled this statutory requirement.

HNB Assurance PLC invested Rs. 1 Billion in HNB General Insurance Limited with effect from 1st January 2015 and this investment was increased to Rs. 1,150 Million by 31st December 2015.

In addition, the minimum Total Available Capital (TAC) under the Risk Based Capital Requirements (RBC) is Rs. 500 Million for each business line. Based on available information and our forecasts, both Companies are well within this requirement.

35. ENVIRONMENT

The Group/ Company is aware that its activities may have direct or indirect effects on the environment. Therefore, it is the policy of the Group/ Company to minimise any such adverse effects by recycling resources to the maximum extent possible and by creating awareness among its staff on current global environmental threats.

To the best knowledge of the Board, the Group/ Company does its best to comply with the relevant environmental laws and regulations, and has not engaged in any activity that is harmful or hazardous to the environment. Activities carried out to protect the environment and promote environment friendly practices by the Group/ Company are described in detail on pages 144 to 146.

36. HUMAN RESOURCES

The human resource policies and practices of the Group/ Company are designed to recruit, develop and retain the best talent available within the industry. It is the Group/ Company policy to source from both internal and external sources and provide employment opportunities to individuals in all parts of the country. As an equal opportunity employer, career opportunities, training and development, promotions and benefits are offered purely based on the merits of the individuals and their contribution to the productivity of the Group/ Company, irrespective of gender, race or religion.

Recruitment levels are determined by the staff requirement forecast, which is updated every year. The annual staff requirement forecast is prepared by considering aspects such as the projected growth and expansion of the distribution network, profitability, expense ratio, level of automation of activities, productivity, work volumes and multiple skill levels.

Medical and Life Insurance benefits are available to all employees of the Group/ Company, irrespective of their level or period of service.

The Group/ Company encourages sports and recreational activities by supporting the Employees' Welfare Society, which organises such activities. Additional activities are organised by the Company's Human Resources Division as well.

A brief description of the HR Policy and the remuneration methodology of the Group/ Company is given in the Report of the Remuneration Committee, on pages 214 and 215.

37. CODE OF CONDUCT AND ETHICS

The Group/Company has in place a Code of Business Conduct and Ethics, which is mandatorily followed by all employees of the Group/ Company, without any exception. During the year under review, there were no material violations of the code, except for certain insignificant violations noted at the operational level, for which appropriate action has been taken.

The Group/ Company has also adopted a Code of Conduct and Ethics for Directors, and no violations of this code were reported during the year.

38. APPRAISAL OF BOARD PERFORMANCE

The Group/Company has in place a robust scheme whereby the Directors perform a self-assessment of the Board's conduct annually, by answering a self–assessment questionnaire. The responses to the self-assessment questionnaires were shared with the entire Board and suggestions/ideas for improvement were discussed in detail. Any suggestions deemed appropriate are adopted. The Board Secretary, together with the management, follows up on the progress of implementing such action.

Annual Report of the Board of Directors on the Affairs of the Company

39. WHISTLEBLOWING

A Whistle Blowing Policy is operative within the Company and the same has been communicated to all members of the staff. 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.

No serious concerns were raised through this medium during the year.

40. REPORTS OF THE BOARD SUB-COMMITTEES

The table below provides references to the reports of the Board sub-committees.

Name of Committee	Page Number
Audit Committee	203
Remuneration Committee	208
Related Party Transactions Review Committee	210
Investment Committee	212
Risk Management Committee	214

41. ANNUAL GENERAL MEETING

The fourteenth (14) 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 29th day of March 2016 at 10.00 in the forenoon. The Notice of the Annual General Meeting appears on page 368 of this Annual Report.

42. ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

As required by Section 168 (1) (k) of the Companies Act, No 7 of 2007, the Board of Directors does hereby acknowledge the contents of this Annual Report.

Signed for and on behalf of the Board



Rose Cooray
Chairperson



Sarath Ratwatte
Director



Shiromi Halloluwa
Board Secretary

Colombo, Sri Lanka
09th February, 2016

Directors' Interest in Contracts with the Group/Company

Necessary disclosures on all related party transactions as per Sri Lanka Accounting Standard LKAS 24 on Related Party Disclosures, are detailed in Note 43 to the Financial Statements on pages 316 to 323 of this Annual Report. The following table gives additional details on transactions conducted by the Company 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 but is the Chairperson / Chairman or a Director of such entities.

Name of the Company	Name of the Director	Nature of Transaction	Insurance Segment	2015	2014
				Rs.'000	Rs.'000
Lanka Ceramics PLC	Mahendra Jayasekera	Insurance Premium	General	1,062	429
	Dr. Sivakumar Selliah	Claims Incurred	General	274	218
Horana Plantations PLC	Dr. Sivakumar Selliah	Insurance Premium	General	8	5,412
		Claims Incurred	General	1,715	-
ODEL PLC	Dr. Sivakumar Selliah	Insurance Premium	General	31	314
		Claims Incurred	General	72	-

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Company and Consolidated Financial Statement of the Company and its subsidiary, prepared in accordance with the provisions of the Companies Act, No. 7 of 2007, is set out in the following statement. 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 237 of the Annual Report.

As per the provisions of the Companies Act, No. 7 of 2007 the Directors are required to prepare Financial Statements for each financial year and place them before a general meeting. The Financial Statements comprise Statement of Financial Position as at 31st December 2015, the Statement of Comprehensive Income, Statement of Changes in Equity and the Cash Flow statement for the year then ended and notes thereto.

The Financial Statements of the Company and the Consolidated Financial Statement of the Company and its subsidiary give a true and fair view of:

1. The state of affairs of the Company and the Group as at the date of the Statement of Financial Position; and
2. The Financial performance of the Company and the Group for the financial year ended 31st December 2015.

In preparing these Financial Statements/Consolidated Financial Statements, the Directors are required to ensure that:

1. Appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any, have been disclosed and explained;
2. Judgments and estimates have been made and that they are reasonable and prudent;
3. All applicable accounting standards as relevant have been followed; and
4. Information required by and otherwise comply with the Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43, of 2000 and subsequent amendments thereto and the Listing Rules of the Colombo Stock Exchange (CSE) or requirements of any other regulatory authority are provided in full.

The Directors are also required to ensure 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.

The Directors also have a responsibility to ensure that the Company and the Group maintain sufficient accounting records to disclose with reasonable accuracy the financial position of the Company/Group.

These Financial Statements/ Consolidated Financial Statements which have been prepared and presented in the Annual Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards (SLFRS/LKAS), Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995, Regulation of Insurance Industry Act, No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

The Directors have also taken reasonable steps to establish and maintain appropriate systems of internal controls to safeguard the assets of the Company/Group, prevent and detect frauds and other irregularities, and to secure as far as practicable the accuracy and reliability of records.

Directors are required to prepare the Consolidated Financial Statements of the Group and the Financial Statements of the Company and to provide the Company's External Auditors, Messrs Ernst & Young, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary to express their independent audit opinion on the Consolidated Financial Statements of the Group and the Financial Statements of the Company (Page No 238 – 247).

Further, as required by the Section 56(2) of the Companies Act, No. 7 of 2007, the Board of Directors has confirmed that the Company, based on the information available, would satisfy the solvency test immediately after the distribution of dividends, in accordance with the Section 57 of the Companies Act, No. 7 of 2007, and has obtained a certificate from the Auditors, prior to declaring a final dividend of Rs. 2.00 per share for this year, to be paid on 07th April 2016.

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments including taxes and duties relation to all relevant regulatory and statutory authorities which were due and payable by the Company/Group as at the Reporting Date have been paid or where relevant provided for.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



Shiromi Halloluwa
Board Secretary

Colombo, Sri Lanka
09th February, 2016

CEO's and CFO's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL), the requirements of the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto.

The accounting policies used in the preparation of the Financial Statements are appropriate and are consistently applied, unless otherwise stated in the notes accompanying the Financial Statements.

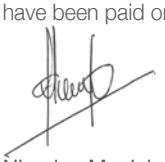
The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to these Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions and that the Company's state of affairs is reasonably presented. To ensure this, the Company has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. 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 recognized in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by Messrs. Ernst & Young, Chartered Accountants, the Independent Auditors.

The Audit Committee of the Company meets periodically with the Internal Auditors and the External Auditors to review 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 and regulations and guidelines and that there are no material litigations that are pending against the Company other than those arising in the normal course of conducting insurance business.

Also taxes, duties and all statutory payments by the Company and in respect of the employees of the Company as at the Reporting Date have been paid or where relevant accrued.



Niranjan Manickam
Chief Executive Officer (Acting)



Vipula Dharmapala
Chief Financial Officer

09th February 2016

Report of the Life Actuary

ACTUARIAL PARTNERS

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

9th February 2016

To the Shareholders of HNB Assurance PLC.

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER 2015

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December 2015. 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 2015, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date;

3) The Long Term Insurance Fund as included in the audited accounts exceed the required actuarial reserves as at 31 December 2015 by Rs. 476.898 million, before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders;

4) The solvency margin required under the Regulation of Insurance Industry Act No. 43 of 2000 is Rs. 342.273 million, including the solvency margin for new reversionary bonus allotted as at 31 December 2015.

Hassan Scott Odierno
Actuary

Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserve

4 February 2016

To the shareholders of HNB General Insurance Ltd

HNB General Insurance Ltd 31 December 2015 Net IBNR and LAT Certification

I hereby certify that the Central Estimate of IBNR provision of LKR53,556,509 is adequate in relation to the Claim Liability of HNB General Insurance Ltd as at 31 December 2015, net of reinsurance (discounted). 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 2015, 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 LKR1,117,370,283 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of HNB General Insurance Ltd as at 31 December 2015, 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.

Matthew Maguire
Fellow of the Institute of Actuaries of Australia (FIAA)
For and on behalf of NMG Financial Services Consulting
Dated 4 February 2016

T: +65 6325 9855 F: +65 6325 4700 E: contact@NMG-Group.com
www.NMG-Group.com
65 Chulia Street, #37-07/08 OCBC Centre, 049513 Singapore

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Independent Auditors' Report

Building a better working world

Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

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 2015, 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 2015, 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

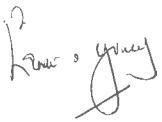
As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

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 2015, 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 Board of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.



9 February 2016
Colombo

Partners: A D B Talwatte 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 R H Fernando FCA FCMA
W K B S P Fernando FCA FCMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayesinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

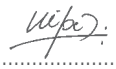
A member firm of Ernst & Young Global Limited

Statement of Financial Position

As at 31st December,	Note	Page No.	Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Assets						
Property, Plant and Equipment	4	268	136,279	133,942	94,107	133,942
Intangible Assets	5	271	45,185	51,622	45,185	51,622
Deferred Tax Assets	38	304	49,394	-	-	-
Financial Investments	6	271	9,751,611	8,277,895	7,849,625	8,171,269
Investment in Subsidiary	7	284	-	-	1,150,000	100,000
Loans to Life Policyholders	8	285	91,992	71,082	91,992	71,082
Reinsurance Receivables	9	285	141,354	162,260	34,269	162,260
Premium Receivables	10	286	345,916	364,051	5,592	364,051
Other Assets	11	287	625,985	683,149	493,571	682,639
Insurance Contract - Deferred Expenses	12	289	65,935	52,072	-	52,072
Cash and Cash Equivalents	13	289	386,929	173,245	258,222	171,217
Total Assets			11,640,580	9,969,318	10,022,563	9,960,154
Equity and Liabilities						
Equity Attributable to the Equity Holders of Parent						
Stated Capital	14	290	1,171,875	1,171,875	1,171,875	1,171,875
Retained Earnings	15	290	1,174,262	1,196,546	1,397,806	1,189,039
Available for Sale Reserve	16	290	(4,748)	3,590	53	3,523
Other Reserves	17	291	(1,093)	1,177	(2,039)	1,177
Life Policyholders' Available for Sale Reserve Fund	18	291	(56,350)	40,748	(56,350)	40,748
Equity Attributable to the Equity Holders of Parent			2,283,946	2,413,936	2,511,345	2,406,362
Non Controlling Interest			-	-	-	-
Total Equity			2,283,946	2,413,936	2,511,345	2,406,362
Liabilities						
Insurance Contract Liabilities - Life	19	291	7,007,080	5,562,648	7,007,080	5,562,648
Insurance Contract Liabilities - General	20	292	1,546,265	1,279,138	-	1,279,138
Employee Defined Benefit Liabilities	21	294	81,001	71,493	44,008	71,493
Current Tax Liabilities	22	296	-	12,012	-	10,422
Deferred Tax Liabilities	38	304	-	8,845	-	8,845
Reinsurance Creditors	23	296	131,905	110,778	37,547	110,778
Other Liabilities	24	296	590,383	510,468	422,583	510,468
Total Liabilities			9,356,634	7,555,382	7,511,218	7,553,792
Total Equity and Liabilities			11,640,580	9,969,318	10,022,563	9,960,154

The Notes to the Financial Statements as set out on pages 249 to 347 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.



Vipula Dharmapala
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



Sarath Ratwatte
Director

Colombo, Sri Lanka
09th February 2016

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31st December,	Note	Page No.	Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000	Change % Group	Change % Company*
Gross Written Premium	25	297	5,447,164	4,665,618	2,788,716	4,665,618	17	17
Premium Ceded to Reinsurers	26	298	(599,084)	(601,022)	(107,963)	(601,022)	-	-
Net Written Premium			4,848,080	4,064,596	2,680,753	4,064,596	19	19
Net Change in Reserves for Unearned Premium	27	298	(122,677)	(219,086)	-	(219,086)	(44)	(44)
Net Earned Premium	28	298	4,725,403	3,845,510	2,680,753	3,845,510	23	23
Other Revenue								
Interest and Dividend Income	29	299	871,049	824,015	705,571	816,876	6	7
Net Realised Gains	30	300	30,025	108,823	22,512	105,785	(72)	(72)
Net Fair Value Gains	31	300	16,583	99,281	4,028	99,281	(83)	(83)
Fee and Commission Income	32	301	122,552	123,425	51,000	123,425	(1)	(1)
Other Income	33	301	8,943	12,366	15	12,366	(28)	(28)
			1,049,152	1,167,910	783,126	1,157,733	(10)	(9)
Net Income			5,774,555	5,013,420	3,463,879	5,003,243	15	15
Net Benefits,Claims and Expenses								
Net Insurance Benefits and Claims Paid	34	301	(1,984,358)	(1,528,233)	(299,271)	(1,528,233)	30	30
Net Change in Insurance Claims Outstanding	35	302	(133,431)	(44,871)	18,776	(44,871)	197	197
Change in Contract Liabilities - Life Fund	19	291	(1,462,100)	(1,192,273)	(1,462,100)	(1,192,273)	23	23
Other Operating and Administration Expenses	36	303	(1,363,757)	(1,303,710)	(735,521)	(1,303,130)	5	5
Underwriting and Net Acquisition Costs	37	303	(632,107)	(474,826)	(510,961)	(474,826)	33	33
Other Insurance Related Costs			(29,029)	(30,924)	(17,774)	(30,924)	(6)	(6)
Total Benefits, Claims and Other Expenses			(5,604,782)	(4,574,837)	(3,006,851)	(4,574,257)	23	23
Profit Before Taxation			169,773	438,583	457,028	428,986	(61)	(60)
Income Tax Reversal/(Expenses)	38	304	27,571	(20,857)	(29,383)	(19,267)	(232)	(243)
Profit for the Year			197,344	417,726	427,645	409,719	(53)	(52)
Other Comprehensive Income, Net of Related Tax								
Items that are or may be reclassified to profit or loss								
- Net Change in fair value of available-for-sale financial assets			(87,480)	116,815	(80,350)	113,710	(175)	(177)
- Realised Gains transferred to Income Statement	30	300	(19,242)	(69,722)	(20,218)	(66,684)	(72)	(71)
- Net Change in fair value of available-for-sale financial assets transfer from/(to) Life Policyholders' Available For Sale reserve fund	18	291	97,098	(44,930)	97,098	(44,930)	(316)	(316)
- Related Tax	38	304	1,286	-	-	-	-	-
Items that will never be reclassified to profit or loss								
Actuarial Losses on Defined Benefit Plans	21	294	(2,270)	(995)	(3,216)	(995)	128	128
Total Other Comprehensive Income for the year, net of Related Tax			(10,608)	1,168	(6,686)	1,101	(1,008)	(1,063)
Total Comprehensive Income for the year			186,736	418,894	420,959	410,820	(55)	(55)
Profit attributable to :								
Equity Holders of the Company			197,344	417,726	-	-	(53)	-
Non Controlling Interest			-	-	-	-	-	-
Profit for the Year			197,344	417,726	-	-	(53)	-
Total Comprehensive Income Attributable to :								
Equity Holders of the Company			186,736	418,894	-	-	(55)	-
Non Controlling Interest			-	-	-	-	-	-
Total Comprehensive Income for the year			186,736	418,894	-	-	(55)	-
Earnings Per Share								
Basic Earnings Per Share (Rs.)	39	306	3.95	8.35	8.55	8.19	(53)	(52)
Dividend Per Share (Rs.)	40	307	-	-	2.00	3.75	-	-

* Change information in Company column represent a change with 2015 group results against 2014 Company results

The Notes to the Financial Statements as set out on pages 249 to 347 form an integral part of these Financial Statements.

Statement of Changes in Equity - Group

For the year ended 31st December 2015,

	Stated Capital	Retained Earnings	Available for Sale Reserve	Other Reserves	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 2014	1,171,875	941,820	1,427	2,172	(4,182)	2,113,112
Total Comprehensive Income for the year						
Profit for the Year	-	417,726	-	-	-	417,726
Other Comprehensive Income for the Year, net of tax						
Net Change in fair value of available-for-sale financial assets	-	-	47,093	-	-	47,093
Net Change in fair value of available-for-sale financial assets - Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(44,930)	-	-	(44,930)
Actuarial Losses on Defined Benefit Plans	-	-	-	(995)	-	(995)
Total Other Comprehensive Income	-	-	2,163	(995)	-	1,168
Total Comprehensive Income for the year	-	417,726	2,163	(995)	-	418,894
Net Change in fair value of available-for-sale financial assets - Transferred from Available For Sale Reserve	-	-	-	-	44,930	44,930
Transactions with owners recorded directly in equity						
Distributions to owners of the Company						
Dividend Paid to equity holders - for 2013	-	(162,500)	-	-	-	(162,500)
Share Issue Transaction Cost - Subsidiary	-	(500)	-	-	-	(500)
Total Distributions to owners of the Company	-	(163,000)	-	-	44,930	(118,070)
Balance as at 31st December 2014	1,171,875	1,196,546	3,590	1,177	40,748	2,413,936
Balance as at 01st January 2015	1,171,875	1,196,546	3,590	1,177	40,748	2,413,936
Super Gain Tax - (Note 15.1)	-	(31,378)	-	-	-	(31,378)
Total comprehensive income for the year						
Profit for the Year	-	197,344	-	-	-	197,344
Other Comprehensive Income for the Year, net of tax						
Net Change in fair value of available-for-sale financial assets	-	-	(105,436)	-	-	(105,436)
Net Change in fair value of available-for-sale financial assets - Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	97,098	-	-	97,098
Actuarial Losses on Defined Benefit Plans	-	-	-	(2,270)	-	(2,270)
Total Other Comprehensive Income	-	-	(8,338)	(2,270)	-	(10,608)
Total Comprehensive Income for the year	-	197,344	(8,338)	(2,270)	-	186,736
Net Change in fair value of available-for-sale financial assets - Transferred from Available For Sale Reserve	-	-	-	-	(97,098)	(97,098)
Transactions with owners recorded directly in equity						
Distributions to owners of the Company						
Dividend Paid to equity holders - for 2014	-	(187,500)	-	-	-	(187,500)
Share Issue Transaction Cost - Subsidiary	-	(750)	-	-	-	(750)
Total Distributions to owners of the Company	-	(188,250)	-	-	(97,098)	(285,348)
Balance as at 31st December 2015	1,171,875	1,174,262	(4,748)	(1,093)	(56,350)	2,283,946

The Notes to the Financial Statements as set out on pages 249 to 347 form an integral part of these Financial Statements.

Statement of Changes in Equity - Company

For the year ended 31st December 2015,

	Stated Capital	Retained Earnings	Available for Sale Reserve	Other Reserves	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 2014	1,171,875	941,820	1,427	2,172	(4,182)	2,113,112
Total Comprehensive Income for the year						
Profit for the Year	-	409,719	-	-	-	409,719
Other Comprehensive Income for the Year, net of tax						
Net Change in fair value of available-for-sale financial assets	-	-	47,026	-	-	47,026
Net Change in fair value of available-for-sale financial assets - Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(44,930)	-	-	(44,930)
Actuarial Losses on Defined Benefit Plans	-	-	-	(995)	-	(995)
Total Other Comprehensive Income	-	-	2,096	(995)	-	1,101
Total Comprehensive Income for the year	-	409,719	2,096	(995)	-	410,820
Net Change in fair value of available-for-sale financial assets - Transferred from Available For Sale Reserve	-	-	-	-	44,930	44,930
Transactions with owners recorded directly in equity						
Distributions to owners of the Company						
Dividend Paid to equity holders - for 2013	-	(162,500)	-	-	-	(162,500)
Total Distributions to owners of the Company	-	(162,500)	-	-	44,930	(117,570)
Balance as at 31st December 2014	1,171,875	1,189,039	3,523	1,177	40,748	2,406,362
Balance as at 01st January 2015	1,171,875	1,189,039	3,523	1,177	40,748	2,406,362
Super Gain Tax - (Note 15.1)	-	(31,378)	-	-	-	(31,378)
Total comprehensive income for the year						
Profit for the Year	-	427,645	-	-	-	427,645
Other Comprehensive Income for the Year, net of tax						
Net Change in fair value of available-for-sale financial assets	-	-	(100,568)	-	-	(100,568)
Net Change in fair value of available-for-sale financial assets - Transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	97,098	-	-	97,098
Actuarial Losses on Defined Benefit Plans	-	-	-	(3,216)	-	(3,216)
Total Other Comprehensive Income	-	-	(3,470)	(3,216)	-	(6,686)
Total Comprehensive Income for the year	-	427,645	(3,470)	(3,216)	-	420,959
Net Change in fair value of available-for-sale financial assets - Transferred from Available For Sale Reserve	-	-	-	-	(97,098)	(97,098)
Transactions with owners recorded directly in equity						
Distributions to owners of the Company						
Dividend Paid to equity holders - for 2014	-	(187,500)	-	-	-	(187,500)
Total Distributions to owners of the Company	-	(187,500)	-	-	(97,098)	(284,598)
Balance as at 31st December 2015	1,171,875	1,397,806	53	(2,039)	(56,350)	2,511,345

The Notes to the Financial Statements as set out on pages 249 to 347 form an integral part of these Financial Statements.

Statement of Cash Flows

For the Year Ended 31st December,	Note	Page	Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Cash Flow From Operating Activities						
Profit Before Taxation			169,773	438,583	457,028	428,986
Adjustments for:						
Interest Income	29	299	(843,579)	(808,970)	(687,104)	(801,831)
Dividend Income	29	299	(27,470)	(15,045)	(18,467)	(15,045)
Amortisation of Intangible Assets	5	271	17,226	17,975	17,226	17,975
Depreciation	4	268	51,116	40,330	38,082	40,330
Provision for Employee Benefits	21	294	22,201	19,050	12,849	19,050
Net Fair Value Gains	31	300	(16,583)	(99,281)	(4,028)	(99,281)
Net Realised Gains	30	300	(30,025)	(108,823)	(22,512)	(105,785)
Unrealised Gain on assets Transferred	42	315	(3,523)	-	(3,523)	-
(Gain)/Losses on Sale of Property, Plant and Equipment	33	301	(46)	174	(15)	174
			(660,910)	(516,007)	(210,464)	(515,427)
Change in Operating Assets	A		65,699	(299,620)	(24,825)	(299,110)
Change in Operating Liabilities	B		1,812,602	1,608,263	1,533,751	1,608,263
Cash Flows from Operating Activities			1,217,391	792,636	1,298,462	793,726
Gratuity Paid	21	294	(14,963)	(5,189)	(11,292)	(5,189)
Income Tax Paid	22	296	(1,280)	-	-	-
Super Gain Tax Paid	15	290	(31,378)	-	(31,378)	-
Net Cash Generated from Operating Activities			1,169,770	787,447	1,255,792	788,537
Cash Flows from Investing Activities						
Net Acquisition of Investment Securities			(1,442,522)	(1,148,749)	(1,294,693)	(1,047,491)
Interest Received			711,684	591,459	568,571	586,583
Dividend Received			27,198	15,228	18,467	15,228
Investment in Subsidiary			-	-	(150,000)	(100,000)
Acquisition of Intangible Assets	5	271	(10,789)	(15,790)	(10,789)	(15,790)
Acquisition of Property, Plant and Equipment	4	268	(53,596)	(37,747)	(39,679)	(37,747)
Proceeds from the Sale of Property, Plant and Equipment			189	310	146	310
Net Cash Used in Investing Activities			(767,836)	(595,289)	(907,977)	(598,907)
Cash Flows from Financing Activities						
Dividend Paid	40	307	(187,500)	(162,500)	(187,500)	(162,500)
Share Issue Related Costs Paid-Subsidiary	15	290	(750)	(500)	-	-
Net Cash Used in Financing Activities			(188,250)	(163,000)	(187,500)	(162,500)
Net Increase in Cash and Cash Equivalents	C		213,684	29,158	160,315	27,130
Cash and Cash Equivalents at the beginning of the Year			173,245	144,087	171,217	144,087
Cash and Cash Equivalents Transferred to HNBGI Limited on segregation			-	-	(73,310)	-
Cash and Cash Equivalents at the end of the Year	13	289	386,929	173,245	258,222	171,217
Notes to the Cash Flow Statement						
A. Change in Operating Assets						
Increase in Deferred Expenses			(13,863)	(19,160)	-	(19,160)
Increase in Loans to Life Policyholders			(20,910)	(17,426)	(20,910)	(17,426)
Decrease/(Increase) in Reinsurance Receivables			20,906	(56,870)	(10,823)	(56,870)
Decrease/(Increase) in Premium Receivables			18,135	(62,869)	1,351	(62,869)
Decrease/(Increase) in Other Assets			61,431	(143,295)	5,557	(142,785)
Net Change in Operating Assets			65,699	(299,620)	(24,825)	(299,110)
B. Change in Operating Liabilities						
Increase in Other Liabilities			79,916	116,172	82,693	116,172
Increase in Insurance Contract Liabilities - General Insurance			267,127	268,036	-	268,036
Increase in Insurance Contract Liabilities - Life Insurance			1,444,432	1,214,158	1,444,432	1,214,158
Increase in Reinsurance Creditors			21,127	9,897	6,626	9,897
Net Change in Operating Liabilities			1,812,602	1,608,263	1,533,751	1,608,263
C. Increase / (Decrease) in Cash and Cash Equivalents						
Net Cash and Cash Equivalents at the end of the Year	13	289	386,929	173,245	258,222	171,217
Net Cash and Cash Equivalents at the beginning of the Year			173,245	144,087	171,217	144,087
Cash and Cash Equivalents Transferred to HNBGI Limited on segregation			-	-	(73,310)	-
Cash and Cash Equivalents at the beginning of the Year - After segregation			-	-	97,907	-
Net Increase in Cash and Cash Equivalents			213,684	29,158	160,315	27,130

The Notes to the Financial Statements as set out on pages 249 to 347 form an integral part of these Financial Statements.

Statement of Financial Position - Segmental Review - 2015

As at 31st December 2015,	Life Insurance Rs.'000	General Insurance Rs.'000	Consolidation Adjustment Rs.'000	Total Rs.'000
Assets				
Property, Plant and Equipment	94,107	42,172	-	136,279
Intangible Assets	45,185	-	-	45,185
Deferred Tax Assets	-	49,394	-	49,394
Financial Investments	7,849,625	1,901,986	-	9,751,611
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders	91,992	-	-	91,992
Reinsurance Receivables	34,269	107,085	-	141,354
Premium Receivables	5,592	340,324	-	345,916
Other Assets	493,571	141,431	(9,017)	625,985
Insurance Contract - Deferred Expenses	-	65,935	-	65,935
Cash and Cash Equivalents	258,222	128,707	-	386,929
Total Assets	10,022,563	2,777,034	(1,159,017)	11,640,580
Equity and Liabilities				
Equity Attributable to the Equity Holders of Parent				
Stated Capital	1,171,875	1,150,000	(1,150,000)	1,171,875
Retained Earnings	1,397,806	(220,589)	(2,955)	1,174,262
Available for Sale Reserves	53	(7,756)	2,955	(4,748)
Other Reserves	(2,039)	946	-	(1,093)
Life Policyholders' Available for Sale Reserve Fund	(56,350)	-	-	(56,350)
Equity Attributable to the Equity Holders of Parent	2,511,345	922,601	(1,150,000)	2,283,946
Non Controlling Interest	-	-	-	-
Total Equity	2,511,345	922,601	(1,150,000)	2,283,946
Liabilities				
Insurance Contract Liabilities - Life	7,007,080	-	-	7,007,080
Insurance Contract Liabilities - General	-	1,546,265	-	1,546,265
Employee Defined Benefit Liabilities	44,008	36,993	-	81,001
Reinsurance Creditors	37,547	94,358	-	131,905
Other Liabilities	422,583	176,817	(9,017)	590,383
Total Liabilities	7,511,218	1,854,433	(9,017)	9,356,634
Total Equity and Liabilities	10,022,563	2,777,034	(1,159,017)	11,640,580

The Notes to the Financial Statements as set out on pages 249 to 347 form an integral part of these Financial Statements.

Statement of Financial Position - Segmental Review - 2014

As at 31st December 2014,	Life Insurance Rs.'000	General Insurance Rs.'000	Subsidiary/ Adjustment Rs.'000	Total Rs.'000
Assets				
Property, Plant and Equipment	-	133,942	-	133,942
Intangible Assets	-	51,622	-	51,622
Financial Investments	5,545,833	2,625,436	106,626	8,277,895
Investment in Subsidiary	-	100,000	(100,000)	-
Loans to Life Policyholders	71,082	-	-	71,082
Reinsurance Receivables	23,446	138,814	-	162,260
Premium Receivables	6,943	357,108	-	364,051
Other Assets	195,023	487,616	510	683,149
Insurance Contract - Deferred Expenses	-	52,072	-	52,072
Cash and Cash Equivalents	88,482	82,735	2,028	173,245
Total Assets	5,930,809	4,029,345	9,164	9,969,318
Equity and Liabilities				
Equity Attributable to the Equity Holders of Parent				
Stated Capital	-	1,171,875	-	1,171,875
Retained Earnings	-	1,189,039	7,507	1,196,546
Available for Sale Reserves	-	3,523	67	3,590
Other Reserves	(18,780)	19,957	-	1,177
Life Policyholders' Available for Sale Reserve Fund	40,748	-	-	40,748
Equity Attributable to the Equity Holders of Parent	21,968	2,384,394	7,574	2,413,936
Non Controlling Interest	-	-	-	-
Total Equity	21,968	2,384,394	7,574	2,413,936
Liabilities				
Insurance Contract Liabilities - Life	5,562,648	-	-	5,562,648
Insurance Contract Liabilities - General	-	1,279,138	-	1,279,138
Employee Defined Benefit Liabilities	31,508	39,985	-	71,493
Current Tax Liabilities	-	10,422	1,590	12,012
Deferred Tax Liabilities	-	8,845	-	8,845
Reinsurance Creditors	30,921	79,857	-	110,778
Other Liabilities	283,764	226,704	-	510,468
Total Liabilities	5,908,841	1,644,951	1,590	7,555,382
Total Equity and Liabilities	5,930,809	4,029,345	9,164	9,969,318

The Notes to the Financial Statements as set out on pages 249 to 347 form an integral part of these Financial Statements.

Statement of Profit or Loss - Segmental Review - 2015

For the Year Ended 31st December 2015,	Life Insurance Rs.'000	General Insurance Rs.'000	Consolidation Adjustment Rs.'000	Total Rs.'000
Gross Written Premium	2,788,716	2,698,176	(39,728)	5,447,164
Premium Ceded to Reinsurers	(107,963)	(491,121)	-	(599,084)
Net Written Premium	2,680,753	2,207,055	(39,728)	4,848,080
Net Change in Reserves for Unearned Premium	-	(122,677)	-	(122,677)
Net Earned Premium	2,680,753	2,084,378	(39,728)	4,725,403
Other Revenue				
Interest and Dividend Income	705,571	165,478	-	871,049
Net Realised Gains	22,512	10,468	(2,955)	30,025
Net Fair Value Gain	4,028	12,555	-	16,583
Fees and Commission Income	51,000	81,612	(10,060)	122,552
Other Income	15	8,928	-	8,943
	783,126	279,041	(13,015)	1,049,152
Net Income	3,463,879	2,363,419	(52,743)	5,774,555
Net Benefits,Claims and Expenses				
Net Insurance Benefits and Claims Paid	(299,271)	(1,685,087)	-	(1,984,358)
Net Change in Insurance Claims Outstanding	18,776	(152,207)	-	(133,431)
Change in Contract Liabilities - Life Fund	(1,462,100)	-	-	(1,462,100)
Other Operating and Administration Expenses	(735,521)	(672,051)	43,815	(1,363,757)
Underwriting and Net Acquisition Costs	(510,961)	(127,119)	5,973	(632,107)
Other Insurance Related Costs	(17,774)	(11,255)	-	(29,029)
Total Benefits, Claims and other Expenses	(3,006,851)	(2,647,719)	49,788	(5,604,782)
Profit/(Loss) Before Taxation	457,028	(284,300)	(2,955)	169,773
Income Tax (Expenses) / Reversal	(29,383)	56,954	-	27,571
Profit/(Loss) for the Year	427,645	(227,346)	(2,955)	197,344

The Notes to the Financial Statements as set out on pages 249 to 347 form an integral part of these Financial Statements.

Statement of Profit or Loss - Segmental Review - 2014

For the Year Ended 31st December 2014,	Life Insurance Rs.'000	General Insurance Rs.'000	Subsidiary Rs.'000	Total Rs.'000
Gross Written Premium	2,342,867	2,322,751	-	4,665,618
Premium Ceded to Reinsurers	(127,463)	(473,559)	-	(601,022)
Net Written Premium	2,215,404	1,849,192	-	4,064,596
Net Change in Reserves for Unearned Premium	-	(219,086)	-	(219,086)
Net Earned Premium	2,215,404	1,630,106	-	3,845,510
Other Revenue				
Interest and Dividend Income	542,426	274,450	7,139	824,015
Net Realised Gains	71,291	34,494	3,038	108,823
Net Fair Value Gain	65,813	33,468	-	99,281
Fees and Commission Income	27,914	95,511	-	123,425
Other Income	-	12,366	-	12,366
	707,444	450,289	10,177	1,167,910
Net Income	2,922,848	2,080,395	10,177	5,013,420
Net Benefits,Claims and Expenses				
Net Insurance Benefits and Claims Paid	(393,156)	(1,135,077)	-	(1,528,233)
Net Change in Insurance Claims Outstanding	(19,227)	(25,644)	-	(44,871)
Change in Contract Liabilities - Life Fund	(1,192,273)	-	-	(1,192,273)
Other Operating and Administration Expenses	(691,434)	(611,696)	(580)	(1,303,710)
Underwriting and Net Acquisition Costs	(386,651)	(88,175)	-	(474,826)
Other Insurance Related Costs	(12,085)	(18,839)	-	(30,924)
Total Benefits, Claims and other Expenses	(2,694,826)	(1,879,431)	(580)	(4,574,837)
Profit Before Taxation	228,022	200,964	9,597	438,583
Income Tax Expenses	-	(19,267)	(1,590)	(20,857)
Profit for the Year	228,022	181,697	8,007	417,726

The Notes to the Financial Statements as set out on pages 249 to 347 form an integral part of these Financial Statements.

Statement of Cash Flows - Segmental Review - 2015

For the Year Ended 31st December 2015,	Note	Life Insurance Rs.'000	General Insurance Rs.'000	Consolidation Adjustment Rs.'000	Total Rs.'000
Cash Flow From Operating Activities					
Profit / (Loss) Before Taxation		457,028	(284,300)	(2,955)	169,773
Adjustments for:					
Interest Income		(687,104)	(156,475)	-	(843,579)
Dividend Income		(18,467)	(9,003)	-	(27,470)
Amortisation of Intangible Assets		17,226	-	-	17,226
Depreciation		38,082	13,034	-	51,116
Provision for Employee Benefits		12,849	9,352	-	22,201
Net Fair Value Gains		(4,028)	(12,555)	-	(16,583)
Net Realised Gains		(22,512)	(10,468)	2,955	(30,025)
Unrealised Gain on assets Transferred		(3,523)	-	-	(3,523)
Gain on Sale of Property, Plant and Equipment		(15)	(31)	-	(46)
		(210,464)	(450,446)	-	(660,910)
Change in Operating Assets	A	(24,825)	81,507	9,017	65,699
Change in Operating Liabilities	B	1,533,751	287,868	(9,017)	1,812,602
Cash Flows from Operating Activities		1,298,462	(81,071)	-	1,217,391
Gratuity Paid		(11,292)	(3,671)	-	(14,963)
Income Tax Paid		-	(1,280)	-	(1,280)
Super Gain Tax Paid		(31,378)	-	-	(31,378)
Net Cash Generated from Operating Activities		1,255,792	(86,022)	-	1,169,770
Cash Flows from Investing Activities					
Net Acquisition of Investment Securities		(1,294,693)	(147,829)	-	(1,442,522)
Investment In Subsidiary		(150,000)	-	150,000	-
Interest Received		568,571	143,113	-	711,684
Dividend Received		18,467	8,731	-	27,198
Acquisition of Intangible Assets		(10,789)	-	-	(10,789)
Acquisition of Property, Plant and Equipment		(39,679)	(13,917)	-	(53,596)
Proceeds from the Sale of Property, Plant and Equipment		146	43	-	189
Net Cash Used in Investing Activities		(907,977)	(9,859)	150,000	(767,836)
Cash Flows from Financing Activities					
Dividend Paid		(187,500)	-	-	(187,500)
Proceeds from issue of shares		-	150,000	(150,000)	-
Share Issue Related Costs Paid- Subsidiary		-	(750)	-	(750)
Net Cash Used in Financing Activities		(187,500)	149,250	(150,000)	(188,250)
Net Increase in Cash and Cash Equivalents	C	160,315	53,369	-	213,684
Cash and Cash Equivalents at the beginning of the Year		88,482	84,763	-	173,245
Cash Transferred on Segregation		9,425	(9,425)	-	-
Cash and Cash Equivalents at the end of the Year	13	258,222	128,707	-	386,929
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Increase in Deferred Expenses		-	(13,863)	-	(13,863)
Increase in Loans to Life Policyholders		(20,910)	-	-	(20,910)
Increase /(Decrease) in Reinsurance Receivables		(10,823)	31,729	-	20,906
Increase in Premium Receivables		1,351	16,784	-	18,135
Increase in Other Assets		5,557	46,857	9,017	61,431
Net Change in Operating Assets		(24,825)	81,507	9,017	65,699
B. Change in Operating Liabilities					
Increase Other Liabilities		82,693	6,240	(9,017)	79,916
Increase Insurance Contract Liabilities - General Insurance		-	267,127	-	267,127
Increase Insurance Contract Liabilities - Life Insurance		1,444,432	-	-	1,444,432
Increase in Reinsurance Creditors		6,626	14,501	-	21,127
Net Change in Operating Liabilities		1,533,751	287,868	(9,017)	1,812,602
C. Increase / (Decrease) in Cash and Cash Equivalents					
Net Cash and Cash Equivalents at the end of the Year		258,222	128,707	-	386,929
Net Cash and Cash Equivalents at the beginning of the Year		88,482	84,763	-	173,245
Cash and Cash Equivalents Transferred to/(from) HNBGI Limited on Segregation		9,425	(9,425)	-	-
Net Increase in Cash and Cash Equivalents		160,315	53,369	-	213,684

The Notes to the Financial Statements as set out on pages 249 to 347 from an integral part of these Financial Statements.

Statement of Cash Flows - Segmental Review - 2014

For the Year Ended 31st December 2014,

	Note	Life Insurance Rs.'000	General Insurance Rs.'000	Subsidiary/ Adjustment Rs.'000	Total Rs.'000
Cash Flow From Operating Activities					
Profit Before Taxation		228,022	200,964	9,597	438,583
Adjustments for:					
Interest Income		(533,882)	(267,949)	(7,139)	(808,970)
Dividend Income		(8,544)	(6,501)	-	(15,045)
Transfer of Profit		(228,022)	228,022	-	-
Amortisation of Intangible Assets		-	17,975	-	17,975
Depreciation		-	40,330	-	40,330
Provision for Employee Benefits		5,454	13,596	-	19,050
Net Fair Value Gains		(65,813)	(33,468)	-	(99,281)
Net Realised Gains		(71,291)	(34,494)	(3,038)	(108,823)
Loss on Sale of Property, Plant and Equipment		-	174	-	174
		(674,076)	158,649	(580)	(516,007)
Change in Operating Assets	A	(43,512)	(255,598)	(510)	(299,620)
Change in Operating Liabilities	B	1,282,882	325,381	-	1,608,263
Cash Flows from Operating Activities		565,294	228,432	(1,090)	792,636
Gratuity Paid		(401)	(4,788)	-	(5,189)
Net Cash Generated from Operating Activities		564,893	223,644	(1,090)	787,447
Cash Flows from Investing Activities					
Net Acquisition of Investment Securities		(895,956)	(151,535)	(101,258)	(1,148,749)
Interest Received		336,255	250,328	4,876	591,459
Dividend Received		8,585	6,643	-	15,228
Investment in Subsidiary		-	(100,000)	100,000	-
Acquisition of Intangible Assets		-	(15,790)	-	(15,790)
Acquisition of Property, Plant and Equipment		-	(37,747)	-	(37,747)
Proceeds from the Sale of Property, Plant and Equipment		-	310	-	310
Net Cash Used in Investing Activities		(551,116)	(47,791)	3,618	(595,289)
Cash Flows from Financing Activities					
Dividend Paid		-	(162,500)	-	(162,500)
Share Issue Related Costs Paid- Subsidiary		-	-	(500)	(500)
Net Cash from Financing Activities		-	(162,500)	(500)	(163,000)
Net Increase in Cash and Cash Equivalents	C	13,777	13,353	2,028	29,158
Cash and Cash Equivalents at the beginning of the Year		74,705	69,382	-	144,087
Cash and Cash Equivalents at the end of the Year	13	88,482	82,735	2,028	173,245
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Increase in Deferred Expenses		-	(19,160)	-	(19,160)
Increase in Loans to Life Policyholders		(17,426)	-	-	(17,426)
Decrease/(Increase) in Reinsurance Receivables		180	(57,050)	-	(56,870)
Increase in Premium Receivables		(233)	(62,636)	-	(62,869)
Increase in Other Assets		(26,033)	(116,752)	(510)	(143,295)
Net Change in Operating Assets		(43,512)	(255,598)	(510)	(299,620)
B. Change in Operating Liabilities					
Increase in Other Liabilities		62,652	53,520	-	116,172
Increase in Insurance Contract Liabilities - General Insurance		-	268,036	-	268,036
Increase in Insurance Contract Liabilities - Life Insurance		1,214,158	-	-	1,214,158
Increase in Reinsurance Creditors		6,072	3,825	-	9,897
Net Change in Operating Liabilities		1,282,882	325,381	-	1,608,263
C. Increase / (Decrease) in Cash and Cash Equivalents					
Net Cash and Cash Equivalents at the end of the Year		88,482	82,735	2,028	173,245
Net Cash and Cash Equivalents at the beginning of the Year		74,705	69,382	-	144,087
Net Increase in Cash and Cash Equivalents		13,777	13,353	2,028	29,158

The Notes to the Financial Statements as set out on pages 249 to 347 from an integral part of these Financial Statements.

Notes to the Financial Statements

1. CORPORATE INFORMATION

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 is situated at No. 479, T B Jayah Mawatha, Colombo 10 and the principal place of business is situated at No. 10, Sri Uttarananda Mawatha, Colombo 3. The Ordinary Shares of the Company are listed on the Colombo Stock Exchange (CSE).

1.2 Consolidated Financial Statements

The Group parent entity is HNB Assurance PLC. In the opinion of the Directors, The group ultimate parent undertaking and controlling party is Hatton National Bank PLC which is incorporated in Sri Lanka. The Financial Statements of the parent and subsidiary have a common financial year which ends on December 31st.

1.3 Date of authorization of issue

The financial statements were authorized for issue by the Board of Directors on 09th February 2016.

1.4 Principal Activities and Nature of Operations

The principal activity of the Group is Life and General insurance business. There were no significant changes in the nature of the principal activities of the Group during the financial year under review.

However, In terms of Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, all composite insurance companies were required to segregate their Life and General Insurance businesses into two separate legal entities. HNB Assurance PLC, following the due process stipulated by the IBSL and having obtained approvals from all relevant parties including District Courts, transferred its General Insurance Business to its newly formed subsidiary HNB General Insurance Ltd with effect from 1st of January 2015. The Company formed its subsidiary, HNB General Insurance Ltd with a Stated Capital of Rs. 100 Million on 30th January 2014 and increased the Stated Capital to Rs. 01 Billion from 01st of January 2015 onwards by subscribing 90 Million new shares of the subsidiary for a consideration of Rs. 900 Million. Further the Company Invested additional Rs 150 Million on 13th November 2015.

The transfer of the General Insurance business was carried out by transferring the assets at its carrying value as at 31st December 2014 of the General Insurance business to HNB General Insurance Ltd and by HNB General Insurance Ltd assuming the liabilities pertaining to the General Insurance business of HNB Assurance PLC with effect from 01st of January 2015.

Accordingly, HNB Assurance PLC has become a Life Insurance Company as well as the holding Company of HNB General Insurance Ltd which is now a licensed General Insurance Company.

1.5 Parent Entity and Ultimate Parent Entity

The Group parent entity is HNB Assurance PLC. In the opinion of the Directors, the Group ultimate parent undertaking and controlling party is Hatton National Bank PLC which is incorporated in Sri Lanka.

1.6 Responsibility for Financial Statements

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

1.7 Statement of Compliance

The Consolidated Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards, promulgated by the Institute of Chartered Accountants of Sri Lanka (CA-Sri Lanka) and comply with the requirements of the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000 and the listing rules of the 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 238);
- 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 239);
- a Statement of Changes in Equity depicting all changes in shareholders' equity (Refer pages 240);
- 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 utilize those cash flows (Refer pages 242); and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 249 to 347).

Notes to the Financial Statements

1.8 Number of Employees

The staff strength of the Group as at 31st December 2015 is 836 (2014 – 829)

2. SIGNIFICANT ACCOUNTING POLICIES

Changes in Accounting Policies

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements of the Group and the Company, unless otherwise indicated. The accounting policies have been consistently applied by the Group entities where applicable and deviations if any have been disclosed accordingly.

2.1 Basis of Preparation

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 and basis of measurement	Note No.	Page reference
Financial instruments at fair value through profit or loss are measured at fair value	6.4	272
Available-for-sale financial assets are measured at fair value	6.3	272
Defined benefit obligations are actuarially valued and recognized at present value of the defined benefit obligation	21	294

As permitted by SLFRS 4 Insurance Contracts, the Group continues to apply the existing accounting policies that were applied prior to the adoption of SLFRS, with certain modifications allowed by the standard effective subsequent to adoption for its insurance contracts with discretionary participating features (DPF).

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.

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

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 page numbers 348 to 357 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.

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.

2.2 Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiary as at 31 December 2015. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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 as the parent Company, using consistent accounting policies.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the

parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. 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.

If the Company loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements 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. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

2.3.1 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 relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates as further detailed in note 19.1. 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 expense 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.

2.3.2 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, at the reporting date (IBNR). 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.

2.3.3 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.

Notes to the Financial Statements

2.3.4 Valuation of defined benefit obligation - Gratuity

The cost of defined benefit plans which is gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases 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.

2.3.5 Deferred tax assets and liabilities

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Group establishes provisions, based on reasonable estimate based on the tax laws and interpretations.

2.3.6 Notional Tax Credit

The Company has done an assessment of the taxable profit in future against which the Company is eligible to setoff Notional Tax paid. Based on this assessment the Company has charged the amount of Notional Tax which cannot be utilized in the near future. However in future if adequate taxable profit is available, the Company will right back and claim such Notional Tax written off.

2.3.7 Impairment of Deferred Acquisition Cost (DAC)

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 derecognised when the related contracts are either settled or disposed of.

2.3.8 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.

2.3.9 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, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

Significant Accounting Estimate/Judgment	Disclosure Reference	
	Note No.	Page No.
Insurance contract liabilities – Life Insurance	2.14.1	261
Insurance contract liabilities – General Insurance	2.14.2	261
Liability Adequacy Test (LAT) Life Insurance General Insurance	2.14.1 2.14.2	261
Fair Value of Financial Instruments	2.5.6	256
Valuation of defined benefit obligation – Gratuity	2.3.4	252
Deferred tax assets and liabilities	2.24.2	265
Assessment of Impairment	2.3.8	252
Deferred Acquisition Cost	2.3.7	252
Provisions for Liabilities and Contingencies	2.3.9	252

2.4 Insurance Contracts & Product Classification

Insurance contracts

As permitted by SLFRS 4 Insurance Contracts, the Group continues to apply the existing accounting policies for Insurance Contracts that were applied prior to the adoption of SLFRS.

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 are those contracts when the Group (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 paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

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.

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.

The Group checks all its new insurance products for compliance with SLFRS 4 at the product modelling stage and ensures that no 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.

Actuarial Valuation of Life Insurance Fund

The Directors agree to the long term insurance provision for the Company at the year-end on the recommendations of the Independent Consultant Actuary following his annual investigation of the Life Insurance business. The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the Independent Consultant Actuary.

2.5 Financial assets and financial liabilities

2.5.1 Non-derivative financial assets

2.5.1.a Initial recognition and measurement

The Group initially recognises loans and receivables and deposits on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability 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 and financial liabilities of fair value through profit or loss is recognized in profit or loss.

At inception a financial asset was classified in one of the following categories:

1. Held to maturity investments (HTM);
2. Loans and receivables (L&R);
3. Available-for-sale (AFS) financial assets, as appropriate; and
4. Fair value through profit or loss (FVTPL).

The Group determines the classification of its financial assets at initial recognition.

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on the Group ability. Financial assets are classified as at 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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the settlement date, i.e., the date that the Group receives/settles money for the sell/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 recognize/derecognise the asset.

Notes to the Financial Statements

The Group existing types of financial assets and their possible classifications are shown in the table below.

Category	Financial Asset
Held to Maturity	Treasury Bonds
Loans and Receivables	REPO, Overnight REPO, Term Deposits, Corporate Debt, Loans to Policyholders, Staff and Advisor Loans, Reinsurance Receivable, Premium Receivable, Other receivables, Cash and Cash Equivalents
Available For Sale	Treasury Bonds, Treasury Bills, Listed Equity Shares
Fair Value Through Profit or Loss	Treasury Bonds, Treasury Bills, Listed Equity Shares, Unit Trusts

2.5.1.b **Subsequent measurement**

Held to maturity financial assets (HTM)

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. Held-to-maturity financial assets comprise of treasury bonds. After initial measurement, held to maturity financial assets are measured at amortised cost, using the 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 derecognised or impaired, as well as through the amortisation process.

Loans and other receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise of investments in unquoted debentures, commercial papers, reverse repos, policy loans and other loans, reinsurance receivables, premium receivables, cash and cash equivalents. The Company classifies quoted Corporate Debt under this category since there is no active market for these instruments even if such instruments are listed.

These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After 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 derecognised or impaired, as well as through the amortisation process.

a. Premium Receivables

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) directive issued by the 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.

Due Life Insurance premiums (only the premiums due in the 30 day grace period) are recognized at each reporting date and will be reversed if the premiums are not settled during the subsequent month, and thus the policies will be lapsed as per the Group policy.

b. Other Receivables and Dues from Related Parties

Other receivables and dues from Related Parties are recognised at cost less allowances for bad and doubtful receivables.

c. Cash and cash equivalents

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.

Available-for-sale financial assets (AFS)
Available-for-sale financial investments include equity and debt securities (Government Securities and Corporate Debt). 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.

After initial measurement, available-for-sale financial assets are subsequently 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 'Investment Income' when the right of the payment has been established. When the asset is derecognized, the cumulative gain or loss is recognised in the Investment Income.

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.

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.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets at fair value through profit or loss include financial assets held for trading and those designated 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 at fair value through profit or loss, the following criteria must be met:

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

- The assets and liabilities are part of a Group financial assets, financial liabilities, or both, which are managed and their performance evaluated on a fair value basis, in accordance with the Group investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, they 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 Effective Interest Rate (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.

2.5.2 **Non-derivative financial liabilities**
The Group initially recognises financial liabilities (including liabilities designated at fair value through profit or loss) on

Notes to the Financial Statements

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 financial liabilities comprise insurance payables, other liabilities including amount due to related parties and bank overdrafts.

2.5.3 Derecognition

2.5.3.a Financial Assets

The Group derecognises 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 derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition 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.

2.5.3.b Financial Liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

2.5.4 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 permitted under SLFRs/LKASs, or for gains and losses arising from a group of similar transactions such as in the Group trading activity.

2.5.5 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.

2.5.6 Fair value measurement

The Group measures financial instruments such as Available for sale and fair value through profit and 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.

Instrument Category	Fair Value Basis	Fair Value Hierarchy
Government Securities		
Treasury Bonds	Valued using the market yield	Level 1
Treasury Bills	Valued using the market yield	Level 1
Investment in Listed Shares	Volume Weighted Average (VWA) prices	Level 1
Investment in Units		
Investment in Listed Units	Published Market Prices (VWA)	Level 1
Investment in Unlisted Redeemable Units	Published Net Assets Values (NAV)	Level 2
Corporate Debt		
Listed	Published Market Prices	Level 2
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
Fixed and Term Deposits		
Deposit > 1year	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

2.5.7 **Identification and measurement of impairment**

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.

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Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.5.7.a 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 recognized during the financial year.

2.5.7.b Available-for-sale financial assets (AFS)

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.

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.

2.6 Property, Plant and Equipment

Basis of Recognition

Property, Plant and Equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property, Plant and Equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be measured reliably.

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 and the costs of dismantling and removing the items and restoring at the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

The Group applies the cost model to 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.

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.

Depreciation

The Group provides depreciation from the date 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 as follow:

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 derecognised 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 derecognised.

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 derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is derecognised.

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 capitalisation.

2.7 Intangible assets

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

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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.

Derecognition
An Intangible Asset 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 such Intangible Assets is included in Profit or Loss when the item is derecognised.

2.8 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.

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.

2.9 Deferred Acquisition Costs (DAC)

Those 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 revenues earned.

In line with the available regulatory guidelines from the Insurance Board of Sri Lanka (IBSL), the DAC is calculated based on the 1/24th basis except for the marine policies which are computed on a 60-40 basis.

An impairment review 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 derecognised when the related contracts are either settled or disposed of.

2.10 Reinsurance

The Group cedes insurance risk in the normal course of business to 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.

Reinsurance is recorded gross 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 or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

2.11 Other Assets

Inventories

Inventories include all consumable items which are stated at lower of cost and net realisable value.

2.12 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 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.

2.13 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 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.

2.14 Insurance contract liabilities

2.14.1 Insurance Provision – Life Insurance

Life Insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method as specified by the Insurance Board of Sri Lanka (IBSL) based on the recommendation of the Independent Consultant Actuary. The liability is determined as the sum of the discounted value of the expected future benefits, less the discounted value of the expected future premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is computed based on IBSL specified guidelines and current assumptions which vary based on the contract type.

Furthermore, adjustments are performed to capture the likely liabilities that may arise due to currently lapsed contracts reviving in the future.

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.

2.14.2 Insurance Provision – General Insurance

General Insurance contract liabilities include the outstanding claims provision including IBNR and IBNER, the provision for unearned premium and the provision for premium deficiency.

Notes to the Financial Statements

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date.

The valuation of Unearned Premium Reserve are measured in accordance with guidelines of the Regulation of Insurance Industry Act, No. 43 of 2000 (i.e. based on the 1/24th basis except for the marine policies which are computed on a 60-40 basis).

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claim reserves are actuarially computed.

The liability is IBNR and IBNER discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

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.

2.14.3 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 two years. From the 2nd 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 2nd year and thereafter it is periodically recognised.

If the corresponding loan of the Title Insurance Policy issued is settled before the maturity, full premium of such policies remaining as at the date of settlement of such loan is recognised in profits upon confirmation of the same by the respective Bank.

2.15 Employee benefits

2.15.1 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.

2.15.2 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 member 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.

2.15.3 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 recognized immediately in Other Comprehensive Income.

Under the payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

2.16 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.17 Revenue Recognition

2.17.1 Insurance Premiums

Life Insurance business

Gross recurring premiums on Life Insurance contracts are recognised as revenue when payable by the policyholder (policies within the 30 day grace period are considered as due). Premiums received in advance are not recorded as revenue and recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as income. 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 General Insurance written premiums comprise the total premiums received /receivable for the whole period of cover provided by contracts entered into during the accounting period. Gross Written Premium is generally recognised is written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.

Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on 1/24th basis except for the marine policies which are computed on a 60-40 basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums which is included under liabilities.

2.17.2 Reinsurance premiums

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. Reinsurance premiums are decided based on rates agreed with reinsurers.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts (using 1/24th basis except for the marine policies which are computed on a 60-40 basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000).

2.17.3 Fees and commission income

Insurance and investment contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as revenue upon receipt or become due.

2.18 Net Realise Gains

Net Realise Gains comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction.

2.19 Interest Income

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.

Notes to the Financial Statements

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received 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.

2.20 Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment.

2.21 Profit / Loss on Sale of Property, Plant and Equipment

Profit / loss on Sale of Property, Plant and Equipment is recognised in the period in which the sale occurs and is classified under other income.

2.22 Benefits, Claims and Expenses

a. Gross benefits and claims

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.

Expenses on Life Insurance relates to the acquisition expenses and expenses for maintenance of Life Insurance business, investment related expenses not treated as a part of the capital cost of investment, etc which are accounted on accrual basis.

General Insurance business

General Insurance claims include all claims occurring during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. 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) is 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 semi-annual basis.

Whilst the Directors consider that 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 that period.

The methods used to estimate claims and the estimates made are reviewed regularly.

b. Reinsurance claims

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

c. Deferred Acquisition Expenses

Acquisition expenses, representing commissions, which vary with and are directly related to the production of business, are deferred and amortised over the period in which the related written premiums are earned.

Reinsurance commission is also treated in the same manner within deferred acquisition costs.

2.23 Other Expenses

Other expenses are recognised on accrual basis. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment has been charged to profit or loss.

Share issue expenses are charged against the reserves in the Statement of Changes in Equity.

2.24 Taxes

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

2.24.1 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.

2.24.2 **Deferred tax**

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.

2.24.3 **Premium Income (GWP) and other Sundry Sales related taxes**

Revenues, expenses and assets are recognised net of the amount of sales taxes and premium taxes except where the premium or sales tax incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.

Outstanding net amounts of sales or premium tax recoverable from, or payable to, the taxation authority are included as part of receivables or payables in the Statement of Financial Position.

2.24.4 **Withholding Tax on Dividends**

Withholding tax that arises from the distribution of dividends by the Group is recognised at the same time as the liability to pay the related dividend is recognised.

2.24.5 **Economic Service Charge (ESC)**

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

However with the amendment made by Inland Revenue to the Act, if the Group In relation to any relevant quarter commencing on or after April 01, 2012, where such part of the taxable income as consists of profits from any trade, business, profession or vocation assessed under the provisions of Inland Revenue Act No, 10 of 2006 for the year of assessment 2011/2012, is more than zero, the relevant turnover for such quarter shall be deemed to be zero.

2.25 **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

Notes to the Financial Statements

returns that are different from those of other segments. The Group primary format for segment reporting is based on business segments. The business segments are determined based on the Group management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Accordingly, segmental information of the Group reflects General Insurance and Life Insurance. Inter-segment transfers are based on fair market prices.

2.26 Capital Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

2.27 Events Occurring after the Reporting Date

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

All material post Reporting Date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the Financial Statements.

2.28 Proposed Dividends

Dividend proposed by the Board of Directors after the reporting date is not recognised as a liability and is only disclosed as a Note to the Financial Statements (Note 40.2 in page No 307). Provision for dividend is recognised only at the time the dividend proposed by the Board of Directors is approved by the shareholders at the Annual General Meeting.

2.29 Earnings Per Share (EPS)

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 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.

2.30 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 short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalents include cash in-hand, balances with banks and short term deposits with banks.

For cash flow purposes, cash and cash equivalents are presented net of bank overdrafts.

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 the future Financial Statements which is summarized as below.		
New or amended standards	**Summary of the requirements**	**Possible impact on consolidated financial statements**
Sri Lanka Accounting Standard (SLFRS 9) –"Financial Instruments: Classification and Measurement"	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,** and **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. The adoption of SLFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.
Sri Lanka Accounting Standard (SLFRS 15) –"Revenue from Contracts with Customers"	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 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. Pending the completion of detailed review, the financial impact is not reasonably estimable as at the date of publication of these Financial Statements.	Since SLFRS 4 – Insurance Contracts is scope out from this standard. Therefore, we may not have an 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.

Notes to the Financial Statements

4. PROPERTY, PLANT AND EQUIPMENT (PPE)

Group

	Computer Equipment	Motor Vehicles	Office Equipment	Furniture and Fittings	Fixtures	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost						
Balance as at 01st January 2014	149,923	21,388	54,299	43,917	61,566	331,093
Additions during the year	13,259	-	5,725	7,688	11,075	37,747
Disposals during the year	(9,073)	-	(3,611)	(1,908)	(9,678)	(24,270)
Balance as at 31st December 2014	154,109	21,388	56,413	49,697	62,963	344,570
Balance as at 01st January 2015	154,109	21,388	56,413	49,697	62,963	344,570
Additions during the year	21,098	-	4,700	4,780	23,018	53,596
Disposals during the year	(228)	-	(419)	(950)	(872)	(2,469)
Balance as at 31st December 2015	174,979	21,388	60,694	53,527	85,109	395,697
Accumulated Depreciation and Impairment Losses						
Balance as at 01st January 2014	94,720	6,962	39,983	21,607	30,812	194,084
Depreciation for the year	17,919	4,083	5,603	4,349	8,376	40,330
Depreciation on Disposals	(8,865)	-	(3,611)	(1,877)	(9,433)	(23,786)
Balance as at 31st December 2014	103,774	11,045	41,975	24,079	29,755	210,628
Balance as at 01st January 2015	103,774	11,045	41,975	24,079	29,755	210,628
Depreciation for the year	18,400	4,042	5,458	4,624	18,592	51,116
Depreciation on disposals	(191)	-	(419)	(844)	(872)	(2,326)
Balance as at 31st December 2015	121,983	15,087	47,014	27,859	47,475	259,418
Carrying Value as at 31st December 2015	52,996	6,301	13,680	25,668	37,634	136,279
Carrying Value as at 31st December 2014	50,335	10,343	14,438	25,618	33,208	133,942

4.1.a Acquisition of PPE during the year

During the financial year, the Group acquired PPE to the aggregate value of Rs.53.6 Million (2014 - Rs. 37.7 Million). Cash payments amounting to Rs.53.6 Million (2014 - Rs. 37.7 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
Cost						
Balance as at 01st January 2014	149,923	21,388	54,299	43,917	61,566	331,093
Additions during the year	13,259	-	5,725	7,688	11,075	37,747
Disposals during the year	(9,073)	-	(3,611)	(1,908)	(9,678)	(24,270)
Balance as at 31st December 2014	154,109	21,388	56,413	49,697	62,963	344,570
Balance as at 01st January 2015	154,109	21,388	56,413	49,697	62,963	344,570
Transferred to HNBGI Limited on segregation	(27,559)	(6,084)	(12,830)	(19,484)	(19,788)	(85,745)
Additions during the year	15,474	-	2,479	2,595	19,131	39,679
Disposals during the year	(228)	-	(381)	(784)	(809)	(2,202)
Balance as at 31st December 2015	141,796	15,304	45,681	32,024	61,497	296,302
Accumulated Depreciation and Impairment Losses						
Balance as at 01st January 2014	94,720	6,962	39,983	21,607	30,812	194,084
Depreciation for the year	17,919	4,083	5,603	4,349	8,376	40,330
Depreciation on Disposals	(8,865)	-	(3,611)	(1,877)	(9,433)	(23,786)
Balance as at 31st December 2014	103,774	11,045	41,975	24,079	29,755	210,628
Balance as at 01st January 2015	103,774	11,045	41,975	24,079	29,755	210,628
Transferred to HNBGI Limited on segregation	(16,573)	(2,416)	(8,814)	(8,457)	(8,184)	(44,444)
Depreciation for the year	14,646	2,521	3,964	2,791	14,160	38,082
Depreciation on disposals	(191)	-	(381)	(690)	(809)	(2,071)
Balance as at 31st December 2015	101,656	11,150	36,744	17,723	34,922	202,195
Carrying Value as at 31st December 2015	40,140	4,154	8,937	14,301	26,575	94,107
Carrying Value as at 31st December 2014	50,335	10,343	14,438	25,618	33,208	133,942

4.1.b Acquisition of PPE during the year

During the financial year, the Company acquired PPE to the aggregate value of Rs.39.7 Million (2014 - Rs. 37.7 Million). Cash payments amounting to Rs.39.7 Million (2014 - Rs. 37.7 Million) were made by Company during the year to purchase of PPE.

Notes to the Financial Statements

4. PROPERTY, PLANT AND EQUIPMENT (PPE) (Contd.)

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 :

	Group		Company	
As at 31st December,	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Computer Equipment	48,010	34,959	41,744	34,959
Office Equipment	27,271	21,585	22,431	21,585
Fixtures	6,246	4,763	5,921	4,763
Furniture and Fittings	3,705	2,567	2,284	2,567
Motor Vehicles	5,185	-	5,185	-
	90,417	63,874	77,565	63,874

4.3 PPE pledged as security for Liabilities

There were no items of Property, Plant and Equipment in the Group and Company , pledged as securities for liabilities during the year. (2014 - Nil)

4.4 Title restriction on PPE

There were 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 2015. 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 Property, Plant and Equipment during the year. (2014 - Nil)

4.7 Temporarily idle Property, Plant and Equipment

There were no temporarily idle property as at the year ended 31st December 2015. (2014 - Nil)

5. INTANGIBLE ASSETS - GROUP AND COMPANY

As at 31st December,

	2015 Rs.'000	2014 Rs.'000
Computer Software		
Cost		
Balance as at 01st January	153,333	137,543
Acquisition/Capitalised during the year	10,789	15,790
Balance as at 31st December	164,122	153,333
Accumulated Amortisation and Impairment Losses		
Balance as at 01st January	101,711	83,736
Amortisation for the year	17,226	17,975
Balance as at 31st December	118,937	101,711
Carrying amount as at 31st December	45,185	51,622

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. 10.7 Million (2014 - Rs. 15.8 Million). Cash payments amounting to Rs. 10.7 Million (2014 - Rs. 15.8 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 armotised Computer software which are in the use of normal business activities having a gross carrying amounts of Rs. 47.5 Million (2014 - Rs. 47.5 Million).

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 2015. 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 (2014 - Nil)

6. FINANCIAL INVESTMENTS

As at 31st December,		Group		Company	
		2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Held to Maturity (HTM)	(Note 6.1)	472,565	782,667	320,426	782,667
Loans and Receivable (L & R)	(Note 6.2)	6,444,029	5,408,961	5,151,718	5,322,047
Available for Sale (AFS)	(Note 6.3)	1,659,296	1,600,593	1,559,525	1,580,881
Fair Value Through Profit or Loss (FVTPL)	(Note 6.4)	1,175,721	485,674	817,956	485,674
Total Financial Investments		9,751,611	8,277,895	7,849,625	8,171,269

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.

Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Held to Maturity (HTM)	472,565	490,095	782,667	820,736	320,426	336,302	782,667	820,736
Loans and Receivable (L & R)	6,444,029	6,327,441	5,408,961	5,468,100	5,151,718	5,069,303	5,322,047	5,384,352
Available for Sale (AFS)	1,659,296	1,659,296	1,600,593	1,600,593	1,559,525	1,559,525	1,580,881	1,580,881
Fair Value Through Profit or Loss (FVTPL)	1,175,721	1,175,721	485,674	485,674	817,956	817,956	485,674	485,674
Total Financial Investments	9,751,611	9,652,553	8,277,895	8,375,103	7,849,625	7,783,086	8,171,269	8,271,643

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
6.1 Held to Maturity (HTM)								
- Treasury Bonds	472,565	490,095	782,667	820,736	320,426	336,302	782,667	820,736
	472,565	490,095	782,667	820,736	320,426	336,302	782,667	820,736
6.2 Loans and Receivable (L & R)								
- Repo	1,127,963	1,127,963	984,207	984,207	991,471	991,471	984,207	984,207
- Overnight Repo	987,173	987,173	147,424	147,424	824,148	824,148	147,424	147,424
-Term Deposit (Note 6.5)	1,295,949	1,315,190	1,449,391	1,534,275	909,695	926,191	1,449,391	1,534,275
-Corporate Debt (Note 6.6)	3,032,944	2,897,115	2,827,939	2,802,194	2,426,404	2,327,493	2,741,025	2,718,446
	6,444,029	6,327,441	5,408,961	5,468,100	5,151,718	5,069,303	5,322,047	5,384,352
6.3 Available for Sale (AFS)								
- Treasury Bonds	1,410,500	1,410,500	1,345,026	1,345,026	1,360,150	1,360,150	1,345,026	1,345,026
- Treasury Bills	48,492	48,492	142,364	142,364	29,095	29,095	122,652	122,652
- Equity Shares (Note 6.7)	200,304	200,304	113,203	113,203	170,280	170,280	113,203	113,203
	1,659,296	1,659,296	1,600,593	1,600,593	1,559,525	1,559,525	1,580,881	1,580,881
6.4 Fair Value Through Profit or Loss (FVTPL)								
- Treasury Bonds	699,014	699,014	-	-	497,717	497,717	-	-
- Equity Shares (Note 6.8)	236,299	236,299	245,741	245,741	163,036	163,036	245,741	245,741
- Investment in Units (Note 6.9)	240,408	240,408	239,933	239,933	157,203	157,203	239,933	239,933
	1,175,721	1,175,721	485,674	485,674	817,956	817,956	485,674	485,674

6.4.1 HNB Assurance PLC and HNB General Insurance Limited, in its normal course of business invest in Repurchase Agreements (Repos) through various Primary Dealers Approved by the Central Bank of Sri Lanka (CBSL). During the year, 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).

We have taken appropriate steps to secure the securities received on investments in Repo's through a custodian (Acuity Securities Limited a Group Company) and as well to sign a Master Repo Agreement (MRA) with all the Primary Dealing Companies we are dealing with. 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.

6. FINANCIAL INVESTMENTS (Contd.)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
6.5. Term Deposits								
Licensed Commercial Banks (Note 6.5.1)	249,395	252,433	221,106	226,924	111,815	114,843	221,106	226,924
Licensed Specialised Banks	505,247	526,297	683,441	740,993	409,460	427,278	683,441	740,993
Registered Finance Companies	541,307	536,460	544,844	566,358	388,420	384,070	544,844	566,358
	1,295,949	1,315,190	1,449,391	1,534,275	909,695	926,191	1,449,391	1,534,275
6.5.1 Licensed Commercial Banks								
Term Deposits with Related Parties - Hatton National Bank PLC	146,391	146,401	144,248	144,248	74,775	74,775	144,248	144,248
Other Banks	103,004	106,032	76,858	82,676	37,040	40,068	76,858	82,676
	249,395	252,433	221,106	226,924	111,815	114,843	221,106	226,924
6.6 Corporate Debt								
Debentures - Quoted (Note 6.6.1)	2,967,058	2,831,795	2,584,318	2,554,027	2,370,529	2,272,136	2,497,404	2,470,279
Debentures - Unquoted (Note 6.6.2)	65,886	65,320	243,621	248,167	55,875	55,357	243,621	248,167
	3,032,944	2,897,115	2,827,939	2,802,194	2,426,404	2,327,493	2,741,025	2,718,446

6.6.1 Debentures - Quoted

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Abans PLC	**195,113**	**190,264**	**195,113**	**185,000**	**130,808**	**126,304**	**195,113**	**185,000**
(14.00% 100,000 Debentures redeemable on 20.12.2016)	10,702	10,426	10,702	10,000	-	-	10,702	10,000
(14.25% 750,000 Debentures redeemable on 20.12.2017)	80,358	79,842	80,358	75,000	53,572	53,228	80,358	75,000
(14.50% 550,000 Debentures redeemable on 20.12.2018)	58,998	59,224	58,998	55,000	32,181	32,304	58,998	55,000
(09.00% 450,000 Debentures redeemable on 26.12.2019)	45,055	40,772	45,055	45,000	45,055	40,772	45,055	45,000
Access Engineering PLC	**126,509**	**117,923**	**-**	**-**	**111,328**	**103,772**	**-**	**-**
(10.25% 125,000 Debentures redeemable on 18.11.2020)	126,509	117,923	-	-	111,328	103,772	-	-
Bank of Ceylon	**140,965**	**150,172**	**179,633**	**175,750**	**130,829**	**139,086**	**179,633**	**175,750**
(11.50% 200,000 Debentures redeemable on 28.06.2015)	-	-	21,178	19,000	-	-	21,178	19,000

Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.6.1 Debentures - Quoted (Contd.)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
6 Month Gross TB Rate + 0.75 p.a 150,000 Debentures redeemable on 28.06.2015)	-	-	15,620	15,000	-	-	15,620	15,000
(11.00% 150,000 Debentures redeemable on 07.12.2016)	15,163	15,326	15,273	13,350	15,163	15,326	15,273	13,350
(16.00% 1,100,000 Debentures redeemable on 29.11.2017)	111,495	121,944	113,255	114,400	101,359	110,858	113,255	114,400
(08.00% 140,000 Debentures redeemable on 21.09.2019)	14,307	12,902	14,307	14,000	14,307	12,902	14,307	14,000
Central Finance Company PLC	**41,887**	**43,270**	**41,887**	**45,277**	**35,983**	**37,402**	**41,887**	**45,277**
(14.25% 11,400 Debentures redeemable on 17.06.2016)	11,809	11,736	11,809	12,155	5,905	5,868	11,809	12,155
(14.75% 29,000 Debentures redeemable on 17.06.2018)	30,078	31,534	30,078	33,122	30,078	31,534	30,078	33,122
Commercial Credit and Finance PLC	**213,478**	**198,379**	**-**	**-**	**152,513**	**141,730**	**-**	**-**
(10.50% 1,100,000 Debentures redeemable on 01.06.2020)	112,879	105,028	-	-	82,094	76,384	-	-
(10.40% 1,000,000 Debentures redeemable on 10.12.2020)	100,599	93,351	-	-	70,419	65,346	-	-
Commercial Leasing and Finance PLC	**62,612**	**58,246**	**-**	**-**	**62,612**	**58,246**	**-**	**-**
(9.75% 600,000 Debentures redeemable on 21.07.2020)	62,612	58,246	-	-	62,612	58,246	-	-
DFCC Bank PLC	**92,493**	**87,854**	**49,813**	**47,770**	**75,134**	**70,939**	**49,813**	**47,770**
(14.00% 5,000 Debentures redeemable on 26.09.2016)	5,698	5,341	5,698	5,000	5,698	5,341	5,698	5,000
(08.50% 427,700 Debentures redeemable on 18.08.2017)	44,115	42,986	44,115	42,770	26,756	26,071	44,115	42,770
(09.40% 405,500 Debentures redeemable on 10.06.2020)	42,680	39,527	-	-	42,680	39,527	-	-
Hatton National Bank PLC	**152,440**	**148,270**	**147,875**	**148,337**	**138,050**	**133,864**	**143,861**	**144,337**
(14.00% 538,417 Debentures redeemable on 12.06.2018)	57,993	61,601	57,993	53,842	47,759	50,733	57,993	53,842
(07.75% 310,000 Debentures redeemable on 14.12.2019)	32,211	27,427	31,014	31,000	28,055	23,889	27,000	27,000
(11.00% 75,000 Debentures redeemable on 31.03.2021)	20,779	22,083	18,720	21,262	20,779	22,083	18,720	21,262
(14.25% 276,614 Debentures redeemable on 29.08.2023)	20,617	21,403	20,075	22,233	20,617	21,403	20,075	22,233
(8.33% 200,000 Debentures redeemable on 14.12.2024)	20,840	15,756	20,073	20,000	20,840	15,756	20,073	20,000

6. FINANCIAL INVESTMENTS (Contd.)

6.6.1 Debentures - Quoted (Contd.)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Hayleys PLC	**46,617**	**47,727**	**45,180**	**49,347**	**41,437**	**42,424**	**45,180**	**49,347**
(14.25% 45,000 Debentures redeemable on 09.07.2016)	46,617	47,727	45,180	49,347	41,437	42,424	45,180	49,347
HDFC Bank	**68,679**	**67,277**	**89,313**	**94,402**	**68,679**	**67,277**	**89,313**	**94,402**
(15.00% 198,900 Debentures redeemable on 23.10.2017)	-	-	20,634	20,686	-	-	20,634	20,686
(15.50% 600,000 Debentures redeemable on 23.10.2018)	68,679	67,277	68,679	73,716	68,679	67,277	68,679	73,716
Hemas Holdings PLC	**57,553**	**56,495**	**93,573**	**90,790**	**42,597**	**41,739**	**52,872**	**51,460**
(11.00% 557,900 Debentures redeemable on 29.04.2019)	57,553	56,495	93,573	90,790	42,597	41,739	52,872	51,460
Lanka Orix Leasing Company PLC	**135,734**	**126,799**	**135,419**	**130,000**	**120,397**	**112,974**	**130,373**	**125,000**
(11.90% 750,000 Debentures redeemable on 30.06.2016)	79,499	76,108	79,917	75,000	79,499	76,108	79,917	75,000
(09.00% 550,000 Debentures redeemable on 24.11.2019)	56,235	50,691	55,502	55,000	40,898	36,866	50,456	50,000
LB Finance PLC	**97,830**	**93,666**	**97,830**	**96,401**	**87,162**	**83,452**	**97,830**	**96,401**
(15.00% 851,000 Debentures redeemable on 28.11.2018)	97,830	93,666	97,830	96,401	87,162	83,452	97,830	96,401
Lion Brewery (Ceylon) PLC	**99,333**	**101,354**	**99,333**	**102,922**	**57,944**	**59,123**	**99,333**	**102,922**
(13.50% 28,800 Debentures redeemable on 17.06.2016)	29,780	29,576	29,780	31,250	17,372	17,253	29,780	31,250
(13.75% 28,800 Debentures redeemable on 17.06.2017)	29,798	30,434	29,798	28,800	17,382	17,753	29,798	28,800
(14.00% 38,400 Debentures redeemable on 17.06.2018)	39,755	41,344	39,755	42,872	23,190	24,117	39,755	42,872
Mercantile Investment and Finance PLC	**11,594**	**11,338**	**11,594**	**11,439**	**6,310**	**6,171**	**8,952**	**8,839**
(10.50% 114,100 Debentures redeemable on 05.11.2018)	11,594	11,338	11,594	11,439	6,310	6,171	8,952	8,839

Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.6.1 Debentures - Quoted (Contd.)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Merchant Bank of Sri Lanka & Finance PLC	**189,863**	**175,320**	**258,940**	**246,256**	**139,308**	**128,563**	**244,628**	**233,256**
(11.80% 675,000 Debentures redeemable on 15.11.2015)	-	-	71,515	67,500	-	-	71,515	67,500
(14.25% 750,000 Debentures redeemable on 16.12.2017 *2014 - 800,000)	94,183	85,496	95,425	87,553	70,989	64,391	89,207	82,553
(17.50% 197,100 Debentures redeemable on 27.03.2018)	23,150	24,958	23,150	23,943	13,225	14,258	23,150	23,943
(16.70% 112,600 Debentures redeemable on 27.03.2018)	12,192	12,668	12,192	11,260	12,192	12,668	12,192	11,260
(08.75% 150,000 Debentures redeemable on 12.11.2019)	15,658	13,881	15,173	15,000	15,658	13,881	15,173	15,000
(09.00% 410,000 Debentures redeemable on 12.11.2019)	44,680	38,317	41,485	41,000	27,244	23,365	33,391	33,000
National Development Bank PLC	**85,381**	**81,281**	**55,687**	**53,156**	**80,034**	**75,997**	**55,687**	**53,156**
(13.00% 125,900 Debentures redeemable on 19.12.2018)	13,410	13,252	13,411	13,864	8,063	7,968	13,411	13,864
(13.40% 84,200 Debentures redeemable on 19.12.2018, *2014-184,600)	9,493	8,935	20,874	20,542	9,493	8,935	20,874	20,542
(09.40% 470,200 Debentures redeemable on 24.06.2020)	41,076	38,803	-	-	41,076	38,803	-	-
(13.90% 187,500 Debentures redeemable on 19.12.2023)	21,402	20,291	21,402	18,750	21,402	20,291	21,402	18,750
Nations Trust Bank PLC	**35,311**	**34,680**	**61,940**	**65,099**	**35,311**	**34,680**	**61,940**	**65,099**
(13.00% 331,500 Debentures redeemable on 19.12.2018, *2014 - 581,500)	35,311	34,680	61,940	65,099	35,311	34,680	61,940	65,099
Nawaloka Hospitals PLC	**56,940**	**58,928**	**56,940**	**55,000**	**41,411**	**42,857**	**56,940**	**55,000**
(14.15% 5500,000 Debentures redeemable on 30.09.2018)	56,940	58,928	56,940	55,000	41,411	42,857	56,940	55,000
Pan Asia Banking Corporation PLC	**67,680**	**63,195**	**67,680**	**66,587**	**47,288**	**44,106**	**58,940**	**57,989**
(09.52% 207,340 Debentures redeemable on 30.10.2019)	21,069	19,563	21,069	20,734	21,069	19,563	21,069	20,734
(09.75% 458,517 Debentures redeemable on 30.10.2019)	46,611	43,632	46,611	45,853	26,219	24,543	37,871	37,255

6. FINANCIAL INVESTMENTS (Contd.)

6.6.1 Debentures - Quoted (Contd.)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
People's Leasing & Finance PLC	**118,316**	**115,374**	**42,848**	**43,624**	**91,407**	**90,206**	**42,848**	**43,624**
(08.75% 16,300 Debentures redeemable on 23.09.2017)	1,772	1,630	1,668	1,661	1,772	1,630	1,668	1,661
(17.00% 300,000 Debentures redeemable on 26.03.2018)	35,086	37,598	35,086	35,775	35,086	37,598	35,086	35,775
(09.625% 59,400 Debentures redeemable on 23.09.2018)	6,510	5,923	6,094	6,188	4,921	4,477	6,094	6,188
(09.60% 450,000 Debentures redeemable on 12.11.2019)	45,568	42,858	-	-	30,379	28,572	-	-
(09.95% 290,000 Debentures redeemable on 12.11.2020)	29,380	27,365	-	-	19,249	17,929	-	-
Richard Pieris and Company PLC	**58,654**	**57,150**	**58,777**	**56,390**	**50,206**	**48,812**	**50,328**	**48,170**
(10.75% 31,100 Debentures redeemable on 16.05.2017)	3,193	3,186	3,193	3,110	3,193	3,186	3,193	3,110
(11.00% 124,000 Debentures redeemable on 16.05.2018)	12,740	12,670	12,740	12,400	9,689	9,635	9,689	9,430
(11.25% 408,800 Debentures redeemable on 16.05.2019)	42,721	41,294	42,844	40,880	37,324	35,991	37,446	35,630
Sampath Bank PLC	**321,473**	**290,383**	**149,439**	**147,633**	**255,261**	**232,185**	**146,428**	**144,633**
(16.50% 283,100 Debentures redeemable on 11.10.2017)	32,971	31,928	32,972	32,364	20,684	20,030	32,972	32,364
(13.40% 363,400 Debentures redeemable on 04.12.2018)	41,196	38,503	41,196	39,981	41,196	38,503	41,196	39,981
(08.25% 750,000 Debentures redeemable on 14.12.2019)	81,171	67,167	75,271	75,288	45,456	37,614	72,260	72,288
(09.90% 1,642,200 Debentures redeemable on 18.11.2020)	166,135	152,785	-	-	147,925	136,038	-	-
Seylan Bank PLC	**189,032**	**180,899**	**182,077**	**185,300**	**139,824**	**139,112**	**182,077**	**185,300**
(15.50% 900,000 Debentures redeemable on 21.02.2018)	101,924	109,766	101,924	105,300	96,262	103,668	101,924	105,300
(08.60% 300,000 Debentures redeemable on 22.02.2019)	32,637	27,123	30,057	30,000	10,879	9,041	30,057	30,000
(08.75% 500,000 Debentures redeemable on 23.12.2020)	54,471	44,010	50,096	50,000	32,683	26,403	50,096	50,000

Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.6.1 Debentures - Quoted (Contd.)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Singer (Sri Lanka) PLC	**57,209**	**53,979**	**103,912**	**104,405**	**46,386**	**44,346**	**103,912**	**104,405**
(17.00% 302,170 Debentures redeemable on 30.09.2015)	-	-	30,217	30,211	-	-	30,217	30,211
(14.50% 180,000 Debentures redeemable on 29.05.2015)	-	-	18,658	18,401	-	-	18,658	18,401
(14.50% 270,000 Debentures redeemable on 29.05.2016)	27,987	27,970	27,987	28,793	27,987	27,970	27,987	28,793
(08.25% 270,000 Debentures redeemable on 23.12.2019)	29,222	26,009	27,050	27,000	18,399	16,376	27,050	27,000
Siyapatha Finance PLC	**108,875**	**91,270**	**100,171**	**100,000**	**75,124**	**62,976**	**100,171**	**100,000**
(08.90% 1,000,000 Debentures redeemable on 24.12.2019)	108,875	91,270	100,171	100,000	75,124	62,976	100,171	100,000
Softlogic Finance PLC	**31,148**	**28,989**	**31,148**	**30,390**	**18,234**	**16,970**	**31,148**	**30,390**
(10.00% 303,900 Debentures redeemable on 29.08.2019)	31,148	28,989	31,148	30,390	18,234	16,970	31,148	30,390
Softlogic Holdings PLC	**58,187**	**57,843**	**112,795**	**118,269**	**58,184**	**57,843**	**112,796**	**118,269**
(15.75% 1,320,000 Debentures redeemable on 09.09.2016)	58,187	57,843	112,795	118,269	58,184	57,843	112,796	118,269
Urban Development Authority	**-**	**-**	**115,401**	**104,483**	**-**	**-**	**115,401**	**104,483**
(11.00% 1,124,200 Debentures redeemable on 05.10.2015)	-	-	115,401	104,483	-	-	115,401	104,483
Vallibel Finance PLC	**46,152**	**43,470**	**-**	**-**	**30,768**	**28,980**	**-**	**-**
(10.25% 450,000 Debentures redeemable on 31.03.2020)	46,152	43,470	-	-	30,768	28,980	-	-
Total Investment in Quoted Debentures	**2,967,058**	**2,831,795**	**2,584,318**	**2,554,027**	**2,370,529**	**2,272,136**	**2,497,404**	**2,470,279**

6. FINANCIAL INVESTMENTS (Contd.)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
6.6.2 Debentures - Unquoted								
Abans PLC	**25,841**	**25,467**	**25,825**	**26,670**	**25,841**	**25,467**	**25,825**	**26,670**
(13.50% 25,000 Debentures redeemable on 01.03.2016)	25,841	25,467	25,825	26,670	25,841	25,467	25,825	26,670
National Development Bank PLC	**40,045**	**39,853**	**40,000**	**39,808**	**30,034**	**29,890**	**40,000**	**39,808**
(3 Months Gross T.Bill +1% 40,000 Debentures redeemable on 30.06.2016)	40,045	39,853	40,000	39,808	30,034	29,890	40,000	39,808
People's Leasing & Finance PLC	**-**	**-**	**75,587**	**76,567**	**-**	**-**	**75,587**	**76,567**
(11.70% 75,000 Debentures redeemable on 30.06.2015)	-	-	75,587	76,567	-	-	75,587	76,567
Singer (Sri Lanka) PLC	**-**	**-**	**50,269**	**51,410**	**-**	**-**	**50,269**	**51,410**
(15.50% 490,000 Debentures redeemable on 09.05.2015)	-	-	50,269	51,410	-	-	50,269	51,410
Siyapatha Finance PLC	**-**	**-**	**51,940**	**53,712**	**-**	**-**	**51,940**	**53,712**
(16.65% 350,000 Debentures redeemable on 31.07.2015)	-	-	37,922	39,168	-	-	37,922	39,168
(12.25% 14,000 Debentures redeemable on 31.12.2015)	-	-	14,018	14,544	-	-	14,018	14,544
Total Investment in Unquoted Debentures	**65,886**	**65,320**	**243,621**	**248,167**	**55,875**	**55,357**	**243,621**	**248,167**

Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.7 Equity Shares

Available For Sale (AFS)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	No. of Shares	Carrying Value/Fair Value Rs.'000	No. of Shares	Carrying Value/ Fair Value Rs.'000	No. of Shares	Carrying Value/ Fair Fair Value Rs.'000	No. of Shares	Carrying Value/ Fair Fair Value Rs.'000
Banks, Finance and Insurance								
Seylan Bank PLC - (Non Voting)	241,000	17,593	297,000	17,078	210,000	15,330	297,000	17,078
Sampath Bank PLC	108,802	26,983	67,000	15,832	91,356	22,656	67,000	15,832
Central Finance Company PLC	100,037	25,309	-	-	85,961	21,748	-	-
Sector Total		69,885		32,910		59,734		32,910
Diversified Holdings								
Vallibel One PLC	301,877	6,490	301,877	7,215	201,877	4,340	201,877	7,215
Sector Total		6,490		7,215		4,340		7,215
Hotels and Travels								
Aitken Spence Hotels Holdings PLC	80,112	5,448	-	-	80,112	5,448	-	-
Palm Garden Hotels PLC	69,000	2,629	-	-	45,900	1,749	-	-
Sector Total		8,077		-		7,197		-
Investment Trusts								
Renuka Holdings PLC	425,000	11,433	-	-	425,000	11,433	-	-
Sector Total		11,433		-		11,433		-
Manufacturing								
Tokyo Cement Company (Lanka) PLC	408,568	20,020	404,843	26,274	285,568	13,993	404,843	26,274
Royal Ceramics Lanka PLC	83,000	9,230	83,000	9,704	50,000	5,560	83,000	9,704
Textured Jersey Lanka PLC	863,681	30,661	-	-	863,681	30,661	-	-
Sector Total		59,911		35,978		50,214		35,978
Beverage, Food and Tobacco								
Distilleries Company of Sri Lanka PLC	9,883	2,431	9,883	2,075	9,883	2,431	9,883	2,075
Sector Total		2,431		2,075		2,431		2,075
Chemicals and Pharmaceuticals								
CIC Holdings PLC - (Non Voting)	141,915	11,523	-	-	141,915	11,523	-	-
Sector Total		11,523		-		11,523		-
Power and Energy								
Lanka IOC PLC	340,000	12,614	345,000	20,700	254,000	9,423	345,000	20,700
Sector Total		12,614		20,700		9,423		20,700
Land and Property								
Overseas Reality (Ceylon) PLC	773,335	17,940	544,669	14,325	602,809	13,985	544,669	14,325
Sector Total		17,940		14,325		13,985		14,325
Total Investment in Equity Shares (AFS)		200,304		113,203		170,280		113,203

6. FINANCIAL INVESTMENTS (Contd.)

6.8 Equity Shares

Fair Value Through Profit or Loss (FVTPL)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	No. of Shares	Carrying Value/Fair Value Rs.'000	No. of Shares	Carrying Value/ Fair Value Rs.'000	No. of Shares	Carrying Value/ Fair Fair Value Rs.'000	No. of Shares	Carrying Value/ Fair Fair Value Rs.'000
Banks, Finance and Insurance								
National Development Bank PLC	78,200	15,179	78,200	19,550	53,200	10,326	78,200	19,550
Sampath Bank PLC	80,477	19,958	78,422	18,531	56,126	13,919	78,422	18,531
Nations Trust Bank PLC	253,261	21,856	253,261	24,566	174,261	15,039	253,261	24,566
DFCC Bank PLC	30,000	5,043	30,000	6,570	30,000	5,043	30,000	6,570
Peoples' Leasing & Finance PLC	912,800	20,082	912,800	22,364	596,000	13,112	912,800	22,364
Seylan Bank PLC - (Non Voting)	390,283	28,491	390,283	22,440	239,332	17,471	390,283	22,440
Sector Total		110,609		114,021		74,910		114,021
Beverage Food and Tobacco								
Distilleries Company of Sri Lanka PLC	60,000	14,760	60,000	12,600	40,000	9,840	60,000	12,600
Sector Total		14,760		12,600		9,840		12,600
Diversified Holdings								
John Keells Holdings PLC	54,278	9,667	47,494	11,874	42,240	7,523	47,494	11,874
Richard Pieris and Company PLC	962,851	8,184	962,851	8,184	722,851	6,144	962,851	8,184
Hemas Holdings PLC	-	-	71,700	5,327	-	-	71,700	5,327
Vallibel One PLC	375,000	8,063	375,000	8,963	250,000	5,375	375,000	8,963
Sector Total		25,914		34,348		19,042		34,348
Manufacturing								
Royal Ceramics Lanka PLC	128,000	14,234	128,000	14,963	83,000	9,230	128,000	14,963
Dipped Products PLC	34,220	3,764	19,500	2,789	25,720	2,829	19,500	2,789
ACL Cables PLC	93,400	11,292	50,000	3,820	62,600	7,568	50,000	3,820
Tokyo Cement Company (Lanka) PLC	435,604	21,345	461,359	29,942	325,724	15,960	461,359	29,942
Kelani Cabels PLC	44,300	5,679	44,300	3,960	27,000	3,461	44,300	3,960
Sector Total		56,314		55,474		39,048		55,474
Hotels and Travels								
Palm Garden Hotels PLC	23,000	876	23,000	1,840	15,300	583	23,000	1,840
Sector Total		876		1,840		583		1,840
Chemicals and Pharmaceuticals								
CIC Holdings PLC	185,000	18,556	185,000	15,725	135,000	13,541	185,000	15,725
Haycarb PLC	20,500	3,380	20,500	3,547	13,000	2,144	20,500	3,547
Sector Total		21,936		19,272		15,685		19,272
Construction and Engineering								
Access Engineering PLC	255,000	5,890	255,000	8,186	170,000	3,928	255,000	8,186
Sector Total		5,890		8,186		3,928		8,186
Total Investment in Equity Shares (FVTPL)		236,299		245,741		163,036		245,741

Notes to the Financial Statements

6. FINANCIAL INVESTMENTS (Contd.)

6.9 Investment in Units

6.9.1 Fair Value Through Profit or Loss (FVTPL)

As at 31st December,	Group				Company			
	2015		2014		2015		2014	
	No. of Units	Carrying Value/Fair Value Rs.'000	No. of Units	Carrying Value/ Fair Value Rs.'000	No. of Units	Carrying Value/ Fair Fair Value Rs.'000	No. of Units	Carrying Value/ Fair Fair Value Rs.'000
Quoted								
NAMAL Acuity Value Fund	114,400	10,708	114,400	10,307	80,000	7,488	114,400	10,307
Total Investment in Quoted Units		10,708		10,307		7,488		10,307
	No. of Units	Carrying Value/Fair Value Rs.'000	No. of Units	Carrying Value/ Fair Value Rs.'000	No. of Units	Carrying Value/ Fair Fair Value Rs.'000	No. of Units	Carrying Value/ Fair Fair Value Rs.'000
Unquoted								
Ceybank Savingsplus Money Market Fund	1,800,000	18,577	1,800,000	18,797	1,800,000	18,577	1,800,000	18,797
Ceylon Income Fund	2,686,703	36,700	2,686,703	37,721	1,896,813	25,910	2,686,703	37,721
First Capital Wealth Fund	56,111	67,439	56,111	70,790	30,405	36,543	56,111	70,790
NAMAL High Yield Fund	2,686,567	39,408	2,686,567	36,940	2,686,567	39,408	2,686,567	36,940
NDB Wealth Management Fund	989,198	10,330	969,932	10,211	581,959	6,078	969,932	10,211
Comtrust Money Market Fund	383,877	4,498	383,877	4,375	-	-	383,877	4,375
Guardian Acuity Fixed Income Fund	4,155,034	51,772	4,155,034	49,777	1,861,814	23,199	4,155,034	49,777
Comtrust ADL Mudarbah Fund	96,781	976	96,781	1,015	-	-	96,781	1,015
Total Investment in Unquoted Units Carried at FVTPL		229,700		229,626		149,715		229,626
Total Investment in Units		240,408		239,933		157,203		239,933

6. FINANCIAL INVESTMENTS (Contd.)

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
As at 01 January 2014	931,680	4,745,790	644,889	334,079	6,656,438
Purchases	-	106,516,051	1,919,298	99,065	108,534,414
Maturities	(223,999)	(106,245,147)	(429,269)	-	(106,898,415)
Disposals	-	(181,530)	(764,012)	(58,667)	(1,004,209)
Fair value gains/Foreign Currency Translations recorded in Profit or Loss	-	253	-	98,991	99,244
Amortisation adjustment/Accrued Interest	74,986	547,316	112,872	-	735,174
Realised gains recorded in Profit or Loss	-	26,228	69,722	12,206	108,156
Fair value gains recorded in Other Comprehensive Income	-	-	47,093	-	47,093
As at 31 December 2014	782,667	5,408,961	1,600,593	485,674	8,277,895
As at 01 January 2015	782,667	5,408,961	1,600,593	485,674	8,277,895
Purchases	-	145,470,124	860,367	1,528,789	147,859,280
Maturities	(365,475)	(144,877,541)	(505,589)	-	(145,748,605)
Disposals	-	(154,557)	(339,235)	(842,214)	(1,336,006)
Fair value gains/Foreign Currency Translation recorded in Profit or Loss	-	10,692	-	4,761	15,453
Amortisation adjustment/Accrued Interest	55,373	573,723	130,639	680	760,415
Realised gains recorded in Profit or Loss	-	12,627	18,675	(1,969)	29,333
Fair value gains recorded in Other Comprehensive Income	-	-	(106,154)	-	(106,154)
As at 31 December 2015	472,565	6,444,029	1,659,296	1,175,721	9,751,611

Notes to the Financial Statements

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
As at 01 January 2014	931,680	4,745,790	644,889	334,079	6,656,438
Purchases	-	104,533,682	1,872,886	99,065	106,505,633
Maturities	(223,999)	(104,344,809)	(427,869)	-	(104,996,677)
Disposals	-	(181,530)	(733,777)	(58,667)	(973,974)
Fair value gains/Foreign Currency Translations recorded in Profit or Loss	-	253	-	98,991	99,244
Amortisation adjustment/Accrued Interest	74,986	542,433	111,042	-	728,461
Realised gains recorded in Profit or Loss	-	26,228	66,684	12,206	105,118
Fair value gains recorded in Other Comprehensive Income	-	-	47,026	-	47,026
As at 31 December 2014	782,667	5,322,047	1,580,881	485,674	8,171,269
Transferred to HNBGI on segregation	(252,314)	(1,076,499)	(146,800)	(159,369)	(1,223,300)
As at 01 January 2015	530,353	4,245,548	1,434,081	326,305	6,536,287
Purchases	-	110,068,539	767,160	1,152,649	111,988,348
Maturities	(249,687)	(109,583,137)	(380,139)	-	(110,212,963)
Disposals	-	(43,527)	(304,862)	(662,760)	(1,011,149)
Foreign Currency Translation recorded in Profit or Loss	-	1,423	-	2,605	4,028
Amortisation adjustment/Accrued Interest	39,760	459,225	123,635	509	623,129
Realised gains recorded in Profit or Loss	-	3,647	16,696	(1,352)	18,991
Fair value gains recorded in Other Comprehensive Income	-	-	(97,045)	-	(97,045)
As at 31 December 2015	320,426	5,151,718	1,559,525	817,956	7,849,625

7. INVESTMENT IN SUBSIDIARY - COMPANY

As at 31st December, Unquoted	Principal Activity	2015 No of Shares	2015 % Holding	2015 Cost Rs.'000	2014 No of Shares	2014 % Holding	2014 Cost Rs.'000
HNB General Insurance Ltd.	General Insurance Business	115,000,000	100%	1,150,000	10,000,000	100%	100,000
Balance as at 31st December				1,150,000			100,000

7.1 The Company incorporated a fully owned subsidiary, HNB General Insurance Ltd., on 30th January 2014 in order to transfer the General Insurance business w.e.f. 1st January 2015 in line with the requirement to segregate Life and General Insurance businesses as required by the RII (Amendment) Act No. 03 of 2011.

7.2 HNB Assurance PLC invested Rs. 100 Million in line with the regulatory requirements in the said subsidiary company on 20th March 2014. On 1st January 2015 the Company increased its' investment by another Rs 900 Million and further Rs 150 Million invested on 13th November 2015 in order to meet the regulatory and business capital requirements.

Having obtained the relevant approvals and license to operate as a General Insurance Company, HNB General Insurance Ltd took over the General Insurance Business of HNB Assurance PLC w.e.f. 1st January 2015 onwards. HNB General Insurance Ltd has fulfilled all the regulatory and other requirements to operate as a General Insurance Company.

8. LOANS TO LIFE POLICYHOLDERS - GROUP AND COMPANY

As at 31st December,	2015 Rs.'000	2014 Rs.'000
Balance as at 1st January	61,652	47,208
Loans Granted during the Year	37,769	33,325
Repayments during the year	(22,112)	(18,881)
Balance as at 31st December	77,309	61,652
Interest Receivable	14,683	9,430
Total loans to Life Policyholders	91,992	71,082

8.1 The surrender value of the policies for which policy loans have been granted as at 31st December 2015 amounted to Rs. 162.9 Million (2014: Rs. 124.3 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 2015 was 1,997 (2014 - 1,814)

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 2015. 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

As at 31st December,		Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Reinsurance Receivable on Outstanding Claims	(Note 9.1)	94,070	96,580	20,945	96,580
Reinsurance Receivable on Settled Claims	(Note 9.2)	47,284	65,680	13,324	65,680
Total Reinsurance Receivables		141,354	162,260	34,269	162,260

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.

Notes to the Financial Statements

9. REINSURANCE RECEIVABLES (Contd.)

9.2 The age analysis of the reinsurance receivable on settled claims is as follows:

	Group		Company	
As at 31st December,	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Up to 30 days	22,010	34,608	7,434	34,608
31 to 60 days	5,521	10,076	1,422	10,076
61 to 90 days	9,513	11,611	1,378	11,611
91 to 180 days	7,309	8,242	3,090	8,242
181 to 365 days	2,887	1,143	-	1,143
Over 365	44	-	-	-
	47,284	65,680	13,324	65,680

9.3 The Carrying value of reinsurance receivables approximate the fair value at the reporting date.

9.4 Impairment Losses on Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of reinsurance receivables as at 31st December 2015. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Reinsurance Receivables. Please refer note no. 44.2.3 (Page No. 332) for Reinsurance rating analysis.

10. PREMIUM RECEIVABLES

		Group		Company	
As at 31st December,		2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Premium Receivable From;					
General Insurance					
Policyholders		182,085	179,192	-	179,192
Related Parties	(Note 10.1)	10,604	7,157	-	7,157
Agents, Brokers and Intermediaries		147,635	170,759	-	170,759
		340,324	357,108	-	357,108
Life Insurance					
Policyholders	(Note 10.2)	12,245	13,641	12,245	13,641
Impairment loss on Premium Default		(6,653)	(6,698)	(6,653)	(6,698)
		5,592	6,943	5,592	6,943
Total Premium Receivables		345,916	364,051	5,592	364,051

10.1 Premium Receivable from Related Parties

General Insurance					
Hatton National Bank PLC		5,142	6,687	-	6,687
Others		5,462	470	-	470
		10,604	7,157	-	7,157

10.2 The Company has opted to record the Life Insurance premium on an accrual basis in terms of SLFRS 4, Insurance Contracts from the year ended 31st December 2012. 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 analyzing the default history.

Commission cost and reinsurance premium relating to that accrued income are also been recorded in the same manner.

10. PREMIUM RECEIVABLES (Contd.)

10.3 Impairment Losses on Premium Receivables

The Board of Directors has assessed potential impairment loss of premium receivable as at 31st December 2015. Since the Group has adopted the Premium Payment Warranty (PPW) ruling issued by Insurance Board of Sri Lanka (IBSL), no long outstanding balances are left in Premium Receivables than 60 days. 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:

	Group		Company	
As at 31st December,	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
General Insurance				
Up to 30 days	214,583	224,289	-	224,289
31 to 60 days	125,741	132,819	-	132,819
Life Insurance				
Up to 30 days	5,592	6,943	5,592	6,943
	345,916	364,051	5,592	364,051

11. OTHER ASSETS

		Group		Company	
As at 31st December,		2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Staff and Agent Loans	(Note 11.1)	281,505	283,242	172,157	283,242
Advance Payments		79,727	109,484	67,600	109,484
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note 11.2)	255,413	254,662	240,689	254,352
Co - Insurance Receivables		1,532	5,811	-	5,811
Inventories		2,002	2,563	1,983	2,563
Amounts due from Related Parties - HNB General insurance limited		-	-	9,017	-
Other Receivables		5,806	27,387	2,125	27,187
Total other assets		625,985	683,149	493,571	682,639

11.1 Staff and Agent Loans

Staff Loans	(Note 11.1.b)	239,590	242,330	134,165	242,330
Agent Loans	(Note 11.1.c)	41,915	40,912	37,992	40,912
		281,505	283,242	172,157	283,242

11.1.a The Carrying value of the staff and agent 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.

11.1.b Staff Loans

	Group		Company	
As at 31st December,	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 1st January	230,519	199,914	230,519	199,914
Transferred to HNBGI Limited on segregation	-	-	(104,162)	-
Balance as at 1st January After segregation	230,519	-	126,357	-
Loans granted during the year	167,741	131,066	80,937	131,066
	398,260	330,980	207,294	330,980
Repayments during the year	(171,835)	(100,461)	(79,471)	(100,461)
Balance as at 31st December	226,425	230,519	127,823	230,519
Allowance for Impairment Losses	(2,936)	(2,622)	(2,331)	(2,622)
Fair Value Adjustment on Staff Loan	16,101	14,433	8,673	14,433
Fair value of the loans as at 31st December	239,590	242,330	134,165	242,330

Notes to the Financial Statements

11. OTHER ASSETS (Contd.)

11.1.c Agent Loans

As at 31st December,	Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Balance as at 1st January	41,707	32,031	41,707	32,031
Transferred to HNBGI Limited on segregation	-	-	(3,150)	-
Balance as at 1st January After segregation	41,707	-	38,557	-
Loans granted during the year	36,320	40,067	32,850	40,067
	78,027	72,098	71,407	72,098
Repayments during the year	(36,538)	(30,391)	(33,893)	(30,391)
Balance as at 31st December	41,489	41,707	37,514	41,707
Allowance for Impairment Losses	(523)	(487)	(492)	(487)
Fair Value Adjustment on Advisor Loan	949	(308)	970	(308)
Fair value of the loans as at 31st December	41,915	40,912	37,992	40,912

11.1.d Impairment Losses on Staff and Agent Loans

The Board of Directors has assessed potential impairment loss of staff & Agent loans as at 31st December 2015. 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 & Agent loans, other than the amounts provided.

Loans to staff and agents portfolio is mainly consists of vehicle loans (95%) which are given to selected categories of staff and field advisors. These loans are secured with guarantors, mortgages or promissory notes.

11.1.e Loans of any type are not granted to Directors of the Group and Company.

11.2 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

As at 31st December,		Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Withholding Tax Recoverable		101,012	101,418	98,362	101,413
Value Added Tax Recoverable		214	218	28	218
ESC Recoverable		6,400	-	-	-
Notional Tax on Government Securities	(Note 11.2.a)	147,787	153,026	142,299	152,721
		255,413	254,662	240,689	254,352

11.2.a Notional Tax on Government Securities

Balance as at 1st January		153,026	161,411	152,721	161,411
Notional tax additions during the year		34,870	26,758	29,383	26,453
Notional tax utilised during the year		(10,726)	(35,143)	(10,422)	(35,143)
Impairment loss on Unutilised Notional Tax	(Note 11.2.a.1)	(29,383)	-	(29,383)	-
Balance as at 31st December		147,787	153,026	142,299	152,721

11.2.a.1 Impairment loss on Unutilised Notional Tax

The Company has Notional Tax amounting Rs. 29.4 Million which the Company is eligible to set off against if the future taxable profits are available.

12. INSURANCE CONTRACT - DEFERRED EXPENSES

As at 31st December,		Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Reserve for Net Deferred Acquisition Expenses					
Reserve for Deferred Acquisition Expenses					
Balance as at 1st January		97,273	70,022	97,273	70,022
Balance Transferred to HNBGI Limited on segrigation		-	-	(97,273)	-
Increase in Deferred Acquisition Expenses	(Note 37.1)	25,592	27,251	-	27,251
Balance as at 31st December		122,865	97,273	-	97,273
Reserve for Deferred Reinsurance Commission					
Balance as at 1st January		(45,201)	(37,110)	(45,201)	(37,110)
Balance Transferred to HNBGI Limited on segrigation		-	-	45,201	-
Increase in Deferred Acquisition Expenses	(Note 37.1)	(11,729)	(8,091)	-	(8,091)
Balance as at 31st December		(56,930)	(45,201)	-	(45,201)
Total Reserve for Net Deferred Acquisition Expenses		65,935	52,072	-	52,072

13. CASH AND CASH EQUIVALENTS

As at 31st December,		Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Cash in Hand		1,869	1,631	1,186	1,631
Cash at Bank with Related Parties - Hatton National Bank PLC		163,937	143,272	105,306	141,244
Cash at Bank with Licensed Commercial Banks & Other Financial institutions		33,664	14,894	5,710	14,894
		199,470	159,797	112,202	157,769
Short Term Deposits	(Note 13.1)	187,459	13,448	146,020	13,448
Total Cash and Cash Equivalents		386,929	173,245	258,222	171,217

13.1 Short Term Deposits

With Related Parties - Hatton National Bank PLC		2,054	13,448	-	13,448
Other Non related Commercial Banks and Financial institutions		185,405	-	146,020	-
		187,459	13,448	146,020	13,448

Notes to the Financial Statements

14. STATED CAPITAL

As at 31st December,

	2015		2014	
	Number of Shares	Rs.'000	Number of Shares	Rs.'000
Balance as at 1st January	50,000,000	1,171,875	50,000,000	1,171,875
Balance as at 31st December	50,000,000	1,171,875	50,000,000	1,171,875

14.1 Rights of Ordinary Shareholders

The holders of Ordinary Shares 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.

15. RETAINED EARNINGS

	Group		Company	
As at 31st December,	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 01st January	1,196,546	941,820	1,189,039	941,820
Super gain Tax (Note 15.1)	(31,378)	-	(31,378)	-
Profit for the Year	197,344	417,726	427,645	409,719
Share Issue Transaction Cost - Subsidiary	(750)	(500)	-	-
Dividend Paid for previous year	(187,500)	(162,500)	(187,500)	(162,500)
Balance as at 31st December	1,174,262	1,196,546	1,397,806	1,189,039

15.1 Super Gain Tax

As per the provision of Part III of the Finance Act, No. 10 of 2015 which was certified on 30th October 2015, the Company is liable for Super Gain Tax of Rs. 31.4 Million. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statement relating to the year of assessment which commenced on 01st April 2013. The Act supersedes the requirements of Sri Lanka Accounting Standards hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24th November 2015.

16. AVAILABLE FOR SALE RESERVE

	Group		Company	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 1st January	3,590	1,427	3,523	1,427
Other Comprehensive Income for the year	(105,436)	47,093	(100,568)	47,026
Transferred to Life Policyholders Reserve Fund	97,098	(44,930)	97,098	(44,930)
Balance as at 31st December	(4,748)	3,590	53	3,523

16.1 Available For Sale Reserves comprise of the impact arising from the changes in market values of Financial Assets classified under Available For Sale (AFS).

17. OTHER RESERVES

	Group		Company	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 1st January	1,177	2,172	1,177	2,172
Actuarial Losses - Gratuity	(2,270)	(995)	(3,216)	(995)
Balance as at 31st December	(1,093)	1,177	(2,039)	1,177

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. 1st January 2013)

18. LIFE POLICYHOLDERS' AVAILABLE FOR SALE RESERVE FUND

	Group		Company	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 1st January	40,748	(4,182)	40,748	(4,182)
Other Comprehensive Income for the Year	(97,098)	44,930	(97,098)	44,930
Balance as at 31st December	(56,350)	40,748	(56,350)	40,748

18.1 The Life Policyholder Reserve Fund includes the initial impact of the implementation of SLFRS/LKAS's w.e.f. 1st January 2012 and the fair value gains and losses recorded under Other Comprehensive Income in respect of Life Insurance related to Available For Sales financial assets since then.

19. INSURANCE CONTRACT LIABILITIES - LIFE - GROUP AND COMPANY

As at 31st December,

		2015 Rs.'000	2014 Rs.'000
Life Insurance Fund	(Note 19.1)	6,926,109	5,464,009
Claims Outstanding		80,971	98,639
		7,007,080	5,562,648

19.1 Life Insurance Fund

The movement in the Life Insurance Fund is as follows:

	2015 Rs.'000	2014 Rs.'000
Balance as at 1st January	5,464,009	4,271,736
Change in Contract Liabilities - Life Fund		
Increase in Life Insurance Fund Before Surplus Distribution to Shareholders	1,772,169	1,420,294
Surplus Distributed to Shareholders	(310,069)	(228,021)
Increase in Life Insurance Fund	1,462,100	1,192,273
Balance as at 31st December	6,926,109	5,464,009

Long duration contract liabilities included in the Life Insurance Fund, result primarily from traditional participating and non-participating Life Insurance products. Short duration contract liabilities are primarily group term, accident and health insurance products. The actuarial reserves have been established based upon the following.

- Interest rates which vary by product and as required by regulations issued by the Insurance Board of Sri Lanka.
- Mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the Insurance Board of Sri Lanka.
- Surrender rates based upon actual experience.

Notes to the Financial Statements

The valuation of the Life Insurance business as at 31st December 2015 was made by Mr. Hassan Scott Odierno, of M/S Actuarial Partners Consulting Sdn Bhd, Formerly Known as Mercer Zainal Consulting Sdn Bhd whereas prior year valuation was done by Mr. M Poopalanathan, (AIA), of M/S Actuarial and Management Consultants (Pvt.) Ltd. In accordance with the Consultant Actuary's report, the reserve for the year amounted to Rs. 6,759.3 Million (2014 - Rs. 4,930.8 Million). In the opinion of the Consultant Actuary, the reserve is adequate to cover the liabilities pertaining to the Life Insurance business.

In the opinion of the Actuary, the Life Insurance Fund as included in the Audited Financial Statements exceeds the required actuarial reserves as at 31st December 2015 by Rs. 476.9 Million (2014 - Rs. 761.2 Million) before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders. As recommended by the consultant Actuary a sum of Rs. 310 Million (2014 - Rs.228 Million) has been transferred from the Life Insurance Fund to the Shareholders fund as for the year 2015.

Further, the Actuary has estimated that the solvency margin required (including the solvency margin) for the new reversionary bonus allotted as at 31st December 2015 under the Regulation of Insurance Industry Act, No. 43 of 2000 as Rs. 342 Million (2014 - Rs. 252 Million)

19.2 Liability Adequacy Testing (LAT)

A Liability Adequacy Test ("LAT") for Life Insurance contract Liability was carried out by Mr. Hassan Scott Odierno, of M/S Actuarial Partners Consulting Sdn Bhd, Formely Known as Mercer Zainal Consulting Sdn Bhd (where as prior year valuation was done by Mr. John C.Vieren, FSA, MAA, of M/S The Pinnacle Consulting Group Limited) as at 31st December 2015 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 2015. No additional provision was required against the LAT as at 31st December 2015.

20. INSURANCE CONTRACT LIABILITIES - GENERAL

The General Insurance Reserves as shown in the Statement of Financial Position represents the following:

As at 31st December,		Group		Company	
		2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Reserves for Net Unearned Premium	(Note 20.1)	1,098,217	977,827	-	977,827
Reserves for Title Insurance	(Note 20.2)	19,153	16,866	-	16,866
Reserves for Gross Outstanding Claims	(Note 20.3)	428,895	284,445	-	284,445
Total		1,546,265	1,279,138	-	1,279,138

20.1 Reserves for Net Unearned Premium

20.1.a Reserves for Unearned Premium

Balance as at 1st January		1,187,152	936,283	1,187,152	936,283
Transferred to HNBGI Limited on segregation		-	-	(1,187,152)	-
Transfer during the Year	(Note 27)	114,091	250,869	-	250,869
Balance as at 31st December (A)		1,301,243	1,187,152	-	1,187,152

20. INSURANCE CONTRACT LIABILITIES - GENERAL (Contd.)

20.1 Reserves for Net Unearned Premium (Contd.)

	As at 31st December,		Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
20.1.b	**Reserves for Unearned Reinsurance Premium**					
	Balance as at 1st January		(209,325)	(183,046)	(209,325)	(183,046)
	Transferred to HNBGI Limited on segregation		-	-	209,325	-
	Transfer during the Year	(Note 27)	6,299	(26,279)	-	(26,279)
	Balance as at 31st December (B)		(203,026)	(209,325)	-	(209,325)
	Total Reserves for Net Unearned Premium (A - B)		1,098,217	977,827	-	977,827
20.2	**Reserves for Title Insurance**					
20.2.a	**Reserves for Title Insurance**					
	Balance as at 1st January		16,866	22,370	16,866	22,370
	Transferred to HNBGI Limited on segregation		-	-	(16,866)	-
	Transfer to Title Insurance Reserve		9,038	8,031	-	8,031
	Recognition of Title Insurance Profit		(6,751)	(13,535)	-	(13,535)
	Increase/(Decrease) in Title Insurance Reserve	(Note 27)	2,287	(5,504)	-	(5,504)
	Balance as at 31st December		19,153	16,866	-	16,866
20.2.b	Reserves for Unexpired Risk Reserve		-	-	-	-
	Total Reserves for Title Insurance		19,153	16,866	-	16,866
20.3	**Reserves for Gross Outstanding Claims**					
	Balance as at 1st January		228,229	182,148	228,229	182,148
	Transferred to HNBGI Limited on segregation		-	-	(228,229)	-
	Claims Incurred during the Year		1,919,503	1,281,145	-	1,281,145
	Claims Paid during the Year		(1,787,811)	(1,235,064)	-	(1,235,064)
	Balance as at 31st December		359,921	228,229	-	228,229
	IBNR / IBNER balance as at 1st January		56,216	53,347	56,216	53,347
	Transferred to HNBGI Limited on segregation		-	-	(56,216)	-
	Increase in IBNR / IBNER		12,758	2,869	-	2,869
	IBNR / IBNER balance as at 31st December		68,974	56,216	-	56,216
	Total Reserves for Gross Outstanding Claims		428,895	284,445	-	284,445
20.4	**Reconciliation between Insurance Provision and Technical Reserves**					
	Insurance Provision		1,546,265	1,279,138	-	1,279,138
	Reserve for Net Deferred Acquisition Expenses	(Note 12)	(65,935)	(52,072)	-	(52,072)
	Reinsurance on Claims Reserves		(57,707)	(53,695)	-	(53,695)
	Reinsurance on Claims Reserves IBNR/IBNER		(15,418)	(23,049)	-	(23,049)
	Technical Reserves		1,407,205	1,150,322	-	1,150,322

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. 6.7 Million (2014: Rs. 13.5 Million) as profit from Title Insurance. (Please refer Note 2.14.3 for the Accounting Policy on Title Insurance).

Notes to the Financial Statements

20. INSURANCE CONTRACT LIABILITIES - GENERAL (Contd.)

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 2015 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.

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 2015 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on annual basis. According to the Consultant Actuary's report, the Company adequately satisfies the LAT as at 31st December 2015. No additional provision was required against the LAT as at 31st December 2015.

21. EMPLOYEE BENEFITS

21.1 Defined contribution plans

Following contributions have been made to Employees' Provident Fund and Employees' Trust Fund during the year.

As at 31st December,		Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Employees' Provident Fund					
Employer's contribution (12%)		45,959	41,348	22,934	41,348
Employees' contribution (8%)		30,639	27,565	15,289	27,565
Employees' Trust Fund (3%)		11,490	10,337	5,733	10,337
21.2 Defined benefit plans - Provision for Employee Benefits					
Present value of unfunded obligation	(Note 21.2.1)	81,001	71,493	44,008	71,493
		81,001	71,493	44,008	71,493
21.2.1 Movement in the present value of the Employee Benefits					
Balance as at 1st January		71,493	56,637	71,493	56,637
Transferred to HNBGI Limited on segregation		-	-	(32,258)	-
Balance as at 1st January After Adjustments		-	-	39,235	-
Provision recognised during the year	(Note 21.2.1.a)	22,201	19,050	12,849	19,050
Actuarial loss during the plan year	(Note 21.2.1.b)	2,270	995	3,216	995
		95,964	76,682	55,300	76,682
Payments during the year		(14,963)	(5,189)	(11,292)	(5,189)
Balance as at 31st December		81,001	71,493	44,008	71,493
21.2.1.a Provision recognised in profit or Loss					
Current service cost		14,958	13,604	8,895	13,604
Interest on obligation		7,243	5,446	3,954	5,446
		22,201	19,050	12,849	19,050

21. EMPLOYEE BENEFITS (Contd.)

21.2 Defined benefit plans - Provision for Employee Benefits (Contd.)

21.2.1.b Provision recognised in Other Comprehensive Income

As at 31st December,		Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Actuarial Loss during the plan year	(Note 21.2.2)	(2,270)	(995)	(3,216)	(995)
		(2,270)	(995)	(3,216)	(995)

As at 31st December 2015, the Gratuity liability was actuarially valued under the Projected Unit Credit (PUC) method by Mr. Hugh Terry (Fellow of the Institute of Actuaries, U.K.), Consultant Actuary as required by Sri Lanka Accounting Standard (LKAS) 19 - Employee Benefits.

21.2.2 Up to the year ended 31st December 2012, the Company recognised all actuarial gain and losses arising from defined benefit plans immediately against profit or loss in the statement of Comprehensive Income including all expenses related to defined plans in employee benefit expense. With the adoption of revised 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 2015	Group 2014	Company 2015	Company 2014
(a) Discount Rate	9.5%	8.5%	9.5%	8.5%
(b) Future Salary Increase Rate	8.5%	7.5%	8.5%	7.5%
(c) Early withdrawal through Resignations				
- i) Less than 5 years	18%	18%	18%	18%
- ii) More than 5 years	7.5%	7.5%	7.5%	7.5%
(d) Retirement Age	55 years	55 years	55 years	55 years

The Gratuity Liability is not externally funded.

21.5 Maturity Analysis of the Payments

	Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Within next 12 Months	5,768	5,075	3,008	5,075
Between 2 to 3 Years	14,947	13,981	7,957	13,981
Between 4 to 5 Years	22,669	18,756	12,670	18,756
More than 5 Years	37,617	33,681	20,373	33,681
	81,001	71,493	44,008	71,493

21.6 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 consistent in the employment benefit liability measurement.

	2015 Rs.'000 Increase	2015 Rs.'000 Decrease	2014 Rs.'000 Increase	2014 Rs.'000 Decrease
Discount Rate (1% movement)	(3,200)	3,200	(5,200)	5,200
Future Salary Growth Rate (1% movement)	3,300	(3,300)	5,300	(5,300)

Notes to the Financial Statements

22. CURRENT TAX LIABILITIES

	Group		Company	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 1st January	12,012	35,143	10,422	35,143
Current tax for the year	-	12,012	-	10,422
	12,012	47,155	10,422	45,565
Tax set off during the year				
Withholding tax	(6)	-	-	-
Notional tax on Government securities	(10,726)	(35,143)	(10,422)	(35,143)
Income tax Paid	(1,280)	-	-	-
Balance as at 31st December	-	12,012	-	10,422

23. REINSURANCE CREDITORS

Domestic Reinsurer - National Insurance Trust Fund (NITF)		25,994	36,493	-	36,493
Foreign Reinsurers		105,911	74,285	37,547	74,285
Total Reinsurance Creditors		131,905	110,778	37,547	110,778

24. OTHER LIABILITIES

Policyholders Advance Payments		94,866	72,932	94,866	72,932
Acquisition Cost Payable		96,382	81,740	52,144	81,740
Advisor Terminal Benefit Scheme	(Note 24.1)	101,309	87,943	91,616	87,943
Government Levies		28,660	28,519	9,086	28,519
Amounts due to Related Parties	(Note 24.2)	16,279	14,385	10,518	14,385
Accrued Expenses		100,052	53,588	93,295	53,588
Co - Insurance Payable		1,934	3,901	-	3,901
Claims payable		1,563	137	-	137
Others		149,338	167,323	71,058	167,323
Total Other Liabilities		590,383	510,468	422,583	510,468

24.1 Advisor Terminal Benefit Scheme

Life Insurance	91,616	81,458	91,616	81,458
General Insurance	9,693	6,485	-	6,485
	101,309	87,943	91,616	87,943

24.2 Amounts due to Related Parties

Hatton National Bank PLC	16,279	14,385	10,518	14,385
	16,279	14,385	10,518	14,385

25. GROSS WRITTEN PREMIUM (GWP)

For the Year Ended 31st December,	2015							
	Group				Company			
	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
General Insurance								
Fire	263,899	111,329	(3,082)	372,146	-	-	-	-
Motor	1,733,861	314,837	-	2,048,698	-	-	-	-
Marine	36,700	6	(644)	36,062	-	-	-	-
Miscellaneous	239,535	12,241	(10,506)	241,270	-	-	-	-
Adjustment for Inter Company premiums	(19,920)	-	-	(19,920)				
Gross Written Premium - General Insurance	2,254,075	438,413	(14,232)	2,678,256	-	-	-	-
Life Insurance								
Individual Policies	-	-	-	2,704,394	-	-	-	2,704,394
Corporate Policies	-	-	-	84,322	-	-	-	84,322
Adjustment for Inter Company premiums	-	-	-	(19,808)	-	-	-	-
Gross Written Premium - Life Insurance	-	-	-	2,768,908	-	-	-	2,788,716
Total Gross Written Premium	-	-	-	5,447,164	-	-	-	2,788,716

For the Year Ended 31st December,	2014							
	Group				Company			
	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
General Insurance								
Fire	251,760	97,485	(5,175)	344,070	251,760	97,485	(5,175)	344,070
Motor	1,406,664	261,757	-	1,668,421	1,406,664	261,757	-	1,668,421
Marine	34,052	12	(258)	33,806	34,052	12	(258)	33,806
Miscellaneous	269,904	12,588	(6,038)	276,454	269,904	12,588	(6,038)	276,454
Gross Written Premium - General Insurance	1,962,380	371,842	(11,471)	2,322,751	1,962,380	371,842	(11,471)	2,322,751
Life Insurance								
Individual Policies	-	-	-	2,307,315	-	-	-	2,307,315
Corporate Policies	-	-	-	35,552	-	-	-	35,552
Gross Written Premium - Life Insurance	-	-	-	2,342,867	-	-	-	2,342,867
Total Gross Written Premium	-	-	-	4,665,618	-	-	-	4,665,618

* 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.

Notes to the Financial Statements

26. PREMIUM CEDED TO REINSURERS

For the Year Ended 31st December,	Group		Company	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
General Insurance				
Fire	330,134	305,114	-	305,114
Motor	57,175	52,567	-	52,567
Marine	32,471	29,506	-	29,506
Miscellaneous	71,341	86,372	-	86,372
Total General Insurance	491,121	473,559	-	473,559
Life Insurance	107,963	127,463	107,963	127,463
Total Life Insurance	107,963	127,463	107,963	127,463
Total Premium Ceded to Reinsurers	599,084	601,022	107,963	601,022

27. NET CHANGE IN RESERVES FOR UNEARNED PREMIUM

		Group		Company	
		2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
General Insurance					
Change in Reserve for Unearned Premium	(Note 20.1.a)	(114,091)	(250,869)	-	(250,869)
Change in Reserve for Unearned Reinsurance Premium	(Note 20.1.b)	(6,299)	26,279	-	26,279
Change in Title Insurance Reserve	(Note 20.2.a)	(2,287)	5,504	-	5,504
Net Change in Reserves for Unearned Premium		(122,677)	(219,086)	-	(219,086)

28. NET EARNED PREMIUM

For the Year Ended 31st December,	2015					
	Group			Company		
	General Rs.'000	Life Rs.'000	Total Rs.'000	General Rs.'000	Life Rs.'000	Total Rs.'000
Gross Written Premium	2,678,256	2,768,908	5,447,164	-	2,788,716	2,788,716
Change in reserve for unearned premium	(114,091)	-	(114,091)	-	-	-
Gross Earned Premium	2,564,165	2,768,908	5,333,073	-	2,788,716	2,788,716
Premium ceded to reinsurance	(491,121)	(107,963)	(599,084)	-	(107,963)	(107,963)
Change in reserve for reinsurance premium	(6,299)	-	(6,299)	-	-	-
Gross Reinsurance Premium	(497,420)	(107,963)	(605,383)	-	(107,963)	(107,963)
Transfer to Title Insurance Reserve	(2,287)	-	(2,287)	-	-	-
Total Net Earned Premium	2,064,458	2,660,945	4,725,403	-	2,680,753	2,680,753

For the Year Ended 31st December,	2014					
	Group			Company		
	General Rs.'000	Life Rs.'000	Total Rs.'000	General Rs.'000	Life Rs.'000	Total Rs.'000
Gross Written Premium	2,322,751	2,342,867	4,665,618	2,322,751	2,342,867	4,665,618
Change in reserve for unearned premium	(250,869)	-	(250,869)	(250,869)	-	(250,869)
Gross Earned Premium	2,071,882	2,342,867	4,414,749	2,071,882	2,342,867	4,414,749
Premium ceded to reinsurance	(473,559)	(127,463)	(601,022)	(473,559)	(127,463)	(601,022)
Change in reserve for reinsurance premium	26,279	-	26,279	26,279	-	26,279
Gross Reinsurance Premium	(447,280)	(127,463)	(574,743)	(447,280)	(127,463)	(574,743)
Transfer to Title Insurance Reserve	5,504	-	5,504	5,504	-	5,504
Total Net Earned Premium	1,630,106	2,215,404	3,845,510	1,630,106	2,215,404	3,845,510

29. INTEREST AND DIVIDEND INCOME

For the Year Ended 31st December,		Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Interest Income	(Note 29.1)	843,579	808,970	687,104	801,831
Dividend Income	(Note 29.2)	27,470	15,045	18,467	15,045
Total Interest and Dividend Income		871,049	824,015	705,571	816,876

29.1 Interest Income

Interest Income from Financial Investments at Held to Maturity				
- Treasury Bonds	61,526	83,317	44,178	83,317
	61,526	83,317	44,178	83,317
Interest Income from Financial Investments at Loans and Receivables				
- Debentures	325,887	298,066	260,512	294,148
- Repurchase Agreements on Government Securities	141,251	58,854	111,692	57,836
- Commercial Papers	-	3,058	-	3,058
- Fixed Deposits	120,711	193,440	98,189	193,440
- Staff, Agents and Policy Loans	45,008	44,079	32,793	44,079
	632,857	597,497	503,186	592,561
Interest Income from Financial Investments at Available for Sale				
- Treasury Bonds	136,770	109,020	132,618	108,060
- Treasury Bills	8,383	16,393	4,754	15,320
	145,153	125,413	137,372	123,380
Interest Income from Financial Investments at Fair Value Through Profit or Loss				
- Treasury Bonds	756	-	566	-
	756	-	566	-
Interest Income from Cash and Cash Equivalents	3,287	2,743	1,802	2,573
Total Interest Income	843,579	808,970	687,104	801,831

29.2 Dividend Income

- Equity Shares	13,030	7,503	9,729	7,503
- Investments in Units	14,440	7,542	8,738	7,542
Total Dividend Income	27,470	15,045	18,467	15,045

Notes to the Financial Statements

30. NET REALISED GAINS

For the Year Ended 31st December,	Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Financial Investments at Available for Sale				
Realised Gains				
- Treasury Bonds	17,730	69,722	18,123	66,684
- Treasury Bills	-	-	214	-
- Equity Shares	1,512	-	1,881	-
	19,242	69,722	20,218	66,684
Financial Investments at Fair Value Through Profit or Loss				
Realised Gains				
- Equity Shares	262	12,206	262	12,206
Realised Losses				
- Treasury Bonds	(2,020)	-	(1,615)	-
- Equity Shares	(210)	-	-	-
	(1,968)	12,206	(1,353)	12,206
Financial Investments at Loans and Receivables				
Realised Gains				
- Debentures	12,627	26,228	3,647	26,228
- Foreign Exchange - Term Deposits	124	667	-	667
	12,751	26,895	3,647	26,895
Total Net Realised Gains	30,025	108,823	22,512	105,785

31. NET FAIR VALUE GAINS

For the Year Ended 31st December,	Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Financial Investments at Fair Value Through Profit or Loss				
Unrealised Gains				
- Treasury bonds	12,978	-	9,327	-
- Unit Trust	1,266	14,995	1,266	14,995
- Equity Securities	120	83,996	-	83,996
	14,364	98,991	10,593	98,991
Unrealised Losses				
- Equity Securities	(8,691)	-	(7,559)	-
- Unit Trust	(911)	-	(429)	-
	(9,602)	-	(7,988)	-
Loans and Receivables				
Unrealised Gains				
- Foreign Exchange - Term Deposits	11,821	290	1,423	290
Total Net Fair Value Gains	16,583	99,281	4,028	99,281

32. FEE AND COMMISSION INCOME

For the Year Ended 31st December,	Group		Company	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Profit commission from reinsurers	31,181	63,894	20,184	63,894
Fund management fee	15,856	-	19,943	-
Policy Fee	68,810	56,224	4,168	56,224
Sundry Income	6,705	3,307	6,705	3,307
Total Fee and Commission Income	122,552	123,425	51,000	123,425

33. OTHER INCOME

For the Year Ended 31st December,	Group		Company	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Profit / (Loss) on Sale of Property, Plant and Equipment	46	(174)	15	(174)
Sundry Income	8,897	12,540	-	12,540
Total Other Income	8,943	12,366	15	12,366

34. NET INSURANCE BENEFITS AND CLAIMS PAID

For the Year Ended 31st December,	2015					
	Group			Company		
	Gross Claims Paid Rs.'000	Claims Recovered from Reinsurers Rs.'000	Net Claims Paid Rs.'000	Gross Claims Paid Rs.'000	Claims Recovered from Reinsurers Rs.'000	Net Claims Paid Rs.'000
General Insurance						
Fire	94,564	(79,453)	15,111	-	-	-
Motor	1,521,680	(2,275)	1,519,405	-	-	-
Marine	9,642	(8,203)	1,439	-	-	-
Miscellaneous	185,127	(11,229)	173,898	-	-	-
Total	1,811,013	(101,160)	1,709,853	-	-	-
Less : Recoveries from sales of Salvage	-	-	(24,766)	-	-	-
Net General Insurance Claims	-	-	1,685,087	-	-	-
Life Insurance						
Claims - Deaths, Disability and Hospitalisation	117,884	(36,715)	81,169	117,884	(36,715)	81,169
Surrenders	54,663	-	54,663	54,663	-	54,663
Annuity Payments	11,083	-	11,083	11,083	-	11,083
Policy Maturities	152,356	-	152,356	152,356	-	152,356
Total	335,986	(36,715)	299,271	335,986	(36,715)	299,271
Net Life Insurance Claims	-	-	299,271	-	-	299,271
Total Net Insurance Claims Paid	-	-	1,984,358	-	-	299,271

Notes to the Financial Statements

34. NET INSURANCE BENEFITS AND CLAIMS PAID (Contd.)

For the Year Ended 31st December, 2014

	Group			Company		
	Gross Claims Paid Rs.'000	Claims Recovered from Reinsurers Rs.'000	Net Claims Paid Rs.'000	Gross Claims Paid Rs.'000	Claims Recovered from Reinsurers Rs.'000	Net Claims Paid Rs.'000
General Insurance						
Fire	58,538	(47,181)	11,357	58,538	(47,181)	11,357
Motor	971,888	(13,342)	958,546	971,888	(13,342)	958,546
Marine	10,582	(9,329)	1,253	10,582	(9,329)	1,253
Miscellaneous	196,383	(29,997)	166,386	196,383	(29,997)	166,386
Total General Insurance	1,237,391	(99,849)	1,137,542	1,237,391	(99,849)	1,137,542
Less : Recoveries from sales of Salvage	-	-	(2,465)	-	-	(2,465)
Net General Insurance Claims	-	-	1,135,077	-	-	1,135,077
Life Insurance						
Claims - Deaths, Disability and Hospitalisation	93,261	(24,635)	68,626	93,261	(24,635)	68,626
Surrenders	54,492	-	54,492	54,492	-	54,492
Annuity Payments	4,177	-	4,177	4,177	-	4,177
Policy Maturities	265,861	-	265,861	265,861	-	265,861
Total Life Insurance	417,791	(24,635)	393,156	417,791	(24,635)	393,156
Net Life Insurance Claims	-	-	393,156	-	-	393,156
Total Net Insurance Claims Paid	-	-	1,528,233	-	-	1,528,233

35. NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

For the Year Ended 31st December,	Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Gross Change in Insurance Claims Outstanding				
Life Insurance	(17,668)	21,885	(17,668)	21,885
General Insurance				
Fire	(5,324)	11,359	-	11,359
Motor	153,668	23,253	-	23,253
Marine	(8,046)	7,738	-	7,738
Miscellaneous	4,152	8,140	-	8,140
Total General Insurance	144,450	50,490	-	50,490
Gross Change in Insurance Claims Outstanding	126,782	72,375	(17,668)	72,375
Gross Change in Reinsurance recoverable on Claims Outstanding				
Life Insurance	(1,108)	(2,658)	(1,108)	(2,658)
General Insurance				
Fire	5,914	(9,737)	-	(9,737)
Motor	(7,568)	(1,662)	-	(1,662)
Marine	7,494	(6,998)	-	(6,998)
Miscellaneous	1,917	(6,449)	-	(6,449)
Total General Insurance	7,757	(24,846)	-	(24,846)
Gross Change in Reinsurance Recoverable on Claims Outstanding	6,649	(27,504)	(1,108)	(27,504)
Total Net Change in Insurance Claims Outstanding	133,431	44,871	(18,776)	44,871

36. OTHER OPERATING AND ADMINISTRATION EXPENSES

For the Year Ended 31st December,		Group 2015 Rs.'000	Group 2014 Rs.'000	Company 2015 Rs.'000	Company 2014 Rs.'000
Directors' Emoluments and Post Employment Benefits		4,156	2,899	3,399	2,899
Staff Expenses	(Note 36.1)	593,315	572,759	306,991	572,759
Administration and Establishment Expense		472,365	459,701	272,131	459,171
Selling Expenses		222,299	206,543	112,382	206,543
Amortisation of Intangible Assets		17,226	17,975	9,746	17,975
Depreciation of Property Plant and Equipment		51,116	40,330	28,851	40,330
Auditor's Fees and expenses	(Note 36.2)	2,802	2,710	1,610	2,660
Legal Fees		178	493	111	493
Donations		300	300	300	300
Total Other Operating and Administration Expenses		1,363,757	1,303,710	735,521	1,303,130

36.1 Staff Expenses

Staff Salaries		382,998	344,565	191,115	344,565
Defined Contribution Plan Costs - EPF		45,959	41,348	22,934	41,348
Defined Contribution Plan Costs - ETF		11,490	10,337	5,733	10,337
Defined Benefit Plan Costs - Employee Benefits		22,200	19,050	10,820	19,050
Other Staff Costs (Travelling, Over-time, Bonus etc.)		130,668	157,459	76,389	157,459
		593,315	572,759	306,991	572,759

36.2 Auditor's Fees and expenses

Audit Fees and Expenses		2,149	1,872	1,287	1,822
Audit Related Fees		653	838	323	838
		2,802	2,710	1,610	2,660

37. UNDERWRITING AND NET ACQUISITION COSTS

Underwriting and Policy Acquisition Costs		772,410	616,954	517,202	616,954
Reinsurance Commission Income		(126,440)	(122,968)	(6,241)	(122,968)
Increase in Deferred Acquisition Expenses	(Note 37.1)	(13,863)	(19,160)	-	(19,160)
		632,107	474,826	510,961	474,826

37.1 (Increase)/Decrease in Deferred Acquisition Expenses

Commission income from Reinsurers	(Note 12)	(11,729)	(8,091)	-	(8,091)
Commission cost	(Note 12)	25,592	27,251	-	27,251
		13,863	19,160	-	19,160

Notes to the Financial Statements

38. INCOME TAX (REVERSAL)/EXPENSES

			Group		Company	
	For the Year Ended 31st December,		2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
	The major components of income tax expense for the years ended 31st December are as follows :					
38.1.a	**Tax recognised in Profit or Loss**					
	Current Income Tax					
	Income Tax on Current Year's Profits		-	12,012	-	10,422
	Notional Tax unutilised during the year		29,383	-	29,383	-
			29,383	12,012	29,383	10,422
	Deferred Income Tax					
	Origination of Deferred Tax Liability		-	8,845	-	8,845
	Origination of Deferred Tax Assets		(56,954)	-	-	-
	Deferred Taxation (Reversal)/Charge	(Note 38.6.b)	(56,954)	8,845	-	8,845
	Total Tax (Reversal)/Expense		(27,571)	20,857	29,383	19,267
38.1.b	**Tax recognised in Other Comprehensive Income**					
	Deferred Income Tax					
	Origination of Deferred Tax Assets	(Note 38.6.b)	(1,286)	-	-	-
38.2	**Reconciliation of effective Tax rate**					
	Profit for the year		197,344	417,726	427,645	409,719
	Income Tax Expenses		-	12,012	-	10,422
	Notional tax unutilised during the year		29,383	-	29,383	-
	Deferred Taxation (Reversal)/Charge		(56,954)	8,845	-	8,845
	Profit Before Income Tax		169,773	438,583	457,028	428,986
	At the statutory income tax rate of 28% (2014 :28%)		-	122,803	-	120,116
	Income Exempt from Tax		-	(103,060)	-	(101,963)
	Aggregate allowable expenses		-	(14,794)	-	(14,793)
	Aggregate disallowed expenses		-	12,675	-	12,674
	Recognition of previously unrecognised tax losses		-	(5,612)	-	(5,612)
	Notional tax unutilised during the year		29,383	-	29,383	-
	Deferred Taxation Charge/(Reversal)		(56,954)	8,845	-	8,845
	Total Tax (Reversal)/Expense		(27,571)	20,857	29,383	19,267

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. There is no payment due to IRD during the year by HNB Assurance PLC. However HNB General Insurance Limited made income tax payment amounting to Rs 1.2 Million during the year for the year assesment 2014/15.

38. INCOME TAX (REVERSAL)/EXPENSES (Contd.)

38.4 Tax loss analysis

As at 31st December,	Group		Company	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 1st January	2,645,431	2,071,761	2,645,431	2,071,761
Tax Losses transferred to HNBGI On segregation	-	-	(3,792)	-
Tax losses for the year	1,092,878	593,713	766,221	593,713
Tax losses utilised during the year	-	(20,043)	-	(20,043)
Balance as at 31st December	3,738,309	2,645,431	3,407,860	2,645,431

38.5 Notional Tax Credit for Withholding Tax on Government Securities

The notional tax credit available for set off against the future tax liability;

As at 31st December,	Group		Company	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 1 January	153,026	161,411	152,721	161,411
Tax credit for the year	34,871	26,758	29,383	26,453
Set off against tax liability	(10,726)	(35,143)	(10,422)	(35,143)
Provision for Notional Tax Unutilized	(29,383)	-	(29,383)	-
	147,788	153,026	142,299	152,721

38.6 Deferred Taxation

		Group	Company
Deferred tax assets	(Note 38.6.b)	55,641	12,258	-	12,258
Deferred tax liabilities	(Note 38.6.a)	(6,247)	(21,103)	-	(21,103)
Net deferred tax asset / (liability)		49,394	(8,845)	-	(8,845)

As at 31st December,	Group – Statement of Financial Position				Company – Statement of Financial Position			
	2015		2014		2015		2014	
	Temporary Difference Rs.'000	Tax Effect Rs.'000	Temporary Difference Rs.'000	Tax Effect Rs.'000	Temporary Difference Rs.'000	Tax Effect Rs.'000	Temporary Difference Rs.'000	Tax Effect Rs.'000
38.6.a Deferred Tax Liability								
Property, Plant and Equipment	22,310	6,247	75,370	21,103	-	-	75,370	21,103
38.6.b Deferred Tax Assets								
Employee Benefits	(36,993)	(10,358)	(39,986)	(11,196)	-	-	(39,986)	(11,196)
Brought Forward Tax Losses	(157,131)	(43,997)	(3,792)	(1,062)	-	-	(3,792)	(1,062)
Available For Sale Financial Assets	(4,592)	(1,286)	-	-	-	-	-	-
	(198,716)	(55,641)	(43,778)	(12,258)	-	-	(43,778)	(12,258)

Notes to the Financial Statements

38. INCOME TAX (REVERSAL)/EXPENSES (Contd.)

38.6 Deferred Taxation (Contd.)

	Group				Company			
	Profit or Loss		Other Comprehensive Income		Profit or Loss		Other Comprehensive Income	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Deferred Tax Liability								
Property, Plant and Equipment	(14,857)	462	-	-	-	462	-	-
Deferred Tax Assets								
Employee Benefits	838	2,772	-	-	-	2,772	-	-
Brought Forward Tax Losses	(42,935)	5,611	-	-	-	5,611	-	-
Available for sale Financial Assets	-	-	(1,286)	-	-	-	-	-
	(42,097)	8,383	(1,286)	-	-	8,383	-	-
Deferred Taxation (Reversal)/Charge	(56,954)	8,845	(1,286)	-	-	8,845	-	-

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. Thus, no deferred tax asset is recognised in the Financial Statements as it is not probable that the future taxable profits will be adequate to utilise the available tax losses fully in the foreseeable future. The unrecognised Deferred Tax asset as at 31st December 2015 in Life Business amounted to Rs. 954 Million. (2014 Rs. 740 Million.). However HNB General Insurance Limited has recorded a deferred tax asset during the year amounted to Rs 49.3 Million as a result of tax losses made in 2015.

39. BASIC EARNINGS PER SHARE (EPS)

The calculation of the Basic Earning 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, calculated as follows:

	Group		Company	
	2015	2014	2015	2014
Amounts used as the numerator:				
Profit Attributable to Ordinary Shareholders (Rs.'000)	197,344	417,726	427,645	409,719
Number of Ordinary Shares used as the denominator:				
Weighted of shares as at 31st December ('000)	50,000	50,000	50,000	50,000
Basic Earnings Per Share (Rs.)	3.95	8.35	8.55	8.19

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.

40. DIVIDEND PER SHARE (DPS)

	2015 Rs.'000	2014 Rs.'000
Dividend per Share (Rs.)	2.00	3.75

40.1 Dividend declared

Dividends to Shareholders (Rs.'000)	91,847	170,447
Tax deducted at source	8,153	17,053
Total Dividend declared	100,000	187,500

40.2 Proposed Dividend for approval at AGM (not recognised as a liability as at 31st December)

The Board of Directors has recommended a payment of first and final dividend of Rs. 2.00 per share for the year ended 31st December 2015 (2014 - Rs. 3.75 per share) which is to be approved at the Annual General Meeting to be held on 29th March 2016. In accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) No.10 - Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31st December 2015.

Under the Inland Revenue Amendment Act, No. 10 of 2006, a withholding tax of 10% has been imposed on dividends declared from 1st 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 2015. A statement of Solvency completed and duly signed by the Directors on 9th February 2015 has been audited by M/S Ernst & Young Sri Lanka.

40.4 Dividend paid during the year

	2015 Rs.'000	2014 Rs.'000
Final dividend for 2014: Rs. 3.75 per share (2013: Rs. 3.25 per share)	187,500	162,500

41. FINANCIAL ASSETS AND LIABILITIES

41.1 Accounting classifications and fair value - Group

The table below sets out the carrying amounts and fair values of the Company's financial assets and financial liabilities:

As at 31st December,	Note	2015 Fair Value Through Profit or Loss Rs.'000	Available For Sale Rs.'000	Held to Maturity Rs.'000	Loans and Receivables Rs.'000	Total carrying amount Rs.'000	Fair value Rs.'000
41.1.a Financial Assets							
Financial Investments							
Measured at fair value	6.4 & 6.3	1,175,721	1,659,296	-	-	2,835,017	2,835,017
Measured at amortised cost	6.1 & 6.2	-	-	472,565	6,444,029	6,916,594	6,817,536
Loans to Life Policyholders	8	-	-	-	91,992	91,992	91,992
Reinsurance Receivables	9	-	-	-	141,354	141,354	141,354
Premium Receivables	10	-	-	-	345,916	345,916	345,916
Staff and Other Loans	11.1	-	-	-	281,505	281,505	281,505
Cash and Cash Equivalents	13	-	-	-	386,929	386,929	386,929
Total Financial Assets		1,175,721	1,659,296	472,565	7,691,725	10,999,307	10,900,249

Notes to the Financial Statements

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.1 Accounting classifications and fair value - Group (Contd.)

		Note	2015 Fair Value Through Profit or Loss Rs.'000	Other Financial Liabilities Rs.'000	Total carrying amount Rs.'000	Fair value Rs.'000
41.1.b	**Financial Liabilities**					
	Reinsurance Creditors	23	-	131,905	131,905	131,905
	Other Liabilities (Excluding Government Levies and Accruals)	24	-	215,904	215,904	215,904
	Total Financial Liabilities		-	347,809	347,809	347,809

41.1.c	**Financial Assets** As at 31st December,	Note	2014 Fair Value Through Profit or Loss Rs.'000	Available For Sale Rs.'000	Held to Maturity Rs.'000	Loans and Receivables Rs.'000	Total carrying amount Rs.'000	Fair value Rs.'000
	Financial Investments							
	Measured at fair value	6.4 & 6.3	485,674	1,600,593	-	-	2,086,267	2,086,267
	Measured at amortised cost	6.1 & 6.2	-	-	782,667	5,408,961	6,191,628	6,288,836
	Loans to Life Policyholders	8	-	-	-	71,082	71,082	71,082
	Reinsurance Receivables	9	-	-	-	162,260	162,260	162,260
	Premium Receivables	10	-	-	-	364,051	364,051	364,051
	Staff and Other Loans	11.1	-	-	-	283,242	283,242	283,242
	Cash and Cash Equivalents	13	-	-	-	173,245	173,245	173,245
	Total Financial Assets		485,674	1,600,593	782,667	6,462,841	9,331,775	9,428,983

		Note	Fair Value Through Profit or Loss Rs.'000	Other Financial Liabilities Rs.'000	Total carrying amount Rs.'000	Fair value Rs.'000
41.1.d	**Financial Liabilities**					
	Reinsurance Creditors	23	-	110,778	110,778	110,778
	Other Liabilities (Excluding Government Levies and Accruals)	24	-	187,969	187,969	187,969
	Total Financial Liabilities		-	298,747	298,747	298,747

41.1.e The Group's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in note 44.

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

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,	Note	2015 Fair Value Through Profit or Loss Rs.'000	Available For Sale Rs.'000	Held to Maturity Rs.'000	Loans and Receivables Rs.'000	Total carrying amount Rs.'000	Fair value Rs.'000
41.2.a Financial Assets							
Financial Investments							
Measured at fair value	6.4 & 6.3	817,956	1,559,525	-	-	2,377,481	2,377,481
Measured at amortised cost	6.1 & 6.2	-	-	320,426	5,151,718	5,472,144	5,405,605
Loans to Life Policyholders	8	-	-	-	91,992	91,992	91,992
Reinsurance Receivables	9	-	-	-	34,269	34,269	34,269
Premium Receivables	10	-	-	-	5,592	5,592	5,592
Staff and Other Loans	11.1	-	-	-	172,157	172,157	172,157
Cash and Cash Equivalents	13	-	-	-	258,222	258,222	258,222
Total Financial Assets		817,956	1,559,525	320,426	5,713,950	8,411,857	8,345,318

	Note	Fair Value Through Profit or Loss Rs.'000	Other Financial Liabilities Rs.'000	Total carrying amount Rs.'000	Fair value Rs.'000
41.2.b Financial Liabilities					
Reinsurance Creditors	23	-	37,547	37,547	37,547
Other Liabilities (Excluding Government Levies and Accruals)	24	-	154,278	154,278	154,278
Total Financial Liabilities		-	191,825	191,825	191,825

As at 31st December,	Note	2014 Fair Value Through Profit or Loss Rs.'000	Available For Sale Rs.'000	Held to Maturity Rs.'000	Loans and Receivables Rs.'000	Total carrying amount Rs.'000	Fair value Rs.'000
41.2.c Financial Assets							
Financial Investments							
Measured at fair value	6.4 & 6.3	485,674	1,580,881	-	-	2,066,555	2,066,555
Measured at amortised cost	6.1 & 6.2	-	-	782,667	5,322,047	6,104,714	6,205,088
Loans to Life Policyholders	8	-	-	-	71,082	71,082	71,082
Reinsurance Receivables	9	-	-	-	162,260	162,260	162,260
Premium Receivables	10	-	-	-	364,051	364,051	364,051
Staff and Other Loans	11.1	-	-	-	283,242	283,242	283,242
Cash and Cash Equivalents	13	-	-	-	171,217	171,217	171,217
Total Financial Assets		485,674	1,580,881	782,667	6,373,899	9,223,121	9,323,495

Notes to the Financial Statements

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.2 Accounting classifications and fair value - Company (Contd.)

		Note	Fair Value Through Profit or Loss Rs.'000	Other Financial Liabilities Rs.'000	Total carrying amount Rs.'000	Fair value Rs.'000
41.2.d	**Financial Liabilities**					
	Reinsurance Creditors	23	-	110,778	110,778	110,778
	Other Liabilities (Excluding Government Levies and Accruals)	24	-	187,969	187,969	187,969
	Total Financial Liabilities		-	298,747	298,747	298,747

41.2.e The Company's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in note 44

41.3.a Fair value measurement

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.

Fair value measurement hierarchy for Assets - Group

As at 31st December,	Note	2015 Fair value measurement using Quoted prices in active markets (Level 1) Rs.'000	Significant observable (Level 2) Rs.'000	Significant unobservable (Level 3) Rs.'000	Total fair value Rs.'000
Assets Measured at fair value :					
Fair Value Through Profit or Loss (FVTPL)					
- Treasury Bonds	6.4	699,014	-	-	699,014
- Investment in Units	6.9	10,708	229,700	-	240,408
- Equity Shares	6.8	236,299	-	-	236,299
Total	6.4	946,021	229,700	-	1,175,721
Available for Sale (AFS)					
- Treasury Bonds	6.3	1,410,500	-	-	1,410,500
- Treasury Bills	6.3	48,492	-	-	48,492
- Equity Shares	6.7	200,304	-	-	200,304
Total	6.3	1,659,296	-	-	1,659,296
Assets Measured at amortised cost and fair values are disclosed :					
Held to Maturity (HTM)					
- Treasury Bonds	6.1	-	490,095	-	490,095
Total		-	490,095	-	490,095
Loans and Receivable (L & R)					
- Term Deposit		-	900,408	-	900,408
- Corporate Debt	6.6	-	2,897,115	-	2,897,115
- Staff and Other Loans	11.1	-	281,505	-	281,505
Total		-	4,079,028	-	4,079,028
Total Financial Assets		2,605,317	4,798,823	-	7,404,140

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.3.a Fair value measurement (Contd.)

As at 31st December,

	Note	2014 Fair value measurement using Quoted prices in active markets (Level 1) Rs.'000	Significant observable (Level 2) Rs.'000	Significant unobservable (Level 3) Rs.'000	Total fair value Rs.'000
Assets Measured at fair value :					
Fair Value Through Profit or Loss (FVTPL)					
- Unit Trusts	6.9	10,307	229,626	-	239,933
- Equity Shares	6.8	245,741	-	-	245,741
Total	6.4	256,048	229,626	-	485,674
Available for Sale (AFS)					
- Treasury Bonds	6.3	1,345,026	-	-	1,345,026
- Treasury Bills	6.3	142,364	-	-	142,364
- Equity Shares	6.7	113,203	-	-	113,203
Total	6.3	1,600,593	-	-	1,600,593
Assets Measured at amortised cost and fair values are disclosed :					
Held to Maturity (HTM)					
- Treasury Bonds	6.1	-	820,736	-	820,736
Total		-	820,736	-	820,736
Loans and Receivable (L & R)					
-Term Deposit		-	889,525	-	889,525
-Corporate Debt	6.6	-	2,802,194	-	2,802,194
-Staff and Other Loans	11.1	-	283,242	-	283,242
Total		-	3,974,961	-	3,974,961
Total Financial Assets		1,856,641	5,025,323	-	6,881,964

Notes to the Financial Statements

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.3.b Fair value measurement - Company

Fair value measurement hierarchy for Assets

As at 31st December,	Note	2015 Fair value measurement using Quoted prices in active markets (Level 1) Rs.'000	Significant observable (Level 2) Rs.'000	Significant unobservable (Level 3) Rs.'000	Total fair value Rs.'000
Assets Measured at fair value :					
Fair Value Through Profit or Loss (FVTPL)					
- Treasury Bonds	6.4	497,717	-	-	497,717
- Unit Trusts	6.9	7,488	149,715	-	157,203
- Equity Shares	6.8	163,036	-	-	163,036
Total	6.4	668,241	149,715	-	817,956
Available for Sale (AFS)					
- Treasury Bonds	6.3	1,360,150	-	-	1,360,150
- Treasury Bills	6.3	29,095	-	-	29,095
- Equity Shares	6.7	170,280	-	-	170,280
Total	6.3	1,559,525	-	-	1,559,525
Assets Measured at amortised cost and fair values are disclosed :					
Held to Maturity (HTM)					
- Treasury Bonds	6.1	-	336,302	-	336,302
Total		-	336,302	-	336,302
Loans and Receivable (L & R)					
- Term Deposit		-	781,604	-	781,604
- Corporate Debt	6.6	-	2,327,493	-	2,327,493
- Staff and Other Loans	11.1	-	172,157	-	172,157
Total		-	3,281,254	-	3,281,254
Total Financial Assets		2,227,766	3,767,271	-	5,995,037

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.3.b Fair value measurement - Company (Contd.)

As at 31st December,	Note	2014 Fair value measurement using Quoted prices in active markets (Level 1) Rs.'000	Significant observable (Level 2) Rs.'000	Significant unobservable (Level 3) Rs.'000	Total fair value Rs.'000
Assets Measured at fair value :					
Fair Value Through Profit or Loss (FVTPL)					
- Unit Trusts	6.9	10,307	229,626	-	239,933
- Equity Shares	6.8	245,741	-	-	245,741
Total	6.4	256,048	229,626	-	485,674
Available for Sale (AFS)					
- Treasury Bonds	6.3	1,345,026	-	-	1,345,026
- Treasury Bills	6.3	122,652	-	-	122,652
- Equity Shares	6.7	113,203	-	-	113,203
Total	6.3	1,580,881	-	-	1,580,881
Assets Measured at amortised cost and fair values are disclosed :					
Held to Maturity (HTM)					
- Treasury Bonds	6.1	-	820,736	-	820,736
Total		-	820,736	-	820,736
Loans and Receivable (L & R)					
- Term Deposit		-	889,525		889,525
- Corporate Debt	6.6	-	2,718,446	-	2,718,446
- Staff and Other Loans	11.1	-	283,242		283,242
Total		-	3,891,213	-	3,891,213
Total Financial Assets		1,836,929	4,941,575	-	6,778,504

41.4 The methods and assumptions used to estimate the fair values of the financial instruments not carried at fair value are as follows:

41.4.a Financial Investments

- Financial investments held-to-maturity

  The fair values of financial investments held-to-maturity are estimated based on current market yields

- The fair values of listed debentures are calculated based on published market prices. The fair value of unlisted variable rate debentures equals carrying value due to inability to reliably predict future cash flows and unlisted fixed rate corporate debts are based on discounted cash flow method using current market yields of treasury bonds or treasury bills for similar maturity plus a risk premium determined based on the credit rating of the instrument.

- For term deposits with maturities greater than 3 months the fair values are estimated based on discounted cash flows using current market yields of treasury bonds or treasury bills with similar maturity plus a risk premium determined based on the credit rating of the institution.

Notes to the Financial Statements

41. FINANCIAL ASSETS AND LIABILITIES (Contd.)

41.4.b Staff and Agent Loans

The fair value of the staff and agent loans has been computed based on the interest rates prevailed at reporting date.

41.4.c 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 reprice to current market rates frequently:

Assets
-Cash and Cash Equivalents/ Term Deposits less than one year
-Treasury Bills - Repo
-Treasury Bills - Overnight Repo
-Loans to Life Policyholders
-Reinsurance Receivables
-Premium Receivables

Liabilities
Reinsurance Creditors
Other Liabilities (Excluding Government Levies and Accruals)

42. THE SEGREGATION OF LIFE AND GENERAL BUSINESSES

Under Section 53 of the Regulation of Insurance Industry (Amendment) Act No 03 of 2011

In terms of Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011, all composite insurance companies were required to split their Life and General Insurance businesses into two separate legal entities.

HNB Assurance PLC, following the due process stipulated by the Insurance Board of Sri Lanka (IBSL) and having obtained approvals from all relevant parties including District Courts, transferred its General Insurance Business to its newly formed subsidiary HNB General Insurance Ltd with effect from 1st of January 2015. Accordingly, HNB Assurance PLC has become a Life Insurance Company as well as the holding Company of HNB General Insurance Ltd which is now a licensed General Insurance Company. From 1st of January 2015, HNB Assurance PLC is providing both Life and General Insurance solutions under a group structure. Further details of Segegation process is explained in Note no 1.4

42. THE SEGREGATION OF LIFE AND GENERAL BUSINESSES (Contd.)

The following Note represents the impact on financial position on segregation

Statement of Financial Position		HNB Assurance PLC 31 December 2014 Rs.'000	HNBGI Limited 31 December 2014 Rs.'000	Assets / Liabilities Movement on segregation Rs.'000	HNB Assurance PLC 01 January 2015 Rs.'000	HNBGI Limited 01 January 2015 Rs.'000
Assets						
Property, Plant and Equipment		133,942	-	(41,301)	92,641	41,301
Intangible Assets		51,622	-	-	51,622	-
Financial Investments		8,171,269	106,626	(1,634,983)	6,536,286	1,741,609
Investment in Subsidiary	(A)	100,000	-	900,000	1,000,000	-
Loans to Life Policyholders		71,082	-	-	71,082	-
Reinsurance Receivables		162,260	-	(138,814)	23,446	138,814
Premium Receivables		364,051	-	(357,108)	6,943	357,108
Other Assets		682,639	510	(173,093)	509,546	173,603
Insurance Contract - Deferred Expenses		52,072	-	(52,072)	-	52,072
Cash and Cash Equivalents		171,217	2,028	(73,310)	97,907	75,338
Total Assets		9,960,154	109,164	(1,570,681)	8,389,473	2,579,845
Equity and Liabilities						
Equity Attributable to the Equity Holders						
Stated Capital		1,171,875	100,000	-	1,171,875	1,000,000
Retained Earnings	(B)	1,189,039	7,507	3,523	1,192,562	7,507
Available for Sale Reserves	(B)	3,523	67	(3,523)	-	67
Other Reserves		1,177	-	-	1,177	-
Life Policyholders' Availlable for sale Reserve Fund		40,748	-	-	40,748	-
Total Equity		2,406,362	107,574	-	2,406,362	1,007,574
Liabilities						
Insurance Contract Liabilities - Life		5,562,648	-	-	5,562,648	-
Insurance Contract Liabilities - General		1,279,138	-	(1,279,138)	-	1,279,138
Employee Benefits	(C)	71,493	-	(32,258)	39,235	32,258
Current Tax Liabilities		10,422	1,590	-	10,422	1,590
Deferred Tax Liabilities		8,845	-	(8,845)	-	8,845
Reinsurance Creditors		110,778	-	(79,857)	30,921	79,857
Other Liabilities		510,468	-	(170,583)	339,885	170,583
Total Liabilities		7,553,792	1,590	(1,570,681)	5,983,111	1,572,271
Total Equity and Liabilities		9,960,154	109,164	(1,570,681)	8,389,473	2,579,845

(A) On 01st January 2015 HNB Assurance PLC invested further Rs. 900 Million in HNB General Insurance Limited in order to meet the regulatory and business capital requirements. This investment has been done by transfering assets and liabilities to that effect on the said date. The details of the asset and liability transfer is shown in above statement.

(B) On segregation, HNB Assurance PLC transferred Financial Investment categorised as Available For Sale to HNB General Insurance Limited, Accordingly the AFS reserve amounting to Rs. 3.5 Million assumed to be realised at Company level and added to the retained earnings. This will not have impact on Group financial statements since there was no investment disposal at group level as at 01 January 2015.

(C) On Segregation Employees attached to General Insurance Business transferred to HNBGI Limited and accordingly separate valuation reports were obtained for Defined Employee Benefits for both companies.

On segregation, There was no impact recorded in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31st December 2014. However from 2015 onwards the Statement of Profit or Loss and Other Comprehensive Income of the Company represents income and expenses only in relation to the Life Insurance Business.

Notes to the Financial Statements

43. RELATED PARTY DISCLOSURES

43.1 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 Executive Officer (Acting), 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 Director for his/her financial needs. As the Hatton National Bank PLC 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.

	2015 Rs.'000	2014 Rs.'000
a). Key Management Personnel Compensation		
Short-term employee benefits	40,020	46,071
Post employment benefits	13,982	12,797
Loans Outstanding Balance Granted to KMPs	12,175	6,008

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.

	2015 Rs.'000	2014 Rs.'000
b). Other Transactions with Key Management Personal		
Insurance Premium - General	781	755
Insurance Premium - Life	549	20,276
Claims Paid - General	528	798
Claims and Maturity Claims Paid - Life	-	7,440

c). Ms. Rose Cooray was appointed to the board with effect from 06th July 2015 as a Director (non-executive/ non-independent) and chairperson of HNB Assurance PLC.

Also Mr. Niranjan Manickckam - Chief Operating Officer of HNB General Insurance Limited has been appointed as the Chief Executive Officer (Acting) of HNB Assurance PLC with effect from 01st April 2015.

43. RELATED PARTY DISCLOSURES (Contd.)

Following Director was appointed to the Board of HNB Assurance PLC during the year.

Director	Effective date of Appointment
Mr. Thimal Perera	08th January 2016

Following Directors have resigned from the Board during the year.

Director	Effective date of Resignation
Dr. Ranee Jayamaha	30th March 2015
Mr. Manjula de Silva	31st March 2015
Mr. Jonathan Alles	03rd December 2015
Mr. M U de Silva	8th January 2016

Accordingly, these Directors cease to be Key Management Personnel of the Company w.e.f. their respective dates of resignation.

Following Directors were appointed to the Board of Hatton National Bank PLC (Parent company) during the year.

Director	Effective date of Appointment
Mr. R A R Arseculeratne	30th April 2015
Mr. P S C Pelpola	30th April 2015
Mr. E D P Soosaipillai	30th April 2015
Mr. A H D A N De Silva	30th April 2015

Following Directors have resigned from the Board of Hatton National Bank PLC (Parent company) during the year.

Director	Effective date of Resignation
Mr. W W Gamage	29th May 2015

Accordingly, the above personnel have been considered as Key Management Personnel of the Company w.e.f. the dates of their appointments mentioned above.

Notes to the Financial Statements

43. RELATED PARTY DISCLOSURES (Contd.)

43.2 Transaction with related parties

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) - 24, Related Party Disclosures.

Transactions with related parties were made on the basis of the price lists 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.

	2015 Rs.'000	2014 Rs.'000
43.2.a Transaction with the Parent and Ultimate Controlling Party		
Hatton National Bank PLC		
Nature of Transaction		
Insurance Premium		
General	10,475	11,428
Administration Expenses		
Life	80,399	64,174
General	70,490	63,317
	150,889	127,491
Claims Incurred		
General	9,361	9,839
Investment Income		
Life	23,702	20,421
General	5,268	6,039
	28,970	26,460
Rent Expenses	30,113	26,284
Other Operational Expenses	23,461	23,100
Investments Balance as at 31st December (Includes Deposits and Debentures)		
Life	212,825	173,429
General	88,061	113,137
	300,886	286,566
Bank Account Balances as at 31st December		
Life	87,949	72,505
General	80,634	86,975
	168,583	159,480
Dividends Paid	112,474	97,477

43.	RELATED PARTY DISCLOSURES (Contd.)	2015 Rs.'000	2014 Rs.'000
43.2.b	**Transaction with the Subsidiary Company - HNB General Insurance Ltd.**		
	Transactions due to the Segregation of Life and General Insurance Businesses		
	Transfer of Assets	2,470,677	-
	Transfer of Liabilities	1,570,677	-
	Investment in Stated Capital	1,050,000	-
	Profit Realised from Transfer of Available-For-Sale Assets	3,523	-
		5,094,877	-
	Other transactions		
	Insurance Premium	19,808	-
	Insurance Expenses	19,920	-
	Administrations Expenses Reimbursement	154,059	-
		193,787	-
43.2.c	**Transaction with / between Subsidiary Companies of the Parent Company**		
	a). Sithma Development (Pvt) Limited		
	Nature of Transaction		
	Insurance Premium		
	General	214	1,206
	b). Splendor Media (Pvt) Ltd.		
	Insurance Premium		
	General	-	328
	Claims Incurred		
	General	-	156
	Media Placements Commission Fee	-	4,738
		-	4,894
	c). HNB Grameen Finance Ltd		
	Insurance Premium		
	Life	33,256	-
	General	733	-
		33,989	-
	Claims Incurred		
	Life	3,558	-
	General	73	-
		3,631	-
	Administration Expenses		
	Life	3,918	-
	General	82	-
		4,000	-

Notes to the Financial Statements

43. RELATED PARTY DISCLOSURES (Contd.)

43.2. c 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 Company. Significant influence is presumed to be established if a Key Management Person of the 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	Insurance Segment	2015 Rs.'000	2014 Rs.'000
Acuity Stockbrokers (Pvt) Ltd	Mr. A J Alles	Insurance Premium	General	160	144
		Brokerage Fee	Life	-	202
			General	-	83
Acuity Securities Ltd	Mr. Dilshan Rodrigo	Insurance Premium	General	81	63
		Investment in REPO	Life	755,544	196,915
			General	163,025	101,233
		Investment Income from REPO	Life	15,219	8,831
			General	4,505	6,360
Acuity Partners (Pvt) Limited	Mr. A J Alles Mr. Dilshan Rodrigo	Insurance Premium	General	296	304
Swisstek Aluminium Limited	Mr. Mahendra Jayasekera	Insurance Premium	General	56	55
Swisstek (Ceylon) PLC	Mr. Mahendra Jayasekera	Insurance Premium	General	334	-
Lanka Walltiles PLC	Dr. Sivakumar Selliah Mr. Mahendra Jayasekera	Insurance Premium	General	2,800	2,573
		Claims Incurred		14	-
Lanka Tiles PLC	Mr. Mahendra Jayasekera Dr. Sivakumar Selliah	Insurance Premium	General	2,196	246
		Claims Incurred	General	12	20
M M B L Leisure Holdings Pvt Ltd	Mr. K Balasundaram	Insurance Premium	General	224	-
Pathfinder (Pvt) Ltd	Mr. K Balasundaram	Insurance Premium	General	123	-
		Claims Incurred	General	66	-
Salamander Investment (Pvt) Ltd	Mr. K Balasundaram	Insurance Premium	General	45	-

43. RELATED PARTY DISCLOSURES (Contd.)

43.2.c Transactions with other Related entities (Contd.)

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2015 Rs.'000	2014 Rs.'000
Mercantile Merchant Bank Ltd	Mr. K Balasundaram	Insurance Premium	General	454	-
		Claims Incurred	General	184	-
Lanka Financial Services Bureau	Mr. A J Alles	Insurance Premium	General	9	13
Guardian Acuity Asset Management Ltd	Mr. Dilshan Rodrigo Mr. Mahendra Jayasekera	Investment in Units	Life	23,198	22,305
			General	28,574	27,473
Ceylon Investments Group (Pvt) Ltd	Ms. Rose Cooray	Insurance Premium	General	-	54
		Claims Incurred	General	-	34
Mobitel Pvt Ltd	Mr. W W Gamage	Utility Payments	Company	221	509
Lanka Dairies (Pvt) Ltd	Mr. D S C Jayawardena	Insurance Premium	General	12	8

43.2.d Transactions with /between shareholders of the parent company with significant influence.

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 parent Company Hatton National Bank PLC as at 31st December 2015 and thus has significant influence over its operation and thereby holds an indirect control over the Company. Accordingly he 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".

43.2.e Transactions with /between shareholders of the parent company with significant influence.

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2015 Rs.'000	2014 Rs.'000
Financial Institutes					
Government of Sri Lanka		Investment balances as at 31st Dec.	Life	4,007,590	1,883,902
			General	880,971	386,156
		Investment Income	Life	264,428	154,489
			General	49,390	33,369
Bank of Ceylon	Government related entity	Investment balances as at 31st Dec.	Life	129,000	143,517
			General	10,000	36,117
		Investment Income	Life	20,424	23,383
			General	1,600	5,646

Notes to the Financial Statements

43. RELATED PARTY DISCLOSURES (Contd.)

43.2.e Transactions with /between shareholders of the parent company with significant influence. (Contd.)

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2015 Rs.'000	2014 Rs.'000
HDFC Bank	Government related entity	Investment balances as at 31st Dec.	Life	60,000	120,748
			General	-	103,577
		Investment Income	Life	11,131	18,063
			General	782	7,558
National Development Bank PLC	Government related entity	Investment balances as at 31st Dec.	Life	114,226	73,685
			General	19,873	37,998
		Investment Income	Life	9,692	17,434
			General	2,094	4,115
People's Bank	Government related entity	Investment balances as at 31st Dec.	Life	-	28,451
			General	-	-
		Investment Income	Life	1,326	9,426
			General	-	1,512
Urban Development Authority	Government related entity	Investment balances as at 31st Dec.	Life	-	89,010
			General	-	26,392
		Investment Income	Life	9,046	9,538
			General	3,179	2,828

43.2.f Transactions with /between shareholders of the parent company with significant influence.

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2015 Rs.'000	2014 Rs.'000
National Insurance Trust Fund	Government Related Entities	Crop Leavy Payment	Life/General	2,873	2,918
		Reinsurance Payment	General	235,914	266,246
		Claims Payment	General	30,788	35,279
		Reinsurance Commision	General	25,580	52,293
Department of Inland Revenue	Government related entity	Taxes	Life/General	292,688	266,040
Insurance Board of Sri Lanka	Government related entity	Cess Annual Fee	Life/General	19,473	15,182
Colombo Stock Exchange	Government related entity	Annual Fee	Life/General	142	93
Employee Provident Fund	Government related entity	Contribution	Life/General	76,600	68,913

43. RELATED PARTY DISCLOSURES (Contd.)

43.2.f Transactions with /between shareholders of the parent company with significant influence. (Contd.)

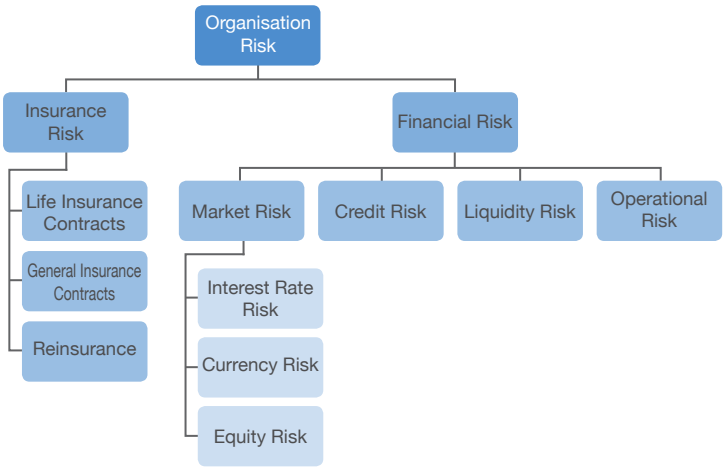
Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2015 Rs.'000	2014 Rs.'000
Employee Trust Fund	Government related entity	Contribution	Life/General	11,490	10,337
Department of Road Safety	Government related entity	Luxury Tax/CRSF	General	26,792	30,288
Company Registrar	Government related entity	Registration fee	Life/General	-	609
Ceylon Shipping Lines Ltd	Government related entity	Insurance Premium	General	714	660
		Claims Incurred	General	1,080	1,009
Sri Lanka Savings Bank	Government related entity	Insurance Premium	General	402	46
Urban Development Authority	Government related entity	Insurance Premium	General	-	74
Sri Lanka Insurance Corporation Ltd (SLIC)	Government related entity	Co-insurance Premium	General	11,433	9,623
Utility Providers					
Ceylon Electricity Board	Government related entity	Utility Payments	Life/General	15,321	16,916
Lanka Electricity Company (Pvt) Ltd	Government related entity	Utility Payments	Life/General	3,846	3,921
National Water Supply & Drainage Board	Government related entity	Utility Payments	Life/General	965	822
Sri Lanka Telecom Limited	Government related entity	Utility Payments	Life/General	19,530	19,615
		Insurance Premium	General	1,374	324
Media Providers					
Sri Lanka Rupavahini Corporation	Government related entity	Advertising	Company	842	143
The Associated Newspapers of Ceylon Ltd	Government related entity	Advertising	Company	956	737

Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT

44.1 Introduction and Overview

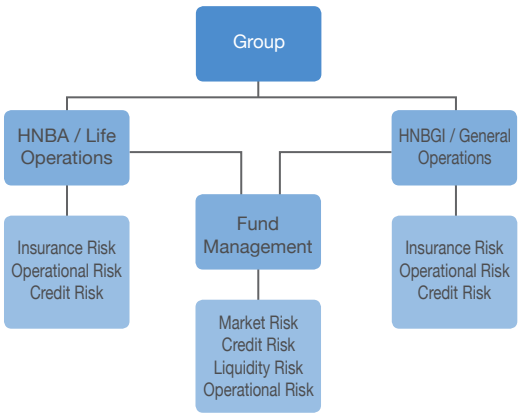
Both companies of the Group; HNB Assurance PLC and HNB General Insurance Ltd, is exposed to multiple risks and the following chart graphically presents all kinds of risks that the Group considers in Risk Management.



This note presents information about Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing such risks, and the manner in which the Group manages its capital.

44.1.1 Group's Business Units and the Principal Risks

The chart below provides a link between the Group's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Company and the Group as a whole. The significance of risk is measured based on allocation of the regulatory capital within the Company and the Group.



44.1.2 Risk management framework

The primary objective of the Group's risk and financial management framework is to protect its shareholders from events that could hinder the sustainable achievement of financial objectives, including the failure to exploit opportunities. The Board of Directors of the Company has the overall responsibility for the establishment and oversight of the risk management framework of the Group and thus, their approval is necessary for the risk management strategy and risk policies pertaining to all activities of the Group.

The Board of Directors of the Company has appointed a Board Risk Management Committee, a standing committee of the Board comprising four (4) members of the Board to oversee the risk management activities of the Group. The Committee reports to the Board of Directors regarding the risk profile of the Group, as well as its risk management framework, including the significant policies and practices employed to manage risks in the company 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 program.

The Group has a Risk Management Team, comprising members of the senior management from business operations and control functions, which oversee the risk management activities of the Group. The activities cover areas such as the evaluation of business processes, design and implementation of the risk strategy and risk policies, review and updating of the risk profile, delegation of authority, monitoring of risk mitigation activities, etc.

The Team has developed a comprehensive Risk Register identifying all the risks affecting the Group. Each risk identified is categorized based on their impact and probability of occurrence and ranked as High, Medium and Low risks. The Risk Management Committee also reviews the Group's Risk Register and monitors the actions taken to mitigate the risks identified. The Group's risks identification and assessment is a robust process, which includes processes to incorporate any new, emerging risks and removal of irrelevant risks from the evaluation.

A process is set for identifying Key Risk Indicators (KRIs) based on the Risk Register prepared by the Risk Management team and additional recommendations made by the Board Risk Management Committee. These KRIs are prepared monthly and reviewed by the Executive committee and the Board Risk Committee. Significant KRIs are reported to the Boards of HNBA and HNBGI on a quarterly basis.

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.1 Introduction and Overview (Contd.)

a) 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 Companies above the levels stipulated by the regulator, 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, 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 Group are subject to regulatory requirements. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. Solvency Margin, Approved Assets Requirements, etc.) to minimise the risk of default and insolvency on the part of the Company to meet unforeseen liabilities as they arise.

The Group is in compliance with all these regulatory requirements throughout the financial year.

b) Approach to capital management

The Group seeks to optimise 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 primary source of capital used by the Company is equity shareholders' funds. The capital requirements are routinely forecasted on a periodic basis by the management and the Board. The solvency margins are calculated on a monthly basis and shared with the Board.

There were no changes in the capital structure in the Company during the year. Please refer Note 14 on Page 290 for the Stated Capital of the Company.

c) Regulatory framework

The insurance regulator of the Country, the Insurance Board of Sri Lanka (IBSL) is primarily interested in protecting the rights of policyholders and monitors the Group closely to ensure that it is satisfactorily managing affairs for the benefit of policyholders. At the same time, they are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks, natural disasters, etc.

Thus, the operations of the Group are subject to regulatory requirements of the IBSL as well as various 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, etc. The Group is also regulated by the Companies Act No. 07 of 2007.

The Group is also working with other companies in the industry on the upcoming major regulatory requirements. The Group worked closely with the IBSL on the implementation of the Risk Based Capital (RBC) framework in Sri Lanka by participating in the road test and this had led to a considerable progress towards RBC implementation over last few years. IBSL commenced the compulsory parallel run from the year 2014 which the Company provided all relevant information timely. From January 2016, the IBSL implemented the Risk Based Capital (RBC) framework in Sri Lanka and the Group is prepared to comply with such requirements.

d) Asset and Liability Management (ALM) framework

Financial risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The main risk

Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.1 Introduction and Overview (Contd.)

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 Asset and Liability Management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance contracts.

44.2 Insurance Risk

The principal risk the Group faces under insurance contracts is that 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 long–term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these 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.

The Group considers insurance risk to be a combination of the following components:

- Product design Risk;
- Underwriting Risk;
- Claims Risk

These risks are discussed in detail in respect of two business lines (Life and General) of the Group separately. Please refer pages 326 to 329 for Life insurance risk management activities and pages 329 to 332 for General insurance risk management activities.

44.2.1 Life Insurance contracts

a) Product design risk;

Life Insurance contracts are offered by the Parent Company of the Group; 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. Endowment products acquire a surrender value upon completion of three years.

The Company offers two single premium annuity products. The first product being “My Freedom” offers a pre-determined annuity amount for a specified time period, whilst the second product; namely “My Pension”, 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 that the Company is exposed to, under product design risk are as follows:

Types Risk	Description
Mortality Risk	Risk of loss arising due to policyholders’ death experience being different from expected
Morbidity Risk	Risk of loss arising due to policyholders’ health experience being different from expected
Investment return Risk	Risk of loss arising from actual returns being different from expected
Expense Risk	Risk of loss arising from the expense experience being different from expected
Policyholder decission Risk	Risk of loss arising due to Policyholders’ experiences (Laps and surrenders) being different from expected

These risks do not vary significantly in relation to the location and type of risk insured by the Company.

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.2 Insurance Risk (Contd.)

The following table shows the concentration of Life Insurance based on the nature of the contract.

Segregation of Policy Liability based on Product Category 31st December 2015	Gross		
	Insurance Liabilities Participating Rs.'000	Insurance Liabilities Non Participating Rs.'000	Total Gross Insurance Liabilities Rs.'000
Endowment	2,909,708	3,228,123	6,137,831
Term Assurance	-	475,338	475,338
Guaranteed Annuity	-	118,586	118,586
Group Products	-	40,216	40,216
Rider Benefits	-	79,078	79,078
	2,909,708	3,941,341	6,851,049
Less : Reinsurance	(7,391)	(84,377)	(91,768)
Total	2,902,317	3,856,964	6,759,281

Segregation of Policy Liability based on Product Category 31st December 2014	Gross		
	Insurance Liabilities Participating Rs.'000	Insurance Liabilities Non Participating Rs.'000	Total Gross Insurance Liabilities Rs.'000
Endowment	2,594,062	2,037,030	4,631,092
Term Assurance	-	405,505	405,505
Guaranteed Annuity	-	85,834	85,834
Group Products	-	9,288	9,288
Rider Benefits	-	79,326	79,326
	2,594,062	2,616,983	5,211,045
Less : Reinsurance	(8,000)	(100,400)	(108,400)
Total	2,586,062	2,516,583	5,102,645

Participation Fund vs Non-Participation Fund

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 2".

Participation Fund vs Non-Participation Fund	Participating Rs.'000	Non Participating Rs.'000	TOTAL Rs.'000
2015	3,069,146	3,856,963	6,926,109
Percentage	44%	56%	100%
2014	2,821,599	2,642,410	5,464,009
Percentage	52%	48%	100%

Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.2 Insurance Risk (Contd.)

b) Underwriting Risk

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of the type of risk and the level of insured benefits. This is largely achieved through prudent underwriting, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history 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 individual policies, it can impose different terms at revivals and it has the right to reject the payment of fraudulent claims.

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 contracts for which death or disability is the insured risk, the significant factors that could increase the overall 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.

Both our annuity products are structured such that backing investments are maintained for the agreed amount of business for the year.

Some of the specific actions by the Company to mitigate the underwriting risks are shown below.

Life Underwriting Risk Management

- 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.
- 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.
- 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.
- Focused training is provided to Insurance Advisors on proper selling in Sinhala, Tamil and English.
- A Customer Need Analysis Form is used to identify customers' requirements and sell the most appropriate policy.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured amount.

c) Claims Risk

Risk arises due to the possibility that the frequency of claims arising from Life Insurance contracts exceeds the expected level when pricing the products.

Some of the specific actions by the Company to mitigate the Claims Risks are shown below.

Life Claims Risk Management

- An Independent Actuary is engaged to carry out a valuation of the Life Insurance contract liabilities bi-annually.
- 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.
- The support of the reinsurers is obtained on reserving such claim liability and the share of reinsurers.
- Claims are reserved immediately at the intimation or on the availability of information of the death or injury of an insured.
- Financial authority limits are set based on the claim limits where the maximum limit is with the Claims Panel (comprising Chief Executive Officer (Acting), Chief Operating Officer – Life Insurance and Chief Financial Officer) which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.

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

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.2 Insurance Risk (Contd.)

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 IBSL. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. 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:

- **Mortality and morbidity rates**
  Assumptions are based on standard mortality tables which are used by the industry.

- **Longevity**
  With the introduction of "My Pension", valuation of liabilities in Life Insurance becomes more challenging since longevity also affects in determining such liabilities. However, this business portfolio acts as a natural hedge for the mortality risk oriented business. Standard annuity tables were adopted in pricing and setting-up reserves for this product.

- **Lapse and surrender rates**
  Lapses relate to the termination of policies due to non–payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders after acquiring a surrender value.

  An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increments are broadly neutral in effect.

- **Discount rate**
  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.

The discount rate used for the computation is as per IBSL stipulated guidelines. For participating regular premium plans, the maximum discount rate allowable is determined by considering 55% of the average of last three years' yield. For participating single premium plans, non-participating regular premium plans, paid-up plans and reversionary bonus, the discount rate used is 1.5% greater than the discount rate used for the participating regular premiums plans. For non-participating single premium plans, the maximum discount rate is limited to a rate of 3% greater than the maximum rate applicable for participating regular premium plans.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduces surplus available in the Life Business for Policyholders and Shareholders.

The impact on gross Life Fund liabilities, possible movements in key assumptions with all other assumptions held constant, are shown below;

Sensitivity of the value of Insurance Liabilities 31st December 2015	Change in assumptions	Impact on Gross Liabilities %
Mortality		
	+10%	0.87%
	-10%	-0.87%
Discount rate		
	+ 50 basis points	-1.73%
	- 50 basis points	1.79%

44.2.2 General Insurance contracts

a) Product design risk

General Insurance contracts are offered by the Subsidiary Company of the Group; HNB General Insurance LTD (HNBGI). HNBGI principally issues the following types of General Insurance contracts.

- Motor
- Fire and Engineering
- Marine
- Medical
- Miscellaneous
- Workmen Compensation

The significant risks arising under the General Insurance portfolio emanates from changes in the climate leading to natural disasters, behavioral trends of people due to changing life styles and the steady escalation of costs in

Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)
44.2 Insurance Risk (Contd.)

respect of spare parts in the auto industry. A long tail claim which takes time to finally settle is also exposed to risk of inflation.

The above risk exposure is mitigated by the diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are put in place to reduce the risk exposure of HNBGI. HNBGI 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 business.

HNBGI has also limited its exposure by imposing maximum claim amounts on certain contracts as well as using reinsurance arrangements in order to limit exposure to catastrophic events (e.g., Tsunami, hurricanes, earthquakes, flood damage, etc.).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes. HNBGI uses its own risk management framework to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these assessments could fail or that claims arising from an un-assessed event is greater than those arising from an assessed event.

b) Underwriting Risk

Some of the specific actions by HNBGI to mitigate General Insurance Underwriting Risks are shown below.

- Significant investments are made for training and development of underwriting and claims management staff, including those attached to the distribution network. The “General Insurance Academy”, an internal training and development school, has been set up targeting the improvement of technical knowledge on General Insurance across HNBGI.
- Strict controls are maintained on the issue of temporary cover notes and also limiting them to 60 days validity period at the month-end.
- Both the underwriters and the distribution managers are assigned Key Performance Indicators on both turnover and profitability, ensuring alignment of objectives.
- Statistical databases are maintained on loss making clients to ensure such clients are strategically declined.
- Adequate reinsurance arrangements have been placed and HNBGI is consciously reviewing the adequacy of these covers in light of catastrophic / extreme events.
- There are strict controls to ensure that no insurance cover is issued without a proper reinsurance arrangement backing the cover.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured and risk.
- Motor insurance pricing is determined based on a Risk based pricing grid

c) Claims Risk

The principal risk HNBGI faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, may differ from expectations. Some of the specific actions by HNBGI to mitigate General Insurance Claims Risks are shown below.

- Claim intimation is conducted through a 24-hour fully fledged Customer Service Centre (CSC).
- Assessments are carried out by an independent expert panel of assessors/loss adjustors working throughout the island on a 24 hour basis.
- Comprehensive estimation of costs and a high quality service to customers are granted through certified garages located island-wide.
- Claims are assessed immediately upon intimation and reserved accordingly.

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.2 Insurance Risk (Contd.)

- Significant outstanding claims are subjected to monthly reviews by the management.
- Post audits, such as close file review (CFR) are conducted to ensure that set guidelines have been observed.
- The service of a qualified Independent Actuary is obtained bi-annually to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- All third party claim intimations are separately reviewed with the support of the Manager – Legal.
- Financial authority limits are set based on the claim limit giving the maximum limit to the Claims Panel (comprising Acting Chief Executive Officer, Chief Financial Officer and Head of Operations – General Insurance) is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.

The table below sets out the concentration of General Insurance contract liabilities by type of contracts. This includes Claims outstanding and IBNR / IBNER Reserves.

Refer note 20 to the financial statement, which shows the gross claim liability and the reinsurance component.

Following table summarises the outstanding Claims position as at 31st December,

General Insurance Claim Reserves	31st December 2015			31st December 2014		
	Gross Claim	Reinsurance	Net	Gross Claim	Reinsurance	Net
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Claims Outstanding	359,921	(57,707)	302,214	228,229	(53,695)	174,534
IBNR / IBNER Reserve	68,974	(15,418)	53,556	56,216	(23,049)	33,167
Title Insurance Reserve	19,153	-	19,153	16,866	-	16,866
Total	448,048	(73,125)	374,923	301,311	(76,744)	224,567

The following table shows the estimated net claims liability (after considering reinsurance) for each successive accident year at each reporting date.

Claims Development Table	0	1	2	3	4	5	6	7
Accident Year	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
2009	78,801	3,636	2,576	1,379	1,021	4,133	2,697	-
2010	100,283	6,980	4,675	3,219	2,365	1,312	-	-
2011	170,450	7,258	3,422	2,661	1,494	-	-	-
2012	163,480	3,250	2,821	3,064	-	-	-	-
2013	163,203	5,303	3,529	-	-	-	-	-
2014	188,644	7,055	-	-	-	-	-	-
2015	324,314	-	-	-	-	-	-	-

In setting claims provisions, HNBGI gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty.

Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.2 Insurance Risk (Contd.)

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 General Insurance claim liabilities are sensitive to the key assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

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 2015	10%	359,921	35,992	30,221	(30,221)	(21,759)
31st December 2014	10%	228,229	22,823	17,453	(17,453)	(12,566)

44.2.3 Reinsurance Risk

The Group purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both proportional and non–proportional basis. A proportional reinsurance arrangement includes both Quota Share and Facultative Treaty programmes which is taken out to reduce the overall exposure of the Company to certain classes of businesses. Non–proportional reinsurance programmes, which are primarily excess–of–loss reinsurance arrangements, are designed to mitigate the Group's net exposure to large single and catastrophic losses. Retention limits on the excess–of–loss reinsurance programmes vary by product line.

Premium ceded to the reinsurers is in accordance with the terms on the programmes already agreed based on the risks written by the Group. Recoveries from reinsurers 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 the Group. Default of reinsurers does not negate this obligation and in that respect the Group carries a credit risk up to the extent ceded to each reinsurer.

The Group's placement of reinsurance is arranged in a manner (particularly in General Insurance as the exposure is very high) that is neither dependent on a single reinsurer nor substantially dependent upon any single reinsurance contract. In Life Insurance, the Company uses Munich Re (which is one of the largest reinsurance companies in the world) as its reinsurance provider. All General Insurance reinsurance contracts are with companies holding credit ratings above the minimum stipulated by the Insurance Board of Sri Lanka (IBSL).

Some of the specific actions by the Group to mitigate Reinsurance Risks are shown below.

- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- A very close and professional relationship is maintained with all reinsurers.
- No cover is issued without a confirmed reinsurance in place.
- Only a globally trusted and stable portfolio of reinsurance companies which are rated highly by Standard & 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 organization operates under Government of Sri Lanka.

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.2 Insurance Risk (Contd.)

The following table shows the credit ratings of the reinsurance companies with whom the Group has arrangements.

Reinsurer	Rating	Rating Agency
Antares Syndicate AUL 1274 at Lloyds	A+	Standard & Poor
Cathedral Syndicate CCL 3010 at Lloyds	A+	Standard & Poor
Emirates International - Dubai	A-	A M Best
Hannover Re	AA-	Standard & Poor
Munich Reinsurance Company	A+	AM Best
National Insurance Trust Fund	Fully owned by Government of Sri Lanka	
Santam Ltd	AA-	Fitch
Sompo Japan Nipponkoa Reinsurance Company Limited	A+	AM Best
Toa Reinsurance Company Limited	A+	Standard & Poor

44.3 Financial Risk

The Financial Risk refers to multiple types of risk associated with financing financial assets and liabilities. The Group considers financial risk to be a combination of following risks.

- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk

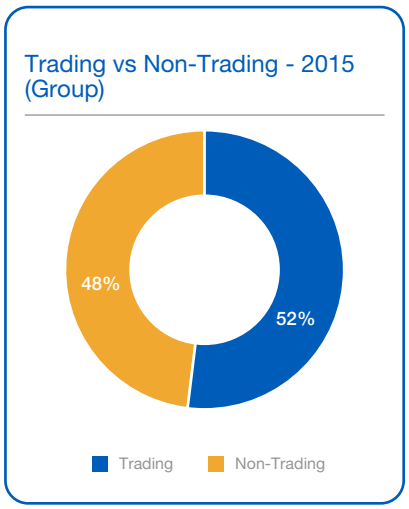
44.3.1 Market Risk

Market risk refers to the risk of possible adverse movements in the values of assets due to changes in market factors, including interest rates, foreign exchange rates and equity prices. The current uncertainties in the local and international markets and investment climate have increased degree of the impact of market risk to the Group.

Market risk is an aggregation of,

a) Interest Rate Risk
b) Currency Risk
c) Equity Price Risk

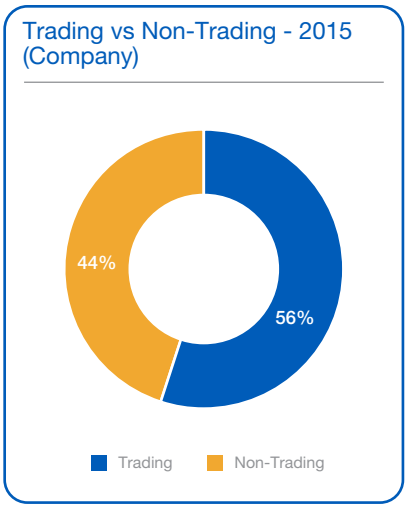
The diagram below shows the Group and Company's concentration on Market Risk in its Financial Investments

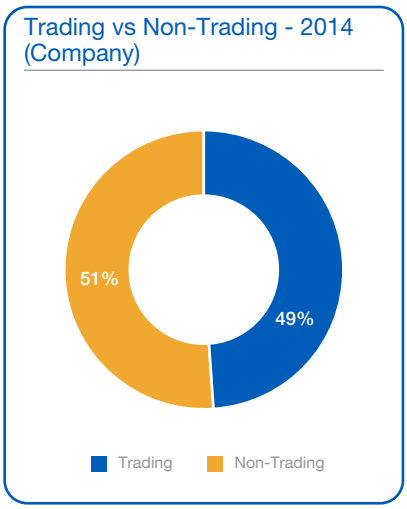


Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)





a) Interest Rate Risk

The risk of fluctuation of fair values or future cash flows of a financial instrument due to a change in market interest rates is referred to as Interest Rate Risk.

Floating rate instruments typically expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk.

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 non-compliance 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 at intervals of less than one year. Interest on fixed interest rate instruments is priced at the inception of the financial instrument and is fixed until maturity.

The table below summarises the Group's and the Company's sensitivity to Interest Rate Risk.

Sensitivity to Interest Rate Risk	31st December 2015				31st December 2014	
	Group		Company		Group and Company	
	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
100 bps parallel increase in all yield curves	(17,757)	(73,159)	(10,375)	(64,637)	550	(57,201)
100 bps parallel decrease in all yield curves	15,146	76,355	10,680	71,105	(550)	62,561

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

Following table summarises the exposure to the Interest Rate Risk by the Group and the Company.

Exposure to Interest Rate Risk 31st December 2015	Variable interest rate Rs.'000	Fixed interest rate Rs.'000	Non-interest bearing Rs.'000	Total Rs.'000
Financial assets - Group				
Held to maturity	-	472,565	-	472,565
Loans & receivables	40,045	6,403,984	-	6,444,029
Available for sale	-	1,458,992	200,304	1,659,296
Fair value through profit & loss	-	699,014	476,707	1,175,721
Cash and cash equivalent	-	187,459	199,470	386,929
Total financial assets - Group	**40,045**	**9,222,014**	**876,481**	**10,138,540**
Total financial liabilities - Group	**-**		**347,809**	**347,809**
Financial assets - Company				
Held to maturity	-	320,426	-	320,426
Loans & receivables	30,034	5,121,684	-	5,151,718
Available for sale	-	1,389,245	170,280	1,559,525
Fair value through profit & loss	-	497,717	320,239	817,956
Cash and cash equivalent	-	146,020	112,202	258,222
Total financial assets - Company	**30,034**	**7,475,092**	**602,721**	**8,107,847**
Total financial liabilities - Company	**-**	**-**	**191,825**	**191,825**

Exposure to Interest Rate Risk 31st December 2014	Variable interest rate Rs.'000	Fixed interest rate Rs.'000	Non-interest bearing Rs.'000	Total Rs.'000
Financial assets - Group				
Held to maturity	-	782,667	-	782,667
Loans & receivables	55,620	5,353,341	-	5,408,961
Available for sale	-	1,487,391	113,202	1,600,593
Fair value through profit & loss	-	-	485,674	485,674
Cash and cash equivalent	-	13,448	159,797	173,245
Total financial assets - Group	55,620	7,636,847	758,673	8,451,140
Total financial liabilities - Group	**-**	**-**	**298,747**	**298,747**
Financial assets - Company				
Held to maturity	-	782,667	-	782,667
Loans & receivables	55,620	5,266,427	-	5,322,047
Available for sale	-	1,467,679	113,202	1,580,881
Fair value through profit & loss	-	-	485,674	485,674
Cash and cash equivalent	-	13,448	157,769	171,217
Total financial assets - Company	**52,620**	**7,530,221**	**756,645**	**8,342,486**
Total financial liabilities - Company	**-**	**-**	**298,747**	**298,747**

Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

b) Currency Risk

The risk of fluctuation in fair values or future cash flows of a financial instrument due to a change in exchange rates, is referred to as Currency Risk.

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 honour 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.

Following table summarises the total exposure and sensitivity to currency risk by the Group and the Company.

Sensitivity to foreign Currency Risk	31st December 2015				31st December 2014	
	Group		Company		Group & Company	
	Amount in Foreign Currency	LKR amount	Amount in Foreign Currency	LKR amount	Amount in Foreign Currency	LKR amount
	'000	Rs. '000	'000	Rs. '000	'000	Rs. '000
USD Assets	USD 1,208	171,504	USD 159	22,569	USD 804.00	104,751
EURO Assets	-	-	-	-	EURO 0.26	41
Total foreign currency denominated assets		171,504		22,569		104,792
	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
5% strengthening of rupee	8,575	6,174	1,128	812	5,240	3,773
5% weakening of rupee	(8,575)	(6,174)	(1,128)	(812)	(5,240)	(3,773)
+/- % impact on Profit	5.05%	3.13%	0.25%	0.19%	1.19%	0.90%

c) Equity Price Risk

The risk of fluctuation in fair values or future cash flows of a financial instrument due to a change in market prices, other than those occurring due to Interest Rate Risk or Currency Risk, is referred to as Equity Price Risk. Accordingly, the equity price risk affects the Group's investments in equity instruments.

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.

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

Following table shows the equity portfolio diversification the Group and the Company.

Equity Portfolio Diversification	31st December 2015				31st December 2014	
	Group		Company		Group & Company	
	Rs.'000	%	Rs.'000	%	Rs.'000	%
Diversified Holdings	32,404	7.24	23,382	6.86	41,563	11.26
Banks, Finance and Insurance	180,494	40.35	134,644	39.51	146,931	39.79
Manufacturing	116,225	25.98	89,262	26.19	91,452	24.77
Hotels and Travels	8,953	2.00	7,780	2.28	1,840	0.50
Chemicals and Pharmaceuticals	33,459	7.48	27,208	7.98	19,272	5.22
Power and Energy	12,614	2.82	9,423	2.77	20,700	5.61
Beverages, Food and Tobacco	17,191	3.84	12,271	3.60	14,675	3.97
Investment Trusts	11,433	2.56	11,433	3.35	-	-
Construction And Engineering	5,890	1.32	3,928	1.15	8,186	2.22
Land and Property	17,940	4.01	13,985	4.10	14,325	3.88
Closed End Funds	10,708	2.39	7,488	2.20	10,307	2.78
Total	447,311	100	340,804	100	369,251	100

The sensitivity analysis appearing below has been performed for the Group and the Company to demonstrate the impact of possible movements in All Share Price Index (ASPI) on profit before tax.

Percentage change in benchmark index (APSI)	31st December 2015				31st December 2014	
	Group		Company		Group & Company	
	Impact on PBT	Impact on OCI	Impact on PBT	Impact on OCI	Impact on PBT	Impact on OCI
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
10 per cent increase in equity prices	23,630	20,030	16,304	17,028	35,894	11,320
10 per cent decrease in equity prices	(23,630)	(20,030)	(16,304)	(17,028)	(35,894)	(11,320)

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 are recorded in the Statement of Comprehensive Income) and equity (due to adjustments to Profit Before Tax and changes in fair value of financial assets whose fair values are recorded in the Statement of Changes in Equity).

Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

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 2015				31st December 2014	
		Group		Company		Group and Company	
		Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity	Impact on profit before tax	Impact on equity
		Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Exchange rate	+5%	8,575	6,174	1,128	812	5,240	3,773
Yield curve	+100 basis points	(17,757)	(73,159)	(10,375)	(64,637)	550	(57,201)
ASPI	10%	23,630	37,044	16,304	28,767	35,894	25,844
Total		14,448	(29,941)	7,057	(35,058)	41,684	(27,584)
Exchange rate	- 5%	(8,575)	(6,174)	(1,128)	(812)	(5,240)	(3,773)
Yield curve	-100 basis points	15,146	76,355	10,680	71,105	(550)	62,561
ASPI	-10%	(23,630)	(37,044)	(16,304)	(28,767)	(35,894)	(25,844)
Total		(17,059)	33,137	(6,752)	41,526	(41,684)	32,944

Note 1: Movements in these key variables are non–linear.
Note 2: The carrying values of financial assets in the category of Held to Maturity and fixed rate investments in the category of Loans and Receivables are not subjected to changes in response to movements in interest rates.

44.3.2 Credit Risk

Credit risk refers to the risk of loss of principal or financial reward stemming from counterparty's failure to honour a financial obligation.

The Group's credit risk could mainly arise from financial assets such as its investment portfolios, premium receivables from policyholders, receivables from reinsurers.

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

44.3.2.1 An analysis of concentrations of Credit Risk from Investments, Reinsurance and Premium Receivables of the Group and the Company is shown below.

Concentrations of Credit Risk		2015				2014			
		Group		Company		Group		Company	
		Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Financial Investments									
Government Securities		4,745,707	45	4,023,007	49	3,401,688	38	3,381,976	38
Debenture	Listed	2,967,058	28	2,370,529	30	2,584,318	28	2,497,404	28
	Rated	65,886	1	55,875	1	243,621	3	243,621	3
Unit Trusts		240,408	2	157,203	2	239,933	3	239,933	3
Equity		436,603	4	333,316	4	358,944	4	358,944	4
Term Deposit		1,295,949	12	909,695	11	1,449,391	16	1,449,391	16
Cash and Cash Equivalents		386,929	4	258,222	3	173,245	2	171,217	2
Total Financial Investments		10,138,540	96	8,107,847	100	8,451,140	94	8,342,486	94
Reinsurance Receivable		141,354	1	34,269	-	162,260	2	162,260	2
Premium Receivable		345,916	3	5,592	-	364,051	4	364,051	4
Total		10,625,810	100	8,147,708	100	8,977,451	100	8,868,797	100

44.3.2.2 The table given in the next page provides information regarding the Credit Risk exposure on investments of the Group and the Company as at 31st December by classifying investments according to the respective credit ratings. The Ratings represent local ratings given by Fitch Ratings Lanka Limited, and ICRA Ratings. AAA is considered the highest possible rating, while assets that fall outside the range of AAA to BBB- are classified as speculative grade. No credit exposure limits were exceeded by the Group during the year.

Government securities have been classified as a separate category as they are considered risk free investments. Further, investments in Shares and Units are not considered, since credit rating is not applicable.

Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

Financial Investments Based on Credit Rates	Government Guaranteed	AAA	AA+ AA-	A+ A-	BBB-	Not rated	Total
31st December 2015	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group							
Held-to-maturity financial assets	472,565	-	-	-	-	-	472,565
Loans and receivables	2,115,136	-	1,751,579	1,507,370	570,794	499,150	6,444,029
Available-for-sale financial assets	1,458,992	-	-	-	-	-	1,458,992
Fair value through profit or loss	699,014	-	-	-	-	-	699,014
Short term Investments	-	-	16,395	171,064	-	-	187,459
Total	4,745,707	-	1,767,974	1,678,434	570,794	499,150	9,262,059
	51%	-	20%	18%	6%	5%	100%
Company							
Held-to-maturity financial assets	320,426	-	-	-	-	-	320,426
Loans and receivables	1,815,619	-	1,533,070	1,322,588	480,441	-	5,151,718
Available-for-sale financial assets	1,389,245	-	-	-	-	-	1,389,245
Financial assets at fair value through profit or loss	497,717	-	-	-	-	-	497,717
Short term Investments	-	-	-	146,020	-	-	146,020
Total	**4,023,007**	**-**	**1,533,070**	**1,468,608**	**480,441**	**-**	**7,505,126**
	54%	-	20%	20%	6%	-	100%

Financial Investments Based on Credit Rates	Government Guaranteed	AAA	AA+ AA-	A+ A-	BBB-	Not rated	Total
31st December 2014	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group							
Held-to-maturity financial assets	782,667	-	-	-	-	-	782,667
Loans and receivables	1,247,032	-	2,142,072	1,464,171	555,686	-	5,408,961
Available-for-sale financial assets	1,487,390	-	-	-	-	-	1,487,390
Short term Investments	-	-	13,448	-	-	-	13,448
Total	3,517,089	-	2,155,520	1,464,171	555,686	-	7,692,466
	46%	-	28%	19%	7%	-	100%
Company							
Held-to-maturity financial assets	782,667	-	-	-	-	-	782,667
Loans and receivables	1,247,032	-	2,112,287	1,418,423	544,305	-	5,322,047
Available-for-sale financial assets	1,467,678	-	-	-	-	-	1,467,678
Short term Investments	-	-	13,448	-	-	-	13,448
Total	3,497,377	-	2,125,735	1,418,423	544,305	-	7,585,840
	46%	-	28%	19%	7%	-	100%

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

44.3.2.3 Following table provides information regarding the Credit Risk exposure on Reinsurance Receivables of the Group and the Company as at 31st December. Reinsurance Receivables on claims outstanding and IBNR/IBNER on claims amounts to Rs.94 Million (2014: Rs.96.5 Million) have not been considered in this analysis. Ratings represent international ratings given by "S&P", "AM BEST" and "Fitch".

Reinsurance Receivables Based on Credit Rates (on settled claims)	Government Owned	AAA	AA+ to AA-	A+to A-	BBB+ to BBB-	Not rated	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
31st December 2015							
Group	9,857	-	1,237	35,896	294	-	47,284
Company	-	-	-	13,324	-	-	13,324
31st December 2014							
Group	19,369	-	-	38,992	7,319	-	65,680
Company	19,369	-	-	38,992	7,319	-	65,680

44.3.2.4 The table below provides information regarding the credit risk exposure on other Financial Assets of the Group and the Company as at 31st December by classifying assets according to their due period.

Ageing of Other Financial Assets	≤ 30 days		31 to 60 days		61 to 90 days		91 to 180 days		> 180 days		Total	
31st December 2015	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Group												
Reinsurance receivable	22,010	47	5,521	12	9,513	20	7,309	15	2,931	6	47,284	100
Premium receivables	220,175	64	125,741	36	-	-	-	-	-	-	345,916	100
Total	242,185	62	131,262	33	9,513	2	7,309	2	2,931	1	393,200	100
Company												
Reinsurance receivable	7,434	56	1,422	11	1,378	10	3,090	23	-	-	13,324	100
Premium receivables	5,592	100	-	-	-	-	-	-	-	-	5,592	100
Total	13,026	69	1,422	8	1,378	7	3,090	16	-	-	18,916	100

Ageing of Other Financial Assets	≤ 30 days		31 to 60 days		61 to 90 days		91 to 180 days		>180 days		Total	
31st December 2014	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Group												
Reinsurance receivable	34,608	53	10,076	15	11,611	18	8,242	12	1,143	2	65,680	100
Premium receivables	231,238	64	132,819	36	-	-	-	-	-	-	364,051	100
Total	265,846	62	142,895	33	11,611	3	8,242	2	1,143	0.3	429,731	100
Company												
Reinsurance receivable	34,608	53	10,076	15	11,611	18	8,242	12	1,143	2	65,680	100
Premium receivables	231,238	64	132,819	36	-	-	-	-	-	-	364,051	100
Total	265,846	62	142,895	33	11,611	3	8,242	2	1,143	0.3	429,731	100

Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

Some of the specific actions undertaken by the Group to mitigate Credit Risk in investments are shown below.

- 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 creditworthiness 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 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 (Collateral is mainly obtained for securities lending. 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).
- Signing Master Repo Agreements 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.
- Adhering to the guidelines on selection of Primary dealer with regard to Government security investments
- Approved Financial authority limits set by Investment Committee for all investment related activities
- 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).
- Maintaining a custodian arrangement for listed equity investments with Deutsche Bank AG - Sri Lanka Branch
- Obtaining specialist advise from appointed legal expert on any issues related to investment activities

Group regularly reviews the policies and procedures in respect of managing the Credit Risk in investments and no significant changes made during the year.

Some actions specific to Credit Risk in premiums receivables under General Insurance 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, with the participation of Finance, Distribution and Underwriting officials
- Submission of information regarding policies cancelled due to non-payment of premiums to the industry database on a routine basis
- Using the latest technology(e.g. : SMS) to inform customers on premiums due to the Company
- Follow up with the customer by contacting from our Customer Relations Centre (CRC) on long outstanding balances
- Processing claim settlements only after reviewing the position of outstanding receivables

Group regularly reviews the policies and procedures in respect of managing the premiums receivables under General Insurance and no significant changes made during the year.

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

44.3.3 Liquidity Risk

The risk of the Group being unable to meet obligations due to non-availability of adequate liquid assets is referred to as Liquidity Risk.

The following controls are in place to mitigate Liquidity Risk in the Group.

- Maintaining sufficient cash balances, overnight investments 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.
- 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 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	Total	Less than One year	One year to Three years	Three to Five Years	More than Five Years
31st December 2015	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	9,751,611	3,532,976	2,297,612	2,268,002	1,653,021
Loans to Life Policyholders	91,992	-	-	-	91,992
Reinsurance Receivables	141,354	141,354	-	-	-
Premium Receivables	345,916	345,916	-	-	-
Staff and Other Loans	281,505	91,690	133,884	49,620	6,311
Cash and Cash Equivalents	386,929	386,929	-	-	-
Total Assets	**10,999,307**	**4,498,865**	**2,431,496**	**2,317,622**	**1,751,324**
Liabilities					
Reinsurance Creditors	131,905	131,614	291	-	-
Other Liabilities	215,904	114,595	-	-	101,309
Total Liabilities	**347,809**	**246,209**	**291**	**-**	**101,309**

Notes to the Financial Statements

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

Maturity Profile of Assets & Liabilities Company	Total	Less than One year	One year to Three years	Three to Five Years	More than Five Years
31st December 2015	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	7,849,625	2,709,549	1,865,545	1,838,101	1,436,430
Loans to Life Policyholders	91,992	-	-	-	91,992
Reinsurance Receivables	34,269	34,269	-	-	-
Premium Receivables	5,592	5,592	-	-	-
Staff and Other Loans	172,157	60,885	79,078	28,748	3,446
Cash and Cash Equivalents	258,222	258,222	-	-	-
Total Assets	**8,411,857**	**3,068,517**	**1,944,623**	**1,866,849**	**1,531,868**
Liabilities					
Reinsurance Creditors	37,547	37,547	-	-	-
Other Liabilities	154,278	62,662	-	-	91,616
Total Liabilities	**191,825**	**100,209**	**-**	**-**	**91,616**

Maturity Profile of Assets & Liabilities Group	Total	Less than One year	One year to Three years	Three to Five Years	More than Five Years
31st December 2014	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	8,277,895	2,777,780	1,550,015	2,446,124	1,503,976
Loans to Life Policyholders	71,082	-	-	-	71,082
Reinsurance Receivables	162,260	162,260	-	-	-
Premium Receivables	364,051	364,051	-	-	-
Staff and Other Loans	283,242	71,510	141,515	61,322	8,895
Cash and Cash Equivalents	173,245	173,245	-	-	-
Total Assets	**9,331,775**	**3,548,846**	**1,691,530**	**2,507,446**	**1,583,953**
Liabilities					
Reinsurance Creditors	110,778	110,778	-	-	-
Other Liabilities	187,969	100,026	-	-	87,943
Total Liabilities	**298,747**	**210,804**	**-**	**-**	**87,943**

44. FINANCIAL RISK MANAGEMENT (Contd.)

44.3 Financial Risk (Contd.)

Maturity Profile of Assets & Liabilities Company	Total	Less than One year	One year to Three years	Three to Five Years	More than Five Years
31st December 2014	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	8,171,269	2,758,069	1,543,797	2,365,427	1,503,976
Loans to Life Policyholders	71,082	-	-	-	71,082
Reinsurance Receivables	162,260	162,260	-	-	-
Premium Receivables	364,051	364,051	-	-	-
Staff and Other Loans	283,242	71,510	141,515	61,322	8,895
Cash and Cash Equivalents	171,217	171,217	-	-	-
Total Assets	**9,223,121**	**3,527,107**	**1,685,312**	**2,426,749**	**1,583,953**
Liabilities					
Reinsurance Creditors	110,778	110,778	-	-	-
Other Liabilities	187,969	100,026	-	-	87,943
Total Liabilities	**298,747**	**210,804**	**-**	**-**	**87,943**

44.3.4 Operational Risks

This is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, Market and Liquidity Risks, such as those arising from legal and regulatory requirements and the absence of generally accepted standards of corporate behaviour.

Operational failures could result in dire consequences such as producing misleading financial information, loss of return, financial penalties from regulators or damage to the reputation of the Group. Operational Risks arise from all operations of the Group.

While it is acknowledged that the Group cannot eliminate all Operational Risks, it is in a position to manage such risks by initiating a rigorous control framework and by monitoring and responding to potential risks.

Group's Risk Management team assesses all foreseeable risks involved in its operation and they develop and implement action plan to control those identified operational risks. These action plans recommended by the team is to manage the operational risks in the following areas:

- requirements for having appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- compliance with the Manual of Financial Authority, Procurement Policy and such other policies and procedures that govern operational activities;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

Compliance with recommended action plans are supported by a periodic reviews undertaken by the Internal and External Auditors as well as the Manager - Risk and Compliance. The results of internal reviews are discussed at Audit Committee and Risk Management Committee meetings and minutes of those meetings are tabled at the Board.

Moreover, business risks such as changes in environment, technology and the industry are monitored through the Group's strategic planning process.

Notes to the Financial Statements

45. EVENTS OCCURRING AFTER THE REPORTING DATE

45.a Proposed Dividend

The Board of Directors has recommended the payment of a first and final dividend of Rs. 2.00 per share for the year ended 31st December 2015 (2014 - Rs. 3.75 per share) which is to be approved at the Annual General Meeting to be held on 29th March 2015. More information with respect to a dividend declaration is given on Note 40.

Except for the above 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.

46. COMMITMENTS

46.1 At the year end, no capital expenditure approved by the Board and contracted for which no provision has been made in these Financial Statements (2014 - Rs. Nil Mn).

46.2 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2015 Rs.'000	2014 Rs.'000
Future commitments on operating leases		
Hatton National Bank PLC		
Less than one year	20,378	18,246
Between one and five years	28,994	28,067
Total Operating Lease Commitments	49,372	46,313

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 31 December 2015 an amount of Rs. 1.8 Million was recognised as an expense in profit or loss in respect of operating leases for vehicle hired (2014: Rs. 2.2 Million). There were no contingent rent recognised as an expense during the year.

47. CONTINGENCIES

47.1 The Inland Revenue Department has taken the view that reinsurance claims and commission 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 and Commissions amounted to Rs. 13.3 Million for the year of Assessment 2010/2011.

This has been a common assessment to most of the Insurance Companies who are in the General Insurance business by Inland Revenue Department. However the Companies in the insurance industry are in a strong view that they are not liable to pay VAT on Reinsurance and claims.

The Company has filed due responses in consultation with Tax Consultants and has made an appeal to the Tax Appeals Commission. As such the Company is of the strong view that no additional Tax liabilities are arising due to this Assessment. No response has been received on this matter as of the date of authorizing these Financial Statements

VAT on Reinsurance and claims has been exempted by the Inland Revenue Department w.e.f. 1st January 2011. This is an indication that realisation of this liability is remote.

47. CONTINGENCIES (Contd.)

47.2 The Company has received an official communication from IRD stating that the Company is liable for VAT and NBT on Financial Services (FS). IRD is of the view that HNBA liability has arisen based on section 25C of VAT Act No 14 of 2002 with the application of attributable method. Accordingly, it stated that the Company has registered to pay VAT and NBT on FS w.e.f 01st January 2014. Further, it stated that the Company has registered to pay VAT and NBT on FS w.e.f 01st January 2014.

However, Companies in Insurance Industry and our Tax Consultant's are of the view that the Company is not liable for VAT and NBT on FS, as the Company is in the insurance business and do not engage in the business of financial service directly.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 be materialized in respect of the same.

47.3 The Company has received a Tax Intimation letter on Life Insurance Taxation for the year of assessment 2011/2012. However, no Assessment has been issued yet on this intimation. The Company is of the strong view that no additional tax liability is arising due to this intimation letter and also we have filed a response highlighting our view, which was done in consultation with Tax Consultants. Even if this tax intimation would materialised against the Company, no additional tax liabilities are required for the Company. However, the Tax Loss recorded in note No 38.4 will come down by Rs. 310 Million.

47.4 The Company has received a Notice of Assessment for Life Insurance taxation for the year of assessment 2012/2013. We have filed a petition of appeal through our Tax Consultants and the Company is of the strong view that no additional tax liability will arising due to this. Even in the event that this Assessment would materialize against the Company, no additional tax liabilities are required for the Company since the Company has accumulated tax losses. However, the Tax losses recorded in note No 38.4 will come down by Rs. 278 Million.

47.5 In the opinion of the Directors, and in consultation with the Company Lawyers, litigations currently pending against the Company would not have a material impact on the reported financial results of the Company.

All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

48. 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 the companies (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. The companies are in the process of seeking professional advice from tax consultants to prepare required documentation to comply with transfer pricing regulation.

49. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer to page 232 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.	2015 Rs.'000	2014 Rs.'000
Assets				
Financial Investments	A	349	6,712,139	5,545,833
Loans to Life Policyholders	B	356	91,992	71,082
Reinsurance Receivables	C	356	34,269	23,446
Premium Receivables	10	286	5,592	6,943
Other Assets	D	356	160,671	195,023
Cash and Cash Equivalents	E	357	220,999	88,482
Total Assets			7,225,662	5,930,809
Reserves and Liabilities				
Other Reserves			-	(18,780)
Life Policyholders' Available for Sale Reserve Fund	18	291	(56,350)	40,748
Total Reserves			(56,350)	21,968
Liabilities				
Insurance Contract Liabilities - Life	19	291	7,007,080	5,562,648
Employee Defined Benefit Liabilities	F	357	-	31,508
Reinsurance Creditors	G	357	37,547	30,921
Other Liabilities	H	357	237,385	283,764
Total Liabilities			7,282,012	5,908,841
Total Reserves and Liabilities			7,225,662	5,930,809

The Notes to the Financial Statements as set out on pages 349 to 357 form an integral part of these Financial Statements.

Notes to the Financial Statements
- Life Insurance - Supplemental

A. Financial Investments

As at 31st December,		2015 Rs.'000	2014 Rs.'000
Held to Maturity (HTM)	(Note A.1)	320,426	530,353
Loans and Receivable (L & R)	(Note A.2)	4,074,573	3,303,654
Available for Sale (AFS)	(Note A.3)	1,548,731	1,434,080
Fair Value Through Profit or Loss (FVTPL)	(Note A.4)	768,409	277,746
Total Financial Investments		6,712,139	5,545,833

The table below shows the carrying values of these Financial Instruments together with their fair values

As at 31st December,		2015 Carrying value Rs.'000	2015 Fair value Rs.'000	2014 Carrying value Rs.'000	2014 Fair value Rs.'000
Held to Maturity (HTM)		320,426	336,302	530,353	562,742
Loans and Receivable (L & R)		4,074,573	4,004,925	3,303,654	3,309,220
Available for Sale (AFS)		1,548,731	1,548,731	1,434,080	1,434,080
Fair Value Through Profit or Loss (FVTPL)		768,409	768,409	277,746	277,746
Total Financial Investments		6,712,139	6,658,367	5,545,833	5,583,788
A.1 Held to Maturity (HTM)					
- Treasury Bonds		320,426	336,302	530,353	562,742
		320,426	336,302	530,353	562,742
A.2 Loans and Receivable (L & R)					
-Treasury Bills - Repo		601,923	601,923	535,267	535,267
-Treasury Bills - Overnight Repo		694,195	694,195	66,191	66,191
-Term Deposit	(Note A.5)	840,199	856,318	931,953	946,537
-Corporate Debt	(Note A.6)	1,938,256	1,852,489	1,770,243	1,761,225
		4,074,573	4,004,925	3,303,654	3,309,220
A.3 Available for Sale (AFS)					
- Treasury Bonds		1,349,356	1,349,356	1,279,890	1,279,890
- Treasury Bills		29,095	29,095	73,659	73,659
- Equity Shares	(Note A.7)	170,280	170,280	80,531	80,531
		1,548,731	1,548,731	1,434,080	1,434,080
A.4 Fair Value Through Profit or Loss (FVTPL)					
- Treasury Bonds		497,717	497,717	-	-
- Investment in Units	(Note A.8)	107,657	107,657	107,806	107,806
- Equity Shares	(Note A.9)	163,035	163,035	169,940	169,940
		768,409	768,409	277,746	277,746

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,		2015 Carrying value Rs.'000	2015 Fair value Rs.'000	2014 Carrying value Rs.'000	2014 Fair value Rs.'000
Long term and medium term deposits with,					
Licensed Commercial Banks	(Note A.5.1)	109,495	112,523	126,367	77,698
Licensed Specialised Banks		396,910	413,931	406,838	453,029
Registered Finance Companies		333,794	329,863	398,748	415,810
		840,199	856,317	931,953	946,537

A.5.1 Licensed Commercial Banks

Term Deposits with Related Parties - Hatton National Bank PLC		72,455	72,455	65,506	11,019
Others Banks		37,040	40,068	60,861	66,679
		109,495	112,523	126,367	77,698

A.6 Corporate Debt

Debentures - Quoted	(Note A.6.1)	1,892,393	1,807,095	1,641,796	1,630,129
Debentures - Unquoted	(Note A.6.2)	45,863	45,394	128,447	131,096
		1,938,256	1,852,489	1,770,243	1,761,225

A.6.1 Debentures - Quoted

As at 31st December,	2015 Carrying value Rs.'000	2015 Fair value Rs.'000	2014 Carrying value Rs.'000	2014 Fair value Rs.'000
Abans PLC	**88,289**	**84,391**	**88,289**	**85,000**
(14.25% 250,000 Debentures redeemable on 20.12.2017)	26,786	26,614	26,786	25,000
(14.50% 200,000 Debentures redeemable on 20.12.2018)	21,454	21,536	21,454	20,000
(09.00% 400,000 Debentures redeemable on 26.12.2019)	40,049	36,241	40,049	40,000
Access Engineering PLC	**96,147**	**89,621**	**-**	**-**
(10.25% 950,000 Debentures redeemable on 18.11.2020)	96,147	89,621	-	-
Bank of Ceylon	**101,337**	**109,054**	**123,985**	**121,300**
(11.50% 200,000 Debentures redeemable on 28.06.2015)	-	-	21,178	19,000
(11.00% 100,000 Debentures redeemable on 07.12.2016)	10,072	10,217	10,182	8,900
(16.00% 850,000 Debentures redeemable on 29.11.2017)	86,155	94,229	87,515	88,400
(08.00% 50,000 Debentures redeemable on 21.09.2019)	5,110	4,608	5,110	5,000
Central Finance Company PLC	**35,983**	**37,402**	**35,983**	**39,200**
(14.25% 5,700 Debentures redeemable on 17.06.2016)	5,905	5,868	5,905	6,078
(14.75% 29,000 Debentures redeemable on 17.06.2018)	30,078	31,534	30,078	33,122
Commercial Credit and Finance PLC	**81,286**	**75,533**	**-**	**-**
(10.50% 400,000 Debentures redeemable on 01.06.2020)	41,047	38,192	-	-
(10.40% 400,000 Debentures redeemable on 10.12.2020)	40,239	37,341	-	-
Commercial Leasing and Finance PLC	**41,742**	**38,722**	**-**	**-**
(9.75% 400,000 Debentures redeemable on 21.07.2020)	41,742	38,722	-	-

A.6.1 Debentures - Quoted (Contd.)

As at 31st December,	2015 Carrying value Rs.'000	2015 Fair value Rs.'000	2014 Carrying value Rs.'000	2014 Fair value Rs.'000
DFCC Bank PLC	**59,346**	**56,317**	**32,454**	**30,940**
(14.00% 5,000 Debentures redeemable on 26.09.2016)	5,698	5,341	5,698	5,000
(08.50% 259,400 Debentures redeemable on 18.08.2017)	26,756	26,071	26,756	25,940
(09.40% 255,500 Debentures redeemable on 10.06.2020)	26,892	24,905	-	-
Hatton National Bank PLC	**128,129**	**107,453**	**124,049**	**125,429**
(14.00% 443,403 Debentures redeemable on 12.06.2018)	47,759	50,733	47,758	44,340
(07.75% 200,000 Debentures redeemable on 14.12.2019)	20,781	17,695	20,000	20,000
(11.00% 75,000 Debentures redeemable on 31.03.2021)	20,779	4,615	18,720	21,262
(14.25% 241,086 Debentures redeemable on 29.08.2023)	17,970	18,654	17,497	19,827
(08.33% 200,000 Debentures redeemable on 14.12.2024)	20,840	15,756	20,074	20,000
Hayleys PLC	**41,437**	**42,424**	**40,000**	**43,864**
(14.25% 40,000 Debentures redeemable on 09.07.2016)	41,437	42,424	40,000	43,864
HDFC Bank	**68,679**	**67,277**	**68,679**	**73,716**
(15.50% 600,000 Debentures redeemable on 23.10.2018)	68,679	67,277	68,679	73,716
Hemas Holdings PLC	**42,597**	**41,739**	**42,597**	**41,460**
(11.00% 414,600 Debentures redeemable on 29.04.2019)	42,597	41,739	42,597	41,460
Lanka Orix Leasing Company PLC	**62,285**	**57,627**	**61,958**	**60,000**
(11.90% 250,000 Debentures redeemable on 30.06.2016)	26,500	25,369	26,639	25,000
(09.00% 350,000 Debentures redeemable on 24.11.2019)	35,785	32,258	35,319	35,000
LB Finance PLC	**71,424**	**68,384**	**71,424**	**70,381**
(15.00% 621,300 Debentures redeemable on 28.11.2018)	71,424	68,384	71,424	70,381
Lion Brewery (Ceylon) PLC	**57,944**	**59,123**	**57,944**	**60,039**
(13.50% 16,800 Debentures redeemable on 17.06.2016)	17,372	17,253	17,372	18,230
(13.75% 16,800 Debentures redeemable on 17.06.2017)	17,382	17,753	17,382	16,800
(14.00% 22,400 Debentures redeemable on 17.06.2018)	23,190	24,117	23,190	25,009
Mercantile Investment And Finance PLC	**3,668**	**3,587**	**3,668**	**3,622**
(10.50% 36,100 Debentures redeemable on 05.11.2018)	3,668	3,587	3,668	3,622
Merchant Bank of Sri Lanka & Finance PLC	**110,575**	**103,119**	**133,536**	**126,970**
(11.80% 225,000 Debentures redeemable on 15.11.2015)	-	-	23,838	22,500
(14.25% 450,000 Debentures redeemable on 16.12.2017)	53,154	48,293	53,930	49,532
(17.50% 112,600 Debentures redeemable on 27.03.2018)	13,225	14,258	13,225	13,678
(16.70% 112,600 Debentures redeemable on 27.03.2018)	12,192	12,668	12,192	11,260
(08.75% 150,000 Debentures redeemable on 12.11.2019)	15,658	13,881	15,173	15,000
(09.00% 150,000 Debentures redeemable on 12.11.2019)	16,346	14,019	15,178	15,000

Notes to the Financial Statements - Life Insurance - Supplemental

A.6.1 Debentures - Quoted (Contd.)

As at 31st December,	2015		2014	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
National Development Bank PLC	**59,496**	**56,596**	**38,958**	**36,456**
(13.00% 75,700 Debentures redeemable on 19.12.2018)	8,063	7,968	8,063	8,336
(13.40% 84,200 Debentures redeemable on 19.12.2018)	9,493	8,935	9,493	9,370
(09.40% 235,100 Debentures redeemable on 24.06.2020)	20,538	19,402	21,402	18,750
(13.90% 187,500 Debentures redeemable on 19.12.2023)	21,402	20,291	-	-
Nations Trust Bank PLC	**35,311**	**34,680**	**35,311**	**37,111**
(13.00% 331,500 Debentures redeemable on 19.12.2018)	35,311	34,680	35,311	37,111
Nawaloka Hospitals PLC	**41,411**	**42,857**	**41,411**	**40,000**
(14.15% 400,000 Debentures redeemable on 30.09.2018)	41,411	42,857	41,411	40,000
Pan Asia Banking Corporation PLC	**38,548**	**35,925**	**38,548**	**37,928**
(09.523% 207,340 Debentures redeemable on 30.10.2019)	21,069	19,563	21,069	20,734
(09.75% 171,944 Debentures redeemable on 30.10.2019)	17,479	16,362	17,479	17,194
People's Leasing & Finance PLC	**70,750**	**70,858**	**40,037**	**40,770**
(08.75% 16,300 Debentures redeemable on 23.09.2017)	1,772	1,630	1,668	1,661
(17.00% 300,000 Debentures redeemable on 26.03.2018)	35,086	37,598	35,086	35,775
(09.625% 32,000 Debentures redeemable on 23.09.2018)	3,507	3,190	3,283	3,334
(09.60% 150,000 Debentures redeemable on 12.11.2019)	15,189	14,286	-	-
(09.95% 150,000 Debentures redeemable on 12.11.2020)	15,196	14,154	-	-
Richard Pieris and Company PLC	**46,217**	**44,892**	**46,340**	**44,290**
(10.75% 31,100 Debentures redeemable on 16.05.2017)	3,193	3,186	3,193	3,110
(11.00% 94,300 Debentures redeemable on 16.05.2018)	9,689	9,635	9,689	9,430
(11.25% 317,500 Debentures redeemable on 16.05.2019)	33,335	32,071	33,458	31,750
Sampath Bank PLC	**194,450**	**176,461**	**102,025**	**100,445**
(16.50% 177,600 Debentures redeemable on 11.10.2017)	20,684	20,030	20,684	20,304
(13.40% 363,400 Debentures redeemable on 04.12.2018)	41,196	38,503	41,196	39,981
(08.25% 400,000 Debentures redeemable on 14.12.2019)	43,291	35,823	40,145	40,160
(09.90% 882,500 Debentures redeemable on 18.11.2020)	89,279	82,105	-	-
Seylan Bank PLC	**139,824**	**139,112**	**136,338**	**139,450**
(15.50% 850,000 Debentures redeemable on 21.02.2018)	96,262	103,668	96,262	99,450
(08.60% 100,000 Debentures redeemable on 22.02.2019)	10,879	9,041	10,018	10,000
(08.75% 300,000 Debentures redeemable on 23.12.2020)	32,683	26,403	30,058	30,000
Singer (Sri Lanka) PLC	**40,167**	**38,130**	**72,196**	**72,588**
(17.00% 188,856 Debentures redeemable on 30.09.2015)	-	-	18,885	18,882
(14.50% 140,000 Debentures redeemable on 29.05.2015)	-	-	14,512	14,312
(14.50% 210,000 Debentures redeemable on 29.05.2016)	21,768	21,754	21,768	22,394
(08.25% 170,000 Debentures redeemable on 23.12.2019)	18,399	16,376	17,031	17,000

A.6.1 Debentures - Quoted (Contd.)

As at 31st December,	2015 Carrying value Rs.'000	2015 Fair value Rs.'000	2014 Carrying value Rs.'000	2014 Fair value Rs.'000
Siyapatha Finance PLC	**43,550**	**36,508**	**40,068**	**40,000**
(08.90% 400,000 Debentures redeemable on 24.12.2019)	43,550	36,508	40,068	40,000
Softlogic Finance PLC	**18,234**	**16,970**	**18,234**	**17,790**
(10.00% 177,900 Debentures redeemable on 29.08.2019)	18,234	16,970	18,234	17,790
Softlogic Holdings PLC	**58,184**	**57,843**	**58,754**	**60,792**
(15.75% 550,000 Debentures redeemable on 09.09.2016)	58,184	57,843	58,754	60,792
Urban Development Authority	**-**	**-**	**89,010**	**80,588**
(11.00% 867,100 Debentures redeemable on 05.10.2015)	-	-	89,010	80,588
Vallibel Finance PLC	**15,383**	**14,490**	**-**	**-**
(10.25% 150,000 Debentures redeemable on 31.03.2020)	15,383	14,490	-	-
Total Investment in Quoted Debentures	1,892,393	1,807,095	1,641,796	1,630,129

A.6.2 Debentures - Unquoted

Abans PLC	**25,841**	**25,467**	**25,825**	**26,670**
(13.50% 25,000 Debentures redeemable on 01.03.2016)	25,841	25,467	25,825	26,670
National Development Bank PLC	**20,022**	**19,927**	**20,000**	**19,903**
(3 Months Gross T.Bill +1% 20,000 Debentures redeemable on 30.06.2016)	20,022	19,927	20,000	19,903
People's Leasing & Finance PLC	**-**	**-**	**25,292**	**25,522**
(11.70% 250,000 Debentures redeemable on 30.06.2015)	-	-	25,292	25,522
Singer (Sri Lanka) PLC	**-**	**-**	**25,648**	**26,230**
(15.50% 250,000 Debentures redeemable on 09.05.2015)	-	-	25,648	26,230
Siyapatha Finance PLC	**-**	**-**	**31,682**	**32,771**
(16.65% 200,000 Debentures redeemable on 31.07.2015)	-	-	21,670	22,382
(12.25% 10,000 Debentures redeemable on 31.12.2015)	-	-	10,012	10,389
Total Investment in Unquoted Debentures	45,863	45,394	128,447	131,096

Notes to the Financial Statements - Life Insurance - Supplemental

A.7 Equity Shares - Available For Sale

As at 31st December,	2015 No. of Shares	2015 Carrying Value/ Fair Value Rs.'000	2014 No. of Shares	2014 Carrying Value/ Fair Value Rs.'000
Banks, Finance and Insurance				
Seylan Bank PLC - (Non Voting)	210,000	15,330	210,000	12,075
Sampath Bank PLC	91,356	22,656	50,000	11,815
Central Finance Company PLC	85,961	21,748	-	-
Sector Total		59,734		23,890
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	9,883	2,431	9,883	2,075
Sector Total		2,431		2,075
Chemicals and Pharmaceuticals				
CIC Holdings PLC	141,915	11,523	-	-
Sector Total		11,523		-
Investment Trusts				
Renuka Holdings PLC	425,000	11,433	-	-
Sector Total		11,433		-
Diversified Holdings				
Vallibel One PLC	201877	4,340	201,877	4,825
Sector Total		4,340		4,825
Hotels and Travels				
Aitken Spence Hotels Holdings PLC	80,112	5,448	-	-
Palm Garden Hotels PLC	45,900	1,749	-	-
Sector Total		7,197	-	-
Manufacturing				
Tokyo Cement Company (Lanka) PLC	285,568	13,993	281,843	18,292
Royal Ceramics Lanka PLC	50,000	5,560	50,000	5,845
Textured Jersey Lanka PLC	863,681	30,661	-	-
Sector Total		50,214		24,137
Land and Property				
Overseas Realty (Ceylon) PLC	602,809	13,985	382,669	10,064
Sector Total		13,985		10,064
Power and Energy				
Lanka IOC PLC	254,000	9,423	259,000	15,540
Sector Total		9,423		15,540
Carrying Value of total Investment in Quoted Shares		170,280		80,531

A.8 Investment Units

As at 31st December,	2015 No. of Units	2015 Carrying value/ Fair Value Rs.'000	2014 No. of Units	2014 Carrying value/ Fair Value Rs.'000
Quoted				
NAMAL Acuity Value Fund	80,000	7,488	80,000	7,208
Total Investment in Quoted Unit Trusts		7,488		7,208
Unquoted				
Ceybank Savingsplus Money Maket Fund	1,800,000	18,577	1,800,000	18,797
First Capital Wealth Fund	30,405	36,543	30,405	38,358
Ceylon Income Fund	531,108	7,255	531,108	7,457
NAMAL High Yield Fund	995,025	14,596	995,025	13,681
Guardian Acuity Fixed Income Fund	1,861,814	23,198	1,861,814	22,305
Total Investment in Unquoted Unit Trusts		100,169		100,598
Total Investments in Unit Trusts		107,657		107,806

A.9 Equity Shares - Fair Value Through Profit or Loss

As at 31st December,	2015 No. of Shares	2015 Carrying Value/ Fair Value Rs.'000	2014 No. of Shares	2014 Carrying Value/ Fair Value Rs.'000
Banks, Finance and Insurance				
National Development Bank PLC	53,200	10,326	53,200	13,300
Nations Trust Bank PLC	174,261	15,039	174,261	16,903
DFCC Bank	30,000	5,043	30,000	6,570
Peoples Leasing & Finance PLC	596,000	13,112	596,000	14,602
Seylan Bank PLC - (Non Voting)	239,332	17,471	239,332	13,762
Sampath Bank PLC	56,126	13,919	54,692	12,924
Sector Total		74,910		78,061
Diversified Holdings				
John Keells Holdings PLC	42,240	7,523	36,960	9,240
Richard Pieris and Company PLC	722,851	6,144	722,851	6,144
Hemas Holdings PLC	-	-	55,950	4,157
Vallibel One PLC	250,000	5,375	250,000	5,975
Sector Total		19,042		25,516
Manufacturing				
Royal Ceramics Lanka PLC	83,000	9,230	83,000	9,703
Dipped Products PLC	25,720	2,829	11,000	1,573
ACL Cables PLC	62,600	7,568	30,000	2,292
Tokyo Cement Company (Lanka) PLC	325,724	15,960	332,454	21,576
Kelani Cables PLC	27,000	3,461	27,000	2,414
Sector Total		39,048		37,558

Notes to the Financial Statements - Life Insurance - Supplemental

A.9 Equity Shares - Fair Value Through Profit or Loss (Contd.)

As at 31st December,	2015 No. of Shares	2015 Carrying Value/ Fair Value Rs.'000	2014 No. of Shares	2014 Carrying Value/ Fair Value Rs.'000
Hotels and Travels				
Palm Garden Hotels PLC	15,300	583	15,300	1,224
Sector Total		583		1,224
Chemicals and Pharmaceuticals				
CIC Holdings PLC	135,000	13,541	135,000	11,475
Haycarb PLC	13,000	2,144	13,000	2,249
Sector Total		15,685		13,724
Beverage, Food and Tobacco				
Distilleries Company of Sri Lanka PLC	40,000	9,840	40,000	8,400
Sector Total		9,840		8,400
Construction and Engineering				
Access Engineering PLC	170,000	3,927	170,000	5,457
Sector Total		3,927		5,457
Carrying Value of total Investment in Quoted Shares		163,035		169,940

B. LOANS TO LIFE POLICYHOLDERS

		2015 Rs.'000	2014 Rs.'000
Balance as at 1st January		61,652	47,208
Loans Granted during the Year		37,769	33,325
Repayments during the year		(22,112)	(18,881)
		77,309	61,652
Interest Receivable		14,683	9,430
Balance as at 31st December		91,992	71,082

C. REINSURANCE RECEIVABLES

Reinsurance Receivable on Outstanding Claims		20,945	19,837
Reinsurance Receivable on Settled Claims	(Note C.1)	13,324	3,609
		34,269	23,446

C.1 The age analysis of the reinsurance receivable on settled claims is as follows:

Up to 30 days	7,434	1,144
31 to 60 days	1,422	1,588
61 to 90 days	1,378	877
91 to 180 days	3,090	-
	13,324	3,609

D. OTHER ASSETS

Advance Payment		-	22,401
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	(Note D.1)	159,417	171,296
Other Receivables		1,254	1,326
		160,671	195,023

D.1 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

Withholding Tax Recoverable (WHT)	64,308	71,844
Notional Tax on Government Securities	95,109	99,452
	159,417	171,296

			2015 Rs.'000	2014 Rs.'000
E.	**CASH AND CASH EQUIVALENTS**			
	Cash in Hand		1,018	805
	Cash at Bank with Licensed Commercial Banks		4,948	81,693
	Cash at Bank with Related Parties - Hatton National Bank PLC		87,892	5,984
			95,081	88,482
	Short Term Deposits	(Note E.1)	125,918	-
			220,999	88,482
E.1	Short Term Deposits			
	With Licensed Commercial Banks		100,343	-
	Others		25,575	-
			125,918	-
F.	**EMPLOYEE BENEFITS**			
	Defined benefit plans - Provision for Employee Benefits			
	Balance as at 1st January		31,508	6,747
	Transfered to Life Shareholder		(31,508)	-
	Provision recognised during the year		-	5,454
	Actuarial gain during the plan year		-	19,708
			-	31,909
	Payments during the year		-	(401)
	Balance as at 31st December		-	31,508
G.	**REINSURANCE CREDITORS**			
	Foreign Reinsurer		37,547	30,921
H.	**OTHER LIABILITIES**			
	Policyholders Advance Payments		94,866	72,932
	Acquisition Cost Payable		69,620	47,873
	Advisor Terminal Benefit Scheme		519	81,458
	Government Levies		1,531	2,042
	Accrued Expenses		55,178	41,675
	Others		15,651	37,784
			237,365	283,764

Insurance Revenue Account

For the Year Ended 31st December,	2015 Rs.'000	2014 Rs.'000
Life Insurance		
Gross Written Premium	2,788,716	2,342,867
Premium Ceded to Reinsurers	(107,963)	(127,463)
Net Written Premium	2,680,753	2,215,404
Net Benefits Expense	(280,495)	(412,383)
Net Commission	(517,202)	(393,831)
Expenses Attributable to Policyholders	(747,054)	(696,339)
Fees and Commission Income	51,000	27,914
Underwriting Surplus	1,187,002	740,765
Change In contract Libilities - Life Fund	(1,462,100)	(1,192,273)
Interest and Dividend Income	705,571	542,426
Net Realised Gains	22,512	71,291
Net Fair Value Gain	4,028	65,813
Other Income	15	-
Surplus from Life Insurance Business	457,028	228,022
General Insurance		
Gross Written Premium	2,698,176	2,322,751
Premium Ceded to Reinsurers	(491,121)	(473,559)
Net Written Premium	2,207,055	1,849,192
Net Change in Reserves for Unearned Premium	(122,677)	(219,086)
Net Earned Premium	2,084,378	1,630,106
Net Claims Incurred	(1,837,294)	(1,160,721)
Net Commission	(261,181)	(223,123)
(Increase) / Decrease in Deferred Acquisition Expenses	13,863	19,160
Expenses	(563,107)	(514,747)
Fees and Commission Income	81,612	95,511
Underwriting Deficit	(481,729)	(153,814)
Interest and Dividend Income	165,478	274,450
Net Realised Gains	10,468	34,494
Net Fair Value Gain	12,555	33,468
Other Income	8,928	12,366
Operating (Loss)/Profit from General Insurance Business	(284,300)	200,964
Reconciliation of Statement of Income and Insurance Revenue Accounts		
Surplus from Life Insurance Business	457,028	228,022
Operating Profit / (Loss) from the Subsidiary	(284,300)	9,597
Operating Profit from General Insurance Business	-	200,964
Profit Before Taxation	172,728	438,583
Income Tax (Charge) / Reversal	27,571	(20,857)
Net Intercompany expenses	(2,955)	-
Profit for the Year	197,344	417,726

Share Information

We have disclosed below the information required by Section 7.6 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 2014 were submitted to the CSE on 27th February 2015. The Interim Financial Statements for the year/quarter ended 31st December 2015, was submitted to the CSE on 11th February 2016. The audited Financial Statements for the year ended 31st December 2015 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 223.

4. Principal Activities of the Company (Rule Number 7.6 (II))

The principal activities of the Company during the year are given in the Annual Report of the Board of Directors and Note 1.4 in Accounting Policies on pages 218 and 249 respectively.

5. Top 20 Shareholders (Rule Number 7.6 (III))

The 20 largest shareholders as at 31st December 2015 together with their Shareholding as at 31st December 2014 are given below.

Name of the Shareholder	2015		2014	
	Shareholding	% on Total No. of Shares	Shareholding	% on Total No. of Shares
Hatton National Bank PLC A/C No.1	29,993,000	59.99	29,993,000	59.99
The Ceylon Guardian Investment Trust PLC A/C No. 2	2,000,000	4.00	2,000,000	4.00
Mercantile Merchant Bank Ltd.	913,265	1.83	913,265	1.83
Janashakthi General Insurance Limited	824,425	1.65	824,425	1.65
Bank of Ceylon A/C Ceybank Century Growth Fund	648,244	1.30	605,090	1.21
Mr. Mohamed Faizer Hashim	530,534	1.06	530,534	1.06
Salamander Investments (Pvt.) Ltd	475,000	0.95	475,000	0.95
Arunodhaya Industries (Pvt.) Ltd	400,000	0.80	400,000	0.80
Arunodhaya Investments (Pvt.) Ltd	400,000	0.80	400,000	0.80
Arunodhaya (Pvt.) Ltd	400,000	0.80	400,000	0.80
Union Assurance PLC No-1 A/C	336,266	0.67	336,266	0.67
Waldock Mackenzie Ltd/Mr.S.N.P.Palihena & Mrs.A.S.Palihena	300,000	0.60	300,000	0.60
Phoenix Ventures (Pvt.) Ltd.	260,000	0.52	260,000	0.52
Corporate Holdings (Pvt.) Ltd	242,700	0.49	242,700	0.49
Mr. Madduma Hetti Vidanelage Upali Gunatilaka	201,643	0.40	-	-
Mrs. Kailasapillai Abiramipillai	200,000	0.40	200,000	0.40
Mr. Kailasapillai Viswanathar	200,000	0.40	200,000	0.40
Miss Subramaniam Sivamalar	200,000	0.40	200,000	0.40
Andysel (Pvt.) Ltd	200,000	0.40	200,000	0.40
Mrs. Selliah Arunthathi	200,000	0.40	200,000	0.40
	38,925,077	77.86		

Share Information

6. Public Shareholding (Rule Number 7.6 (IV))

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

	2015		2014	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Public Shareholding	19,604,654	39.21	19,570,222	39.14

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 2015	No. of Shares as at 31st December 2014
Rose Cooray - Chairperson	5,000	Not Applicable
M U de Silva	3,000	3,000
Sarath Ratwatte	14,666	14,666
Mahendra Jayasekera	5,000	5,000
K Balasundaram	10,000	10,000
Dilshan Rodrigo	180	180
Siromi Wickramasinghe	52,500	52,500
Dr. Sivakumar Selliah	100,000	100,000
Dr. Ranee Jayamaha (Resigned w.e.f. 30th March 2015)	Not Applicable	100
Manjula de Silva (Resigned w.e.f. 31st March 2015)	Not Applicable	38,332
Jonathan Alles (Resigned w.e.f. 03rd December 2015)	Not Applicable	1,000

8. Material Foreseeable Risk Factors of the Company (Rule Number 7.6 (VI))

Information pertaining the company's risk management practices and procedures are given on the Risk Management Report from pages 196 to 200.

Further detailed analyses of risks faced by the Group and mitigation actions with the exposure of the main operational areas are given in the following pages.

- Life Insurance risks from pages 326 to 329
- General Insurance risks from pages 329 to 332
- Investment risks from pages 101 to 104
- Human Resource risks from pages 132 to 133
- Financial Risk Management from pages 324 to 345

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.

11. Stated Capital (Rule Number 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 3,525 registered shareholders as at 31st December 2015 (2014-3,480). The distribution and Composition of shareholders as per the above rule are given as follows,

Shareholding	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	% on Total No. of shares	No. of Shareholders	No. of shares	% on Total No. of shares	No. of Shareholders	No. of shares	% on Total No. of shares
1 – 1,000 Shares	2,097	653,430	1.30	8	2,605	0.01	2,105	656,035	1.31
1,001 – 10,000 Shares	1,232	4,340,270	8.68	11	48,814	0.10	1,243	4,389,084	8.78
10,001 –100,000 Shares	137	3,787,743	7.57	8	285,164	0.57	145	4,072,907	8.14
100,001 –1,000,000 Shares	30	8,888,974	17.78	-	-	-	30	8,888,974	17.78
Over – 1,000,000 Shares	2	31,993,000	63.99	-	-	-	2	31,993,000	63.99
Total	3,498	49,663,417	99.32	27	336,583	0.68	3,525	50,000,000	100.00

b) Analysis of Shareholders

i. Resident/Non-Resident

	31st December 2015			31st December 2014		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	3,498	49,663,417	99.32	3,451	49,465,189	98.94
Non-Resident	27	336,583	0.68	29	534,811	1.06
Total	3,525	50,000,000	100.00	3,480	50,000,000	100.00

ii. Individual /Institutional

	31st December 2015			31st December 2014		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,414	10,477,805	20.95	3,376	10,678,035	21.36
Institutional	111	39,522,195	79.05	104	39,321,965	78.64
Total	3,525	50,000,000	100.00	3,480	50,000,000	100.00

Share Information

13. Share Performance (Rule Number 7.6 (XI))

The details relating to the share performance are given below.

	2015	2014	2013	2012	2011
Number of Transactions	1,808	3,111	1,778	1,465	2,831
Number of Shares Traded	1,201,027	4,937,695	4,589,817	1,347,828	2,903,300
Value of Shares Traded (Rs.)	103,016,431	373,672,883	242,310,103	61,959,216	215,698,120
CSE Turnover (Rs.Bn.)	326.38	340.92	200.47	213.83	546.26
Market Capitalisation (Rs. Mn.)					
HNB Assurance PLC	3,730	4,175	2,625	2,450	2,845
CSE	2,937,998	3,104,863	2,459,897	2,167,581	2,213,873
Dividend per share (Rs.)	2.00	3.75	3.25	2.75	2.10
Dividend payment (Rs. Mn.)	100	187.5	162.5	137.5	105.0
Dividend payout (%)	50.63	44.89	41.76	39.17	40.86
Basic Earnings Per Share (Rs.)	3.95	8.35	7.78	7.02	5.14
Net Asset Value Per Share (Rs.)	45.68	48.28	42.26	37.34	31.87
Market Price per share (Rs.)					
Highest	93.5	98.00	57.00	56.90	90.00
Lowest	69.05	52.20	47.00	36.30	42.50
Year end (VWA)	74.6	83.50	52.50	49.00	56.90
P/E Ratio (Times)	18.89	10.00	6.75	6.98	11.07

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 04 to the Financial Statements in page 268.

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 193 to 195.

18. Related Party Transactions (Rule Number 7.6 (XVI))

The Company was segregated on 01st January 2015 into two companies, in line with the requirement to segregate Life and General insurance businesses under the Regulation of Insurance Industry (Amendment) Act, No. 03 of 2011. This was a major transaction of the Company and hence, shareholders' approval was obtained for this transaction at the 12th Annual General Meeting held on 27th March 2014. Details of the transaction were communicated to the CSE on 02nd January 2015. Details of this transaction are given on note 42 to the Financial Statements.

Further, all other related party transactions at aggregate level have been disclosed under note 43 to the Financial Statements.

Quarterly Analysis 2015 and 2014

Statement of Profit or Loss	1st Quarter Jan - March		2nd Quarter Apr-Jun		3rd Quarter Jul-Sep		4th Quarter Oct-Dec		Total Jan-Dec	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Gross Written Premium	1,357,812	1,145,247	1,325,099	1,109,544	1,369,436	1,196,657	1,394,817	1,214,170	5,447,164	4,665,618
Premium Ceded to Reinsurers	(160,219)	(134,759)	(142,472)	(155,016)	(146,815)	(146,074)	(149,578)	(165,173)	(599,084)	(601,022)
Net Written Premium	1,197,593	1,010,488	1,182,627	954,528	1,222,621	1,050,583	1,245,239	1,048,997	4,848,080	4,064,596
Net Change in Reserves for Unearned Premium	(138,004)	(104,865)	(30,994)	(30,979)	(15,112)	(48,792)	61,433	(34,450)	(122,677)	(219,086)
Net Earned Premium	1,059,589	905,623	1,151,633	923,549	1,207,509	1,001,791	1,306,672	1,014,547	4,725,403	3,845,510
Other Revenue										
Interest and Dividend Income	202,304	198,627	225,150	207,788	219,771	211,650	223,824	205,950	871,049	824,015
Net Realised Gains	14,158	154	9,539	6,687	1,655	15,392	4,673	86,590	30,025	108,823
Net Fair Value (Losses)/Gains	(11,620)	13,285	6,703	19,370	13,654	58,139	7,846	8,487	16,583	99,281
Fee and Commission (Expenses)/ Income	(19,779)	56,296	82,583	13,488	21,722	16,491	38,026	37,150	122,552	123,425
Other Income	700	2,109	1,098	2,187	2,494	3,024	4,651	5,046	8,943	12,366
	185,763	270,471	325,073	249,520	259,296	304,696	279,020	343,223	1,049,152	1,167,910
Net Income	1,245,352	1,176,094	1,476,706	1,173,069	1,466,805	1,306,487	1,585,692	1,357,770	5,774,555	5,013,420
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims Paid	(484,892)	(359,267)	(432,902)	(320,391)	(548,262)	(419,074)	(518,302)	(429,501)	(1,984,358)	(1,528,233)
Net Change in Insurance Claims Outstanding	68,266	(1,086)	8,201	(28,169)	(145,552)	(1,244)	(64,346)	(14,372)	(133,431)	(44,871)
Change in Contract Liabilities - Life Fund	(388,933)	(316,738)	(450,632)	(370,988)	(426,036)	(373,052)	(196,499)	(131,495)	(1,462,100)	(1,192,273)
Other Operating and Administration Expenses	(312,552)	(299,938)	(350,210)	(281,298)	(334,953)	(326,492)	(366,042)	(395,982)	(1,363,757)	(1,303,710)
Underwriting and Net Acquisition Costs	(106,579)	(128,685)	(196,192)	(100,438)	(155,422)	(119,894)	(173,914)	(125,809)	(632,107)	(474,826)
Other Insurance Related Costs	(4,838)	(7,653)	(7,659)	(7,651)	(9,120)	(8,760)	(7,412)	(6,860)	(29,029)	(30,924)
Total Benefits, Claims and other Expenses	(1,229,528)	(1,113,367)	(1,429,394)	(1,108,935)	(1,619,345)	(1,248,516)	(1,326,515)	(1,104,019)	(5,604,782)	(4,574,837)
Profit/(Loss) Before Taxation	15,824	62,727	47,312	64,134	(152,540)	57,971	259,177	253,751	169,773	438,583
Income Tax (Expenses) / Reversal	(297)	(8,857)	16,682	(9,988)	19,738	(7,744)	(8,552)	5,732	27,571	(20,857)
Profit /(Loss) for the Period	15,527	53,870	63,994	54,146	(132,802)	50,227	250,625	259,483	197,344	417,726

Note 1: Reclassifications have been made where necessary.

Decade at a Glance

Statement of Profit or Loss for the year ended 31st December	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000
Group										
Gross Written Premium	5,447,164	4,665,618	3,877,730	3,211,232	2,984,710	2,428,183	2,115,647	1,838,879	1,472,153	1,121,823
Net Earned Premium	4,725,403	3,845,510	3,269,181	2,697,024	2,349,619	1,844,360	1,567,747	1,375,681	1,166,643	814,460
Income from Investments and Other Income	1,049,152	1,167,910	937,417	736,810	466,956	516,880	469,038	344,007	200,800	109,661
Net Claims and Benefits	(2,117,789)	(1,573,104)	(1,568,208)	(1,154,521)	(865,130)	(648,137)	(511,911)	(408,482)	(316,878)	(234,260)
Change in Contract Liabilities - Life Fund	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)
Underwriting and Net Acquisition Costs	(632,107)	(474,826)	(381,259)	(348,108)	(288,059)	(164,991)	(150,108)	(168,166)	(152,666)	(121,190)
Expenses	(1,392,786)	(1,334,634)	(1,107,209)	(981,430)	(833,221)	(746,854)	(650,677)	(493,335)	(381,614)	(269,067)
Profit Before Taxation	169,773	438,583	425,093	393,866	271,840	269,525	231,081	169,874	143,332	92,701
Income Tax Reversal/(Expenses)	27,571	(20,857)	(35,970)	(42,726)	(25,772)	(27,786)	(29,471)	(5,401)	(20,000)	(1,377)
Profit for the Year	197,344	417,726	389,123	351,140	246,068	241,739	201,610	164,473	123,332	91,324
Basic Earnings per Share (Rs.)	3.95	8.35	7.78	7.02	5.14	5.38	4.49	3.66	2.75	2.03
Dividend per Share (Rs.)	2.00	3.75	3.25	2.75	2.10	1.80	1.50	1.25	1.00	1.00

Statement of Financial position as at 31st December	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000 Restated	2010 Rs.'000 Restated	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000
Group										
Assets										
Property, Plant and Equipment	136,279	133,942	137,009	118,447	121,568	130,971	117,070	91,717	72,397	57,182
Intangible Assets	45,185	51,622	53,807	61,068	48,876	52,308	30,755	23,058	20,539	20,402
Deferred Tax Assets	49,394	-	2	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	2,717,415	2,037,643	1,480,598	1,044,389
Financial Investments	9,751,611	8,277,895	6,656,438	5,703,866	4,884,262	3,643,361	-	-	-	-
Loans to Life Policyholders	91,992	71,082	53,656	29,888	20,097	15,000	10,338	4,908	1,674	1,286
Reinsurance Receivables	141,354	162,260	105,390	162,715	130,867	122,403	73,824	69,314	30,917	16,267
Premium Receivables	345,916	364,051	301,182	247,417	231,385	231,929	157,029	120,922	86,721	95,572
Other Assets	625,985	683,149	575,180	482,216	397,385	337,745	471,170	334,640	199,964	136,620
Insurance Contract - Deferred Expenses	65,935	52,072	32,912	19,968	20,059	12,392	-	-	-	-
Cash and Cash Equivalents	386,929	173,245	144,087	209,293	190,355	81,444	94,100	117,271	116,071	103,766
Total Assets	11,640,580	9,969,318	8,059,663	7,034,878	6,044,854	4,627,553	3,671,701	2,799,473	2,008,881	1,475,484
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	375,000	375,000	375,000	375,000	250,000
Retained Earnings	1,174,262	1,196,546	941,820	690,197	444,057	676,118	455,851	301,116	174,143	200,811
Available for Sale Reserve	(4,748)	3,590	1,427	6,209	-	-	-	-	-	-
Other Reserves	(1,093)	1,177	2,172	-	-	-	-	-	-	-
Life Policy Holder's Reserve Fund - AFS	(56,350)	40,748	(4,182)	(1,191)	(22,526)	31,050	-	-	-	-
Total Equity	2,283,946	2,413,936	2,113,112	1,867,090	1,593,406	1,082,168	830,851	676,116	549,143	450,811
Liabilities										
Insurance Contract Liabilities - Life	7,007,080	5,562,648	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505	880,674	507,721
Insurance Contract Liabilities - General	1,546,265	1,279,138	1,011,102	969,443	944,321	743,049	599,364	470,206	340,562	319,538
Employee Defined Benefit Liabilities	81,001	71,493	56,637	42,360	34,129	25,076	18,180	11,318	7,477	3,980
Current Tax Liabilities	-	12,012	35,143	42,950	25,998	28,618	-	-	-	-
Deferred Tax Liabilities	-	8,845	-	-	-	-	-	-	-	-
Reinsurance Creditors	131,905	110,778	100,881	83,253	103,256	77,309	87,251	83,039	78,427	88,528
Other Liabilities	590,383	510,468	394,298	403,543	322,413	256,119	282,542	198,289	152,598	104,906
Total Liabilities	9,356,634	7,555,382	5,946,551	5,167,788	4,451,448	3,545,385	2,840,850	2,123,357	1,459,738	1,024,673
Total Equity and Liabilities	11,640,580	9,969,318	8,059,663	7,034,878	6,044,854	4,627,553	3,671,701	2,799,473	2,008,881	1,475,484

Statement of Profit or Loss for the year ended 31st December	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000	2010 Rs.'000	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000
HNB Assurance PLC/Life Insurance										
Gross Written Premium	2,788,716	2,342,867	2,014,547	1,500,028	1,290,367	1,084,480	984,866	914,170	767,576	503,321
Net Earned Premium	2,680,753	2,215,404	1,912,749	1,371,952	1,187,671	985,283	891,808	834,218	698,048	451,920
Income from Investments and Other Income	783,126	707,444	578,890	428,630	297,566	339,295	311,730	217,223	114,920	53,497
Net Benefits Incurred	(280,495)	(412,383)	(679,136)	(261,771)	(62,760)	(59,900)	(63,701)	(44,669)	(25,595)	(14,924)
Change in Contract Liabilities - Life Fund	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)
Underwriting and Net Acquisition Costs	(510,961)	(386,651)	(327,858)	(294,456)	(247,379)	(177,530)	(151,995)	(161,894)	(154,212)	(115,132)
Expenses	(753,295)	(703,519)	(578,327)	(523,220)	(444,773)	(399,415)	(364,834)	(265,047)	(195,208)	(138,458)
Profit Before Taxation	457,028	228,022	181,489	165,226	172,000	156,000	130,000	100,000	65,000	30,000
HNB General Insurance Ltd./General Insurance										
Gross Written Premium	2,698,176	2,322,751	1,863,183	1,711,204	1,694,343	1,343,703	1,130,781	924,709	704,577	618,502
Net Earned Premium	2,084,378	1,630,106	1,356,432	1,325,072	1,161,948	859,077	675,939	541,463	468,595	362,540
Income from Investments and Other Income	279,041	460,466	358,527	308,180	169,390	177,585	157,308	126,784	85,880	56,164
Net Claims Incurred	(1,837,294)	(1,160,721)	(889,072)	(892,750)	(802,370)	(588,237)	(448,210)	(363,813)	(291,283)	(219,336)
Underwriting and Net Acquisition Costs	(127,119)	(88,175)	(53,401)	(53,652)	(40,680)	12,539	1,887	(6,272)	1,546	(6,058)
Expenses	(683,306)	(631,115)	(528,882)	(458,210)	(388,448)	(347,439)	(285,843)	(228,288)	(186,406)	(130,609)
(Loss)/Profit Before Taxation	(284,300)	210,561	243,604	228,640	99,840	113,525	101,081	69,874	78,332	62,701

Statement of Financial position as at 31st December	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000 Restated	2010 Rs.'000 Restated	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000
HNB Assurance PLC/Life Insurance										
Assets										
Property, Plant and Equipment	94,107	-	-	-	4,276	4,573	6,174	8,151	4,333	3,086
Intangible Assets	45,185	-	-	-	22,203	20,773	14,523	5,742	2,936	1,872
Investments	-	-	-	-	-	-	1,686,073	1,263,166	852,943	513,475
Financial Investments	7,849,625	5,545,833	4,270,216	3,527,422	2,935,487	2,415,853	-	-	-	-
Investment in Subsidiary	1,150,000	-	-	-	-	-	-	-	-	-
Loans to Life Policyholders	91,992	71,082	53,656	29,888	20,097	15,000	10,338	4,908	1,674	1,286
Reinsurance Receivables	34,269	23,446	23,626	40,716	27,848	18,617	16,283	10,025	6,234	8,647
Premium Receivables	5,592	6,943	6,710	9,573	-	-	-	-	-	-
Other Assets	493,571	195,023	169,032	137,795	129,223	102,556	219,625	150,279	78,697	31,848
Cash and Cash Equivalents	258,222	88,482	74,705	129,916	62,468	13,005	45,252	39,939	44,890	36,981
Total Assets	10,022,563	5,930,809	4,597,945	3,875,310	3,201,602	2,590,377	1,998,268	1,482,210	991,707	597,195
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	-	-	-	-	-	-	-	-	-
Retained Earnings	1,397,806	-	-	-	-	-	-	-	-	-
Available for Sale Reserve	53	-	-	-	-	-	-	-	-	-
Other Reserves	(2,039)	(18,780)	928	-	-	-	-	-	-	-
Life Policyholder's Reserve Fund - AFS	(56,350)	40,748	(4,182)	(1,191)	(22,526)	31,050	-	-	-	-
Total Equity	2,511,345	21,968	(3,254)	(1,191)	(22,526)	31,050	-	-	-	-
Liabilities										
Insurance Contract Liabilities - Life	7,007,080	5,562,648	4,348,490	3,626,239	3,021,331	2,415,214	1,853,513	1,360,505	880,674	507,721
Employee Defined Benefit Liabilities	44,008	31,508	6,747	4,943	4,565	3,406	2,597	1,681	922	455
Reinsurance Creditors	37,547	30,921	24,849	29,928	28,106	25,341	24,937	32,535	42,052	35,867
Other Liabilities	422,583	283,764	221,113	215,391	170,126	115,366	117,221	87,489	68,059	53,152
Total Liabilities	7,511,218	5,908,841	4,601,199	3,876,501	3,224,128	2,559,327	1,998,268	1,482,210	991,707	597,195
Total Equity and Liabilities	10,022,563	5,930,809	4,597,945	3,875,310	3,201,602	2,590,377	1,998,268	1,482,210	991,707	597,195

Decade at a Glance

Statement of Financial position as at 31st December	2015 Rs.'000	2014 Rs.'000	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000 Restated	2010 Rs.'000 Restated	2009 Rs.'000	2008 Rs.'000	2007 Rs.'000	2006 Rs.'000
HNB General Insurance Ltd./General Insurance										
Assets										
Property, Plant and Equipment	42,172	133,942	137,009	118,447	117,292	126,398	110,896	83,566	68,064	54,096
Intangible Assets	-	51,622	53,807	61,068	26,673	31,535	16,102	17,316	17,603	17,982
Deferred Tax Assets	49,394	-	2	-	-	-	-	-	-	-
Investments	-	-	-	-	-	-	1,031,342	774,477	627,655	530,914
Financial Investments	1,901,986	2,732,062	2,386,222	2,176,444	1,948,775	1,227,508	-	-	-	-
Reinsurance Receivables	107,085	138,814	81,764	121,999	103,019	103,786	57,541	59,289	24,683	7,620
Premium Receivables	340,324	357,108	294,472	237,844	231,385	231,929	157,029	120,922	86,721	95,572
Other Assets	141,431	488,126	406,148	344,421	268,162	235,189	251,675	184,361	121,267	105,320
Insurance Contract - Deferred Expenses	65,935	52,072	32,912	19,968	20,059	12,392	-	-	-	-
Cash and Cash Equivalents	128,707	84,763	69,382	79,377	127,887	68,439	48,848	77,332	71,181	66,785
Total Assets	2,777,034	4,038,509	3,461,718	3,159,568	2,843,252	2,037,176	1,673,433	1,317,263	1,017,174	878,289
Equity and Liabilities										
Equity										
Stated Capital	1,150,000	1,171,875	1,171,875	1,171,875	1,171,875	375,000	375,000	375,000	375,000	250,000
Retained Earnings	(220,589)	1,196,546	941,820	690,197	444,057	676,118	455,851	301,116	174,143	200,811
Available for Sale Reserve	(7,756)	3,590	1,427	6,209	-	-	-	-	-	-
Other Reserves	946	19,957	1,244	-	-	-	-	-	-	-
Total Equity	922,601	2,391,968	2,116,366	1,868,281	1,615,932	1,051,118	830,851	676,116	549,143	450,811
Liabilities										
Insurance Contract Liabilities - General	1,546,265	1,279,138	1,011,102	969,443	944,321	743,049	599,364	470,206	340,562	319,538
Employee Defined Benefits Liabilities	36,993	39,985	49,890	37,417	29,564	21,670	15,583	9,637	6,555	3,525
Current Tax Liabilities	-	12,012	35,143	42,950	25,998	28,618	-	-	-	-
Deferred Tax Liabilities	-	8,845	-	-	-	-	-	-	-	-
Reinsurance Creditors	94,358	79,857	76,032	53,325	75,150	51,968	62,314	50,504	36,375	52,661
Other Liabilities	176,817	226,704	173,185	188,152	152,287	140,753	165,321	110,800	84,539	51,754
Total Liabilities	1,854,433	1,646,541	1,345,352	1,291,287	1,227,320	986,058	842,582	641,147	468,031	427,478
Total Equity and Liabilities	2,777,034	4,038,509	3,461,718	3,159,568	2,843,252	2,037,176	1,673,433	1,317,263	1,017,174	878,289

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Investor Information										
Return on Equity	8.64%	17.30%	18.41%	18.79%	15.23%	23.00%	24.27%	24.32%	22.46%	20.26%
Market Price per Share as at 31st Dec (VWA) (Rs.)	74.60	83.50	52.50	49.00	56.90	78.00	49.50	18.25	24.50	25.00
Market Price per Share as at 31st Dec (VWA) (Rs.) Adjusted for Bonus Issue	74.60	83.50	52.50	49.00	56.90	66.31	44.94	21.50	26.19	26.56
Price Earning Ratio (Times)	18.89	10.00	6.75	6.98	11.07	12.33	10.01	5.87	9.53	13.06
Earnings Yield	5.29%	10.00%	14.82%	14.33%	9.03%	8.11%	9.99%	17.02%	10.50%	7.64%
Dividend Yield	2.68%	4.49%	6.19%	5.61%	3.69%	2.31%	3.03%	6.85%	4.08%	4.00%
Market Capitalisation (Rs. Mn)	3,730	4,175	2,625	2,450	2,845	2,925	1,856	694	919	625
Employee Information										
Number of Employees	836	829	804	723	662	597	540	457	377	308
GWP per Employee (Rs. Mn)	6.52	5.63	4.82	4.44	4.51	4.07	3.92	4.02	3.90	3.64
Net Profit per Employee (Rs.'000)	236.06	503.90	483.98	485.67	371.70	404.92	373.35	359.90	327.14	296.51
General Insurance Operation										
Net Claims Ratio	88%	72%	66%	68%	69%	68%	66%	67%	62%	60%
Expense Ratio	35%	38%	39%	34%	34%	39%	42%	43%	39%	38%
Combined Ratio	123%	110%	105%	102%	103%	107%	108%	110%	101%	98%

Glossary

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 Balance Sheet date.

Claims Outstanding Reserve – General Insurance Business (HNBGI)
The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the Balance Sheet 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 (HNBGI)
Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the Balance Sheet date which are carried from one accounting period to subsequent accounting periods.

Net Earned Premium – General Insurance Business (HNBGI)
Gross Written Premium adjusted for reinsurance premium and for the increase or decrease in unearned premium.

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.

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
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.

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 Balance Sheet date.

Unearned Premium Reserve
A fund kept by a Non - Life insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

Key Insurance Ratios

$$\text{Net Claims Ratio} = \frac{\text{Net Claims Incurred} \times 100}{\text{Net Earned Premium}}$$

$$\text{Expense Ratio} = \frac{\text{Net Expense Incurred} \times 100}{\text{Net Earned Premium}}$$

$$\text{Combined Ratio} = \frac{(\text{Net Claims Incurred} + \text{Expenses}) \times 100}{\text{Net Earned Premium}}$$

Notice of Meeting

Notice is hereby given that the Fourteenth (14th) Annual General Meeting of HNB Assurance PLC is convened on Tuesday the Twenty Ninth (29th) day of March 2016, 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 2015, the Auditors' Report thereon.

ii. To declare a dividend of Rs. 2.00 per share for the year 2015, to the shareholders as recommended by the Directors.

iii. To re-elect Mrs. M A R C Cooray, 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. N H T I Perera, 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 Mr. J A P M Jayasekera, 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-elect Mr. K Balasundaram, 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 appoint Messrs. 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 2016 for charitable and other purposes.

By Order of the Board
HNB ASSURANCE PLC



Shiromi Halloluwa
Board Secretary

Colombo, Sri Lanka.
09th February, 2016.

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 Registered Office of the Company at "HNB Towers", Level 18, No: 479, T.B. Jayah Mawatha, Colombo 10, not less than 48 hours before the time appointed for holding the meeting.

Form of Proxy

I/We .....

of .....

being *a member/members of 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 Kandasamypillai Balasundaram or failing him Dilshan Peter Nirosh Rodrigo or failing him Siromi Noelle Wickramasinghe or failing her Sivakumar Selliah or failing him Neelakanni Hettiarachige Thimal Ishan Perera 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 Fourteenth Annual General Meeting of the Company to be convened on Tuesday the 29th day of March 2016 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 declare a dividend of Rs. 2.00 per share	In favour	
	Against	
To re-elect Mrs. M A R C Cooray, as a Director of the Company	In favour	
	Against	
To re-elect Mr. N H T I Perera, as a Director of the Company	In favour	
	Against	
To re-elect Mr. J A P M Jayasekera , as a Director of the Company	In favour	
	Against	
To re-elect Mr. K Balasundaram , as a Director of the Company	In favour	
	Against	
To re-appoint Messrs. Ernst & Young (EY) Chartered Accountants, 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 ..... 2016.

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

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 Registered Office of the Company at "HNB Towers", Level 18, No: 479, T. B. Jayah Mawatha, Colombo 10, 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.

Investor Feedback form

To request information or submit a comment / query to the company, please complete the following and return this page to,

Chief Financial Officer,
HNB Assurance PLC,
No.10,Sri Uttarananda Mawatha,
Colombo 03,
Sri Lanka.
Fax : 0112327287
E-mail : info@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

NAME OF THE COMPANIES

HNB Assurance PLC (HNBA)
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

FISCAL YEAR-END

31st December

REGISTERED OFFICE

No.479, T B Jayah Mawatha, Colombo 10, Sri Lanka

HEAD OFFICE

No.10, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka
Telephone - +9411 4793700 / +9411 4676700
Facsimile - +9411 4793728
E-mail - info@hnbassurance.com
Web - www.hnbassurance.com

BOARD OF DIRECTORS

Rose Cooray - *Chairperson (HNBA/HNBGI)*
Sarath Ratwatte - *Independent Non-Executive Director (HNBA)*
Mahendra Jayasekera - *Independent Non-Executive Director (HNBA)*
K Balasundaram - *Independent Non-Executive Director (HNBA)*
Dilshan Rodrigo - *Non-Executive Director (HNBA/HNBGI)*
Siromi Wickramasinghe - *Non-Executive Director (HNBA)*
Dr. S. Selliah - *Independent Non-Executive Director (HNBA)*
Thimal Perera - *Non-Executive Director (HNBA/HNBGI)*
Faizal Salieh - *Independent Non-Executive Director (HNBGI)*

EXECUTIVE COMMITTEE

Niranjan Manickam - *CEO (Acting) (HNBA/HNBGI)*
Vipula Dharmapala - *Chief Financial Officer (HNBA / HNBGI)*
Namal Gunawardhane - *Chief Information Officer (HNBA / HNBGI)*
Nilesh Amarasinghe - *Head of Strategy and Investment (HNBA/HNBGI)*
Prasantha Fernando - *Chief Operating Officer – Life Insurance (HNBA)*
Ivan Nicholas - *Chief Business Officer (HNBA)*
Chandana Aluthgama - *Chief Business Officer (HNBGI)*
Sithumina Jayasundara - *Head of Operations (HNBGI)*

CONSULTANT ACTUARIES

Life Insurance
Actuarial Partners Consulting Sdn Bhd
Suite 17.02 Kenanga International
Jalan Sultan Ismail
50250 Kuala Lumpur

General Insurance
NMG Financial Services Consulting Pte Ltd.
65, Chulia Street, #37 – 07/08 OCBC Centre
049513, Singapore.

Gratuity
Hugh Terry (Fellow of the Institute of Actuaries, U.K.)
Insight Consulting Group (Pte) Ltd.,
Level 31, 6 Battery Road,
Singapore 049909.

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)

National Long Term Rating A (lka)
National Insurer Financial Strength Rating A (lka)

BANKERS

Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Sampath Bank PLC
Bank of Ceylon
National Savings Bank
Deutsche Bank AG
HDFC Bank

Designed & produced by
emagewise
Digital Plates & Printing by Aitken Spence Printing & Packaging (Pvt) Ltd
Photography by Taprobane Street & Wildlight (Pvt) Ltd

No.479, T B Jayah Mawatha,
Colombo 10,
Sri Lanka

www.hnbassurance.com