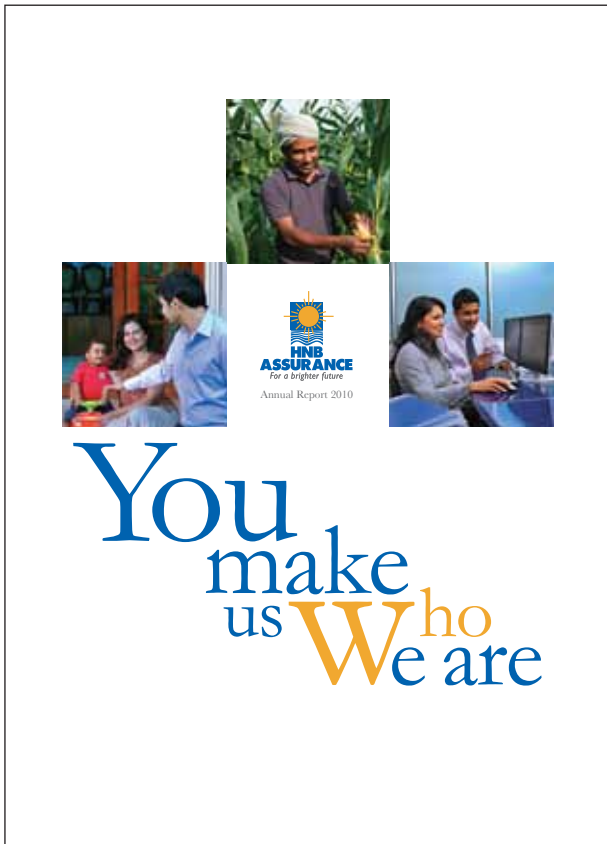




Annual Report 2010



You
make
us **Who**
We are



You
make
us **Who**
We are

Companies are no greater than their stakeholders - those who bring power, wealth and integrity to each enterprise. Our stakeholders include our Shareholders, Customers, Employees, Business Partners, Environment and Society at large.

We recognise that YOU are the strength of our organisation, the reason for our success. Together we created this strongly knitted organisation; that is HNB Assurance.

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Vision

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

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.

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

Corporate Information

Name of the Company

HNB Assurance PLC

Legal Form

A Public limited liability Company incorporated on 23rd August 2001 under the Companies Act, No. 17 of 1982 in Sri Lanka. The Company was re-registered under the Companies Act, No. 7 of 2007.

HNB Assurance PLC is a composite insurance Company licensed by the Insurance Board of Sri Lanka (IBSL).

Company Registration No.

PQ 108

Stock Exchange Listing

The Ordinary Shares of the Company are listed on the Main Board of the Colombo Stock Exchange. Stock Exchange code for the Company share is "HASU".

Tax Payer Identification (TIN) No.

134009373

VAT Registration No.

134009373-7000

Fiscal Year-End

31st December

Principal Activities

Carrying on General and Life Insurance business.

Registered Office

No. 479, T B Jayah Mawatha, Colombo 10, Sri Lanka.

Head Office

No. 10, Sri Uttarananda Mawatha,
Colombo 03, Sri Lanka.

Telephone - +94 11 2421885 – 7

Facsimile - +94 11 4793728

E-mail - info@hnbassurance.com

Web - www.hnbassurance.com

Board of Directors

Rienzie T. Wijetilleke - *(Chairman)*

Manjula de Silva - *(Managing Director)*

R Theagarajah

M U de Silva

J M J Perera

J D N Kekulawala

Pratap Kumar de Silva

D M de S Wijeyeratne

Sarath Ratwatte

Board Secretary

Indrani Goonesekera

Attorney-at-Law & Notary Public

Audit Committee

D M de S Wijeyeratne - *Chairman*

J D N Kekulawala

Sarath Ratwatte

Remuneration Committee

M U de Silva - *Chairman*

D M de S Wijeyeratne

Sarath Ratwatte

Investment Committee

J D N Kekulawala - *Chairman*

Sarath Ratwatte

Manjula de Silva

Rajive Dissanayake

Executive Committee

Manjula de Silva - *Managing Director*

Lalith Fernando - *General Manager - Marketing and Distribution*

Indrani Weerasinghe - *General Manager - Life*

Niranjan Manickam - *General Manager - General*

Namal Gunawardhane - *Head of IT*

Chandana L Aluthgama - *Head of Corporate Business Development*

Vipula Dharmapala - *Head of Finance*

Consultant Actuaries

Life Insurance

Actuarial and Management Consultants (Pvt) Ltd.,
1st Floor, 434, R A de Mel Mawatha, Colombo 03.

General Insurance

M/S. K A Pandit

Consultants & Actuaries, 2nd Floor, Churchgate House,
Veer Nariman Road, Fort, Mumbai - 400 001, India.

Gratuity

Hugh Terry (Fellow of the Institute of Actuaries, U.K.)

Insight Consulting Group (Pte) Ltd.,

Level 31, 6 Battery Road,

Singapore 049909.

Auditors

KPMG Ford, Rhodes, Thornton & Co.,

Chartered Accountants,

32 A, Sir Mohamed Macan Markar Mawatha, Colombo 03.

Credit Rating (Fitch)

National Long Term Rating A (lka)

Financial Strength A (lka)

Bankers

Hatton National Bank PLC

Commercial Bank of Ceylon PLC

Reinsurance Panel

Munich Re

Toa Re

Mitsui Sumitomo Re

General Insurance Corporation of India

Trust Re

Malaysian Re

BEST Re

Korean Re

Labuan Re

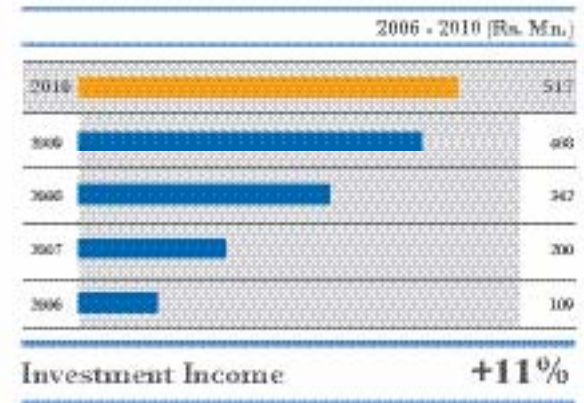
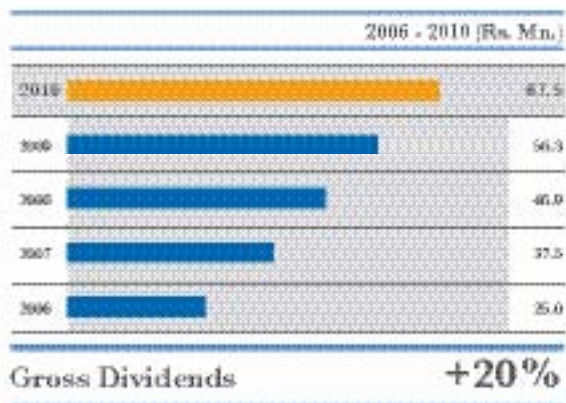
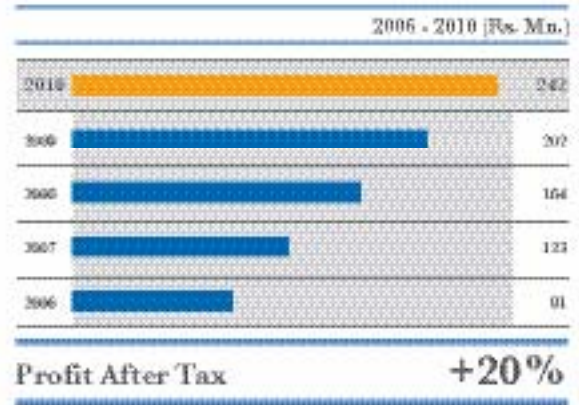
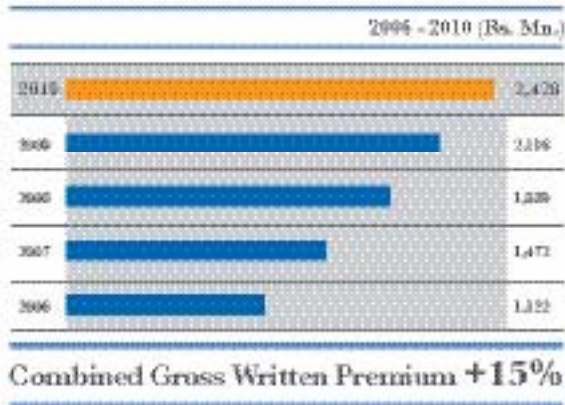
National Insurance Trust Fund

Financial Highlights

Profit After Tax
Rs. 242 Million
+20%

Earnings Highlights and Ratios

	Rs. Mn.		
	2010	2009	Change
Gross Written Premium	2,428	2,116	+15%
Net Earned Premium	1,844	1,568	+18%
Investment Income	517	468	+11%
Profit Before Tax	270	231	+17%
Life Surplus	156	130	+20%
Profit After Tax	242	202	+20%
Basic Earnings Per Share (Rs.)	6.45	5.38	+20%
Price Earnings Ratio (Times)	12.10	9.21	+31%
Dividend Per Share (Rs.)	1.80	1.50	+20%



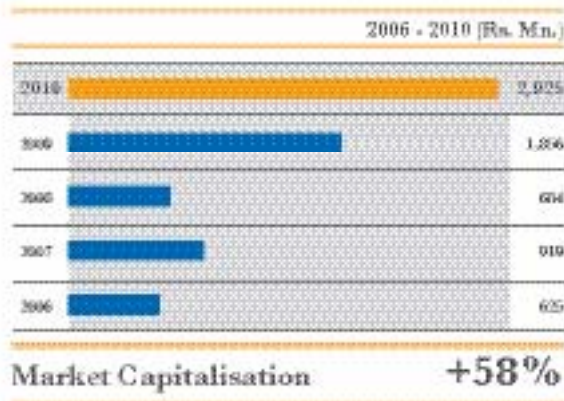
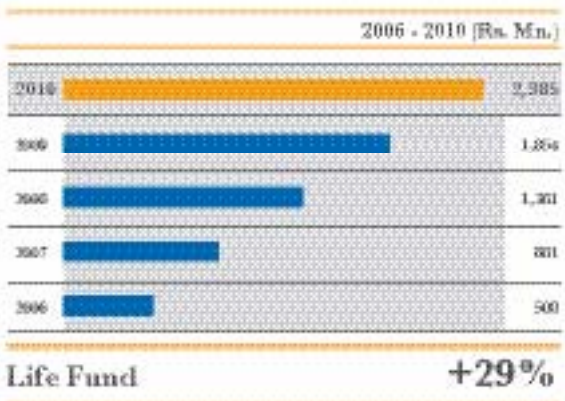
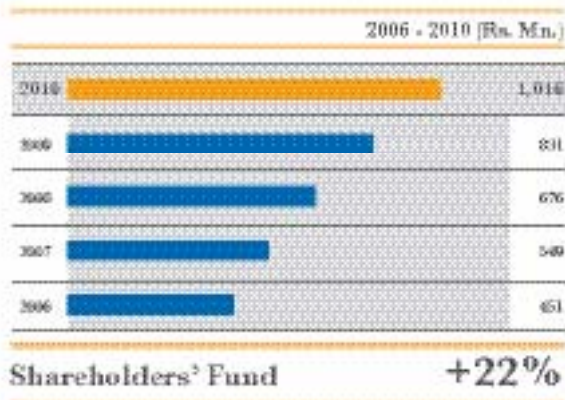
Shareholders' Fund

Rs. 1 Billion

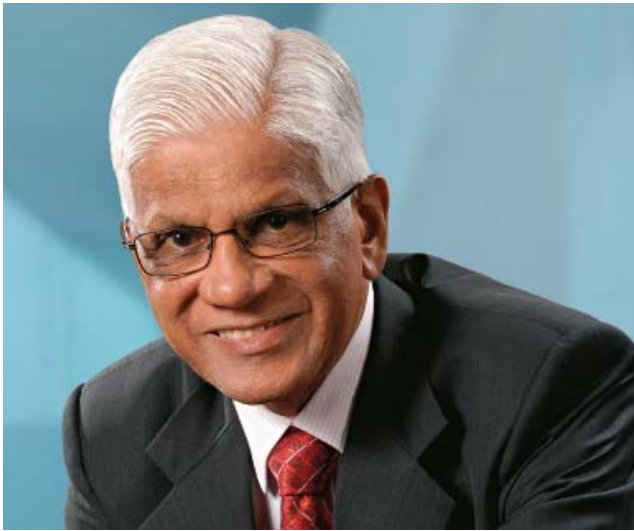
+22%

Balance Sheet Highlights and Ratios

	Rs. Mn.		
	2010	2009	Change
Assets	4,548	3,672	+24%
Liabilities	3,532	2,841	+24%
Shareholders' Fund	1,016	831	+22%
Stated Capital	375	375	-
Revenue Reserves	641	456	+41%
Net Assets Per Share (Rs.)	27.10	22.16	+22%
Market Price Per Share			
- Last Traded Price (Rs.)	78.00	49.50	+58%
Return On Equity (%)	24%	24%	-
Life Fund	2,385	1,854	+29%
Funds Under Management	3,421	2,768	+24%



Chairman's Message



Rienzie T. Wijetilleke

Chairman

On behalf of the Board of Directors, I am pleased to welcome you to the ninth Annual General Meeting of the Company and present to you the Annual Report and Financial Statements for the year ended 31st December 2010.

The Economy

During the year 2010 the Sri Lankan economy recorded a strong and robust growth in all vital sectors as expected in the first full year of the post-conflict era. It is expected that the country's Gross Domestic Product (GDP) would grow by about 8% which is significantly higher than the growth rate of 3.5% achieved last year. It is heartening to note that all three sectors of the economy – Agriculture, Industry and Services – had all contributed to this achievement by recording sectoral growth rates in excess of 6.5% for the first three quarters of the year.

Another positive feature on the economic front has been the managing of the inflation rate within single digit levels throughout the year. The point to point inflation rate based on the Colombo Consumers Price Index (CCPI) reached a low of 4.3% in July after which it increased slightly to reach 6.9% by December due to the mild escalation in international commodity prices and supply shortages in the domestic market. The Annual Average Rate of Inflation stood at 5.9%, a little above the 3.4% level recorded for 2009. Sharp increases in the prices of certain essential items at the turn of the year 2011 has caused some anxiety with regard to a possible hike in the inflation rate, but it is hoped that appropriate action will be taken promptly to address the supply-side constraints that have led to this situation.

Due to the Central Bank of Sri Lanka (CBSL) easing its monetary policy further, market interest rates continued its downward trend throughout the year with 3 month and 12 month Treasury Bill Yields ending the year at 7.24% and 7.55% respectively. While this was welcome news to

borrowers, it posed a significant challenge to those dependent on interest income. Cushioning off the impact of this to some extent, the Colombo Stock Exchange grew by a remarkable 96% to emerge as the second best performing market of the world for the second consecutive year.

Despite having to grapple with numerous challenges such as the sharp reduction in both interest rates and the income from terrorism covers, the insurance industry staged a strong recovery during the year under review with both Life and General Insurance markets recording double digit rates of growth.

Regulatory Framework

The long-awaited bill to amend the Regulation of Insurance Industry Act No.43 of 2000 was finally passed in Parliament at the turn of the year 2011. It contains some progressive steps such as permitting corporate entities to become agents of Insurance Companies. This will provide a much needed boost to bancassurance, micro insurance and the development of alternate distribution channels which is greatly needed to raise the level of insurance penetration in the country. I also welcome the move to bring the National Insurance Trust Fund (NITF) under the provisions of the Regulation of Insurance Industry Act and the purview of the Insurance Board of Sri Lanka (IBSL), which will help to restore a level-playing field in the Industry to some extent.

However, the provision to segregate the Life and General Insurance businesses into two separate companies has been retained in the new Act despite the strong reservations expressed by those connected to the Industry. Since implementation is over a four year period, it is hoped that the authorities will re-visit this regressive provision that will place an additional burden, especially on small to medium sized companies, and at least consider exempting the existing companies from this onerous requirement.

Taking advantage of the much improved external environment, the Company was able to achieve commendable growth rates in both turnover and profit, thereby managing the challenges unique to the industry.

Performance

Taking advantage of the much improved external environment, the Company was able to achieve commendable growth rates in both turnover and profit, thereby managing the challenges referred to above that were unique to the industry. The Company's turnover grew again by 15% matching the growth rate achieved in the previous year. Both Life and General Insurance sectors have now crossed the Rs.1 billion mark with the combined turnover recording Rs.2,428 million. Company was able to deliver a strong growth in its profits, maintaining its enviable track record. The Profit Before Tax (PBT) grew by 17% to reach Rs. 270 million while the Profit After Tax (PAT) grew by 20% to register Rs. 242 million. It is also noteworthy that the Company's Market Capitalisation representing the net worth of the Company exceeded the Rs.3 billion mark during the year.

Social Responsibility

Mindful of its obligations towards the general public, the Company carried out a number of CSR initiatives during the year touching the lives of a large number of people. As in past years, the areas of focus were providing water and other basic facilities to needy schools, assisting the healthcare sector, supporting the arts and sponsoring events of national importance. These are described in detail in the Managing Director's Review and the Sustainability Report.

Recognitions

The Company was the proud recipient of several noteworthy recognitions during the year. Its innovative 'mylife' brand was chosen for the bronze award in the 'Best New Entrant' category at the SLIM Brand Excellence Awards 2010. The Company also received several awards for its Annual Report – 2009. The most significant among them was the award given for the second place in Corporate Governance Disclosures at the Best Presented Accounts Awards 2010 held in Kathmandu, Nepal by the South Asian Federation of Accountants (SAFA). The Company also won a silver as the First Runner-up in the Insurance Category at the Annual Report Awards conducted by the Institute of Chartered Accountants of Sri Lanka (ICASL). The Company also featured in the list of 'Top 100 Brands' compiled by Lanka Monthly Digest in association with Brand Finance for the 3rd consecutive year.

Future Outlook

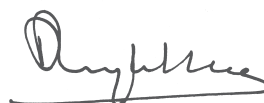
As the Company completes its tenth year since incorporation and with a macro environment built on a strong foundation of peace and stability, your Company has even greater prospects for the future. The Company will make a vigorous effort to reap the maximum benefits of this favourable climate and accelerate its growth. However, being in the insurance business, it will be conscious of the need to balance such ambitions with the need to be selective in order to preserve quality in the interest of all its stakeholders. Hence, the Company will remain committed to a path of balanced growth with equal emphasis being given to both turnover and profitability as in the past.

Appreciation

I take this opportunity to thank the Chairperson and other officials of the Insurance Board of Sri Lanka for their guidance and continued support. I also wish to acknowledge the valuable contribution made to the industry by the Insurance Ombudsman.

I also thank my fellow Directors for their support and co-operation. The Management and staff have worked together admirably to deliver commendable results. I wish to express my sincere appreciation of their commitment.

On behalf of the Board of Directors, I assure you that the Company will aim to end the last year of its first decade of operations on a high note overcoming whatever challenges faced through the methodical execution of well thought-out strategies while upholding the highest standards of corporate governance and enter its second decade with a renewed sense of confidence and optimism.



Rienzie T. Wijetilleke
Chairman

31st January, 2011

Managing Director's Review



Manjula de Silva
Managing Director

It gives me great pleasure to present a review of our Company's performance during the year ended 31st December 2010, which has been a period of significant achievement.

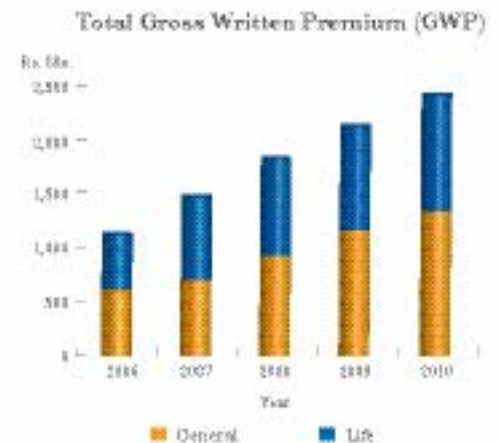
Financial Results

The year ended 31st December 2010 saw the Company achieving the targeted volumes of turnover in respect of both its major lines of business. The Gross Written Premium (GWP) from General Insurance business grew by 19% to reach Rs 1,344 million while the Gross Written Premium (GWP) from Life Insurance business reached Rs. 1,084 million recording a growth of 10%. This is the first time that both GWP measures crossed the Rs. 1 billion mark resulting in a combined turnover of Rs. 2,428 million.

As in every single year since 2004, the Company was able to record commendable growth rates in both Profit Before Tax (PBT) and Profit After Tax (PAT), the former growing by 17 % to record Rs. 270 million and the latter by 20% to reach Rs. 242 million. Another important milestone reached during the year was market capitalisation surpassing the Rs.3 billion mark for the first time on 14th September 2010 when the share price crossed Rs. 80/=. It dipped slightly towards the end of the year to finish at Rs. 2,925 million. The Company was also able to deliver a Return On Equity (ROE) of 24 % maintaining it above 20% for the 5th successive year.

Key Challenges

As expected, the year ended 31st December 2010 posed numerous challenges to the insurance industry. As predicted in a presentation made by me at the National Insurance Congress 2009, the main challenges turned out to be the declining interest rates, sharp contraction in the income from terrorism covers, erosion of the level-playing field and the unfavourable interpretation of tax rules to the detriment of the industry.



As in every single year since 2004, the Company was able to record commendable growth rates in both Profit Before Tax (PBT) and Profit After Tax (PAT), the former growing by 17 % to record Rs. 270 million and the latter by 20% to reach Rs. 242 million.

Responses at Company and Industry Level

It is pleasing to note that HNB Assurance PLC was able to successfully manage the first two issues referred to above minimising their impact on its turnover and profits. Despite having to contend with a continuously declining interest rate regime, the Company's Investment Management team was able to meet the budgeted investment income targets generating growth rates of 9% and 14% respectively on Life and General Investment Income. High yields earned from investments made some time ago with great foresight and the active realisation of capital gains from both equities and government bonds contributed towards this achievement. However, significant amounts of unrealised gains have been retained in both equity and bond portfolios providing a buffer against possible future shortfalls in investment income.

With regard to the inevitable decline in the income generated from terrorism covers in a post-conflict environment, the Company took effective steps to protect its margins and increase the growth in sales from other classes of business. It is a reflection of such initiatives that the Company was able to achieve a GWP growth of 19% for the year from General Insurance while losing Rs. 90 million of terrorism premium in the same period.

With respect to the last two issues mentioned above, namely those relating to the level-playing field and taxation, the Company supported the efforts taken by the Insurance Association of Sri Lanka (IASL) which launched a concerted lobby on these issues led by me in my capacity as its President with the support of the entire industry. These efforts resulted in significant successes with the Government moving to bring the NITF under the ambit of the Regulation of Insurance Industry Act and exempting reinsurance recoveries on claims and commissions from the application of Value Added Tax (VAT).

Other key factors contributing to superior performance

In addition to meeting the above challenges successfully at both Company and industry levels, several other factors contributed to the Company's successful performance in the year 2010. In the area of Life Insurance, the Company

placed greater emphasis on regular premium endowment products, reducing its dependence on single premium business. Numerous sales competitions and incentive schemes were targeted at both generation of new business as well as premium retention. These efforts were well supported by training and development activities carried out in a structured manner for the agency force. Due to the successful execution of above strategies, the GWP from endowment business grew by an impressive 27% with the new business premium recording a growth of 71% which augurs well for the future of the Life Insurance business. The expected recovery in the housing loan business at HNB fuelled a significant growth of 55% in the sale of Mortgage Reducing Policies (MRP) as well.

A very encouraging development witnessed in the year 2010 is the phenomenal growth achieved by the bancassurance channel which generated a GWP of Rs. 158 million recording a growth rate of 78% over the previous year. The number of bancassurance units operating from HNB branches with a dedicated staff member from HNB Assurance attached to it grew from 74 to 98 as at end 2010. The contribution made by the bancassurance channel grew to 15% of the total Life GWP, a very satisfactory level indeed.

With regard to General Insurance, the Company's distribution channels were under pressure to make up for the loss of terrorism premium as well as some business lost to newly established companies. They rose to the challenge remarkably delivering a 19% growth in GWP for the year which is praiseworthy. However, a matter for concern is that a significant part of this growth is attributed to the growth in Medical Insurance business which tends to impact negatively on underwriting results. The Company will closely monitor this business in the coming year and retain only such business that will not adversely affect the profitability of the portfolio.

In spite of the slight imbalance created in the portfolio mix through the growth of Medical Insurance business as mentioned above, the Company was successful in bringing down the Combined Ratio to 107%. It is pleasing to note that in each of the last two years, the Company has been able to bring down this ratio, by 2% and 1% in 2009 and

Managing Director's Review

2010 respectively. However, it is important to note that the improvement in the Combined Ratio was achieved through a reduction in the Expense Ratio which was brought down from 42% to 39% partly offsetting an increase in the Net Claims Ratio which went up from 66 % to 68 %. As mentioned earlier, this is attributable mainly to the increase in Medical Insurance business, a trend that will be closely monitored and curbed in the year 2011.

Preventing a decline in the investment income and even recording a modest growth in spite of the prevailing low interest rate environment helped maintain profit growth in line with expectations. The conscious and determined effort taken by all levels of management and staff to keep expenses below budgeted levels greatly helped the Company to post satisfactory results despite facing numerous challenges.

Social Responsibility

Always conscious of the need to contribute meaningfully to raise the living standards of the community at large, the Company undertook and completed numerous CSR projects during the year. Taking forward the ambitious initiative launched in 2008 to provide water to needy schools that lacked access to water, five more schools were covered during the year raising the number of schools assisted under this programme to an impressive total of 14 within three years. In addition, the Company renovated the children's park at G/Dombagoda Maha Vidyalyaya, a school built as a part of the post-tsunami rehabilitation effort.

Reaching out to other sections of society, the Company carried out several CSR initiatives in the Northern Province which is emerging from the scars of a 30-year long war. A surgical ward of the Jaffna Teaching Hospital was renovated at the Company's expense while 25 beds along with mattresses and other accessories were donated to the Deaf and Blind School in Jaffna. The Company also supported the St. Mary's Pre-school in Seeduwa through a financial grant at the request of Zonta Club III of Colombo. A donation of medical equipment was also made to the Kegalle Base Hospital.

Fast emerging as a leading benefactor of the arts, the Company sponsored the annual cultural event conducted by the '*Pehesara Sansadaya*' in the remote town of Thawalama to felicitate outstanding local artistes for the 3rd successive time. The artistes recognised this year were three highly acclaimed dramatists – Lucien Bulathsinhala, Nissanka Diddeniya and Jayalath Manoratne. In line with its focus on youth fuelled by the innovative '*mylife*' campaign, the Company co-sponsored the launch of a new album titled '*Sara Sihina*', released by Bathiya & Santhush, its renowned brand ambassadors.

Along the same lines, a well-attended three-day youth drama festival was also conducted in association with the Lanka Children's and Youth Theatre Foundation (LCYTTF) with whom the Company has partnered to stage events of this nature for the last five years. It is pertinent here to note that His Excellency the President has called upon banks and financial institutions to sponsor the staging of at least one award winning drama during 2011-12 in his recent budget speech. I am pleased to report that HNB Assurance has exceeded this expectation in the past several years by sponsoring drama festivals featuring award winning productions since 2005, having recognised the role played by the performing arts in shaping the hearts and minds of the general public.

Coming to the forefront as a sponsor of major national events, the Company supported the prestigious Sri Lankan Entrepreneur of the Year Awards conducted by the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCISL) as a main sponsor. The highlight of this award scheme was that the main national event held at BMICH under the patronage of the Hon. Prime Minister was supplemented by four other award ceremonies held at provincial level. The Company was also associated with the United Nations Day organised by the United Nations Association of Sri Lanka, as in previous years.

On a religious note, the Company sponsored the media coverage of the Vesak celebrations held in Chennai by the Mahabodhi Society, acknowledging the importance of this event to build bridges between the people of Sri Lanka and South India. It also made donations to places of worship representing all major religions during the year under review.

Key Areas of Strategic Focus

The Company will strategically focus on five areas during the next corporate plan period, 2011-13, with the objective of steering the Company's growth while balancing the interests of all key stakeholders. These have been broadly identified as General Insurance, Life Insurance, Distribution Network, Information Technology and Brand Awareness. In each of these areas the Company's Corporate Planning Team has identified key action steps that will be executed during the year in pursuit of the above objective.

With regard to General Insurance, the Company's strategic thrust will be to accelerate growth of business from identified profitable segments such as retail and small commercial lines sourced through the branch network while scaling down some of the unprofitable corporate business, especially those with a high Medical Insurance component. At the same time, efforts will be made to increase the capture of profitable corporate

business such as marine, engineering and liability classes. A significant improvement in the loss ratio is expected from the corporate business portfolio while maintaining the healthy loss ratio currently achieved on the branch business.

In the area of Life Insurance, the Company will attempt to reduce its reliance on single premium policies and focus more on regular premium endowment policies. Within this category, greater focus will be placed on introducing new products of a non-participatory nature as such products tend to contribute more to profitability if effectively managed. The Company will also try to accelerate the growth of MRP business (which also falls into the non-participating category) benefiting from the growth in housing loans. Towards this end, a special effort will be made to improve the competitiveness in the pricing of MRPs.

While the numerical expansion of the distribution network will be restricted to the opening of only two more branches in the year 2011, efforts will be made to improve the productivity of branches and the field force. Better MIS being generated by the newly upgraded system will be utilised to monitor the performance of branches as well as individual salespersons, with training and counseling inputs being provided as needed. Attention will also be paid to the development of alternate distribution channels taking advantage of positive developments in the regulatory environment.

The main focus of the Information Technology team will be to complete the implementation of the core application, whilst also channelling their attention towards the use of technology to provide low cost solutions to meet customer needs as well as obtain productivity gains. Numerous initiatives will be launched to benefit from available technology to meet business needs.

Building on the successful campaign implemented to launch and establish the 'mylife' product, the Company will develop a brand awareness and advertising strategy to transfer a part of the brand equity created to the corporate brand while promoting other selected product brands. Innovative campaigns will be developed with the support of the Company's brand ambassadors to position HNB Assurance as a dynamic, fast growing insurer who can provide superior value to customers. The ideal communications mix will be chosen to get the maximum impact for the amount spent. The Company's Marketing and Brand Development expertise will also be strengthened to spearhead this effort.

Appreciation

The year 2010 has been one of remarkable achievement for the Company and this is a reflection of the wonderful team spirit and utmost commitment displayed by my entire team at HNB Assurance comprising General Managers, Heads of Divisions, Managers, members of staff, the field management and Insurance Advisors. All of them worked with an amazing level of enthusiasm and a clear sense of purpose to deliver results exceeding expectations. I also wish to express my deep appreciation to the Chairman and the Board of Directors for their invaluable guidance and continuous support.

As always, we received excellent support from managers and staff of all HNB branches, insurance brokers, other intermediaries, reinsurers, reinsurance brokers and other strategic partners to whom I wish to extend my sincere appreciation.

Future Direction

HNB Assurance is entering its 10th year of serving the insuring public of Sri Lanka with a feeling of justifiable pride stemming from its enviable track record and a sense of optimism arising from the positive macro environment it is faced with. The Company is fully conscious of the weight of ever increasing expectations thrust on it and is determined to foster its image as an entity that delivers results exceeding the expectations of all its stakeholders. During the year 2011, it will aim to cross traditional boundaries in search of innovations that could provide superior customer value to enhance its position in a fiercely competitive market. At the same time it will be constantly mindful of its obligations towards the shareholders, employees, intermediaries, suppliers and the general public. Hence, the Company will make a determined effort to accelerate its growth while firmly ensuring that this will not be at the expense of quality and profitability. We have done this with remarkable success in the past and strongly believe it could be repeated in the immediate future as well.



Manjula de Silva
Managing Director

31st January, 2011

Board of Directors



RIENZIE T. WIJETILLEKE FCIB (London), FIB (Sri Lanka)
- *Chairman*

Non-Executive Director. Chairman since March 2004. Chairman of Hatton National Bank PLC, Sithma Development (Pvt) Ltd and Sunshine Holdings PLC, a Director of Nawaloka Hospitals PLC, Ceylon Biscuits Ltd and Mahaweli Reach Hotels PLC. Former Chairman of HNB Stockbrokers (Pvt) Ltd, HNB Securities Ltd and Colombo Stock Exchange.



MANJULA DE SILVA BA Hons (Colombo), MBA (London), FCMA (UK)
- *Managing Director*

Executive Director. Managing Director since March 2006. Chief Executive Officer from July 2004. President of the Insurance Association of Sri Lanka (IASL). Member of the Financial Systems Stability Consultative Committee of the Central Bank of Sri Lanka. Committee Member of the Ceylon Chamber of Commerce. Former Director General – Public Enterprises Reform Commission of Sri Lanka. Also served at Eagle Insurance Company PLC for a period of 14 years in many capacities, including General Manager – Corporate Lines and Human Resources and General Manager – Eagle NDB Fund Management Company Ltd.



M U DE SILVA FCIB (London)
- *Director*

Non-Executive Director. Retired Senior Deputy General Manager (Administration & Marketing), Hatton National Bank PLC. Counts over 43 years experience in Banking including 15 years at the Corporate Management level of Hatton National Bank PLC. Past President of Association of Professional Bankers. Past President of Chartered Institute of Bankers – Colombo Centre. Presently holds the position of Secretary General – Sri Lanka Banks' Association (Guarantee) Ltd. Director – Lanka Financial Services Bureau Ltd. Member – National Payments Council and Financial Systems Stability Consultative Committee of the Central Bank of Sri Lanka.



J M J PERERA FCIB (London)
- *Director*

Non-Executive Director. Senior Deputy General Manager (Business Development & International Relations) of Hatton National Bank PLC. Counts over 39 years experience in Banking. Director - Acuity Partners (Pvt) Ltd, Acuity Securities Ltd, Acuity Stockbrokers (Pvt) Ltd and Lanka Ventures PLC.



R THEAGARAJAH FCMA (UK), FCA (Sri Lanka), MBA (Cranfield), FIB (Hon) Sri Lanka

- Director

Non-Executive Director. Managing Director/Chief Executive Officer of Hatton National Bank PLC. Member of the Corporate Management of Hatton National Bank PLC since 1997. Counts over 26 years experience in Banking including overseas assignments. Chairman of Acuity Partners (Pvt) Ltd, Acuity Stock Brokers (Pvt) Ltd and Acuity Securities Ltd. Director of Sithma Development (Pvt) Ltd and Lanka Financial Services Bureau Ltd. He was a past Chairman of Sri Lanka Banks' Association (Guarantee) Ltd and Financial Ombudsman Sri Lanka (Guarantee) Ltd, Chairman of the Asian Bankers Association. Member of the Sri Lanka Accounting & Auditing Standards Monitoring Board, Committee of the Ceylon Chamber of Commerce and Chartered Institute of Management Accountants Governing Board Sri Lanka. Council Member of the Institute of Directors of Sri Lanka.

“The HNB Assurance Board comprises eminent corporate leaders, counting many years of management expertise and strong commitment to good governance”



J D N KEKULAWALA FCIB (London), FCA (England & Wales), MBA (Manchester)

- Director

Non-Executive Director. Senior Deputy General Manager - Strategy of Hatton National Bank PLC. Counts over 25 years of commercial banking experience including 17 years as a member of the Corporate Management of the Hatton National Bank PLC. Director of Sithma Development (Pvt) Ltd and Lanka Ventures PLC.



PRATAPKUMAR DE SILVA FICM (Sri Lanka), FICM (England)

- Director

Non-Executive Director. Chairman of Alliance Finance Co. PLC. First Sri Lankan to be honoured as a Fellow of the Institute of Credit Management, England. Honorary Consul of the Republic of Peru in Sri Lanka. Senior Chairman, Alliance Group of Companies, Director of several other Companies and institutions. President – Sri Lanka Institute of Credit Management. Director representing Finance Companies on the Board of the Credit Information Bureau of Sri Lanka. Advisory Councillor – Committee of The Finance Houses Association of Sri Lanka.

Board of Directors



D MANIK DE SILVA WIJEYERATNE ACA (Sri Lanka)
- Director

Non-Executive Director. Has over 30 years of varied post qualification experience in Accounting/Finance and Human Resources having worked both in Sri Lanka and overseas, holding senior positions in the private sector and the NGO sector. He was the CFO of Comsip Al A'ali WILL, a large Electrical and Instrumentation Company based in Bahrain (a subsidiary of GEC Alstom, a large French Electrical & Engineering Company), the Director Finance, Administration and Human Resources – IUCN Pakistan Country Office (one of the biggest NGOs in the field of environment) and the CFO of the Pership Group of Companies.



SARATH RATWATTE FCMA (UK)
- Director

Non-Executive Director. Has 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. He has worked in the Aitken Spence Group of companies for a period of 18 years in many capacities including that of the positions of Group Treasurer/Director - Corporate Finance, Director - Ace Power Embilipitiya (Pvt) Ltd and Director - Aitken Spence (Garments) Ltd.



INDRANI GOONSEKERA Attorney-at-Law & Notary Public
- Board Secretary

Appointed Board Secretary in August 2001 at the incorporation of the Company. She is the Deputy General Manager (Legal) and the Board Secretary of the Hatton National Bank PLC and is a member of the Corporate Management of the Bank for over 14 years. She is the Board Secretary of Sithma Development (Pvt) Ltd and was the Board Secretary of Acuity Securities Ltd (formerly HNB Securities Ltd) up to 31st December 2010.

Executive Committee



1. **MANJULA DE SILVA**
BA Hons (Colombo), MBA (London), FCMA (UK)
Managing Director
2. **LALITH FERNANDO**
CMSLIM, EDDBA (Colombo), CII (Award) UK
General Manager - Marketing and Distribution
3. **INDRANI WEERASINGHE**
ACII (UK), BSc Hons (J'pura), PgDip Stat (J'pura),
Chartered Insurer
General Manager - Life
4. **NIRANJAN MANICKAM**
ACII (UK), Chartered Insurer
General Manager - General

5. **NAMAL GUNAWARDHANE**
BCom Hons (Delhi), BIT (IGNOU)
Head of IT
6. **CHANDANA L ALUTHGAMA**
BCom Sp. (Kelaniya), FCMI (UK), MBA (Colombo)
Head of Corporate Business Development
7. **VIPULA DHARMAPALA**
BSc (Bus. Admin) Sp. (J'pura), ACA
Head of Finance



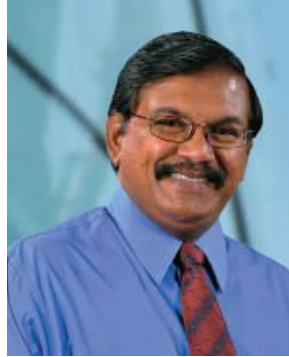
Management Team



Ivan Nicholas
Head of Distribution



Donald Nandalal
BSc Eng (Hons), PG Dip B & Fin Ad (SL), AMIE (SL)
Manager - Motor Claims



Jude Weerakoon
AMInstCM (UK), ASSM (UK)
Zonal Manager - Central



Geethani Saram
MBCS, MBA (Australia), Cert. PM
Manager - IT Projects



Asanka Unamboowe
LUTCF (USA)
Sales Manager - Bancassurance



Jehan Haniff
Dip. in Training (IVQ-U.K.), CII (Award) UK, Mgt. Diploma - CHS, AMSLIM, AITD (SL)
Manager - Sales Training and Development



Hiran Fernandopulle
BCom Special (Colombo)
Zonal Manager - North Western



Manikavasakar Puviraj
BSc Hons (Jaffna), Dip in HR (Moratuwa)
Zonal Manager - North and East



Sajeewa Chandrasena
Regional Manager - Uva/Sabaragamuwa



A R Bazlin Salih
Regional Manager - Southern



Vivekanandan Chitparan
Finance Manager



Hazana Caffoor
Dip. MGT (Peradeniya)
Manager - Motor Underwriting



Dinesh Udawatta
BSc Hons (Colombo), AIII, MBA (Colombo)
Manager - Life Underwriting



Nilesh Amarasinghe
BSc Hons (London), M BUS (Fin) (Sydney)
Manager - Investments



Sawan Rodrigo
Manager - Branch Operations



Ananda Kulasooriya
B.A. (Kelaniya), Diploma in Insurance (NIBM)
Regional Manager - Kurunegala



Salinda Perera
MIM (SL), Dip in BM (IMSL)
Manager - Administration



Kamini Gunawardene
BA Hons (Colombo), Dip in Econ (Colombo)
Manager - Marketing Communication



Chrysantha Wijemanne
Manager - Non-Motor



Sanjeevani Pitadeniya
DCCM (UK), DIP (SLII)
Manager - Customer Relations



Sitari Jayasundara
Attorney-at-Law & Notary Public
Manager - Legal

“Our senior management is a youthful and dynamic team of professionals, committed to living the Company values, geared to drive performance and determined to deliver results.”

Operational Highlights

Company

	2010	2009
Gross Written Premium (Rs. Mn.)	2,428	2,116
Net Written Premium (Rs. Mn.)	1,979	1,662
Profit for the Year (Rs. Mn.)	242	202
Return On Equity (ROE)	24%	24%
General Insurance		
Net Claims Ratio	68%	66%
Expense Ratio	39%	42%
Combined Ratio	107%	108%
Life Insurance		
Net Claims Ratio	6%	7%
Expense Ratio	59%	58%
Combined Ratio	65%	65%

Profit After Tax (Rs. Mn.)
242 **202**
 2010 2009

**Company commenced business in
 Year 2001 and this is the
 10th consecutive year it is
 reporting a Profit**

Shareholder

	2010	2009
Market Price Per Share as at 31st December (VWA) (Rs.)	78.00	49.50
Basic Earnings Per Share (Rs.)	6.45	5.38
Dividend Per Share (Rs.)	1.80	1.50
Market Capitalisation (Rs. Mn.)	2,925	1,856
Price Earnings Ratio (Times)	12.10	9.21

Dividend Per Share (Rs.)

1.80 **1.50**
 2010 2009

**HASU Market Capitalisation crossed the
 Rs. 3 billion mark during the year 2010
 recording a 58% growth**

Customer

	2010	2009
Number of Life Insurance Policies	79,321	70,485
Number of General Insurance Policies	195,439	129,796
Insurance claims and benefits (Rs. Mn.)	648	512
Number of New Products	3	3
Number of Branches	51	47

Employees

Number of Staff	2010		2009	
	Number	Percentage	Number	Percentage
Branches	368	62%	305	56%
Head Office	229	38%	235	44%
Total	597		540	

Career Development

	2010	2009
Number of training programmes	200	190
Number of induction and familiarisation programmes	3	3
Training cost per employee (Rs.)	11,811	15,217

Field Staff

	2010	2009
Number of full time trainers	6	4
Pass rate at Life Insurance technical competency test (%)		
Sinhala medium	81%	83%
Tamil medium	61%	53%
Number of field staff	1,401	1,546
Commission paid to field staff (Rs. Mn.)	181	167



You
make
us **Who**
We are

Management Discussion & Analysis

Management Discussion & Analysis

Overview

The year 2010 marked the completion of nine years in providing insurance solutions to our valued customers and HNB Assurance is now close to completing its first decade in operation. During this period the Company passed many important milestones, some of which include;

- becoming the fastest insurance company in the country to generate an annual combined turnover in excess of One Billion Rupees, reaching the landmark in its fifth year of operation
- obtaining 'A' ratings from Fitch Rating Lanka Limited for its Insurer Financial Strength and National Long Term Rating, being accredited with the second-best rating received by a local insurance company from Fitch Rating
- the Company's annual report being recognised in both local and international Annual Report awards competitions
- 'HNB Assurance' brand being ranked within the 'Top 100 Brands' compiled by Lanka Monthly Digest (LMD) magazine in association with Brand Finance
- the Company's 'mylife' product winning the Bronze Award in the Best New Entrant category at the SLIM Brand Excellence Awards 2010

Financial Highlights 2010

Life GWP – Rs. 1,084 Mn.

General GWP – Rs. 1,344 Mn.

Total GWP – Rs. 2,428 Mn.

Profit After Tax – Rs. 242 Mn.

Market Capitalisation – Rs. 2,925 Mn.

Shareholders' Funds – Rs. 1,016 Mn.

The above recognitions and achievements were made in addition to the consistent financial performance produced over the years which is best displayed through consistent double digit growth in profits and turnover, continuous increase in market share and also the continuous improvement in market capitalisation, up to Rs. 2.9 billion by the end of 2010.

With these achievements, we believe that our Company is moving in the right direction towards achieving its vision; "to be Sri Lanka's most admired and trusted partner in meeting insurance needs professionally with a spirit of caring".

Our vision goes beyond the position of a market leader and more importantly emphasises the need to become the most admired and trusted partner in providing insurance solutions. It also acknowledges the need to balance professionalism with a spirit of caring, a much-needed dimension in a people focused business.

The business environment we faced during the year has been very challenging for some segments of the business and favourable for others. Amidst this dynamic business environment the Company was able to produce some exceptional results in line with stakeholder expectations.

HNB Assurance in the Insurance Industry

Competition

The year under review saw one new insurance company entering the market. With the new player, the Sri Lankan insurance industry now comprises twenty players as at the end of 2010, out of which twelve companies operate as composite insurance companies selling both Life and General Insurance policies. There are two companies selling only Life Insurance and six companies selling General Insurance only. The competition in the industry is therefore exceedingly high. In particular, price competition in General Insurance has become a serious challenge to all players. However, it has forced all players to provide high quality, cost-effective services to customers, which we greatly welcome.

The Life Insurance market is a comparatively conservative business as pricing is determined by actuaries, but the challenge lies in acquiring new business in a market where insurance is not yet considered an important element in people's spending.

Most of the insurance companies are either subsidiaries or partners of large private sector companies or of the Government, and this factor has its own advantages and disadvantages. On one hand, having strong financial and/or business backing of the parent

Awards in 2010

Annual Report

- 1st Runner up in Corporate Governance Disclosure at SAFA Annual Report Awards held in Kathmandu, Nepal - 2010.
- Runner up in the Small Scale category at ACCA Sustainability Reporting Awards - 2010
- Silver Award in the Insurance Sector at ICASL Annual Report Awards - 2010.

Brands

- Bronze Award for the Best new Entrant at the SLIM Brand Excellence Awards 2010

or group companies is a strength to such companies. On the other hand, the limitation is that such companies tend to focus or largely depend on the businesses of their parent companies or groups, which may impede open market competition.

The insurance industry in Sri Lanka has a combined GWP of Rs. 57 billion (as per IBSL Annual Report 2009) which is 1.19% of GDP. The GWP is distributed between Life and General Insurance as Rs. 24 billion and Rs. 33 billion respectively. As a percentage, General Insurance accounts for 58% of the total GWP whilst the balance 42% is from Life Insurance. There are five large companies accounting for more than 85% of the total GWP in the industry. The balance 15 companies are competing for the remaining 15% of the market.

<i>Rs. Mn.</i>	Industry		
	2009	2008	Growth
Long Term Insurance	23,859	23,613	1%
General Insurance	33,485	34,553	-3%
GWP Total	57,344	58,166	-1%
As a % of GDP	1.19%	1.32%	-10%

Thus, the Sri Lankan insurance industry can be segregated into two categories; that is, the big league which has a market share of 85% and the small and medium sized league which has a market share of 15%. HNB Assurance, a company having been in the market for just over 9 years, leads the league of small and medium sized companies. Its market shares in respect of Life and General Insurance stood at 4.13% and 3.38% respectively at the end of 2009.

Regulatory background

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

According to the bill presented to the Parliament, the new Act would bring about a number of significant changes to the regulatory framework. Some of the key changes that are to be effective with the Act are;

- All insurance companies to be segregated as Long Term Insurance (Life Insurance) companies and General Insurance companies, within four years.
- All insurance companies to be listed in the Colombo Stock Exchange within five years. New entrants have to do so within three years.
- Minimum stated capital to be increased as notified by the IBSL.
- Institutions to be allowed to act as Agents of insurance companies.
- National Insurance Trust Fund (NITF) to be brought under the scope of the Regulation of Insurance Industry Act and the purview of IBSL.

There will be many other changes to the law with the new Act which have to be analysed carefully in terms of the potential impact to the Company.

We strongly welcome the new provision to permit institutional agents, as that will immensely help the industry to open new channels of distribution. We also welcome the proposal to increase the minimum stated capital and will take necessary steps to comply with such requirements at the appropriate time. However, the provision introduced to segregate Life and General insurance businesses will have a negative impact on small and medium sized companies and it is hoped that this will be reviewed again in light of the strong objections raised by the industry.

As per the 2009 Annual Report of the IBSL, it is in the process of introducing a risk based supervision regime (RBC) in place of the existing compliance based system, following the worldwide trend. Accordingly, risk-based supervision will supplement sound regulation with a focus on the volatile nature of the insurance business that can affect solvency and the ability to meet contingencies.

Further, the budget presented in Parliament in November 2010 brought several key changes to the tax structure in the country, which will have a positive impact on the Company. These include;

Management Discussion & Analysis

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

All these changes will come into effect from the year 2011 onwards. In addition, one other significant positive change introduced by the budget was exempting re-insurance commissions and claims from VAT and this will immensely benefit the insurance industry as a whole.

Macro-Economic Environment

When analysing the performance of the Company for the year 2010, it is necessary that due attention is given to the macro-economic environment within which the Company operated. This is very important as the prevailing trends and developments in the macro-environment will inherently influence the effectiveness and efficiency of any company's performance. The matter deserves further attention due to the significant volatilities experienced during last few years in the world economy following the financial crisis.

World Economy

The year 2010 saw a continuation of the global economic struggle to revive after the particularly painful recession experienced in 2008. Many economies worldwide were aware of the need to rise fast in order to erase the dark stains of the recession. According to the International Monetary Fund (IMF), the overall growth of the world economy was expected to be 5% in 2010.

Policy Responses

In the aftermath of the recession, the survival strategies of most economies largely revolved around expansionary policies. Expansionary monetary policy supported by unconventional liquidity provision, and expansionary fiscal policy, provided a major stimulus in response to the deep downturn. Although this trend is expected to continue through 2011 until the global economy is entirely recovered, countries would also be required to pay attention to fiscal consolidation in order to ensure past mistakes are not repeated.

Two-Speed Recovery

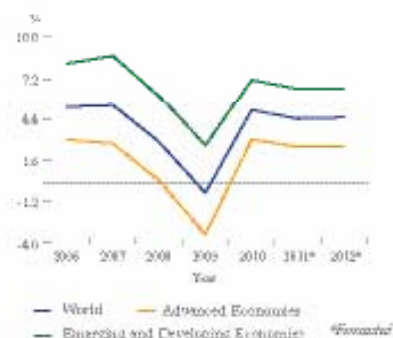
At the beginning of the year, the IMF had forecasted positive but low growth in advanced economies and fast growth in emerging economies. This two-speed recovery did materialise during the year and is expected to dominate 2011 as well.

Emerging economies were able to come back stronger than advanced economies because they were able to increase domestic demand so as to supplement the deficit created by the still tainted global trade. However in advanced economies the crisis damage was much deeper and there is still much uncertainty about the true health of such economies and the effectiveness of financial intermediation. Consequently, with the additional burden of correcting past excesses, the recovery in advanced economies has been long and slow.

Capital Flows

With the two speed recovery working in favour of emerging economies by giving rise to better growth prospects, it triggered a welcome resurgence of capital flows towards these economies. Key drivers behind the renewed capital flows include rapid growth in emerging economies, large yield differentials in their favour, and a returning appetite for risk taking. Capital flows contributed towards shifting these countries' demand from external to internal by leading to an appreciation of their currencies and by making it cheaper to borrow. The stimulated internal demand in turn compensated for the absence of external demand due to the recession, which enabled emerging economies to rise fast.

World Economic Growth - Advanced & Emerging Economies



However, along with the capital inflows, arise the attendant risk of overheating, inflationary pressure and asset bubbles and hence the need for these economies to be cautious.

Inflation

In the world economy, the price of crude oil is a main indicator of inflation. While 2009 saw a drop in oil prices, the trend reversed in 2010. Consequently, deflation has not been as prominent as expected. As economies regain and capacity utilisation levels surge, inflation expectations and inflation itself could be expected to rise. However, in 2011 and 2012, emerging and developing economies are expected to benefit from further reductions in inflation.



Financial Markets

Policy intervention on an unprecedented scale helped improving financial conditions and real activity as well. Money markets have stabilised, equity markets have rebounded, and the credit cycle may be turning up.

Asian equities appear to be more attractive for investors than those in U.S. and Europe, as the focus of attention of the world is fast moving towards the East. Asia experiences less leverage which will mean stronger recovery potential and thus the ability to rise as a significant player. The European and American equity markets have lost their attraction as their economies remain slow.

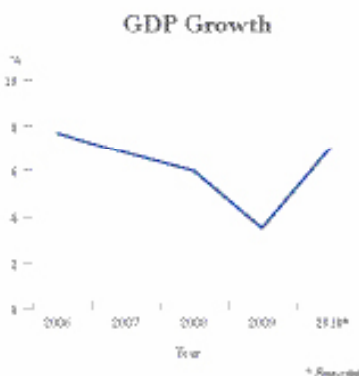
The Way Forward: The Need for Economic Rebalancing

Rebalancing, internal and external, continues to be crucial. Policies aimed at stimulating domestic demand only, will not be sustainable in the long run. The deficit countries must rely more on external demand and symmetrically, surplus countries must shift from external demand to domestic demand and reduce their dependence on exports. Although recovery may be possible without rebalancing, such recovery may not be sustainable and will lead to repetitive occurrence of periodic crises as in the past.

Sri Lankan Economy

Gross Domestic Product

In the first year after decades of ethnic conflict, the Sri Lankan economy grew by approximately 8% with all major sectors (agriculture, industry and services) recording healthy levels of growth. This was in contrast to the subdued growth of 3.5% experienced in year 2009. The end of the war in May 2009 accelerated the country's growth in the third and fourth quarters of 2009 and this trend continued into year 2010. As a result, the first three quarters of 2010 saw the Sri Lankan economy grow at 7.1%, 8.5% and 8.0% respectively. The growth rate of 8.5% in the second quarter of 2010 remains the highest-ever quarterly GDP growth recorded in the country since 2002 while the 8% growth in the third quarter remains the second highest.



With Government infrastructure development initiatives taking shape rapidly and with no major funding difficulties foreseen due to the country's decreased risk, borrowing from concessionary (IMF, etc.) and non-concessionary (from foreign and local markets) sources is no longer a problem. The Central Bank estimates that strong macroeconomic fundamentals and the post-war revival should allow the economy to grow by more than 8.5% in the year 2011 and beyond.

In terms of sectoral development for the first three quarters of 2010, agriculture grew by 6.8% with tea and rubber production showing relatively high levels of growth while coconut production faltered compared to the same period last year. The industrial sector grew by 8.3% with all major subsectors including mining and quarrying, manufacturing, and construction showing healthy levels of growth.

The service sector posted a growth of 7.9% with hotels and restaurants showing the highest level of growth on the back of a record number of tourist arrivals into the country (tourist arrivals increased by 46.1% to 654,476 in 2010 compared to 2009).

Management Discussion & Analysis

Other subsectors which showed high relative growth in the service sector include transport and communication, banking, insurance and real estate, wholesale and retail trade.

Inflation and Interest Rates

Inflationary pressures for the year remained relatively low with the point-to-point inflation as measured by the year on year change in the CCPI (Colombo Consumers' Price Index) being 6.9% at end 2010 compared to 4.8% the previous year. Lower levels of inflation at the beginning of the year allowed the annual average inflation level to remain at 5.9% for the year compared to 3.4% in the previous year. Prices remained low as a result of positive base year effects and the rising supply of food items, especially from Northern and Eastern provinces. The Central Bank would have to remain vigilant in 2011 however to maintain this low level of inflation, which has recently been creeping upwards due to factors such as high economic growth creating demand pressure, escalating domestic food prices due to supply destructions from adverse weather conditions and increasing commodity prices with the recovery of the global economy.



Amidst low levels of inflation, the Central Bank kept its benchmark interest rates low during the year to support the post-war economic growth. Policy rates for the year were only adjusted in July and August when the Repurchase Rate and Reverse Repurchase Rate were revised downwards by 25 basis points (bps) and 75 bps to 7.25% and 9% respectively.

Yields on government securities declined in the primary market for government securities over the course of the year with the 91-day Treasury bill rate declining by 42 bps to 7.24% and the 365-day Treasury bill rate declining by 177 bps to 7.55% by the year end, while the lowest 365-day Treasury Bill rate for the year was recorded in the month of October when it touched 7.10%.

The Average Weighted Deposit Rate (AWDR), which reflects the movement of interest rates pertaining to all interest bearing deposits held with commercial banks, has declined by about 175 basis points over the course of the year to 6.23%. A sharper decline of about 268 basis points for the year was observed in the Average Weighted Fixed Deposit Rate (AWFDR), which is computed in respect of fixed deposits maintained with commercial banks, as it dropped to 8.20%.

In line with the reduction in the cost of funds of banks, their lending rates have also declined. The Average Weighted Prime Lending Rate (AWPLR), which serves as a benchmark for other selected lending rates, declined by 190 basis points during the year to 9.27%. Decline in interest rates will help to boost the economy as it decreases the cost of borrowing and encourages investments and economic activities.

External Trade

The Central Bank reported that cumulative earnings from exports during the first ten months of 2010 increased by 13.2% while the cumulative expenditure on imports during the same period increased by 32.8%. The biggest contributors to the gain in export earnings included agricultural exports and industrial exports while the biggest contributors to import expenditure included consumer goods, petroleum goods and transportation equipment. The relatively larger increase in import expenditure over export earnings caused the trade deficit to increase by 79.2% on a year-on-year basis.



Workers' remittances, after adjusting for revisions by commercial banks, for the first ten months of 2010 increased by 21.9% over that of the corresponding period of 2009.

Exchange Rates

The LKR strengthened against the USD by approximately 2.7% and the EUR by approximately 10% over the course of the year 2010. The LKR is expected to remain strong during 2011 as well. Overall foreign exchange reserves reached a record USD 6.6 billion without Asian Clearing Union Funds in October 2010. This was mainly bolstered by inflows from lending agencies, foreign direct investments, remittances and increased export earnings. The Central Bank was a net buyer of foreign exchange in December following three months of net sales to maintain the peg with the US dollar. The Governor of the Central Bank, in a speech on monetary policy for 2011, projected the gross official reserves of the country to grow to USD10 billion by 2011.

Exchange Rates (LKR vs US\$ & Euro)



Equity Market

The Colombo Bourse was one of the best performing stock markets in the world in 2010 as well, with the All Share Price Index (ASPI) recording a growth of 96% and the Milanka Price Index (MPI) recording a growth of 83%. Colombo Stock Exchange (CSE) remained the best performer in the Asian region and the second best performer in the world for the second consecutive year. The price to earnings ratio (PER) of the Sri Lankan stock market leapt from 16.5 times in the beginning of the year to 28.44 times on October 1, 2010 reflecting the positive investor sentiment towards CSE. The Price Earnings Ratio (PER) of the market as at 31st of December was 22.48 times.

ASPI & MPI



After taking nearly three decades to reach the one trillion mark in terms of market turnover in October 2009, the CSE reached the two trillion mark in just 11 months in September 2010. The market capitalisation at the end of the year stood at Rs. 2,210 billion. The boom of initial public offerings lined up for next year (more than 50 IPOs) is expected to increase the market capitalisation close to three trillion rupees by the end of year 2011.

Management Discussion & Analysis

Financial Review

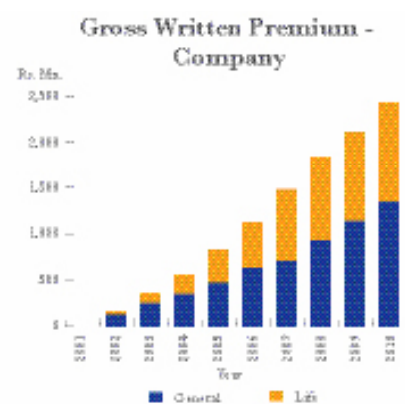
HNB Assurance completed yet another successful year by achieving both its top and bottom line targets amidst a very competitive and challenging environment. This is the **first time in the Company's history that it achieved both Life and General Insurance Gross Written Premium (GWP) targets. It also crossed the Rs. 1 billion mark in both lines of business and recorded a combined GWP of Rs. 2,428 million.**

Shareholders' equity of the Company reached the Rs. 1 billion mark during the year, which is another significant milestone for the Company. The Company continued to deliver strong growth in its profits by recording a 20% growth in Profit After Taxation (PAT). The Company's market capitalisation reached the Rs. 3 billion mark during the year. However, market capitalisation at the end of the year dropped to Rs. 2.9 billion with the slowing down of the stock market towards the year-end.

Growth in Gross Written Premium (GWP)

The Company recorded a growth of **15%** in GWP to reach Rs. 2, 428 million as against the GWP of Rs. 2,116 million in 2009. The General Insurance GWP grew by **19%** while Life Insurance recorded a growth of **10%** during the year.

General Insurance recorded a GWP of Rs. 1,344 million and increased its contribution to overall GWP from 53% last year to 55% this year. The growth in General Insurance was mainly due to the impressive growth in Miscellaneous and Motor Insurance classes, of 83% and 24% respectively. Marine insurance grew marginally by 5% while fire GWP declined by 5% compared to last year's performance. These are discussed in detail under General Insurance review on pages 32 to 39.



GWP (Rs. Mn.)					
	2006	2007	2008	2009	2010
General	619	704	925	1,131	1,344
Life	503	768	914	985	1,084
Total	1,122	1,472	1,839	2,116	2,428
Growth	36%	31%	25%	15%	15%

General and Life GWP (Rs. Mn.)					
	2006	2007	2008	2009	2010
General	619	704	925	1,131	1,344
Growth	32%	14%	31%	22%	19%
Life	503	768	914	985	1,084
Growth	42%	53%	19%	8%	10%

The contribution from Life Insurance to the total GWP declined further during the year to 45% from 47% in the previous year. However, for the first time in the Company's history, Life Insurance GWP reached the Rs. 1 billion mark and achieved a GWP of Rs. 1,084 million, recording a growth rate of 10% against the growth rate of 8% in 2009. Further, GWP from the traditional endowment policies recorded a 27% growth during the year and this will give the Company the opportunity to target a steady growth in Life Insurance in ensuing years. Even though there is a comparative decrease in contribution from Life Insurance GWP to the Company GWP, it is believed that the Company is on the correct path considering the exceptional growth in the endowment business, which is a key component of the Life Insurance business.

GWP Mix					
	2006	2007	2008	2009	2010
General	55%	48%	50%	53%	55%
Life	45%	52%	50%	47%	45%

Without being restricted to the traditional mode of focusing on Insurance Advisor driven sales, a bancassurance channel was started with the blessings of the parent company in the year 2008 and this channel has now started generating outstanding results as expected. The GWP generated from the bancassurance channel grew by 78% to record Rs. 158 million in the current year. Much higher results are expected from this channel in the future. This is discussed in detail in the Life Insurance review on pages 40 to 44.

General Insurance business was able to generate consistent performance in the GWP except for the decline shown in the second quarter. This was mainly due to the removal of the terrorism cover from 1st April 2010 and the reduction in renewal premiums of a few large policies due to severe competition in the market and changes in underlying asset values.

However, the growth in Life Insurance was not consistent during the year particularly due to the large volumes of Single Premium Investment Policies sold during the first three quarters of 2009. Nevertheless, the Company recovered strongly in the 4th quarter, recording a GWP growth of 59% over the corresponding period in the previous year. This resulted in the annual growth rate in Life Insurance GWP being restored to double digit levels again.

Other than in the second quarter, the Company maintained reasonable growth rates in combined GWP. However, we recorded an exceptional growth of 46% in the fourth quarter breaking all records, helping the Company to reach a 15% growth in combined GWP for the year. All employees, insurance advisors and other partners of HNB Assurance put their best possible effort to achieve this remarkable growth rate in GWP, particularly in the fourth quarter. It was a team effort that clearly demonstrated the capabilities and potential of the Company.

Profitability

The Company produced outstanding results in profitability, consistent with its performance in the past. The Company generated a **17%** growth in PBT to record **Rs. 270 million** and a **20%** growth in PAT to record **Rs. 242 million**.

The contribution of General Insurance to PBT was **Rs. 114 million**, indicating a growth of **12%** over the profit of Rs. 101 million recorded in 2009. PAT from General Insurance was **Rs. 86 million** for the year which was a growth of **20%** from the Rs. 72 million recorded last year. The PAT growth is on par with the growth in Company PAT.

Life Insurance generated a surplus of Rs. 156 million during the year, recording a growth of 20% over the surplus generated last year of Rs. 130 million. The said surplus was calculated by the Consultant Actuary following his valuation of the Life Insurance Fund at the year end, keeping due allowances for all liabilities including bonuses for Life Insurance Policyholders.

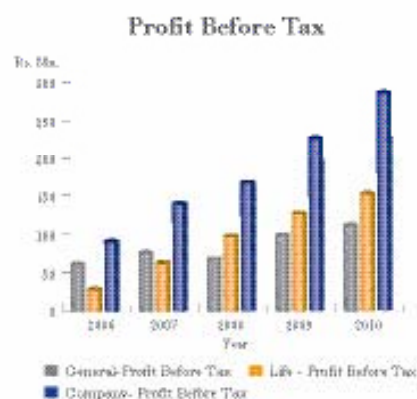
During the year the claim ratio of General Insurance rose to **68%** compared to 66% in the previous year. Thus, profit on General Insurance was achieved mainly through the efficient expense management strategies adopted by the Company which brought down the General Insurance expense ratio to **39%** in 2010 from 42% recorded in the year 2009. Finally, the Combined Ratio showed a 1% improvement, recording a figure of **107%** in the current year, down from 108% recorded in the year 2009.

Profits (Rs. Mn.)					
	2006	2007	2008	2009	2010
Profit Before Tax					
General	63	78	70	101	114
Life	30	65	100	130	156
Company	93	143	170	231	270
Growth	50%	54%	19%	36%	17%
Profit After Tax					
Company	91	123	164	202	242
Growth	52%	35%	33%	23%	20%

2010 (Rs. Mn.)					
	Q1	Q2	Q3	Q4	Total
General GWP	306	299	357	382	1,344
Life GWP	232	227	304	321	1,084
Total GWP	538	526	661	703	2,428

2009 (Rs. Mn.)					
	Q1	Q2	Q3	Q4	Total
General GWP	240	307	303	280	1,130
Life GWP	217	230	337	201	985
Total GWP	457	537	640	481	2,115

Growth					
	Q1	Q2	Q3	Q4	Total
General GWP	27%	-3%	18%	36%	19%
Life GWP	7%	-1%	-10%	59%	10%
Total GWP	18%	-2%	3%	46%	15%



Management Discussion & Analysis

A detailed discussion of General and Life Insurance profitability is given on page 34 and 43.

Combined Ratio in Life Insurance remained at **65%** in both years. While the Claim Ratio has improved from 7% in 2009 to **6%** in 2010, the Expense Ratio has shown a 1% increase from 58% in 2009 to **59%** in 2010.

Investment income generated an increase of 11% to record Rs. 517 million during the year. This is truly a commendable effort given the sharp drop in market interest rates over the year and the tight regulatory environment with limited options for investments. It is expected that interest rates will remain at these levels in the short to medium term and therefore there will be more focus on managing underwriting results. Accordingly, the Company will pay more focused attention on claims and expense management during the year 2011.

Earnings Per Share

Earnings Per Share (EPS) refers to the portion of a company's profit allocated to each issued ordinary share. EPS serves as one of the key indicators of a company's profitability. In addition, EPS is also considered to be the single most important variable in determining the price of a share.

The Company's Earnings Per Share has also grown steadily over the years and has increased by **20%** from Rs. 5.38 in 2009 to **Rs. 6.45** in 2010. The graph on clearly the consistent growth recorded in EPS over the last few years.

Return on Equity (ROE)

The Return on Equity stood at **24%** at the year end, consistent with the last year. This is a very attractive rate of return considering the current economic environment, and comparing with the average risk free return which is recording about 8.59% (one year treasury bill rate) for the year.

The graph shows ROE over the years. It also indicates the Company's commitment to deliver consistent performance and value addition for its shareholders in every year.

Reinsurance

The total Reinsurance outgo (premium ceded to reinsurers) of the Company came down by 1% to Rs 449 million from the Reinsurance cost of Rs. 454 million of 2009.

Drop in Reinsurance can be mainly attributed to General Insurance since its Reinsurance outgo came down by 3% compared to the last year. The chief reason for this is the change in the General Insurance class mix. The contribution from Motor and Miscellaneous classes to General Insurance GWP grew compared to the last year and these classes have a lower Reinsurance component compared to Fire and Marine Classes.

Reinsurance from Life Insurance increased by 7% to Rs. 99 million from the Reinsurance outgo of Rs. 93 million incurred in the year 2009.

Claims

Insurance claims and benefit expenses, which are the main costs of an insurer, increased by **27%** during the year.

Net claims incurred in General Insurance grew by **31%**. A high claim experience in the Miscellaneous and Motor classes is the main contributory factor for this unfavourable increase in claims. Claim experience in other classes was also exceptionally high during the year due to reasons such as the frequent occurrence of floods.

Investment Income (Rs. Mn.)					
	2006	2007	2008	2009	2010
General	56	86	127	156	178
Growth	44%	54%	48%	23%	14%
Life	53	114	215	311	339
Growth	102%	115%	89%	45%	9%
Company	109	200	342	467	517
Growth	69%	84%	71%	37%	11%



Net claims incurred in Life Insurance declined by 6% during the year. This was mainly because of the decreasing surrender of Single Premium Investment Policies. However, the maturity claims during the year showed a growth of 116% with a high volume of maturities coming up as the Company gets older.

Underwriting and Net Acquisition Costs

The underwriting and net acquisition cost increased by 10% during the year. Main cost component under this is the commission and other acquisition costs paid to intermediaries. Commissions from reinsurers are netted off against the cost in line with the guidelines of the Statement of Recommended Practice (SoRP) issued by ICASL for Insurance Companies. Overall growth in Underwriting and Net Acquisition Costs was managed at this level with the receipt of attractive commissions and profit commissions from reinsurers.

Other Insurance Related Expenses

All direct expenses in respect of underwriting such as pre-underwriting inspection fees, medical fees, NBT paid on reinsurance etc are included in this category. Pre-underwriting inspections and NBT on reinsurance were new cost components which came into effect in the latter part of 2009 and therefore, the increase in overall cost over last year is very high at 60%. In particular, it was decided to implement pre-underwriting inspection procedures in order to minimise the underwriting risk, which in turn helps reduce claims. This resulted in an increase in the direct cost associated with the acquisition of General Insurance business.

Other Operating, Investment Related and Administration Expenses

This includes all expenses other than what was discussed above. Salaries, administration expenses, depreciation and amortisation are few of its major components.

The overall growth of this expense category was managed at 14%. Strict but sensible expense management strategies adopted by the Company throughout the year has produced these results. In particular, this has resulted in bringing down the Expense Ratio in General Insurance from 42% recorded last year to 39%, which is a commendable achievement.

Income Taxes

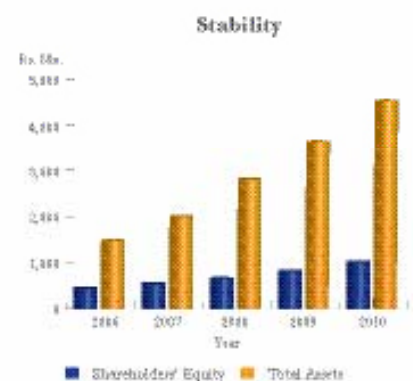
The income tax expense reduced by 6% during the year. The main contributory factor for this favourable variance in Income Tax is the realisation of profits from the well performing equity market, which is tax free. More funds of the Company were moved to the equity market during the year on a well planned and systematic approach and some of the gains were realised during the year.

As discussed above, the 2011 budget proposals introduced a number of initiatives to reduce the tax burden on corporate entities and it is expected that these measures will have a positive impact from the financial year 2011 onwards.

Asset Growth

As an insurer, a solid financial base is essential for a sustainable business. Thus, HNB Assurance continues to build and maintain a strong balance sheet through growth in the total asset base comprising a quality asset portfolio which follows the guidelines issued by regulators strictly. The Company focuses on improving the proportion of income generating assets included in total assets without heavily burdening the balance sheet with non-income generating assets. This solid commitment to stability has given the ability to overcome challenges posed by these difficult times. In line with the trend the total assets of the Company increased by 24%, from Rs. 3,672 million in 2009 to **Rs. 4,548 million** in 2010. Income generating assets constitute 80% of the total assets.

Details of the Company's investments included under total assets are discussed on page 45 to 47.



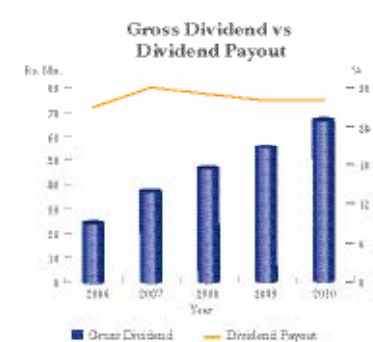
Management Discussion & Analysis

Shareholders' Funds

Shareholders' funds surpassed the important milestone of **Rs. 1 billion** during the year to record **Rs. 1,016 million** from Rs. 831 million recorded in 2009. Growth in the Shareholders' equity compared to the corresponding period was **22%**. It must be noted that **recording Rs. 1 billion shareholders' equity with organically generated funds was one of the prime targets set at the beginning of the year.**

Dividend

The Company proposes a final dividend of **Rs 1.80** per share on profits for the year under review, which will amount to a total dividend payout of **Rs 67.5 million**. The proposed dividend is at a growth of **20%** over the last year's dividend per share of Rs. 1.50.



Net Asset Value Per Share (NAVPS)

Net Asset Value Per Share (NAVPS) is used as one of the key performance indicators of the stability of a company. The net asset position of the Company has been consistently growing over the years, strengthening the Company's stability year by year. Company's NAVPS as at 31st December 2010 was **Rs. 27.10** which is a growth of **22%** from Rs. 22.16 recorded last year.



Life Insurance Fund

The Life Fund of the Company crossed **Rs. 2 billion** mark during the year and stood at Rs. 2,385 million at the end of the year. This was a **29%** growth over the Life Fund of Rs. 1,854 million in 2009. As in the previous years, the Company arranged for a Consultant Actuary to value the Life Fund and the Report of the Consultant Actuary is given on page 155. Adequate provisions have been made in respect of bonus to policyholders, solvency and other contingencies out of the current year's surplus as per the Actuary's Report.

General Insurance Fund

The General Insurance Fund liability also increased by **22%** during the year to reach **Rs. 731 million** from Rs. 599 million recorded in the year 2009. Net Unearned Premium, Claims Outstanding, Reserves for Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims, Net Deferred Acquisition Costs are the components of the General Insurance Fund Liability.

The Management has taken all reasonable steps to ensure adequate provisioning for Net Unearned Premium, Net Deferred Acquisition Costs and Claims Outstanding including provisions for IBNR and IBNER reserves. The Management has also consulted an Independent Actuary in the process of valuing IBNR and IBNER reserves and his report is given on page 154.

Both the Life and General Insurance Funds are valued based on best available information and in accordance with the provisions of Regulation of Insurance Industry Act, No. 43 of 2000 and in line with rules and guidelines issued by the Insurance Board of Sri Lanka (IBSL).

Solvency Margins

The Company continued to satisfactorily meet the Solvency Margins criteria issued in 2004 by the Insurance Board of Sri Lanka (IBSL) throughout the year in both General and Life Insurance. This was achieved by adopting prudent investment policies and monitoring the positions of admissible assets and liabilities continuously.

The Statement of Solvency and Approved Assets covering General and Life Insurance businesses is presented below.

General Insurance - Solvency Margin

The admissible assets in General Insurance amounted to Rs. 1,300 million at the year-end of 2010 while the total liabilities amounted to Rs. 901 million resulting in an Available Solvency Margin of Rs. 399 million. As the Required Solvency Margin in General Insurance amounted to only Rs. 199 million, the Company exceeded the required solvency margin by 2.01 times.

Life Insurance - Solvency Margin

In Life Insurance, the Required Solvency Margin was Rs. 108 million while the Company maintained an Available Solvency Margin of Rs. 122 million resulting in the maintenance of a solvency ratio of 1.13 times. For meeting this purpose, the Company maintained admissible assets amounting to Rs. 2,460 million whilst the total liabilities stood at Rs. 2,338 million at the end of 2010.

Statement of Solvency

The statement of solvency for General Insurance and Life Insurance has been prepared in accordance with the Solvency Margin (General Insurance) Rules – 2004 and Solvency Margin (Life Insurance) Rules – 2002 respectively and is in line with the formats stipulated by the Insurance Board of Sri Lanka (IBSL).

	Rs. '000
General Insurance Business	
1. Value of Admissible Assets	1,300,141
2. Amount of Total Liabilities	901,125
3. Value of Admissible Assets minus Amount of Liabilities	399,016
4. Required Solvency Margin	198,688
5. Solvency Ratio [Line 3 divided by Line 4]	2.01
Life Insurance Business	
1. Value of Admissible Assets	2,459,534
2. Amount of Liabilities:	
2.1 Policy Liabilities	2,162,776
2.2 Other Liabilities	174,893
3. Value of Admissible Assets minus Amount of Liabilities	2,337,669
4. Factor	5%
5. Required Solvency Margin	108,139
6. Solvency Ratio [Line 3 divided by Line 5]	1.13
Approved Assets	
Determined 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.	
General Insurance Business	
1. Approved Assets maintained in General Insurance Business	1,106,029
2. Technical reserve	658,899
3. Approved Assets in Excess of the Technical Reserve	447,130
4. Approved Assets as a % of the Technical Reserve	168%
5. Required Ratio	100%
Life Insurance Business	
1. Approved Assets maintained in Life Insurance Business	2,399,455
2. Life Insurance Fund	2,385,246
3. Excess in Approved Assets over the Life Insurance Fund	14,209
4. Approved Assets as a % of Life Insurance Fund	101%
5. Required Ratio	100%

Management Discussion & Analysis

General Insurance Review

Business Environment

General Insurance business had to compete in very challenging market conditions during 2010. The post war era ushered in tremendous optimism for growth and development, especially in the area of infrastructure development and tourism. Some of the planned government initiatives took off the ground this year thereby creating more insurance opportunities, but private sector insurers were deprived from exploiting these opportunities as a treasury circular restricted the placement of such insurance covers to only the two state insurers. Declining premium rates also had an adverse impact on the market with growth hovering in single digits.

With the end of the war and the dawning of a more peaceful environment, many customers opted not to purchase the terrorism cover. This was not surprising and the Government Pool for Riot, Strikes and Terrorism recognising the reduced risk exposure, dropped their rates by 75% for these covers. This reduction was necessary and justifiable but the sudden drop in premium levels contributed towards the low growth rate recorded by the market, which is still adjusting to this new development.



Motor Insurance which contributes substantial amounts towards the market premium and Marine Insurance were growth areas seen in 2010. Even though the Marine growth was marginal, it nevertheless was a change from the flat trend seen in the last year. Both these classes benefited from the liberalised import duty environment especially for motor vehicles.

Weather related claims emanating from two major floods experienced in Colombo and its suburbs resulted in numerous property and motor claims, which had an adverse effect on loss ratios. Falling interest rates resulted in investment returns shrinking when compared with previous years and these factors combined to create a major challenge to maintain profitability.

Despite this negative trend, we also saw new insurers commence operations, and this augurs well for the industry. Currently there are eighteen General Insurance companies competing for business as at end 2010.

The market performance during 2010 has shown a turnaround after the negative growth experienced in 2009. We believe this positive trend will continue and look forward to an even better year in 2011.

Business Review

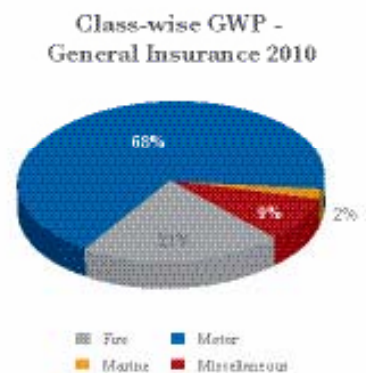
General insurance recorded a Gross Written Premium (GWP) income of **Rs 1,344 million** (2009 - Rs. 1,131) which is a **19%** growth over last year. This growth rate is considerably above the industry growth rate and has resulted in an increase in the market share this year. The fact that we have been able to increase our market share consistently during the past couple of years is a very satisfying trend.

Growth in Gross Written Premium (GWP).....

The highest growth rate in General Insurance was recorded in the Miscellaneous Class. This grew by **83%**, whilst Motor Insurance grew by **24%**. Marine Insurance which had a negative trend in previous years recorded a growth of **5%**. However Fire Insurance experienced a marginal drop in income recording a negative growth rate of **5%**.

GWP in classes.....

The negative growth experienced in some of the classes had an impact on the class mix this year. The Motor Class continued to dominate with **68%** but we saw a change in the contribution of the Miscellaneous Classes which rose from 6% to **9%**. This factor combined with a negative growth in the Fire Class resulted in its contribution to total GWP falling from 27% to **21%**. Even though the Marine Class grew, its contribution towards the mix diminished when compared to the previous year, as the quantum of growth in terms of premiums was not significant.



Business in Channels

The year under review did not see any major changes in our business channel mix towards the overall premium of Rs 1,344 million. HNB was the main contributor with **41%** (42% in 2009) whilst business from brokers and direct sources recorded **27%** (29% in 2009) and **23%** (22% in 2009) respectively. However it was heartening to observe the slight increase in the agent’s contribution, which went up to **9%** this year (7% in 2009).

HNB, the highest contributing channel.....

The Hatton National Bank channel backed by business emanating from its head office and branches, continues to be the backbone of our income. This dependency, however, has been on a reducing trend. This is in keeping with the Company’s strategy, as reducing over-reliance on one channel and creating a more broad-based network of income sources adds stability to the Company’s continued progress.

Contribution from HNB Channel

2006	2007	2008	2009	2010
61%	64%	52%	42%	41%

The Company however recognises the importance of harnessing the HNB network and all efforts are taken to maximise the opportunities from this business source. **Senior management and their teams from both companies committed themselves towards pursuing planned goals and this approach has seen increased income generation, resulting in growth both in terms of volume and profitability.**

The Company introduced various competitions and events in order to ensure HNB staff remains motivated in this quest. Our branches too played an active role, liaising with the relevant branches of the HNB to enhance customer satisfaction and thereby business volumes.

During the year, the HNB channel recorded a premium income of **Rs. 551 million** which is a **16%** growth over the last year (Rs 476 million in 2009). With the reduction in vehicle import tax and the interest rates for lending on the decline, we believe there would be more opportunities for business growth, especially in the areas of leasing and SME lending by the bank. This would translate into business opportunities to us as well and hence there is reason to be optimistic about an increased business growth from this channel over the next couple of years.

Contribution from the Broker channel

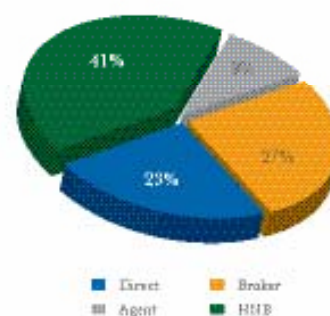
The broker channel recorded a GWP of **Rs. 360 million**, which is a growth of **8%** over last year (2009 – Rs. 333 million). However, the contribution of the channel towards the overall income has declined slightly to 27% from 29% in the year 2009. Nevertheless, we are pleased with the support extended by the brokering companies with some beginning to transact business more frequently. This indicates the increasing confidence placed in us by this important community. We saw a significant growth in this channel in the year 2009 and we have seen a steady stream of business being channelled towards us during the year under review as well.

Contribution from Broker Channel

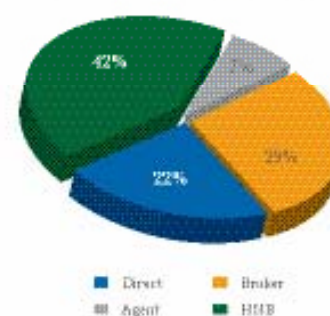
2006	2007	2008	2009	2010
11%	10%	15%	29%	27%

We recognise the importance of this business source and are keen to expand and develop the business relationship. Towards this the Company organised regular training programmes for employees of the broker companies, to educate them on technical aspects and also brief them about the procedures and practices of the Company. This no doubt has created a better understanding between us and the brokering companies.

Channel-wise GWP - General Insurance 2010



Channel-wise GWP - General Insurance 2009



Management Discussion & Analysis

In addition, we have extended our system facilities to some selected brokers in order for them to issue HNB Assurance covers to their customers directly. We also organised a number of entertainment events for broker staff to motivate them and to improve relationships between them and the staff of the Company. One such event was the Beach Rugby Fiesta 2010 held on the Private Beach of the Mount Lavinia Hotel.

Contribution from Advisor channel

The Advisor channel recorded a GWP growth rate of **65%** during the year, thereby increasing its contribution to **9%** from the 7% recorded in 2009. Direct channel also grew by **25%** to record a GWP of **Rs. 311 million**, contributing **23%** towards the total General Insurance premium income. The advisor channel which was not contributing significantly in the past has shown tremendous improvement. This is attributable to the initiatives taken to promote the advisor channel during the year and the focused training carried out by our General Insurance trainers who equipped them with the ability to meet customers with greater confidence when canvassing business. The ability to maximise the opportunities available has been a major contributing factor to the growth in this channel.



Best Corporate Sales Advisor

More detailed discussions about business partners are presented in the Sustainability Report from page 76 to 80.

Reinsurance strength

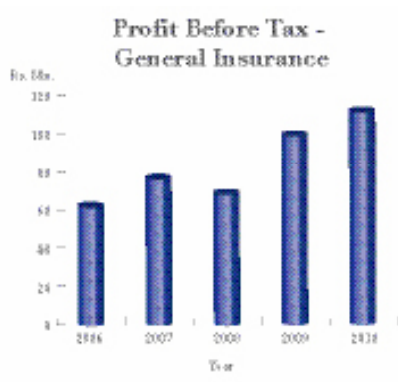
A strong reinsurance programme with the support of reputed international reinsurers in the panel creates an ideal platform to be a proactive player in the market. **The current panel of reinsurers carry a rating of “A-” and above from world renowned rating agencies, ‘Standard and Poor’ and ‘AM Best’.** These reinsurers are strong companies operating extensively in the region and are known for their technical strength, claims paying ability and, importantly, the reach.

Profitability in General Insurance

One of the major challenges faced by all insurers in the industry is to maintain the Combined Ratios at low levels and to enhance the underwriting profitability. Despite a very competitive market environment we were able to reduce our **Combined Ratio** to **107%** as against the 108% recorded last year.

This reduction is mainly attributable to the prudent expense management strategies adopted by the Company through which we were able to reduce the **Expense Ratio** from 42% in 2009 to **39%** this year. However due to declining rates and weather related claims, our **Claim Ratio** rose to **68%**, which was 2% above what we experienced last year. This has resulted in our Combined Ratio reaching 107% and recording an underwriting loss of Rs. 64 million.

Despite the Combined Ratio exceeding 100%, the Company was able to derive a PBT of **Rs. 114 million** from General Insurance business. This is a **12%** growth when compared to the profits recorded in year 2009, which stood at Rs. 101 million.



Profit After Tax from General Insurance was Rs.86 million with a growth of 20% over Rs.72 million recorded last year.

The growth in General Insurance profits was mainly due to exceptional investment yields which generated an investment income of **Rs 178 million**, with a growth of **14%** over the last year.

Having recognised the need to maintain the Combined Ratio below 100%, the management has introduced various measures to curtail expenditure and minimise claims costs. **Meeting profit expectations next year is a very challenging task, especially with the sharp decline in interest rates and intense price competition, which would adversely impact profitability. However we are confident that we have the capability to take on this uphill task.**

General Insurance Ratios

	2006	2007	2008	2009	2010
Net Claim Ratio	60%	62%	67%	66%	68%
Expense Ratio	38%	39%	43%	42%	39%
Combined Ratio	98%	101%	110%	108%	107%

Initiatives during the year

All major products of General Insurance were moved to operate under a new IT system during the year with the objective of uploading the entire backlog of historical data during the first quarter of 2011. **Through this new initiative, we would be connecting our entire branch network into one integrated platform which would enable us to service our customers from anywhere in the island.** This no doubt would improve our service to customers, with extended connectivity into customer domains, enabling quicker client servicing as planned in the next phase.

Another key initiative taken by the General Division was the **formation of the General Insurance Academy, primarily aimed at improving the technical competency of the staff** attached to the Division. The opportunity to follow the three tiered learning programme was also open to staff attached to other divisions as well, with many from other units too enrolling themselves to expand their knowledge base. The course is designed and conducted by in-house resource persons. It is envisaged that this would create a greater appreciation and awareness of our product range among wider groups of people within the Company in addition to imparting technical knowledge and skills.

Motor Insurance during the year

Motor Insurance recorded a growth of **24%** during the year to record a GWP of **Rs. 916 million**. This is a commendable achievement considering the market environment during the year. As mentioned before, the rate revision on terrorism cover and the ever increasing requests to delete this cover from the policy by existing customers had a significant impact on premium income. The premium generated through this cover in Motor Insurance for 2010 was just **Rs. 27 million** which is a decline of **61%** over 2009. Despite this, Motor Insurance continued to be the spearhead of the Company’s General Insurance business.

The contribution to the total General Insurance GWP from Motor insurance increased to **68%**, from 65% in the year before. Tying up with leasing institutions and an aggressive approach in preferred segments vehicle types were strategies which were adopted to expand this portfolio. The reduced import tax regime, which increased the number of vehicle imports, also contributed to the growth in this class.

COMBINED RATIO

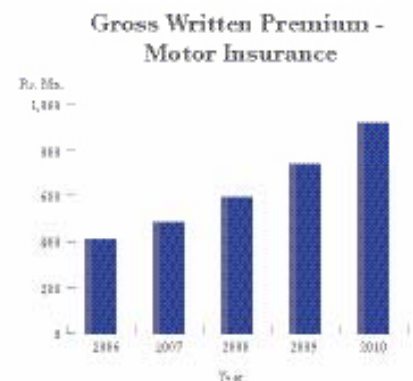
What Does Combined Ratio Mean?

Combined Ratio is “a measure of profitability used by an insurance company to indicate how well it is performing in its daily operations. A ratio below 100% indicates that the company is making underwriting profits”.

The Combined Ratio consists of the Claim Ratio and the Expense Ratio. The Claim Ratio is claims paid and owed as a percentage of revenue earned from premiums. The Expense Ratio is operating costs as a percentage of revenue earned from premiums.

$$\text{Calculated as: } \frac{\text{Incurred Claims} + \text{Expenses}}{\text{Net Earned Premium}}$$

Even if the Combined Ratio is above 100%, a company can still make a profit, because the ratio does not include the income from investments.



Management Discussion & Analysis

“motorGuard” the best Motor Insurance Product in the market

Our motor insurance product is marketed under the brand name ‘motorGuard’ and some of its key features are;

- Product with the fastest time to obtain a **No Claim Bonus (NCB) of 75%** (within 6 years)
- NCB reduction only after 2 accidents for a year
- If repair exceeds 30 days on a leased vehicle – **lease payment** up to 2 instalments subject to a maximum amount of Rs. 100,000/-
- Same NCB continued for the **second vehicle**.
- **Free towing charges** up to Rs. 2,500/-
- **Free Air bag** cover
- **Free learner driver** cover for spouse and family
- **Cash grant for Children’s education** up to Rs. 250,000/- in the event of accidental death and if spouse is unemployed



Motor insurance service improvements

In a price sensitive environment, service becomes an important cog in the wheel for business retention. Not forgetting this aspect, we have introduced a few facilities which are aimed at providing our customers a satisfying service.

Pre underwriting surveys -

Our motor assessors are sent to inspect a client’s vehicle at a convenient location of their choice prior to acceptance. This not only facilitates the completion of the proposal form but also helps to identify any areas of the vehicle which needs immediate attention.

24 hour Helpline -

The Company operates a customer relations centre with a **24 hour** helpline (**0114 - 883883**). This enables our customers to report a claim at any time or make an inquiry.

Fast track unit-

In order to facilitate a speedy service on small claims, we operate a fast track system which processes claim payments below Rs. 25,000/- **within 24 hours** of the accident.

Immediate Assessment -

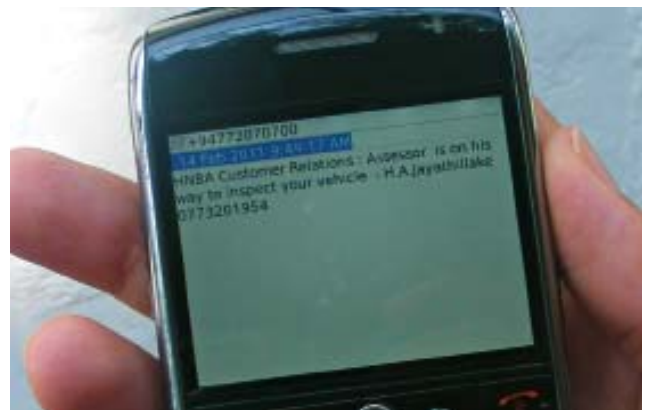
We currently have an independent assessor panel with assessors stationed at various parts of the country. This facilitates prompt claims assessments **anywhere, at any time**.

Camera Phones for Assessors -

Assessors operating in selected areas have been provided with special camera phones, which enable them to **upload pictures** of the vehicle in its post accident state directly to our system and almost immediately from the site of the accident. This feature facilitates quick assessments whilst also acting as a deterrent to staged and fraudulent claims.

SMS Alert -

The Company has developed systems using the advancements in the area of mobile technology to serve our client base more efficiently. We communicate to our clients the name of the assessor and the time he would visit the accident site to carry out the loss assessment through a SMS. This enables our customers to be informed of the actions taken by us following their loss intimation. Our Customer Relations Centre (CRC) also keeps in touch with the designated assessor through the same medium.



Approved garages and spare part suppliers for a cashless service –

We have a network of approved garages and spare part suppliers covering all major towns in the country. When using their services following an accident, customers do not pay for the service rendered to them, as all payments are made directly by the Company. This reduces the burden placed upon the customers to settle bills for services obtained.

Profitability on Motor Insurance.....

Due to the adverse weather conditions experienced during the year we were beset with many flood related claims. Despite this, we were able to end with a Claim Ratio of **65%**, which is marginally lower than the 66% recorded last year.

Non Motor Insurance during the year

Non-Motor Insurance consists of all classes of business other than Motor Insurance and generally includes Fire, Engineering, Marine, Workmen's Compensation, Health, Travel Insurance etc. The contribution to Company's total General Insurance GWP from these classes was recorded at **32%** in the year under review, which is a 3% decline in contribution when compared to 2009. The main reason for this change is due to the Fire Class not being able to achieve the premium levels envisaged for the year.



Fire Insurance performance during the year.....

Despite the Company being able to secure most of its renewal business and also win new customers, Fire Insurance recorded a 5% decline during the year in GWP compared to 2009. The downward revision in the values proposed for insurance by key clients, non renewal of a large corporate account due to its decision to seek insurance protection within the group, reduced terrorism premium due to rate revision and lack of demand, and fierce competition, were some of the reasons this decline could be attributed to. The GWP generated from 'Terrorism Cover' on Fire Insurance was only **Rs. 19 million** recording a **70%** decline of the GWP generated from this cover in 2009 which stood at Rs. 64 million.

However, we were also able to secure a few large accounts as new business during the year whilst successfully providing continued insurance cover for some of the leading development projects in the country. The decision by the government to insure all state sponsored projects only through the state insurers strangled our participation but we remain hopeful that this decision would be reviewed, in the near future.

Fire Insurance profitability.....

Fire Insurance recorded a Claim Ratio of **37%** during the year. This is a 20 percentage point increase when compared with the Claim Ratio of 17% recorded in 2009. However this Claim Ratio is much lower when compared with the Claim Ratios of other classes. A major reason for the increase in claims this year was weather related losses. Even though we did not experience many large losses, numerous small claims which arose from flooding experienced in May and November had an impact on profitability.

Marine Insurance

This policy covers the transient risk involved whilst goods are being moved between locations either as an export, import or land transit item. Usually terms are negotiable based on annual values but single transits are also insured upon request.



Marine Insurance performance during the year.....

Marine Insurance recorded a GWP of **Rs. 24 million** during the year and this was a **5%** increase when compared with the GWP recorded in 2009. However, this increase did not have a significant impact on the overall GWP due to its very low contribution.

The Marine Insurance class has been sluggish over the last two years and we are hopeful this trend would change. With the 'Magampura' port coming into full operation and upon completion of other ports in the country, which are currently under construction, we believe that there will be greater potential for Marine business in the future.

We are conscious of growth opportunities and therefore have convinced our reinsurers to increase our capacity under Marine Insurance by 16% with more underwriters being recruited for this unit. An internet based policy issuance system is a feature which would be introduced soon to facilitate documentation and increase operational efficiency.

Management Discussion & Analysis

Marine Insurance profitability.....

The Marine Claim Ratio for 2010 which is at **34%** is higher than the Ratio experienced in 2009 (12%). Many small attritional losses in a very price conscious environment along with a few weather related claims have had an adverse impact on the contribution to profitability.

Miscellaneous Insurance during the year.....

This class has shown tremendous growth recording a premium income of **Rs. 115 million** which is **83%** more than last year. The predominant contribution for the growth has come from corporate medical portfolios which were underwritten as accommodation business in conjunction with the property portfolios of the entities concerned. As a business segment, medical insurance has not been a value addition to profitability but has become an integral part of corporate portfolios. There has also been a growth seen in the burglary, travel and personal accident business segments which are also accounted under this class.

A key area of growth in the future would be the liability class of insurance, with entities seeking more protection against the possible exposures arising from products marketed by them and the facilities at premises provided to public when interacting with them. The inquiry for legal liability insurance is low but increased globalisation and progress in law reforms may compel the need for this cover.

Miscellaneous Insurance profitability.....

This class recorded the highest Claim Ratio among all classes. The Claim Ratio as at end 2010 was **142%** which however was lower than the 158% Claim Ratio recorded in 2009. Even though the Claim Ratio has declined, it nevertheless had a higher adverse impact on profitability in terms of quantum due to the high growth in GWP from this class in 2010. The main contributor towards the high Claim Ratio has been the medical portfolio. We currently use the services of Medilink International, a third party administrator (TPA), as our service provider to handle all our medical claims. Revised structures and terms along with efficient claims management are the measures being formulated to manage the adverse trend with Medilink being involved in developing these measures jointly with the Company.

Non Motor Insurance products.....

The Company is equipped with insurance solutions to meet the diverse needs of both our corporate and personal lines customers. Whilst corporates have specially designed insurance policies to cover their needs based on exposure, structure and reach; individuals have many 'off the shelf' packaged products which are capable of meeting their specific needs.

Some of the main products under our corporate line are;

Commercial All Risk /Fire insurance

Entities with offices, factories, warehouses etc. are able to protect their physical assets against a range of risks such as Fire, Malicious Damage, Riots, Strike, Natural Perils, Unexpected Accidental Damages etc. through this policy. These policies are mainly handled through our corporate business development unit but could be purchased through our distribution network as well.

Public Liability / Product Liability

These are two main policies sought by corporate entities to protect their legal exposure arising from the premises they operate and the products manufactured by them. Coverage is agreed based on the exposure, location, operational size, policy limits, jurisdiction and geographical reach.

Medical Insurance

Usually purchased by corporates along with their non-medical portfolio, Corporate medical schemes are designed based on their requests. Flexibility is granted within specific limits which are factored into the price structure. As a Company policy, we avoid writing this business on a stand alone basis.

Contractor's All Risks / Erection All Risks

This product is also handled by our Corporate Business Development Division due to the complexity involved in the underwriting of risks. It covers any unforeseen or accidental damage to the construction or erection of the property/item before the completion date.

Some of the personal line insurance products that cater to our retail clients are given below;



Aruna is an umbrella policy that protects homes from disasters such as fire, lightning, cyclone, flood, earthquake, tsunami, theft and falling trees. There are also optional covers for terrorism, personal accidents and damage to gardens (landscaping), all under a single policy.



All overseas travellers can now purchase Travel Insurance at competitive terms. We have policies which cater to the needs of both one-off travellers and persons travelling frequently. The policy covers emergency medical expenses, dental care, hospitalisation, lost baggage, lost passports, financial emergencies and even trip delays and cancellations. Cover could be purchased for a whole year's travel through a single premium payment or for each trip. **The special feature of this product is that subject to conditions, cover could be purchased by persons up to 80 years.**



A revolutionary concept which provides 'Travel Assistance' as opposed to 'Travel Insurance'. This product is designed to provide for any requirement from medical house calls, to emergency hospitalisation, surgery, dental care, legal assistance, cash for bail, lost luggage and lost passports. It is offered in partnership with Assist Card of Switzerland, whose worldwide network has 48 regional call centres and over 850 support centres on-call 24 hours a day. **The special feature of this product is that it has no age limit and also pays for medical expenses arising from existing ailments up to specified limits.**



This is a comprehensive policy for business establishments such as retail shops, tailor shops, salons, dispensaries and professional offices, Navoda offers cover for fire & lightning, riot and strike, malicious damage, cyclones & storms, floods, bursting pipes and overflowing tanks, burglary, loss or damage to personal property of directors or employees, loss of rent and a variety of other benefits.

Management Discussion & Analysis

Life Insurance Review

Business Environment

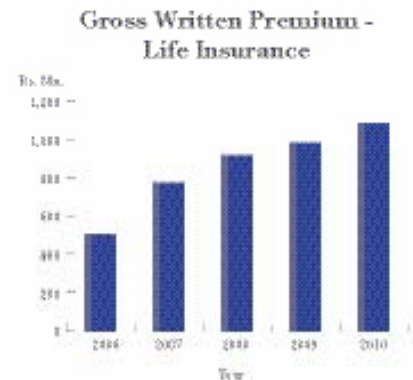
The post-war era has created a new dawn in the Life Insurance industry and improved the market conditions, particularly with greater access to markets in the emerging Northern and Eastern provinces of the country. The low interest rates prevailing in the market have also made a positive impact on some aspects of the Life Insurance industry, such as increasing the number of housing loans thereby creating an opportunity for increased sales of Mortgage Reducing Policies (MRP).

However, the low interest rates have also had a negative impact on investment income, which was adversely affected during the year. It also dampened the demand for single premium investment policies which has been a significant contributor to GWP growth in the last few years. **Despite the high competition among the 14 Life Insurance companies in the market, the Company was able to compete well through innovation and by capitalising on the Company's strengths.**

Business Review

The year 2010 ended on a happy note for the Life Insurance business of the Company, surpassing the important milestone of **Rs. 1 billion** of Gross Written Premium (GWP) for the first time in its history. The Life GWP stood at **Rs. 1,084 million** at the end of the year (2009 – Rs. 985 million). The Life Fund also surpassed the **Rs. 2 billion** mark to reach **Rs. 2,385 million**.

Towards end of the year, the Life insurance business bounced back to its growth momentum by achieving a growth rate of **10%** when compared with the 8% growth recorded in 2009. In the first three quarters of the year, Life Insurance did not show a positive growth over the previous year, due to the lack of demand for the single premium products. However during the last quarter, Life GWP recorded a significant growth of **56%** compared to the relevant figure of the previous year and restored the annual growth rate back to double digit levels. An improved performance from single premium policies (Rs. 44 million) coupled with excellent growth from both endowment policies and MRPs contributed towards this.



Life Insurance GWP growth rates

Year	2004	2005	2006	2007	2008	2009	2010
GWP	98%	72%	42%	53%	19%	8%	10%

Growth in Gross Written Premium (GWP)

A further analysis of achieving a **10%** growth rate is given below.

The GWP on traditional endowment policies contributed to this growth by recording a growth rate of **27%**. The growth in endowment policies came from 'First Premium' (new business premium) which recorded an outstanding growth rate of **71%**, the 'First Year Premium' growth rate of **18%** and 'Renewal Premium' growth rate of **23%**.

The GWP recorded through single premium Mortgage Reducing Policies (MRP) grew at a rate of **55%** whilst the GWP generated on Micro Insurance policies recorded a **100%** growth rate. Even though the latter did not have a big impact on the overall GWP, it showed a positive future for the development of Micro Insurance in the country.

However, GWP generated through the Investment Policy, which was introduced by the Company in previous periods utilising the opportunities available then, declined by **59%** recording a GWP of **Rs. 86.5 million** (2009 – Rs. 211 million). The decline in the GWP on Investment policy was anticipated due to the interest rates of the country being on a single-digit level throughout the year. We planned for a drop in Single Premium Investment Policies for the year and therefore paid maximum attention on the development of traditional endowment policies, a strategy which has yielded results over and above expected levels. GWP generated through Group Life business recorded a marginal growth of **2%**. However, this did not have a major impact on the overall Life Insurance GWP since the contribution to the overall GWP of this product was less than 1%.

GWP generated in channels.....

Bancassurance channel grew from strength to strength.....

The Company capitalised on the business potential from its main strength, Hatton National Bank PLC (HNB), during the year and recorded a GWP growth rate of **78%** through the bancassurance channel, which continues to be the fastest growing business channel in the Company for Life Insurance business. The business generated through this channel recorded a GWP of **Rs. 158 million** (2009 – Rs. 89 million), which resulted in an increase in the contribution to the total Life GWP from 9% to **15%**.

The phenomenal growth in the bancassurance channel is mainly due to the success of the initiative which began in 2008 to station Company employees in selected HNB branches to sell Life Insurance policies. This year the project was expanded to **98** HNB branches from 74 HNB branches in 2009 and this project recorded a GWP growth rate of **135%**. The project is spearheaded and closely monitored by the management of both the Company and HNB and is expected to continue strongly in the year 2011, expanding to cover 24 more HNB branches.



Bancassurance launch at HNB Vavuniya

The other factor that has helped expand the bancassurance channel is the reduction in housing loan interest rates in the market. This has given an opportunity for selling more Mortgage Reducing Policies (MRP), and during the year the GWP generated through MRPs was **Rs. 76 million** (2009 – Rs. 49 million) recording a growth of **55%**. The housing industry has not performed to its full potential during the year due to various reasons, but it is believed the industry will develop in the coming years and provide more opportunities for MRP business in the year 2011 and beyond. In view of this opportunity, we are in the process of enhancing our MRP product to be more competitive in the market, thereby to grab the opportunities the market provides.

Advisor channel continued to be the highest contributor for Life GWP.....

The main contributor to the Life GWP continued to be the advisor channel. However, due to the rapid growth in the bancassurance channel as discussed above, the contribution percentage of the advisor channel to the total Life GWP came down from 83% in 2009 to **74%** in 2010. Nevertheless, GWP generated through the endowment products (traditional Life Insurance products), which is the main product category sold through this channel, showed a commendable growth of **21%**. Particularly, First Premium (New Business Premium) generated on endowment products recorded a growth rate of **49%** showing the potential of this channel.

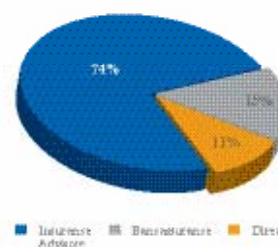
Considering the importance of selling endowment policies, the Company maintained the focus of the advisor channel on selling these policies, and did not aim to sell any investment products through this channel. Therefore, even though there is a growth in GWP from endowment policies, the total GWP generated through this channel was **Rs. 805 million** (2009 – Rs. 813 million) recording a negative growth of 1%.

Contribution from Direct and Broker channels.....

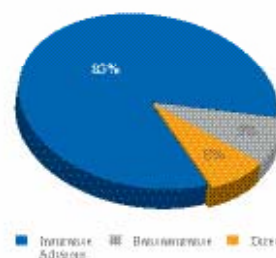
During the year, the investment policy was sold entirely through the direct channel, hence the GWP recorded through the direct channel grew at a rate of **38%**, increasing its contribution to the total Life GWP to **11%** from 8% in the previous year.

The contribution to the Life Insurance industry through the broker channel has been minimal. In the year 2010, GWP generated through the broker channel grew at a rate of 161% but this did not have a huge impact on the total Life GWP since the contribution from this channel is less than 1%. However, the Company is taking actions in developing Life business through the broker channel, particularly for the sale of MRPs and Group Life Policies.

Channel-wise GWP - Life Insurance 2010



Channel-wise GWP - Life Insurance 2009



Management Discussion & Analysis

Life Insurance Products

Innovative products launched in previous years worked out for us this year.....

The two innovative products '*Ran Aswanu*' and '*mylife*' launched in recent years contributed significantly to increase the first premium GWP during this year.



The product '*Ran Aswanu*' performed well generating a GWP of **Rs. 25 million** during the year. Product '*Ran Aswanu*', best termed as a '**policy that never lapses**', offers benefits to the seasonal income earners such as farmers, fishermen and cultivators. This policy covers the risk of natural and accidental death till maturity. The policy holders can pay the premium any time during the year and it also comes with additional benefits for those in the rural sector. It is considered **as a secure life protection that is designed to pay a death benefit to the insured's beneficiary regardless of policy status**. As long as the first premium payment is made, the policy will never lapse or cancel. Due to these features the product was very much in demand from outside the urban areas of the country.

Considering the appealing features and the potential demand for the product, **it was re-launched in Tamil as 'Thanga Aruwadai' targeting the tamil speaking people, especially in the North and East.**



The product '*mylife*', which was introduced last year **exclusively targeting the youth as the first of its kind introduced in Sri Lanka**, was able to generate a premium income of **Rs. 21 million**. The unique feature of the product is the ability to withdraw 15% of the sum assured subject to conditions, at the event of the insured's marriage, birth of a child, child's school admission or purchase of a vehicle. This product has been strongly supported through media advertising and promotions resulting in the brand winning the 'Best New Entrant' Bronze award, at the SLIM Brand Excellence Awards 2010.



Media Conference held in Jaffna at the launch of 'Thanga Aruwadai'

Some of the other products in our life portfolio.....



Ranmaga is the best selling product in our portfolio. The contribution from this product during the year was **Rs. 587 million**. *Ranmaga* is a unique Life Policy that is **both an insurance and an investment**. As a Life Policy the sum assured increases by 5% every year, but the premium payments remain the same. The added financial benefits make it a solid investment plan.



'*Dedunu*' is tagged as the **best way to secure a child's future**. This product has a variety of optional benefits for both the parent and child and also provides a life cover for the parent up to eight years after premium payments cease. The product was able to generate a GWP of **Rs. 96 million** during the year.



A comprehensive insurance plan for the entire family, *Ran Kirana* covers parents for critical illness, hospitalization, disability, natural or accidental death and funeral expenses, with coverage for up to four children. However, this product did not generate a significant volume of business in the year under review.



Pradeepa is not just a life policy, but also an investment plan. Its cover includes hospitalisation, critical illness, disability and accidents. It is an ideal instrument for financial planning with a high insurance cover for a low premium. *Pradeepa* recorded a GWP of **Rs. 63 million** in 2010.



Araksha - Mortgage Reducing Policy (MRP)

MRP is for people who wish to buy a house, renovate a house or buy a land on a loan from a bank or a financial institution. **In the event of the unfortunate death or total permanent disability of the insured, the balance loan due will be settled by this policy.** The sum assured reduces gradually during the policy term in line with the outstanding loan balance. The product performed very well during the year to record a GWP of **Rs. 76 million, 55% more than the previous year.**

Profitability in Life Insurance

The Company continued to generate and allocate profits in Life Insurance business for both its policyholders and shareholders in the year 2010. The profits were allocated after maintaining adequate reserves for future liabilities and contingencies. Accordingly, we offered Rs. 54 million as bonus to policyholders. The bonus rates varied according to the year of purchase of each policy with a maximum of Rs. 50/- per Rs. 1,000 sum assured for policies purchased during 2002 and 2003. This is a growth of 38% over the previous year’s bonus allocated to policyholders which stood at Rs. 39 million.

The surplus released to shareholders also grew by **20%**, from Rs. 130 million last year to **Rs. 156 million** in the year 2010. The prudent underwriting procedures adopted by our underwriters helped the Company earn a profit commission of Rs. 21 million from the reinsurer as a part of profits made by the reinsurer from the business ceded to them by the Company.

Life Fund grew stronger this year

The Company valued its Life Fund in December 2010 and transferred Rs. 156 million as profits to shareholders. Following the transfer, the Life Fund showed an increase of **29%** and stood at **Rs. 2,385 million**. This is the first time the Company’s Life Fund reached a figure in excess of Rs. 2 billion, which is another milestone for the Company’s Life Insurance business.



Key challenges faced by the Life Insurance business

Policy lapsed is one of the major challenges faced by any life insurance company. However, with greater focus on improving the situation, the lapse ratio (first year lapse ratio) which stood at 59.5% in 2009 was brought down to **50.69%** at the end of 2010. In addition, the premium persistency rate which measures how much of the due premium is collected also improved from 69.9% at end 2009 to 81.4% at end 2010.

Management Discussion & Analysis

Life Fund

The Insurance Industry Act, No. 43 of 2000 requires every Life Insurance Company maintain a separate fund to be called the "Long Term Insurance Fund" and credit all money received in respect of the long term insurance business (Life Insurance) to that Fund. This is also referred as the "Insurance Provision - Life".

The size of the fund that needs to be maintained is determined by an actuarial valuation.

The Life Actuary also determines the excess assets over the policyholders' liabilities of the Fund which is the Life Surplus. This is determined after considering bonuses to policyholders and other regulatory provisions.

The amount that is determined to be transferred to the shareholders from the said Life surplus is recorded as "Profit for the year" in the Life Insurance segment in the financial statements.

With the low interest rates, the Life Insurance business is faced with its biggest challenge in maintaining the growth momentum in the investment income generated. However, during the year Life Insurance business was able to record a yield of **16.44%**, which is a highly commendable achievement considering the decreasing interest rate environment. Due to the low interest rates, we have shifted towards other sources of investment such as equities, without taking any undue risk. The proportion of equity investment in our Life Insurance portfolio is only 7% (at market value) and we intend to keep it within 10% into the foreseeable future.

The high turnover of advisors is also a challenge the Company faced which is again an issue that is common to the entire industry. We believe this trend will continue in the coming years mainly due to job opportunities arising out of the growth in tourism, agriculture and other industries.

One other key challenge the Life Insurance business faced is the **limited understanding of the public about the procedures and practices of Life Insurance** business, such as importance of completing the proposal form, obtaining a receipt for premium payments, etc. The Company has taken several initiatives to educate its customers through the field force and branch management on the importance of these. We appreciate the initiatives taken by the Insurance Board of Sri Lanka (IBSL) in educating the general public through press advertisements and other mechanisms. We have also committed our fullest support to the public awareness campaign being launched in early 2011 by the Insurance Association of Sri Lanka (IASL).

Process Improvements during the Year

During the year, the Company was able to move **all its endowment policies to its new system TCS Bancs**. This enabled the Company to give a better service to its customers and also helped the management in providing necessary management information faster.

In addition, the **quality of the communication documents** sent to customers such as premium notices, lapse notices etc. were also improved and now these documents are sent in all three languages (English, Sinhala and Tamil). Further, policy documents of the main products are translated to Tamil, enabling the Tamil speaking customers to have a better understanding of the insurance policies they buy. During the year, steps were taken to move towards a paperless environment by introducing the e-document concept.

The Company also started **communicating with its customers through SMSs** during the year which is identified to be a very effective mode of communication today. This enabled customers to get frequent updates on their policies through a medium which provides a better assurance of being noticed.

The Company has provided a **number of ways of paying the insurance premium** for the customers. This includes payments through our own distribution network of 51 branches, direct bank deposits from all HNB branches island wide, standing orders through HNB, standing orders on HNB Credit cards, online payment through our website, etc. The Company is in the process of introducing a few more new methods of collecting insurance premiums, which will come into operation in the year 2011.

Review of the Investment Portfolios

Investment objective, strategy and framework

At HNB Assurance, the investment strategy strives to maximise the investment returns while managing the risks within an acceptable risk-return profile, considering the risk appetite of an insurance company and the regulatory framework. In doing so, we at HNB Assurance, aim to match the maturity mix of the investment portfolios with liabilities to the maximum extent possible. Accordingly, the Company's Investment Policy, including the Asset and Liability Management (ALM) and Liquidity Management Policies, is geared towards achieving the above objectives.

The investment portfolios of the Company, which consist of Life Fund, General Fund and the Life Shareholders Fund (under General Insurance), are managed in house by the Company's Investment Department. No external fund managers are used.

Investment Performance

The excellent performance of the investment portfolios in 2010 greatly helped the Company's overall profitability. Even in a difficult market environment with interest rates continuously declining over the course of the year and especially with the bulk of the Company's assets consisting of fixed income securities, the investment income grew by **11%** to **Rs. 517 million** from Rs. 468 million in the previous year.

The investment income from the Life Fund grew by **9%** to reach **Rs. 339 million**. Investment income from the General Fund was **Rs. 178 million** which was a **14%** year-on-year growth on Rs.156 million recorded in the year 2009. Accordingly, the average yield on the Life Fund and the General Fund stood at **16.62%** and **16.94%** respectively. The fact that the Company was able to achieve very healthy yields during 2010 for both Life and General Funds amidst average yields of both short and long term fixed income securities declining further due to prevailing market conditions (1 year treasury bill rate declined to as low as **7.10%** during the year) is commendable especially considering the fact that above results were achieved without taking undue or excessive risks.

As in the past, this commendable performance resulted from **cautious but active and dynamic investment management strategies adopted by the Company within an acceptable risk return profile through a combination of prudent asset allocation backed by effective investment analysis, timely reaction to market changes, comprehensive liquidity and treasury management and win-win rate negotiations with financial intermediaries.**

With interest rates likely to remain at current low levels for the foreseeable future and with the equity market unlikely to perform exceptionally well compared to the last two years, it will be a huge challenge for the Company and the industry to improve or at least to maintain the investment performance at this level.

Thus, we are looking for attractive investment opportunities with an acceptable level of risk. In particular, we expect that the Corporate Debt market will improve during the year and that the proposed amendments to the Determination on Investments and the Solvency Margin rules will permit insurance companies to act more aggressively to exploit such opportunities.

We also welcome the recent changes in foreign exchange regulations which allow Sri Lankan Insurance Companies to invest out of the country. The Company's Investment Management team will closely evaluate available options to invest overseas and take advantage of any opportunity to enhance returns subject to an acceptable level of risk.

Funds under management

The total funds under management passed the **Rs. 3 billion** mark during the year and as at year end it stood at **Rs. 3.4 billion** recording a commendable growth of **24%**. Funds under the Life Insurance business grew significantly by **31%** over the previous



Management Discussion & Analysis

year to **Rs. 2,243 million** by the year end, recording a Rs. 534 million increase over the, previous year. The General and Life Shareholder Funds also recorded a growth of **11%** for the year ended 31st December 2010. The sum of both funds, which stood at Rs. 1,059 million at the beginning of the year, increased to **Rs. 1,178 million** by the end of the year 2010.

Investment portfolios

The Company takes every step to maintain a well diversified investment portfolio so that the portfolio returns can be optimised while minimising the risks. Further, asset allocation decisions are taken after carefully analysing the market environment including global and Sri Lankan economic realities with focus on inflation, interest rates, exchange rates, etc.

During the year 2010, the continuous decline of interest rates was a huge challenge to the Company. Therefore, in order to counter the lower income generation from fixed income securities and to grasp the opportunities in the Colombo Stock Exchange (CSE), which continued to show robust growth in a post-war scenario, we increased our total exposure to Equity in our General Fund to **5.4%** (at market value) from 2.1% in 2009. Equity Exposure of the Life Fund which stood at 1.6% in 2009 was increased up to **7.1%** by the end of 2010. Accordingly, the total exposure to the equity market was increased by **Rs. 177.5 million** by the end of the year despite significant capital gain realisations from both Life and General equity portfolios.

Further, considering the low interest rate environment, we trimmed down our General Fund's asset allocation to Government Securities to **60.4%** from 67.4% in 2009 while the Life Fund's allocation, which stood at 77% in 2009, was reduced to **70.6%** by the year end. During the year, both Funds subscribed for a 5 Year Debenture, issued by the Urban Development Authority of Sri Lanka and guaranteed by the Treasury, by investing Rs. 86.7 million from the Life Fund and Rs. 25.7 million from the General Fund. This Investment amplified the exposure on Debentures to 13.1% (2009 - 8.1%) and 8.9% (2009 - 5.9%) in General and Life Funds respectively.

Investment Risk Management

Managing investment risks efficiently and effectively is an integral part of the Company's investment management process, whereby investment risks inherent in the investment portfolios are clearly identified, measured, monitored and controlled.

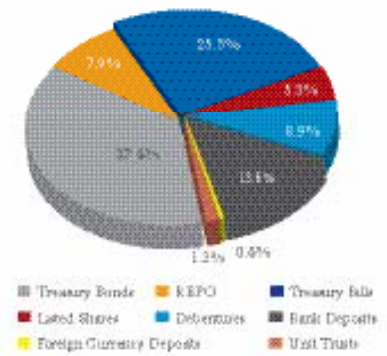
Company's Investment portfolios are regularly audited by the External and Internal Auditors of the Company. Further, regular reports on assets under management are forwarded to the Investment Committee and the Insurance Board of Sri Lanka.

In addition, Fitch Ratings Lanka Limited, which is the rating agency for HNB Assurance, reviews the investment portfolios in order to assess the risks arising from the investment portfolios of the Company to the overall stability of the Company. HNB Assurance is rated as **A (lka)** in both **Insurer Financial Strength Rating** and the **National Long Term Rating** by Fitch Rating Lanka Limited which is also a reflection of the quality of the Investment portfolios and the Investment management process.

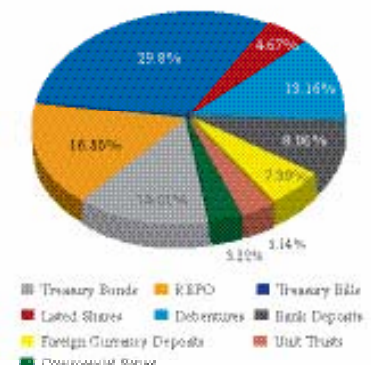
Further, all the Corporate Debt Investments of the Company have been made in **above investment grade rated instruments** and the fact that the Company has not experienced any defaults with regard to its assets under management in its entire history shows the strength of the risk management process.

The Company's investments in Government Securities are made solely through recognised primary dealers and **we have signed up Master Repo Agreements with all such institutions with whom we deal**, to ensure that adequate security is guaranteed during the investment placement and the disposal process. Further, as a risk management measure, Investment Front Office and Back Office functions are segregated and the two departments function independently with the Back office reporting to the Head of Finance.

Asset Allocation - Life Fund

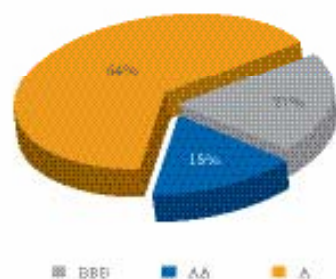


Asset Allocation - General Fund

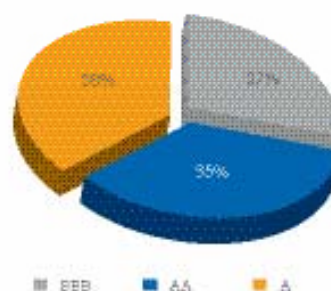


A detailed report of the Investment risks faced by the Company and measures taken to mitigate such risks are given under Risk Management section in pages 133 to 135.

Corporate Bond Rating - General



Corporate Bond Rating - Life



Regulatory environment

The investments of the Company are carried out strictly under the requirements set out in the Regulation of Insurance Industry Act, No. 43 of 2000 and the rules and regulations promulgated by the Insurance Board of Sri Lanka (IBSL). In ensuring that the respective rules and regulations are adhered to, the solvency margin and approved assets positions of the Company are monitored regularly. Immediate remedial action is taken if discrepancies are detected, to maintain constant compliance with the law. In addition, all policies in respect of investments are designed by giving due respect to the requirements of the law.

The solvency margin and approved asset requirements of both General and Life businesses have been fulfilled as per regulations.

Human Resources Review

Our Strategy on HR

HNB Assurance, being a people oriented company, upholds the position that the workplace should be the second home for employees. The HNBA Team is considered one big family and hence priority is given to the human aspect of work related issues. Whenever a task is to be done or a target is to be achieved, everyone joins hands to ensure that the final objective is met. The top management firmly believes in an open-door culture, is directly accessible to even the lowest level of employees and greatly values the ideas and feedback of staff at all levels.

We are an ambitious and energetic team striving to achieve challenging goals. We empower and energise our team to strive for excellence as a part of their individual development plan, well aware of the win-win results of their hard work.

Improving productivity and efficiency

During the year 2010, the Company conducted various programmes to increase the productivity and efficiency of employees. Numerous on-the-job and off-the-job training programmes were conducted by internal and external professionals. Furthermore, all the employees at HNBA were given the opportunity and the necessary support to improve their educational standards via education assistance schemes.

Methods of communication, a key element of strategy

The Company's main means of carrying out day to day communication is through the Intranet and e-mail while special announcement are made through the Public Address System. The 'Puwath' Magazine published semi-annually, not only consists of inspirational stories of various employees but also provides a platform for their creative abilities.

Career Development

Career development of employees is considered a key focus of the Company's strategy. Opportunities

Management Discussion & Analysis

are frequently created for employees to showcase their talents and capabilities, and also to use these for the development of themselves and the Company. Priority is always given to internal employees whenever a vacancy arises in the organisation.

Giving opportunities to people to demonstrate their capabilities and good qualities is an important element in strategies pertaining to career development. Guidance and support is always provided to employees, while closely monitoring their performance.

Performance management and feedback

The performance management system plays a vital role in determining the career development of employees. Each employee attached to the permanent cadre is given a clear set of performance and personal development objectives at the beginning of a year, and the same is reviewed bi-annually at the appraisals, with a view to giving productive feedback for their development. All increments, bonuses and other benefits are given strictly on performance which is assessed through a clear and transparent procedure.

Succession Planning

The Company has a rigorous succession planning process to ensure the smooth functioning of the Company's operations. This ensures the effectiveness and continuity of functions, especially at the top management level of the organisational structure. The succession plan is regularly reviewed by the Managing Director in collaboration with the HR Manager, in order to ensure the accuracy and timeliness of same. In addition, the succession plan is also periodically reviewed by the Remuneration Committee of the Board. The identified successors are paid special attention in arranging customised training and development opportunities.

Company culture

The Company's culture has been designed in line with the HR strategy of the Company. HNB Assurance upholds an Open Door Culture where employees are free to express their ideas. This culture has enabled employees to access the top-level management very easily, facilitating quick action in the case of crisis situations. The Company regularly makes a conscious effort to maintain the friendly and familiar culture of the organisation through staff activities, welfare events and fellowship.

Professionalism plays a vital role in carrying out the day-to-day activities in the Company. While HNB Assurance maintains a comfortable work environment for its employees, the Company is also mindful that the same should be balanced with professionalism through the dress code, punctuality, adherence to policies and procedures, and most importantly, in the manner in which we deal with stakeholders. The Company is vigilant about the effectiveness of its HR strategies and improves them at every opportunity in order to maintain the desired Company culture.

HR improvements during the year

During 2010, the Company undertook a major project to implement a new 'Human Resource Information System' (HRIS), acquired from *hSenid* to automate the HR processes such as attendance, overtime, leave and reports on personal details, educational qualifications, special achievements, career development, etc.

Our Strengths in HRM

We believe that our biggest strength is our dedicated and motivated, young and vibrant team of employees. We consider that it is our utmost duty to take good care of them and to provide a comfortable working environment so that they will do their best for the betterment of the Company which in turn adds value to their own personal development as well. (Please refer page 69 in the Sustainability Report for the indicators of our staff strength)



Hiran Fernandopulle
Zonal Manager – North Western

"Being a graduate I was looking for a place where I can apply what I learned. At HNB Assurance I was allowed to practice the theories I learned in an environment which supports me to grow as a leader. This has helped me to progress from the post of Assistant Manager to the Zonal Manager and to lead the way to win the award for the best Zonal office in the Company. Today I am really proud to say that HNB Assurance is the place that I was looking for."

Challenges in HRM

Since the industry is becoming more and more competitive, retaining experienced and talented employees in the organisation is one of the biggest challenges faced by the Company. But the Company hopes to overcome this challenge successfully with the implementation of various HR strategies and motivational tools.

Future plans of HRM

With the adoption of the new Human Resources Information System, we plan to concentrate more on implementing new HR strategies in order to motivate and develop people and to ensure the betterment of employees which in turn will contribute to the productivity and effectiveness of the organisation.

Distribution Network

Our Strategy in Distribution

Our strategy in distribution is to focus on multiple channels, while giving equal attention to all parts of the country. We take measures to constantly communicate with our distribution partners to identify areas for improvement and encourage existing strengths. Thus we welcome ideas, suggestions and constructive criticism.

Structure of the Distribution Network

We strongly believe that visibility and penetration is essential to ensure that customers in all parts of the island are given the opportunity to enjoy the unique insurance solutions provided by the Company. Hence we now possess over 50 branches that are capable of serving the needs of our customers spread island-wide.

We have clustered them into six Zones/Regions in order to provide an efficient service by delegation of authority. The Company has three Zonal Offices and three Regional Offices to overlook the branches they have been allocated.

Our Distribution Outside Western Province

We firmly believe in the importance of customers in regional towns and rural areas; hence we have marked our presence outside Western Province with 36 branches catering to the insurance needs of even the remotest areas.

The GWP contribution from the areas outside the Western Province was 51.2%, which we believe is a strong position when compared with other players in the industry. We consider this to be one of our biggest strengths in facing future challenges.

Our Distribution Expansion in North & East

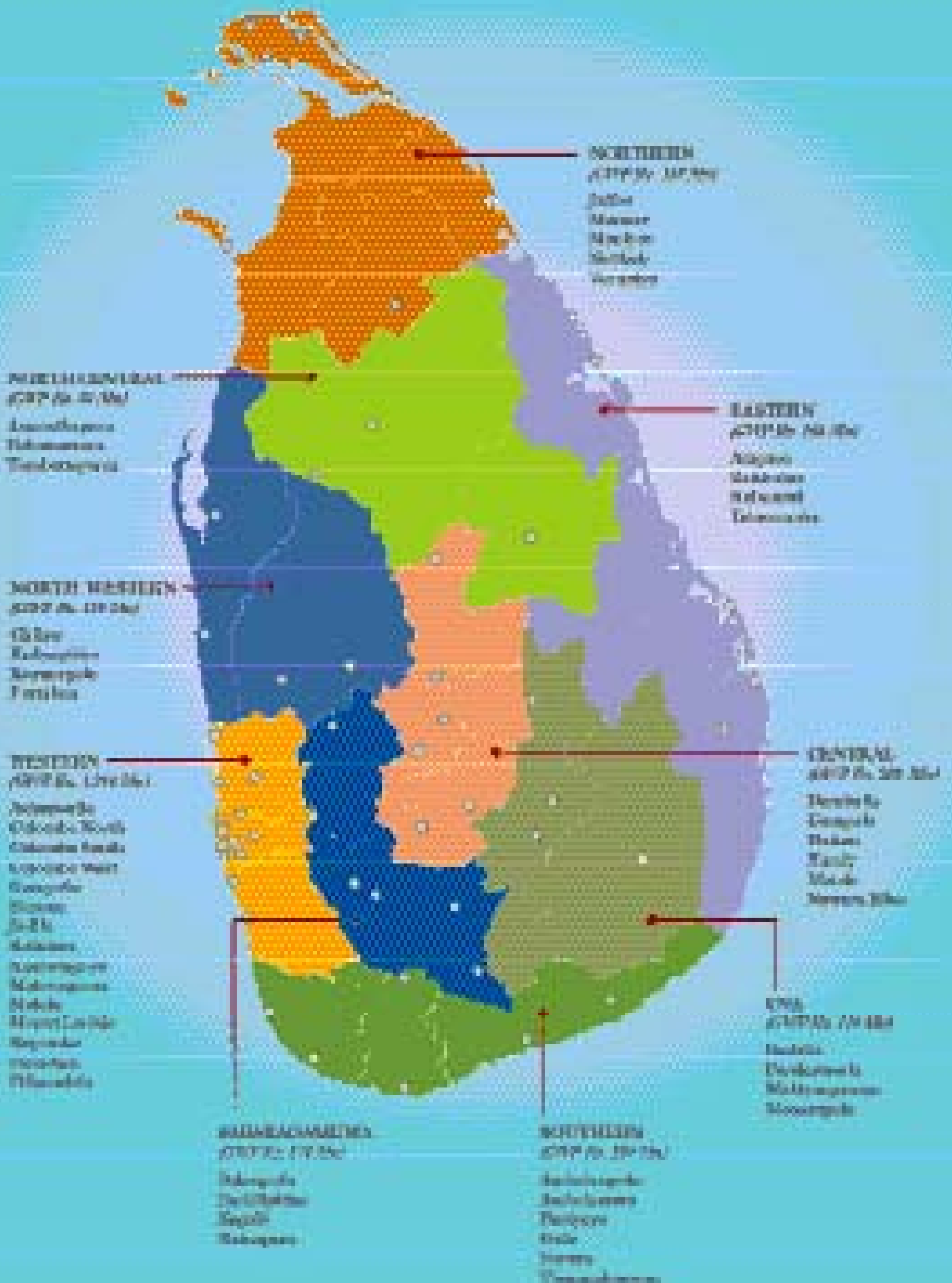
The contribution from the Northern and Eastern Provinces to the Company's total GWP is 10%. At the beginning of the year the Company had branches in Jaffna, Vavuniya, Mannar, Kalmunai, Batticaloa, Ampara, and Trincomalee to serve our customers in the North and East. Considering the fast-growing potential in this area, two new branches were opened during the year in Nelliady and Manipay, expanding our presence in the North. In addition, six new Bancassurance units were also located in these areas during the year.

Main Distribution Channels

We are proud of the robust distribution arm we possess today. The HNB Assurance field force, comprising 1,401 advisors directly involved in serving our valued customers, is the live wire of the Company.

With the support of our parent company, we have marked our presence at 98 branches of Hatton National Bank spread across the island through our the Bancassurance project. Thus, we have rendered the services of 98 Bancassurance Officers, which is now becoming another powerful distribution channel of HNB Assurance. Apart from these, tremendous support is received from the Broker Channel, with which we have maintained a steady relationship throughout the years.

Distribution Network



Our Strengths in the Distribution Network

We strongly believe in 'our people'. We trust that the excellent team of people, who are willing to take the challenge of providing a professional service with a spirit of caring, is the key to the rapid progress we have achieved to date. Our distribution network comprises people who are equally capable in both Life and General Insurance, once again a unique strength when compared with most industry players.

The magnificent support being extended by our parent company constitutes a strong pillar behind our success. The Hatton National Bank and its staff contributes immensely to strengthen our Company in everything we do.

We believe that the long term relationships we have built and nurtured have created a strong platform for the growth of the distribution network of the Company.

HNB Assurance Brand

We are humbly proud that during its short period of existence, HNB Assurance has been able to spread its brand across the island, touching the hearts and minds of people from all walks of life. We, being a child of a giant parent company that has built a strong image over decades, have been able to win the confidence of the community within which we operate during a short period of time. Additionally, the loyalty we have maintained with our customers has made a great impact in making our brand popular even in our first decade of operation.

Our Approach in Building the HNBA Brand

We firmly believe that brand building is a vital step in creating company identity. Hence we focus on reaching out to win the hearts and minds of people with innovations and customised solutions. During the year under review, we took measures to unveil a series of advertising campaigns both Above-the-Line and Below-the-Line, which are more directed towards enhancing the Corporate Image. Above-the-Line media vis-à-vis TV, Press & Radio were utilised to give a strong coverage not only to the HNB Assurance brand, but also to our most famed product brand, 'mylife' that was especially designed in 2009 to cater to needs of youth.

Meanwhile, our strong distribution network extended its tremendous support in taking HNB Assurance to communities both urban and rural. All such efforts were well supplemented with Below-the-Line activities. Visits made by our propaganda vehicle to all parts of the island gave the opportunity even to those who live in the remotest villages, to enhance their knowledge on insurance and its importance.

HNBA Brand Strategy

Our brand strategy is to introduce innovative and customised solutions to cater to varying insurance needs arising due to changing life styles. We focus on addressing the varied requirements of all communities to engrave our brand within the hearts and minds of people. The Company took measures to publicise the brand 'mylife' on a larger scale with the launch of the second phase of its significant advertising campaign. Meanwhile, for the first time in its short history, the Company re-launched two of its innovative products that are more in line with the needs arising in the North and the East, under the Tamil brand names 'Thanga Aruwadai' and 'Thanga Maligai'.

Strengths in HNBA Brand Building

The dynamic team which possesses the required knowledge, skills and professionalism to reflect the brand we build, is a major strength at HNB Assurance. Furthermore, our Brand Ambassadors – Bhatiya & Santhush- who are well recognised music icons across the globe have remained a major source of strength in promoting the HNB Assurance brand.



Bathiya & Santhush
Brand Ambassadors - HNB Assurance

"We have had a great partnership with HNB Assurance to support the concept of "Youthful life insurance" with, "mylife". It has been great working for HNB Assurance, as you have truly been a great support to our youth, giving them hope to be the best. HNB Assurance has truly created a paradigm shift in the insurance industry by creating "mylife". As life insurance is no more a fact of discussion for the elderly, it is a support pillar for our youth to be best and in turn it will create a greater Sri Lanka."

Management Discussion & Analysis

Amila Nadeeshani of ‘Sirasa Super Star’ fame who joined us in 2008 as a Public Relations Representative has served the Company in many ways taking our message to the public throughout the last few years.

In our comparatively short period of existence, we have also built sustained relationships with our media partners, thus bringing another major advantage to the Company. The excellent media coverage received for all Company events bears ample testimony to this.

Challenges in HNBA Brand Building and Our Responses

Standing amidst a massive chorus of competitors who have been playing a major role in the Insurance Market for decades is one of the major challenges we face as a comparative new comer. But we have managed this scenario well, with strategic decisions which aim at maximising the strengths we are equipped with. With the advantage of having one of the largest private financial institutions in the country as the parent company, we have been able to gain the confidence and acceptance from the general public since our establishment.

The challenge of the negative perception borne by Sri Lankans on Insurance is common to HNB Assurance too, as it is for the whole industry. The industry was also faced with the direct and indirect impacts of the global financial crisis which eroded the level of confidence in the financial sector. Nevertheless, we managed to overcome these obstacles to arrive at a profitable growth with the support of our brand building strategies and effective communications.

Achievements

HNB Assurance ‘mylife’ was the proud winner of the Bronze Award in the Best New Entrant category at the SLIM Brand Excellence Awards 2010.

HNB Assurance brand has improved its brand visibility and has been rated as A+, while continuing to be ranked within the ‘Top 100 Brands’ as compiled by Lanka Monthly Digest (LMD) magazine in association with Brand Finance.

IT Review

Our Strategy in IT

The primary focus of our IT strategy is to facilitate the successful delivery of the Company’s business strategy. Thus, our IT strategy is geared to ensure that the Company achieves its corporate objectives and is totally in line with the corporate plan.

This alignment helps to create a proper and successful IT road map within the Company. As IT is a discipline where rapid change is the only constant, our well-defined and well thought out corporate plan truly helps in being selective in terms of relevant technologies from a plethora of choices that are churned out every day.

Focus in 2010

In 2009, we selected a world leading insurance application known as TCS Bancs from a globally renowned leading software company, Tata Consultancy Services (TCS) of India, with whom we have been working since 2003. Our main focus in the year 2010 was to implement this core insurance application in the Company.



Amila Nadeeshani at a Field Promotion



SLIM Brand Excellence Awards 2010

Centralising and streamlining infrastructure such as network, security and data centers were also given high priority and carried out extensively during the year.

As it stands today, the core application implementation is completed for Life Insurance and the work on General Insurance along with supporting modules such as finance and customer care solutions is in progress. By the end of 2010, 90% of the business processes of the Company were on a totally integrated single solution environment, which in turn impacted our business processes very positively.

During the year, we also acquired a fully fledged HRIS system from hSenid, a leading local vendor of software which could support the HR activities of the Company. We intend to implement the system in early 2011.

Our Strengths in IT

Our strengths in IT stems from the knowledge and experience of our people as well as from the solutions we have chosen. The Company's IT solutions range from Proprietary Applications to Open Source Solutions and our staff is enabled to be very much hands-on in both these worlds of technology.

The Company has always selected and continues to select the most cost-effective and suitable solutions based on its requirements. The Company has already signed up with Microsoft on an Enterprise Agreement (EA) to streamline our infrastructure environment. At the same time, Oracle is working with the Company very closely to support our data center to manage data in a secure and efficient manner.

Open Source too gets top priority at HNB Assurance, given its natural cost-benefits while being as good as any proprietary solution, if not better in some spheres of activity. Open Source based solutions have been widely deployed in many areas such as Networking, Security and System Platforms. Due the features of Open Source, the Company has been able to implement many a complicated solution with unmatched efficiency and cost-effectiveness.

Delighting Customers through IT enhancements

HNBA has clearly identified the customer's need of the hour. When a client is faced with an issue, our response time to him/her is of paramount importance, along with crystal clear communications on the state of progress.

To ensure that we not merely satisfy these but stand to delight our customers, we have setup a well-equipped customer support center with IP driven solutions where customers are served with a personal touch with information with a high degree of accuracy.

Further, we have improved connectivity with our clients by leaps and bounds via technologies such as SMS. Information on their policy status as well as reminders on renewals is communicated through text messages.

Our motor claim process has been significantly improved by introducing mobile technologies to gain accident inspection information online. Now, we are in a position to obtain information of an accident including images online and to process the claim immediately. Claim settlement has also significantly improved and customers are able to receive faster settlement with these initiatives.

Apart from these, our online portal enables customers to obtain information as well as to pay premiums. At the same time, we have integrated our systems with the systems employed by the Registrar of Motor vehicles (RMV) to obtain our customers' revenue licenses online.

Plans for 2011

In 2011 our main focus will be on completing the implementation of the core application while closely monitoring in-house processes thereby improving the end-user efficiency at least by another 40%.

Use of BI (Business Intelligence) and mobile applications is also planned to support decision making while improving customer service quality.

With regard to systems, it is expected to introduce open source enterprise level solutions to adjust with changes in a cost-effective manner without compromising functionality or quality.

Application and Hardware consolidation is another key strategy planned and we expect to introduce a common development framework in the years to come.

Management Discussion & Analysis

Future Outlook

As the Company reaches the tenth year of its operation, and moves towards the second decade, it remains very optimistic of the macro economic environment. But there will be new challenges coming out of the regulatory changes, environmental effects and increasing competition. However, we at HNB Assurance are positive and confident about our strengths and the platform that has been built over the last nine years to be ready to exploit any opportunities the market provides to extend our track record of consistent delivery of outstanding results.

The insurance industry will face many challenges in the coming years but we are confident that the Company has the people, networks, and strong support from our parent company to be a leading insurer by increasing our market share and establishing an even stronger presence in the market.

Future outlook on Life Insurance business

In the post war era, the country is geared for rapid growth in all aspects and according to the Government forecasts, per capita GDP will be doubled to USD 4,000/- in just five years. This will definitely generate more business opportunities in Life Insurance and particularly as a country with a very low insurance penetration (at 10% currently), the increase in per capita income will induce more business growth and thereby the insurance penetration.

The reduction in interest rates and the expected boom in housing and other loans will also create more opportunities for insurance products such as MRPs in coming years. It is also believed that with the development in rural areas of the country, the potential of the Micro-insurance products will also rise. The Company is ready to cater to this sector, with the support of the parent company HNB and partnerships with other significant players in this sector such as SEEDS.

Life Insurance penetration of the country still remains around 10% and the competition being limited to urban areas shows that potential for Life Insurance business remains in rural areas of the country. We believe our products such as '*Ran Aswanu*' and '*Thanga Aruwadai*' can perform better in these areas.

The expected increase in the aging population by 2020 and the Government's efforts of finding solutions for this from now onwards will give opportunities for retirement related insurance products to be introduced to the market in the years to come.

The Company has noted during the recent past that the expectations of policyholders are increasing. Therefore the Company is faced with the challenge of introducing various novel products and new features for existing products to suit the ever increasing demands of the customers.

We believe the year 2011 will provide a much friendlier environment to the Life Insurance business and the Company is waiting to grab any opportunity the market provides to add more value to both our policyholders and shareholders.

Future outlook on General Insurance business

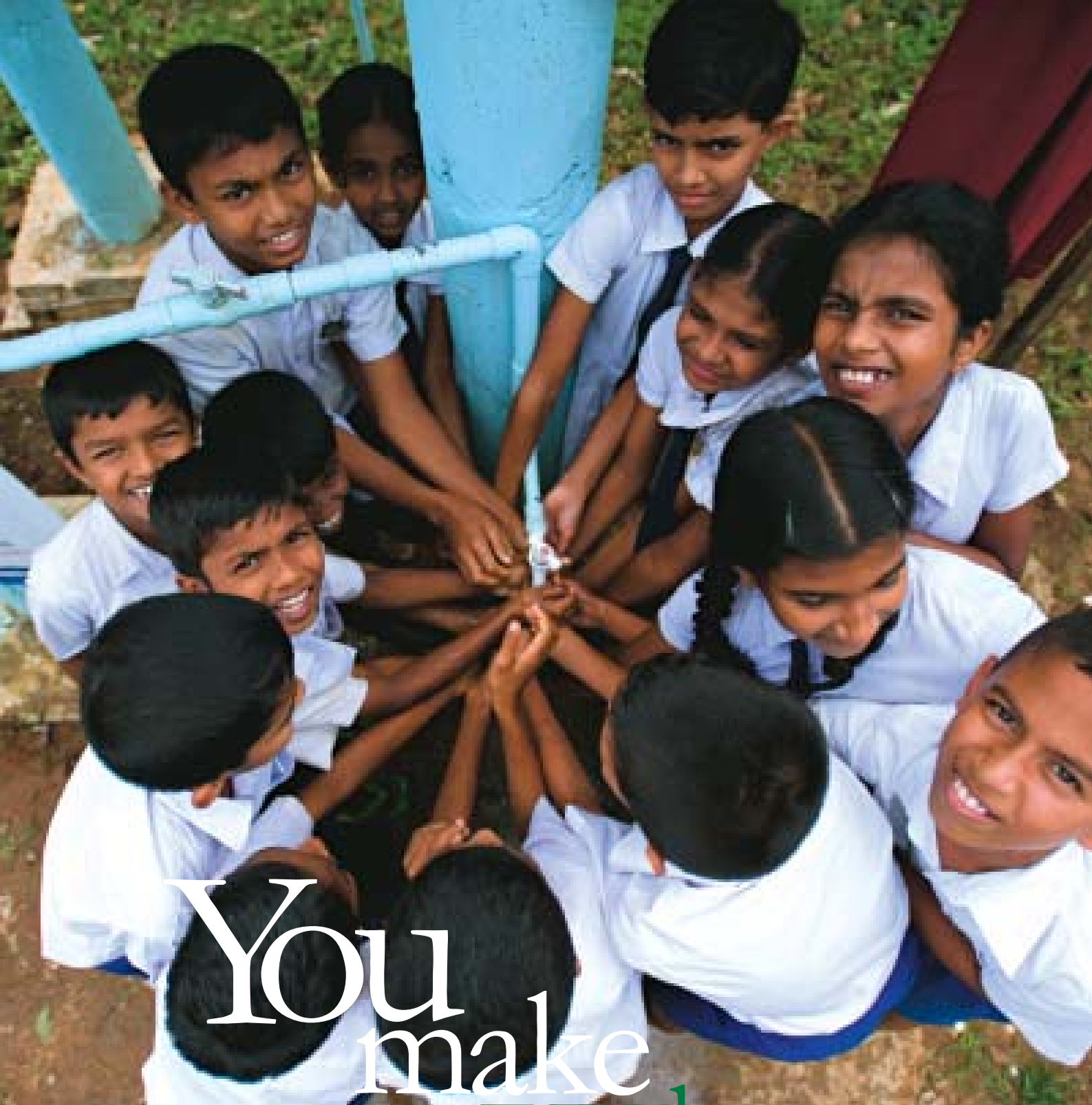
The General Insurance industry which experienced a negative growth in 2009 showed signs of improvement in 2010 by registering a positive growth. As infrastructure development moves ahead, creating new townships with small and medium sized business enterprises mushrooming throughout the country, we believe this would generate many new opportunities for insurance business.

The change in weather patterns is a cause of concern for General Insurance business. Losses emanating from these hazards coupled with declining rates due to intense competition are affecting the profitability of the companies. The current data on flood and land slide affected areas too need to be updated and foresee a hardening of terms for natural perils in order to maintain balances in portfolios.

At present most General Insurance companies record underwriting losses, but this adverse impact is minimised through attractive investment returns earned in the recent years. But with fixed interest rates remaining at single digit levels, the potential to earn high investment income would be minimal in future. Therefore, General Insurance business would have to focus on better underwriting and claims management processes to minimise underwriting losses and continue its profit momentum.

Regulatory outlook

The recent amendments to the RII Act will have a significant impact on market conditions in the next couple of years. We believe these regulatory changes and the adverse weather patterns experienced would compel the market to 'return to basics' to achieve profitability with greater emphasis being laid on technically sound practices.



You
make
us **Who**
We are

Sustainability Report

Managing Director's Statement

Dear Stakeholder,

I take great pleasure in placing before you the Sustainability Report for the financial year ended 31st December 2010.

As in previous years, the Company focused on all four critical components of sustainability i.e. the Social, Economic, Environmental and Cultural aspects during the year under review.

On the social front, we demonstrated our concern for various sections of society who need support ranging from children attending remote schools which lack access to basic facilities such as water to differently-abled children attending the Nuffield School for the Deaf and Blind in Kaithadi, Jaffna who were badly in need of beds and mattresses. With regard to economic aspects, we have captured these well within our business philosophy extending the reach of our insurance products to all segments of the population. In particular, our low-priced micro insurance products have been made available to micro entrepreneurs through HNB's 'Gami Pubuduwa' loan scheme as well as the micro-financing schemes offered to members of SEEDS (Sarvodaya Economic Enterprise Development Services Ltd). It is heartening to note that the number of micro insurance policies sold has grown by 55 % during the year.

The Company also placed great emphasis on the environmental aspect considering its growing importance amidst clear evidence that this country's weather patterns are also significantly affected by the effects of global warming. Our efforts in this regard were of two types, i.e. activities carried out to conserve valuable resources in our day to day operations and activities performed to improve awareness on the need for protecting the environment beyond the confines of our offices.

Finally, the Company showed its affection and concern for cultural aspects by supporting a number of activities to promote diverse forms of arts. We strongly believe in the freedom of expression and feel that different sections of the public must have opportunities to enjoy vastly different types of cultural activities. Hence, our support was extended to a range of activities as diverse as the recognition of outstanding artistes of yesteryear and the launch of an album of popular contemporary music.



For us at HNB Assurance, sustainability has now become a way of life. Every member of our staff aspires to create value to all our stakeholders in a sustainable manner. The Sustainability Report that follows will give you in-depth accounts of the manner in which we have succeeded in fulfilling this mission.

It gives me great pleasure to inform you that we were placed Runner-up in the small scale category at the ACCA Sri Lanka Sustainability Reporting Awards 2010. This is the second successive year in which we have been recognised by these awards.

We inspire ourselves by what we do and commit ourselves to do even better in each passing year for the betterment of all who share our environment.

Manjula de Silva
Managing Director

31st January, 2011

You Make Us Who We Are...



Our Vision is “to be Sri Lanka’s most admired and trusted partner in meeting insurance needs professionally with a spirit of caring”.

This is the goal our employees strive for and our business partners render their invaluable support towards. To achieve this we use the financial resources of our investors, operate in the society and use the natural resources of the environment. In return, we have an obligation to provide adequate returns for all those who provided resources, support and commitment.

You are our stakeholders. We exist for and because of you; our past, present and future revolve around you. It is you who make us who we are...

How We Think About Sustainability

For us, sustainability is keeping our customers happy while adding value to all our other stakeholders. In doing so, we maximise the returns to our shareholders who are the backbone of the Company. We also manage the risks faced by customers, allowing them to focus on developing their businesses and improving the quality of their personal lives. We develop our people; maintain sustainable relationships with business partners, and fulfil the needs of the community while safeguarding the environment.

We thereby contribute to the sustainable development of our economy, society and environment. All this is embedded in our business strategy, incorporated into our systems and considered in our decision making processes.

About This Report

We believe that acting in a sustainable manner alone does not suffice. We are accountable to our stakeholders about our performance and also the positive and negative impacts we have on the economy, society and the environment. Through this report we hope to demonstrate our accountability by the measurement and disclosure of our performance and impacts.

We have prepared this report in line with the globally accepted framework for sustainability reporting, the Global Reporting Initiative (G3) guidelines. However, we continue to report through a stakeholder perspective, and discuss the economic, social and environmental impacts of our activities under each stakeholder group.

Organisational Profile

HNB Assurance PLC, a subsidiary of Hatton National Bank PLC, is one of the fastest growing insurance companies in Sri Lanka.

As a Company with a turnover of Rs. 2,428 million and market capitalisation of Rs. 2,925 million, HNB Assurance’s total assets amount to Rs. 4,548 million and it provides employment to 597 individuals.

A clear insight to the Company’s business operations and financial information is given in the financial and business reviews appearing from pages 26 to 54. No significant changes were made in the Company’s operations, structure or size during the reporting period.

Sustainability Report

Report Profile

This is our second report prepared in accordance with the Global Reporting Initiative (G3) guidelines; our most recent report, published on the 28th of January 2010 was the first one prepared in accordance with the framework. This report was adjudged the Runner-up in the Small Scale Category of the ACCA Sustainability Reporting Awards 2010.

Our Sustainability Report is published as a part of our Annual Report every year and we are most willing to respond to or clarify any inquiries regarding this report or any of its contents. Such inquiries could be directed to;

E-mail	-	info@hnbassurance.com
Address	-	HNB Assurance PLC 10, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.
Website	-	www.hnbassurance.com

Report Scope and Boundary

We are a Sri Lankan company carrying out business activities within the island and have no subsidiaries. Hence, this report covers the activities of HNB Assurance PLC for the year ending 31st December 2010.

Honouring our commitment to continuous improvement and based on the level of materiality we have assessed our report at a self-declared application level of 'B'.

All key functions of the Company are carried out in-house in order to maintain a competitive advantage. However, non core functions have been outsourced in the following instances and this report does not cover these services.

- Security services
- Tea services
- Office equipment maintenance services
- Payroll services
- Janitorial services
- Internal audit and tax consultancy

- All financial data presented in this report has been extracted from the Audited Financial Statements of the Company for the year ending 31st December 2010, which have been prepared in accordance with the Sri Lanka Accounting Standards and the provisions of the Company's Act No. 07 of 2007.
- All non financial data relating to social and environmental aspects have been compiled by the relevant divisions of the Company throughout the year.
- The previous year's data has been restated where applicable for better comparability and presentation.
- No significant changes have been made in the scope, boundary or measurement techniques during the reporting period.

The content of this report includes all material sustainability issues of the Company. We have used the GRI framework as the basis to identify key sustainability issues and performed a materiality test to determine the issues to be reported on. This test took the form of a questionnaire in which issues covered by each GRI indicator were rated based on their importance to stakeholders and the current or potential impact on the Company.

In order to identify issues that are considered to be important to our stakeholders, we used the responses we received via our stakeholder engagement process as well as issues capable of posing challenges to the insurance sector. We also considered those issues identified by experts as having significant impacts on sustainability.

The issues which have a current or potential impact on the Company are those that can create a significant risk or opportunity for the Company or help to uphold the values of the Company. Issues that aid us to successfully deliver our business strategy or where we possess a competence to contribute to sustainability are also considered to be of importance to the Company.

In addition to the issues identified using the GRI framework we have also reported on others which are not directly covered by the framework but are important to our stakeholders as well as our Company.

Materiality Matrix

The matrix used to determine the material GRI indicators is given below. All GRI indicators including additional indicators have been considered and the complete list of indicators is given from page 95 to 98.



Additional Indicators are marked in red.

Indicators determined to be not applicable: EC6, EC7, EN1 - EN3, EN6, EN8 - EN27, EN29 - EN30, LA4, LA9, HR1, HR3, HR5, HR8 - HR9, SO1, PR1, PR2

- The issues in these quadrants were identified as having a high importance to our stakeholders and also having a high impact on the Company. Hence, these were deemed as material issues and are fully reported on.
- Issues in these quadrants were identified as having a moderate importance to our stakeholders and a moderate impact on the Company. Due to the moderate level of materiality of these issues, we have fully reported on some issues while partially reporting on others depending on the ready availability of data.
- The issues falling in to these quadrants have a low level of importance to our stakeholders while having a low impact on the Company. Therefore we have not covered these in this report.

The GRI content index is presented at the end of this report and cross references are made to areas covered within this report or elsewhere in this Annual Report.

Governance and Management

The Board of directors of HNB Assurance is responsible and committed to ensuring that the interests of all our stakeholders are considered and safeguarded in the decision making process of the Company. The Board also provides strategic direction to conduct Company activities in a sustainable manner considering economic, social and environmental impacts by setting standards in this regard and monitoring performance.

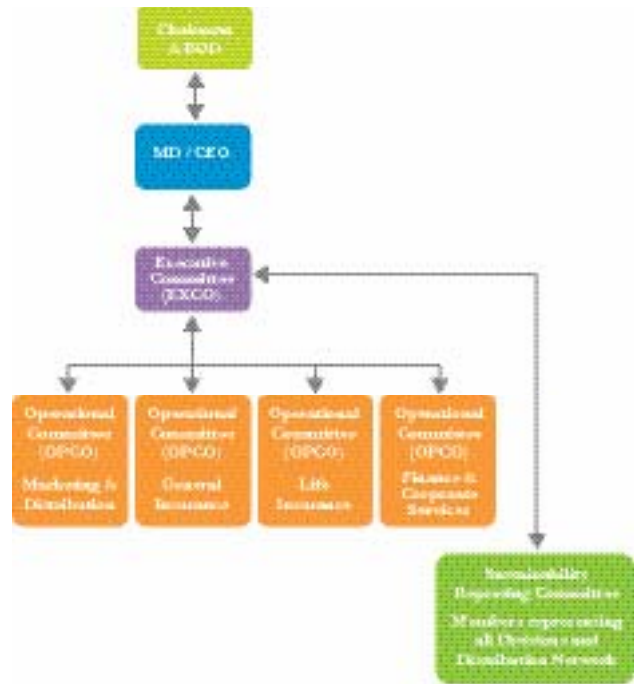
The responsibility of formulating the business strategy has been delegated by the Board of Directors to the management of the Company. The management team led by the MD/CEO and the Executive Committee (EXCO) together with the corporate planning team ensures that economic, social and environmental aspects are embedded into the formulation of business strategy. The concerns of all stakeholders are also considered by EXCO in this process. These decisions and policies are implemented by the management of the Company including the distribution network.

Sustainability Report

An open door policy encourages employees at all levels to bring sustainability concerns to the notice of the operational management or even to the members of the EXCO and the MD/CEO. These concerns would then be addressed and where necessary reported to the Board for decision.

In addition, this year the Company formed a separate committee for Sustainability Reporting comprising representatives from each division of the Company. The Committee is headed by the Head of Finance and reports to the EXCO. All our key stakeholders have been assigned to one or more of the committee members who will identify and communicate their concerns. Sustainability related issues and impacts are also brought to light by the committee members and decisions are made or brought to the notice of the EXCO where necessary. Further, this Committee is also responsible for the collection, measurement and reporting of data for the Sustainability Report.

The Company complies with the Code of Best Practice on Corporate Governance issued jointly by ICASL and the Securities and Exchange Commission of Sri Lanka and with the Listing rules of the Colombo Stock Exchange. Our levels of compliance are explained in greater detail in the Corporate Governance Report on page 124 to 126 of this Annual Report.



Commitments

HNB Assurance holds membership in the following entities.

- Insurance Association of Sri Lanka (IASL)
- Ceylon Chamber of Commerce (CCC)
- Federation of Afro-Asian Insurers and Reinsurers (FAIR)

Stakeholder Engagement

Our stakeholders' views and concerns about our economic, social and environmental impact are of vital importance to us. These concerns are captured through our stakeholder engagement process, addressed and considered in the formulation of our business strategy.

The methods by which we engage with each stakeholder group and the manner in which we address their concerns will be discussed throughout this report in greater detail, under each stakeholder group. The following is a summary of our engagement mechanisms.



Awards won during the year

Stakeholder Engagement

Stakeholder	Inform	Consult	Involve and Empower
	Providing balanced information to our stakeholders	Getting feedback from stakeholders	Involving stakeholders in our decision making process
Customers	SMS alerts on policy status Customer news letters Response to web inquiries within 24 hours Inquiries via our 24 hour call centre at CRC	Need analysis done prior to selling Life Insurance Policies Interactions with customers directly or through intermediaries	Request tracker Formal customer complaints handling process Periodic customer research
Employees	Staff conference to share Company's future plans and past performance Open-door culture which provides employees at all levels to access the top management Direct e-mails from the Managing Director on matters of significant importance HR news through SMS alerts "Puwath" magazine	Employee satisfaction survey CEO's forum - executives and those below can express their views directly to the MD/CEO Management meetings - Senior Executives and those above to express their views and suggestions Distribution Managers' Meetings - Branch Managers are able to express their views and suggestions Intranet with collaboration features and online suggestion forum	Involve in the decision making process as members of : EXCO (General Managers and Divisional Heads) Divisional Operational Committees (Senior and Middle management) Sustainability Reporting Committee Cross functional Committees Formulation of the Company's business strategy through the corporate planning process (EXCO and the Senior Management team)
Shareholders/ Potential investors	Annual and Quarterly Financial Statements Mailing printed Interim Reports to shareholders although no longer a mandatory requirement Publishing Quarterly Financial Statements in the national media Annual General Meeting	Suggestions and responses through Investor Feedback Form included in our Annual Report Access to the Board Secretary on request Annual General Meeting where shareholders can review past year's performance and express their views	Voting power for all shareholders at the Annual General Meeting Movements in the share price is the most effective medium by which the shareholders express their level of satisfaction
Business Partners (Advisors, Brokers, Reinsurers, Suppliers etc.)	Sales Convention to share Company's future plans and past performance with advisors Different fellowship events for brokers and other intermediaries	Regular dialogue with business partners	Consultation with business partners on new product development Involvement of reinsurers in the design of policy conditions, determination of rates, etc.
Community and Environment	Community relations through propaganda vehicle Company web site Email address provided for information requests - info@hnbassurance.com Press releases on Company activities	Consulting Central Environmental Authority to identify environmental protection programmes Consulting other state agencies, NGOs, clubs and societies to identify community needs Obtaining beneficiary's opinion on community investment	Involving partner organisations in planning and executing community development projects

Sustainability Report

Performance Against Commitments and Goals

Stakeholder	Concerns	Our Commitments and Performance	Goals for 2011
Customers	<p>Product attributes with more value to customers</p> <p>Improved service standards</p> <p>Faster claims handling</p> <p>Easy access to service points</p> <p>Competitive pricing and other benefits</p> <p>Innovative ways of meeting needs</p>	<p>Investment in a new integrated system for customer service improvement</p> <p>Continuous development of new products to meet customer needs (e.g. Super 4 series III and IV)</p> <p>Faster claim settlement initiatives (e.g. Fast Track Claims Settlement process for motor claims below Rs. 25,000)</p> <p>Settlement of claims to customer accounts directly</p> <p>Customer service training to all staff, advisors and assessors</p> <p>Bonus to Life policyholders</p> <p>No claim bonus to motor policyholders at highest possible levels</p> <p>Customer competitions to award gifts</p>	<p>Introducing a few more innovative new products</p> <p>Enhancing customer service through new technology (e.g. for quick information, facilities for premium payments, etc)</p> <p>Increasing the number of premium collection centres by tying up with various parties</p> <p>Expanding the Bancassurance channel by increasing the number of Bancassurance officers stationed around the island</p> <p>Opening new branches and re-locating existing branches to enhance the accessibility to customers</p> <p>Completing the implementation of the TCS Bancs system</p>
Employees	<p>Job security</p> <p>Transparent methods for recruitment, confirmation, increments and promotions</p> <p>Benefits, Rewards and Recognition</p> <p>Compliance with all laws, regulations and ethical norms</p> <p>Access to all relevant information</p> <p>Training and Development</p> <p>Financial support for their needs</p> <p>Career advancement</p> <p>Safe and friendly work environment</p> <p>Balance between work and personal life</p>	<p>Competitive remuneration packages, periodic reviews with market rates and periodic scale adjustments to remuneration packages to be in line with market rates</p> <p>Structured training programmes and opportunities to participate at local and overseas training events.</p> <p>Loan facilities for education, marriage and other urgent needs</p> <p>Chairman's Award and other Recognitions and Rewards for high performers</p> <p>Employee satisfaction survey to get employee feedback on the Company's activities</p> <p>Formation of cross- functional project teams consisting of employees in different departments</p> <p>Upgrading systems for easy job performance</p> <p>Full compliance with all laws and regulations and Corporate Governance practices</p>	<p>Offer remuneration packages in line with market rates</p> <p>Management skills development programmes to develop the newly promoted managerial and executive staff.</p> <p>HRIS to be implemented to increase the efficiency and effectiveness of managing employee information.</p> <p>More opportunities for employees to work in cross functional teams to develop their leadership and other skills</p>

Performance Against Commitments and Goals (Contd.)

Stakeholder	Concerns	Our Commitments and Performance	Goals for 2011
Shareholders/ Potential investors	<p>Growth in top and bottom lines</p> <p>Consistency in results</p> <p>Share price performance</p> <p>Stability and Liquidity</p> <p>Compliance with all laws and regulations and ethical standards</p> <p>Acting with social responsibility</p>	<p>Consistent growth in financial results over the last few years</p> <p>Exceptional performance in the Company Shares (outperformance of the All Share Price Index since inception as seen in the graph on page 67)</p> <p>Maintaining a Return On Equity (ROE) in excess of 20% over the last 5 years</p> <p>Full compliance with all laws and regulations and Corporate Governance practices</p>	<p>Maintaining consistent growth in GWP and profit</p> <p>Enhancing the Company value and improving the returns</p>
Business Partners (Advisors, Brokers, Reinsurers, Suppliers etc.)	<p>Keeping promises</p> <p>Sound business relationships</p> <p>Professionalism and integrity</p> <p>Continuous support in terms of training and development (particularly to advisors and brokers)</p> <p>Financial support for their needs (advisors)</p>	<p>Structured training programmes (brokers and advisors)</p> <p>Number of recognitions/ awards for achievers including overseas trips (for brokers and advisors)</p> <p>Help in improving productivity and efficiency (advisors)</p> <p>Timely payout of commissions, reinsurance and other payments</p> <p>Loan facilities for education, marriage and other urgent needs (advisors)</p>	<p>Demonstrating the selling cycle to our advisor force through a video produced by the Company</p> <p>Improved training, development, recognitions and benefits</p> <p>Targeting to get at least one member qualified for the MDRT programme this year</p>
Community	<p>Contribution to Community Development</p> <p>Taking into account social and cultural needs in decision making</p>	<p>Helping the needy in society by donations and other CSR projects, sponsorships etc.</p> <p>Extensive usage of distribution network to identify community needs</p> <p>Focussed attention on Micro Insurance to give the benefits of insurance to the lower segment of the society</p> <p>Community relations through the propaganda vehicle</p>	<p>Providing safe water facilities to a few more schools</p> <p>Supporting more events to promote Sri Lankan Arts and Culture</p> <p>Contributing further towards the improvement of healthcare facilities</p> <p>Expanding Micro insurance to reach a greater number of people</p>
Environment	<p>Minimise adverse impact on the environment</p>	<p>Energy saving initiatives such as the use of energy saving computers, lights, etc.</p> <p>Movement towards e-documentation</p> <p>Assisting Central Environmental Authority to carryout environmental protection activities around Bolgoda Lake</p>	<p>Expanding use of e-documentation and energy saving initiatives</p> <p>Carrying out one significant environmental protection programme</p>

Sustainability Report

The Value We Add to Our Stakeholders

As responsible corporate citizens, we focus not only on the bottom line but believe in creating value for all our stakeholders as well as the country's economy. Value created could be in monetary and non-monetary terms and the impact of such value creation would be delivered by either direct or indirect methods.

Direct monetary value created by the Company in respect of each key stakeholder is demonstrated in the Value Added Statement given below.

Value Added Statement

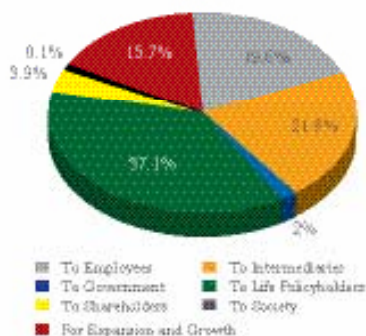
The value generated by the Company increased to Rs. 1,435.3 million in 2010 from Rs. 1,277.3 million in 2009. We have allocated 3.9% (2009 – 3.7%) to our shareholders as dividends and retained 15.7% (2009 – 14.9%) for future investments.

	2010 Rs. '000	2009 Rs. '000
Net Earned Premium	1,844,360	1,567,747
Investment and Other Income	516,880	469,038
	2,361,240	2,036,785
Net Claims & Benefits	(648,137)	(511,911)
Cost of External Services	(277,782)	(247,580)
Value Addition	1,435,321	1,277,294

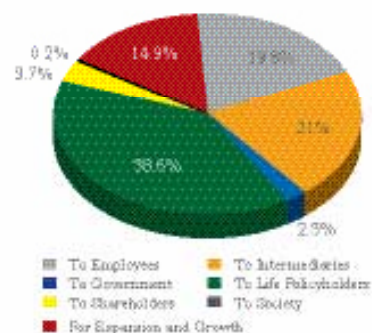
Distribution of Value Added

		2010 %	2009 %	
To Employees				
Salaries and Other Benefits	281,439	19.61	246,729	19.32
To Intermediaries				
Commission Cost	310,267	21.62	268,707	21.04
To Government				
Income Tax	27,786	1.94	29,471	2.31
To Life Policyholders				
Increase in Life Insurance Fund	531,733	37.05	493,008	38.60
To Shareholders				
Dividend Paid	56,250	3.92	46,875	3.67
To Society				
	2,020	0.14	2,557	0.20
For Expansion and Growth				
Retained as Depreciation and Amortisation	40,337	2.80	35,212	2.75
Retained in Reserve	185,489	12.92	154,735	12.11
	1,435,321	100.00	1,277,294	100.00

Distribution of Value Added 2010



Distribution of Value Added 2009



Rs. 531.7 million which is 37.1% of total value added (38.6% in 2009) was distributed among Life Policyholders and 21.6% (21.1% in 2009) to our intermediaries. The value shared with our employees increased from 19.3% in 2009 to 19.6% in 2010, amounting to Rs. 281.4 million. We have also contributed towards the development of the economy by way of taxes amounting to Rs. 27.8 million which is 1.9% of our value added (2.3% in 2009).

Our community investment decreased slightly in monetary terms from Rs. 2.6 million in 2009 (0.2% of value added) to Rs.2 million (0.14% of value added) in 2010. However, the non monetary impact of our investment is much greater, best demonstrated by the comments made by the beneficiaries of these investments, a few of which we have included within this Sustainability Report.

Economic goals, policies and performance of the Company are discussed in great detail in the Management Discussion and Analysis appearing on pages 26 to 54 of this Annual Report.

HNB Assurance PLC has not received any financial assistance from the Government during the year under review.

Our policy is to deliver sustainable value to all our stakeholders.

Shareholders

A decision made a decade ago by our parent company HNB to create a new insurance service provider, resulted in the birth of HNB Assurance. We are indeed thankful to HNB, and to all our other shareholders and investors for making us who we are today. We consider it our duty to deliver sustainable value to them in the long run and are most committed to this motive.

Engaging with Our Shareholders

Our Annual Report which is the main tool of communication between the Company and shareholders plays a vital role in updating our shareholders on Company activities, financials, governance, etc. We have included an Investor feedback form in this Annual Report and our Shareholders are encouraged to provide feedback on our sustainability related activities.

At the Annual General Meeting, shareholders can raise their concerns, review our financial and non- financial performance, and can take part in appointing the Board of Directors and making important decisions of the Company.

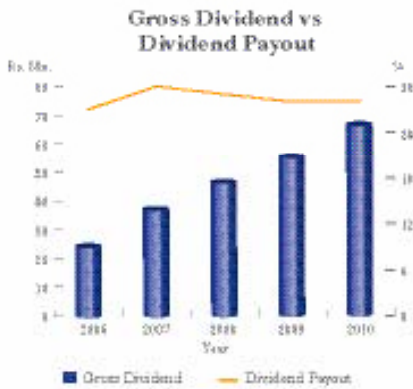
Although mailing printed interim financial statements is no longer a mandatory requirement, we continue with the practice to keep our shareholders informed about the Company's interim financial performance via printed statements in addition to publishing the same in the Colombo Stock Exchange web site. In addition, interim financial results are also published in national newspapers at the end of every quarter as another best practice, adopted voluntarily.

Growth

During the year under review we were able to record steady growth in revenue, profits, dividends and net assets thereby maintaining the growth momentum we have recorded over the past years. The following table and graphs depict the above. Further, growth in Return On Equity and Earnings Per Share are depicted on graphs on page 28 of the Management Discussion and Analysis.

Description	Growth Rate				
	2006	2007	2008	2009	2010
Gross Written Premium – Company	36%	31%	25%	15%	15%
Profit After Tax – Company	51%	35%	33%	23%	20%
Net Assets	21%	22%	23%	23%	22%

Sustainability Report



Dividend Payout

The dividend payout ratio in 2010 remained at 28% (2009 - 28%), with the first and final dividend of Rs. 1.80 per share declared by the Company.

HASU in 2010

The Market Capitalisation of HASU (the CSE code given to the Company's share), which measures the total market value of all of Company's outstanding shares, surpassed the Rs. 3 billion mark on 14th of September 2010. It recorded its highest market value per share on 16th of September by trading at Rs. 90.00. This is an exceptional achievement considering the fact that the Company just crossed the Rs. 2 billion mark in Market Capitalisation in the year 2009.

The closing market price of HASU, was Rs. 78.00 recording an increase of 57.58% in the share price for the year 2010.

Total Return Index

Total Shareholder Return (TSR) is defined as the return on investment a shareholder receives over a specified time. It combines the change in the value (appreciation/depreciation) of a listed company's share price and dividends paid in order to illustrate the total return to the shareholder.

During the year 2010, HASU appreciated by 57.58%. Dividend yield for the year was 3.03% since HNB Assurance paid a dividend of Rs. 1.50 per share during 2010. Accordingly TSR on HASU for 2010 was 60.61%.

The All Share Price Index (ASI) computed on total returns basis is known as the All Share Total Return Index (ASTRI) and the MPI computed on total returns is known as the Milanka Total Return Index (MTRI).



On 31st of December 2010 the Total Return Index on All Shares (ASTRI) recorded 7,899.11 points reflecting a growth of 100.24%. The Total Return Index on Milanka Shares (MTRI) closed at 8,481.73 points gaining 88.22% for the year 2010.

Value Addition to Investor

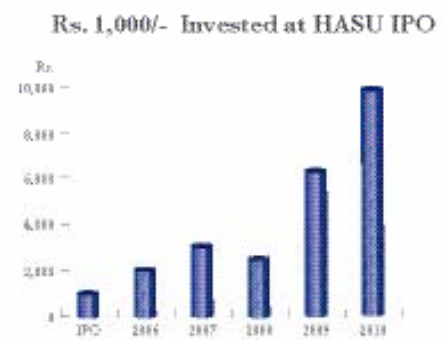
HNB Assurance's performance has also been reflected in high profitability ratios. Return-on- equity (ROE) stood at 24% in 2010, at the same level as a year earlier. During 2010 the Company reported an EPS of Rs. 6.45, representing an increase of 20% over the previous year. It's commendable that the EPS increase has surpassed the Revenue growth of 2010 which stood at 16%. Price-to Earnings Ratio, which stood at 9.21 times at the end of 2009, increased to 12.10 times in 2010 reflecting the positive investor sentiment towards HASU and the CSE as a whole.

Rs 1,000/- invested at HASU IPO

A sum of Rs 1,000/- invested at the HNB Assurance IPO is now valued almost 10 times the initial investment at Rs. 9,970/-, yielding an 897% return considering the bonus issue and dividends paid over the years. This amounts to an annualised effective return of 38.9%.

Financial Strength

We continue to maintain our financial strength at a strong level with a National Long Term Financial Strength Rating of 'A (lka)' and an Insurer Financial Strength Rating of 'A (lka)' as well.



HASU Performance vs Market (over 5 years)



HASU Share Volumes and Relative Performance vs Market



Sustainability Report

Compliance with Regulatory Bodies

We comply with all rules, regulations, circulars and guidelines issued by relevant regulatory bodies and submit all regulatory requirements well within the stipulated deadlines.

Awards and Accolades

During the year under review HNB Assurance was well recognised with several awards and accolades which enhanced the value as well as the image of our Company.

- **Annual Report 2009**
- 1st Runner up in Corporate Governance Disclosures for 2009 Annual Report –South Asian Federation of Accountants (SAFA) Annual Report Awards 2010
- Silver Award in the Insurance Sector for 2009 Annual Report – Annual Report Awards organised by the Institute of Chartered Accountants of Sri Lanka (ICASL) in 2010
- Runner-up in the Small Scale Category of the ACCA Sustainability Reporting Awards 2010 (based on 2009 Annual Report)
- **‘mylife’ brand**
- Bronze Award for the Best New Entrant – SLIM Brand Excellence Awards 2010
- **Top 100 brands**
- Featured among the list of top 100 brands compiled by the Lanka Monthly Digest (LMD) in association with Brand Finance, for the 3rd successive year



SAFA Awards : 1st Runner-up Corporate Governance Disclosures

Employees

The most valuable asset we possess is our team of employees. They strive to delight our Customers, enhance the value of our Company, and uphold integrity and ethical conduct when interacting with our business partners and society.

We endeavour to recruit the right people to add to this asset and sharpen their knowledge and skills through training and development. While rewarding them for their performance and providing equal opportunity, we are committed to fostering diversity. We consider it our duty to care for their safety and to help them achieve a work-life balance.

We are an equal opportunity employer who fosters diversity as a corporate strength; we offer employment, rewards and recognition regardless of gender, race, or religion.

Key Employee Indicators

- We have the strength of 597 individuals in our dynamic team as at 31st December 2010 (2009 – 540). Additions to this team are made through a very transparent process; based on knowledge, skills and experience of candidates.
- We are an equal opportunity employer who fosters diversity as a corporate strength. Hence, we offer employment, rewards and recognition regardless of gender, race or religion.



Hazana Caffor
Manager - Motor Underwriting

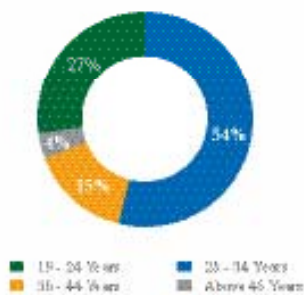
"I joined HNB Assurance in 2001 at the start of the Company as an Underwriting Assistant. From that day onwards I was given the necessary guidance and support which helped me to climb up the career ladder and reach the post of Manager – Motor Underwriting. Further, the Company recognised my dedication and commitment to work by awarding me with the 'Chairman's Award for Excellence' in the year 2008."



Staff Category	2010			2009			
	Male	Female	Total	Male %	Female %	Male %	Female %
Managing Director and General Managers	3	1	4	75%	25%	75%	25%
Heads of Divisions	4	0	4	100%	0%	100%	0%
Managers and Assistant Managers	50	11	61	82%	18%	83%	17%
Executives	65	32	97	67%	33%	67%	33%
Non Executives	261	170	431	61%	39%	62%	38%
Total	383	214	597	64%	36%	66%	34%

- 36% of our workforce is female and this year there is a slight increase of 2% in female employee numbers when compared to last year.
- Our team consists of 88% of permanent cadre while 12% is on contract basis.
- We have a young and vibrant team with 81% of our staff members being below the age of 35 years.
- 57% of our team has been with us for over two years.
- 63% of our employment opportunities are offered in the Western Province while 37% is in other provinces.

Age-wise Analysis



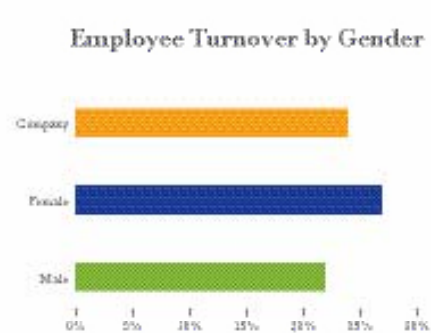
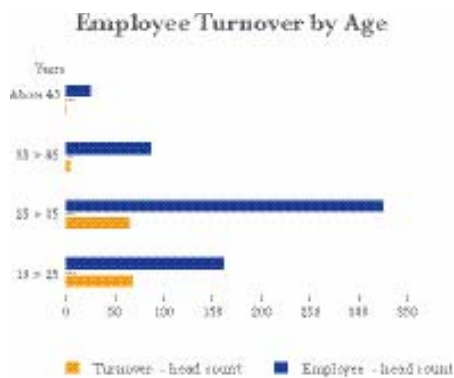
Service-wise Analysis



Sustainability Report

Staff Turnover Ratios

- Employee turnover has increased considerably from 16% in 2009 to 24% in 2010. The key reason for this is the high level of turnover of Bancassurance staff employed on contract basis. Employee turnover excluding Bancassurance staff is at a much healthier level of 15%.
- The turnover of male employees is 22% whereas the turnover of female employees is 27%. The key reason for this difference is because some female employees tend to leave employment due to family commitments.
- Turnover is highest among employees below the age of 25 because those of this age category tend to change employment frequently in their search for the most suitable career or to pursue higher education.



Employee Engagement

Staff conference

At this gala event for employees, the Company’s past performance is summarised and future plans are communicated. It is also the occasion at which the seven best performers of the previous year are felicitated by being awarded ‘Chairman’s Award for Excellence’.

Open – door culture

The open-door policy practiced encourages employees of all levels to voice their concerns to the top management, even General Managers or the Managing Director.

SMS alerts

HR related news alerts are communicated via SMS for the convenience of employees. This includes SMS alerts confirming that their salaries have been credited to their bank accounts.

“Puwath” Magazine

Our newsletter “Puwath” written by and for employees and members of the field force, brings news and enjoyment.

Employee satisfaction survey

An employee satisfaction survey was carried out this year to assess the level of employee satisfaction and to identify areas for improvement. To ensure confidentiality and to give confidence to employees to present their feelings freely, this was conducted by a third party, MTI Consulting and participation was open to the entire staff on a voluntary basis.

A high level of enthusiasm was seen among staff resulting in a response rate of 78% (i.e. 454 of total staff 575). Overall satisfaction proved to be high with 79% of the respondents rating that their morale is high.

Findings were communicated to and discussed by the Remuneration Committee, Executive Committee, Divisional Operational Committees and the Management team. Necessary action is being taken to strengthen positive areas and make improvements where necessary to management practices, HR policies and remuneration packages.



Chairman’s Award winners in 2010

- **CEO's Forums**

Six CEO's Forums were held this year too to provide employees in the executive grade and below an opportunity to express their concerns directly to the Managing Director without the presence of their own management.

- **Management / Distribution management meetings**

At the four management meetings held, employees at senior executive level and above presented their departments' performances and also voiced their concerns to the top management.

The distribution management met five times during the year to review their performance and discuss their issues in the presence of the top management team. Distribution management meetings are very helpful in developing the coordination between the head office and the distribution network.

- **Intranet**

Our staff has access to an intranet facility which includes collaboration features and also an online suggestion forum. All suggestions made are directed to the HR Department. It also carries news and announcements of relevance to the entire staff.

- **Committees**

Employees become directly involved in the decision making process through committees formed at different levels. The key decision making committees are the Executive Committee and Divisional Operational Committees whilst cross functional committees are also formed as and when needed. Please refer page 126 for more details on committees operating within the Company.

- **Corporate planning sessions**

We empower people to strive for excellence. The members of the EXCO and a selected team of senior management formulate the future strategies of the Company each year at Corporate Planning Workshops and conduct periodic reviews throughout the year.

- **Risk Management Committee**

Risk management is an integral part of our business. Members of all key functions of the Company are given the opportunity to participate and contribute to the risk management process of the Company through the Risk Management Committee.



Lasantha Abeyratne
Senior Accounts Executive

"I joined HNB Assurance as a Cashier, soon after my Advanced levels in 2001. Today I have progressed up to Senior Accounts Executive level leading three important functions in the Finance Division. Working with cross functional teams in various projects has given me lots of opportunities to grow as a team player and improve my leadership skills"

Training and Development

Ours is a learning culture. We encourage and empower people to strive for excellence through focused training and development of all individuals who are a part of the HNB Assurance team.

Training

Our staff members are encouraged to participate in training programmes organised by our HR department and by different divisions of the Company. These programmes are conducted using both internal and external resource persons. Our employees received 14, 466 hours of in-house training, averaging to 25.5 hours of in-house training per employee for the year. In addition, they are also given the opportunity to participate in external workshops and seminars as well as overseas training.

We are committed to train and develop our people and empower them to strive for excellence.

Sustainability Report

Highlights of Our Training Calendar

- Participation in induction and familiarisation programmes is a mandatory requirement for all new recruits. A unique feature of our induction programme is that it is conducted by the Top Management team of the Company led by the Managing Director.
- All new recruits to the branch network are given on the job training at our head office for a period of five days.
- Customer Service Excellence training sessions were conducted by well-known trainer, Mr. Dhammika Kalapuge for the entire staff of HNB Assurance. A total of 9 programmes were conducted in 5 locations island-wide.
- Training in the use of MS Office package was provided to all head office staff.
- A corporate grooming programme was conducted by Ms. Nayana Karunaratne for the female staff in head office.
- Underwriting training (Life and General) was given to the entire branch network staff covering all regions.
- Staff attached to all regions was trained on our new system, TCS Bancs.
- A job focused Tamil language course was launched to enable employees of executive and non executive grades to better serve our Tamil clientele. Two batches have successfully completed this course.
- A General Insurance Academy was established to share the expertise of technical specialists in our General Division. Basic Level training has been completed for two batches and Intermediate level training has already commenced.
- A programme on “Examination Success” was conducted by our Managing Director to guide and motivate staff to become successful in their professional and academic studies.
- To improve the effectiveness and objectivity of the performance appraisal process, an awareness programme was conducted by our Managing Director for management staff who conduct appraisals to address a need that was highlighted in the employee satisfaction survey.
- All junior executives of the Company participated in an out-bound professional development training programme organised by Sri Lanka Business Development Centre (SLBDC) at the Dambulu Oya Family Park.
- Staff at divisional level also attended out-bound training programmes conducted to enhance their leadership qualities and teamwork.

In-house Training Programmes

Programme	2010		2009	
	Number of Programmes	Number of participants	Number of Programmes	Number of participants
Induction & Familiarisation Programmes	3	157	3	124
Other In-house Training Programmes	33	1583	50	1351
Total In-house Training programmes	36	1740	53	1475

External Training Programmes

Department	2010		2009	
	Programmes	Participants	Programmes	Participants
MD's Office	11	11	3	5
Finance & Corporate Services	40	55	33	47
General	22	35	19	41
Human Resource	12	15	4	5
Investment	14	18	22	35
IT	7	12	8	11
Legal	10	13	7	7
Life	11	25	12	35
Marketing & Distribution	20	35	19	47
Total	147	219	127	233

Overseas Training Programmes

Department	2010		2009	
	Number of Participants		Number of Participants	
MD's Office	1		1	
Finance & Corporate Services	1		0	
General	1		2	
Investment	1		0	
IT	3		0	
Life	1		3	
Marketing & Distribution	1		2	
Total	9		8	



Professional and Personal Development

We also place great emphasis on the professional and personal development of employees.

- **Management Development Pool**

Employees in senior grades identified as having the potential to be future leaders are included in the Management Development Pool, and are trained and groomed to take up senior management positions in future.

- **Speech Craft Programme**

A Speech Craft programme conducted by Word Blasters Unlimited (formed by a few past presidents of the Colombo Toast Masters Club) has been organised by the Company to improve presentation and leadership skills of employees. HNBA intends to establish a Toast Masters Club upon the completion of this programme.

- **Theatre Day and Singing Competition**

A Theatre Day was organised by our HR Department to discover the hidden talents of our employees. This drew a very enthusiastic response with over 150 employees displaying their talents in front of a packed audience.

We also facilitated the unveiling of vocal talent through a singing Competition modelled on popular reality shows with the participation of several popular artistes as judges.

Knowledge Sharing

Knowledge sharing is a vital facet of our learning culture. Our employees who participate in external and overseas training share the knowledge gained with their co-workers upon their return. The growing number of academically and professionally qualified members in the HNBA team feeds the overall personal and professional development of their co-workers.



Madusha Kulatunga
Branch Manager - Embilipitiya Branch

"As an underwriting trainee I learned the basics of insurance at HNB Assurance. The Company helped me to identify my true potential and change my career to the field of Marketing. Today I am a Branch Manager and winning the award for the Best Service Centre in the Company last year was a memorable milestone in my life."

Sustainability Report

- **Library facilities**

An in-house library filled with books ranging from insurance texts to fiction, journals and periodicals provides food for thought while our corporate membership of the British Council provides employees further access to books and periodicals.

- **E- learning**

The entire HNBA team which includes our Bancassurance Officers stationed at HNB branches has access to e-learning modules specially designed by each department as well as a variety of other learning material.

- **Quiz Competition**

The HNBA Quiz Competition organised for the 3rd time which attracted teams from all regions proved to be a resounding success. The level of participation was very high with 77 staff members taking part.

- **Motivational quotes**

As planned last year, motivational quotes are displayed throughout our Head Office premises to inspire our employees. In addition, our intranet also features inspirational quotes.

Guidance and Ethics

- **Employee hand book**

The employee hand book made available via our intranet communicates the HR policies of the Company and provides clear guidelines to our employees.

- **Code of Ethics**

Treasuring integrity and ethical conduct is one of our corporate values. All employees must adhere without exception to the HNBA Code of Ethics, which clearly sets out the criteria for employee conduct and the Company's anti corruption policies. This too is made available through the intranet.

Our employees are required to treasure integrity and ethical conduct. We maintain a zero tolerance approach towards fraud, bribery and corruption.

Performance Appraisals

All employees in our permanent cadre who have completed their probation period go through a formal and transparent performance appraisal twice a year. All promotions and increments are granted on the basis of the results obtained.

Mid-probation appraisals are also conducted for employees during their probationary period.

Rewards, Recognition and Benefits

Our salaries are aligned with industry standards and are based purely on performance and merit regardless of gender, age, race or religion. The Company's minimum wages and salaries are above the country's legal requirements. Remuneration packages are frequently adjusted to align with market rates based on salary surveys.

- **Commendation**

Exceptional performers are commended by superiors and brought to the notice of the top management. Gift vouchers are also offered in recognition of good work done and 72 staff members were accordingly recognised during the year.

Facilities for professional development

- Clear career path
- Reimbursement of professional examination fees on successful completion
- Payment of professional subscription fees
- Examination loans



The talents of the HNBA team - Talent Show



Enthusiastic participants of the HNBA Quiz Competition

Chairman’s Award for Excellence

Employees who perform their duties beyond the call of duty are honoured with the Chairman’s Award for Excellence at the Staff Conference. This year too, seven members of the HNBA team were honoured with this recognition.

5 year completion awards

Our staff members who complete 5 years of continuous service are recognised with these awards and 29 employees were accordingly honoured this year.

Defined contribution plan

The Company contributes to the Employees’ Provident Fund (EPF) and Employees’ Trust Fund (ETF) on behalf of its employees. 12% of the basic salary of an employee is contributed to EPF by the Company while 8% is contributed by the employee. To ETF, the Company contributes 3% of an employees’ basic salary.



A Chairman’s Award winner

Company’s contribution - Rs.’000	2010	2009
EPF (12% of Employee’s basic salary)	20,273	17,143
ETF (3% of Employee’s basic salary)	5,068	4,286

Defined benefit plan

All permanent employees in continuous service for over 5 years in the Company are entitled to receive a retirement gratuity of a half month’s basic salary for every year in employment. The Company’s liability for retirement gratuity as at the balance sheet is given on page 184 of this Annual Report. The gratuity liability is valued by a Consultant Actuary (Mr. Hugh Terry - Fellow of the Institute of Actuaries, U.K.) every year using the Projected Unit Credit (PUC) method.

Loan facilities

Permanent employees are eligible for the following loan facilities:

- Vehicle loans (senior grades only)
- Wedding loans
- Emergency loans
- Educational loans

We offer protection to our people through a personal accident cover, group life cover and a staff health insurance scheme which includes cover for the spouse and children as well.

Recreational facilities provided

- Gym and swimming pool facilities
- Holiday bungalow – Victoria Park, Digana (senior grades only)

Grievance Handling and Human Rights

- The Company has an agreed grievance handling procedure.
- All grievances are looked into and fairly resolved.
- No cases of discrimination were reported during the year.
- No forced or compulsory labour reported at HNB Assurance.
- We only recruit individuals who are 18 years or above.



Work out at the gym at the end of the day

Sustainability Report

Work Life Balance

We provide all possible encouragement and guidance to balance work and personal life.

- An Annual Company Trip together with a number of entertainment activities was organised by the Company's Welfare Society for the enjoyment of employees and their families
- A multi religious ceremony and a pirith ceremony were organised in memory of our deceased colleagues and to obtain blessings for our employees and their families.
- A Vesak Lantern Competition was organised by our Marketing and Distribution Division which attracted the enthusiastic participation of Head Office Staff belonging to all religions.



Vesak lantern competition

Health and Safety

• Sick room and first aid committee

A sick room is available for employees to rest if they feel unwell and first aid boxes are placed in each division. A first aid committee was formed this year with two representatives from each division and special training was provided to them on first aid methods.

• Preventive health care

A Preventive Health Care programme was initiated this year and consulting sessions with a Doctor are organised twice a month for employees who wish to use the facility. In addition to normal consulting sessions at which 141 employees participated, an eye clinic and an ENT clinic were also held for the benefit and convenience of our staff.



Consulting a doctor at our own office

We provide a healthy and safe work environment for our people and have facilities and processes in place to maintain a healthy workforce.

Business Partners

The role of our business partners is indispensable to the success of our Company. As an insurance service provider our main form of income- our GWP is channelled to us through our Advisors, Brokers, Bancassurance staff as well as the relationships within the HNB group.

Our panel of Reinsurers is the pillar of our strength and our suppliers are the vital facilitators in our customer service.

Whilst thanking our business partners for their continued support, we acknowledge their contribution to our top line as depicted in the channel wise GWP graphs on page 33 and 41 of this Annual Report.

We show mutual respect in all our interactions and focus on maintaining win-win relationships.



Sunil Perera

Assistant Group Field Manager

"I started my career as a Business Promotion Officer at HNB Assurance. Within a short period of time I was able to get promoted as an Assistant Group Field Manager. During my career ladder, I was lucky enough to win the Best Field Managers' Award for the last five consecutive years. The assistance and guidance provided by HNB Assurance helped me immensely to enlighten my career path."



Engaging Our Business Partners

We maintain a regular dialogue with our valued business partners and consider their feed back in our decision making. An annual Sales Convention is organised for our Advisors where the past year's performance is reviewed and the coming year's plans are communicated. This is also the occasion at which the top performers of the field force in respect of the previous year are felicitated and rewarded. In addition, a number of different events are organised to appreciate and recognise the contribution made by our valued business partners. A few of these events are the Beach Rugby Fiesta for brokers, Mid-Year Award ceremony for HNB Branch managers, Broker Cocktails, Regional get-togethers for HNB staff, etc.

Advisors

We are proud that we possess an excellent team of advisors whose dedication, talent and professionalism coupled with their service excellence stands to delight our valued Customers. Their tremendous efforts and contribution in making us one of the fastest growing insurance companies is invaluable. We are extremely grateful to them as they have played an unforgettable role in making us who we are.

Recruitment

We are in the process of expanding the strength of our field sales force which currently amounts to 1,401 dedicated Insurance Advisors and Field managers (2009 – 1,546). Our Advisors come from all regions of the country with 273 of Advisors and field managers operating in the North and East. During recruitment, we maintain strict compliance with the IBSL regulations requiring;

- A pass in Technical Competency Course in Life Insurance for Life Insurance Advisors
- A pass in Technical Competency Course in General Insurance for General Insurance Advisors
- A service letter from the previous company for recruitments made from within the industry

Training and Development

All our Advisors undergo an extensive training curriculum developed a few years ago with the technical assistance of ICICI Prudential Life Insurance Company of India. The programme consists of five modules, all driven by performance, and the successful participants are awarded company certification at the end of each module.

Sustainability Report

The series of training programmes commences with the initial “Welcome Aboard” and “Soft Start” and then moves on to “Kick Start”, “Sprint and Race”, “High Flyers” and “Super Power” laying the platform to create a highly professional field sales force on par with the best in the industry.

• New initiatives in training

- Development of the sixth module on Life Insurance is on-going
- Launched the second and third modules for General insurance, branded “Power Start” and “Kick Off”
- We also introduced an ‘Advisor Planner and Monitor,’ which is a training passport which carries all records of the training history of Advisors.
- Conducting an initial assessment to better understand the training needs of Advisors

• Preliminary Certificate of Marketing

- For the first time in history, the Sri Lanka Institute of Marketing (SLIM) signed a Memorandum of Understanding with an insurance company, giving our sales force an opportunity to follow a basic professional qualification, ‘Preliminary Certificate of Marketing’ at a concessionary rate with lectures conducted exclusively for them in the Company Premises.
 - To encourage participants, the Company contributes for the full registration fee whilst an easy payment method has been introduced for the Advisors to pay the rest of the course fee.
 - The first batch will be commencing its course work in January 2011 and the nomination process for the second batch which is due to start the course in March 2011 is in progress currently. We look forward to inspiring our sales force to develop a passion to learn through programmes like this and we sincerely hope that after following this three months’ course, they would be encouraged to pursue the Postgraduate Diploma in Marketing as well.

• Recruitment of a new trainer

One more new trainer was also recruited to strengthen our Training Department. Together with the new trainer, we possess 6 employees who are fully engaged in meeting the training and developments needs of our Advisors.

• Trainings by renowned trainers

- Over 300 enthusiastic participants benefited from the training programme “Managing for Tomorrow” conducted by Dr. S. K. Gunawardene.
- The 50 Best performing advisors were offered an opportunity to participate in two motivational programmes conducted by Mr. Dhammika Kalapuge.
- The creator of the Total Wealth Quadrant (TWQ), Dr. Shantha P. Yahanpath visited Sri Lanka to carry out a training session for the Top 50 HNB Assurance advisors on his novel concept and how the application of TWQ could enhance sales.

• National Advisor Quiz Competition

The National Advisor Quiz Competition, a step to encourage knowledge and learning, was organised for the second consecutive year and we were the first insurance company to organise such an event for Insurance Advisors. A total of 47 teams of 6 members each eagerly participated in the competition, which was a very positive factor.



Trainings for our advisors

Benefits

- Vehicle loans at concessionary rates
- Distress loans
- Commission advances in emergencies
- Hospitalisation and death benefit scheme (registered applicants i.e. potential Insurance Advisors undergoing training are also covered)
- Terminal benefit scheme which includes Company contributions



Winners of the HNB National Advisor Quiz competition

- **Pass rates achieved in the competency course conducted by the Sri Lanka Insurance Institute (SLII)**
 - Life Insurance Competency Course - Sinhala 81% (2009 - 83%)
 - Life Insurance Competency Course - Tamil 61% (2009 - 53%)
 - General Insurance Competency Course - Sinhala 59.7%

Rewards, Recognition and Benefits

Our Advisors make an enormous contribution to the betterment of the Company and we appreciate their untiring efforts and unstinted co-operation through rewards and recognition.

- The agency ranking model is used to grade Advisors and monthly medals are awarded based on performance.
- Star performers are recognised with Super Gold, Gold, Silver and Bronze medals at the Annual Sales Convention.
- Star performers are also offered foreign trips or laptop/desktop computers.
 - 34 Advisors and Field Management visited China and Thailand (2009 – 48)
 - 15 opted to receive laptop computers while 20 opted for desktop computers

Brokers

During the year, we maintained win-win relationships with 64 Insurance Brokers. Contribution made by brokers to General Insurance GWP was Rs. 360 million (2009 – Rs. 333 million).

- **Events organised to recognise their support**
 - Beach Rugby Fiesta (participation- ten teams)
 - Broker cocktail for all our Brokers
 - Training programmes for Broker Staff
 - Various other entertainment activities

Bancassurance and the HNB group

Bancassurance model which commenced in 2008 with HNB has shown exceptional performance during the year. This facility is offered exclusively to HNB customers and HNB Assurance has supported the “Financial Supermarket” concept of the Bank by becoming the insurance service provider to its customers at branch level.

- Officers positioned within HNB branches - 98 (2009 – 74)
- Contribution to General Insurance GWP – Rs. 551 million (2009 - Rs. 476 million)
- Contribution to Life Insurance GWP – Rs. 92 million (2009 – 39 million)
- Life Insurance GWP - MRP growth rate 62%
- Life Insurance GWP – Endowment policies growth rate 135%

As seen above, this channel has shown lots of potential for growth and we are fully committed to strengthening and motivating the team through various activities. Blessings of the HNB management team are also a major contributory factor for this exceptional performance.



A tour to China and Thailand for our star performers



Best performer - Sales Convention 2010



Beach Rugby Fiesta for our brokers

Sustainability Report

Some of our commitments during the year to support this channel:

- A Mid-year award ceremony was organised to appreciate the contribution from the entire HNB network and its staff
- Fellowship among HNB staff and our staff is encouraged through regional staff get-togethers
- Partnering with HNB's sustainable development project "Gami Pubuduwa" through our Micro Insurance scheme
- Being an active participant in promotional campaigns carried jointly with HNB Leasing



A Winner at the Mid-Year Awards

Reinsurers

It is our Reinsurers who enable us to accept the risks of others.

Without their continuous support and guidance, we would not have been able to come such a long way in business in a short period like 9 years. We follow stringent criteria in selecting our Reinsurer panel.

• Key criteria used :

- Sound financial strength of the reinsurer
- Reputation
- Minimum financial rating of 'A-' and above given by S & P or AM Best (in excess of IBSL requirement)
- Their presence, experience and abilities in the region
- Relationship maintained with us

Our Reinsurer panel and their credit ratings are given on page 131.

Suppliers

Open and transparent procedures are used in selecting all our suppliers. Strict criteria are used to select suppliers who directly interact with our customers and continuous checks are performed to ensure the quality of their service.

• Assessors - No. of Assessors as at 31st Dec 2010 - 97 (2009 - 90)

- Only qualified degree/ diploma holders are appointed to our assessor panel
- We provide continuous training to enhance their skills
- Camera phones are provided for damage inspections so that images could be transmitted instantly
- Assessor fees are directly credited to their bank accounts for their convenience

• Recommended Laboratories/Hospitals - No. of Laboratories/Hospitals as at 31st Dec 2010 - 134 (2009 - 115)

- Selected through a rigorous process. Selection criteria include;
 - * Inspection and recommendation by Head office/branch
 - * Inspection of certificates
 - * Rates
- Service levels and adherence to instructions checked via random checks and mystery visits by Head office staff

Those found to be performing below the standard expected are removed from the list.

• Recommended Vehicle Repair Centres/Garages - No. of Garages as at 31st Dec 2010 - 52 (2009 - 53)

- Selection after inspection by our Motor Claims Department
- Name boards provided to assist our Customers in identification

Customers

We strive to delight our Customers as they are the key to our existence. They have chosen us as their insurance partner and we consider it our duty to meet their needs or exceed their expectations by offering innovative, customised insurance solutions, professionally with a spirit of caring. This is the prime focus of our Life and General Insurance products and our service levels.

We are committed to provide innovative, customised solutions to our Customers, professionally with a spirit of caring

Engaging Our Customers

- **SMS alerts**
Our Customers are informed of their policy status, renewal due dates, information regarding damage inspection, etc. via SMS (commenced during the year).
- **Customer newsletters**
We send periodic newsletters to keep them updated on Company news.
- **Response to web inquiries**
All inquiries made through our website (via info@hnbassurance.com) are responded to within 24 hours.
- **24 hour Call Centre at our Customer Relations Centre (CRC)**
Our 24 hour call centre at the Customer Relations Centre is established to receive intimations of accidents and telephone inquiries. These will be responded to efficiently and relevant action taken. During the year, we invested heavily in this area to equip our staff with world class facilities in order to ensure service beyond expectations to all our customers or potential customers.

Our CRC helpline is 011-4 883 883.

- **Need analysis prior to issuing Life policies**
Prior to issuing Life Insurance policies, our advisors perform a need analysis to correctly identify customer needs. Comprehensive training has been given to advisors in respect of this area and completion of relevant documentation before issuing policies is compulsory.
- **Cross Functional Product Development Committees**
Customer needs are identified by Cross Functional Product Development Committees and products are developed to cater to those needs. The Company's Actuaries are also consulted in this process prior to the development of the products.

General Insurance

Our General Insurance Customers span from small retail clients who purchase a specific type of policy to large institutional clients whose entire insurance needs are satisfied by a portfolio of our products. In addition to our standard products, we are well equipped to customise products to cater to the exact needs of customers. Our key General Insurance products are given on page 32 to 39 of the Management Discussion and Analysis.

Life Insurance

Our Life Insurance products are designed to offer complete Life Insurance solutions based on the varying needs of customers, ranging from those who seek an attractive return on their long-term investments to seasonal income earners and micro insurance customers. Our key Life Insurance products are given on page 40 to 44 of the Management Discussion and Analysis.

Our Advisors conduct a need analysis prior to selling our Life Insurance products to ensure that we meet the exact needs of our Customers.



Padmasiri Ranawakaarachchi
General Manager (Operations)
Lanka Ceramic PLC

"Our relationship with HNB Assurance dates back to its inception. Initially we selected them due to our longstanding relationship with their parent, HNB but soon we realised their personalised and highly professional service offered at very competitive rates truly exceeds our expectations."

Sustainability Report

Innovation

We are committed to offering innovative products and enhancements to existing products to suit the exact needs of our Customers.

• General Insurance

- 'Navoda' our combined insurance solution for small scale businesses was redesigned with pricing changes to be in line with market rates.
- 'Ran Madura', a policy offering protection for dwelling houses was re-launched as 'Thanga Maligai' for the benefit of our Tamil speaking customers.

• Life Insurance

- This year we expanded the scope of Mortgage Reducing Policies (MRP) which were conventionally offered on long term housing loans, to cover personal loans as well. This is offered specifically for personal loans from HNB; dependants are safeguarded in the case of the Policyholder's death or permanent disability.
- Identifying the need for higher returns on investments amid falling interest rates, we took the initiative to offer the third series of 'Super 4' Single Premium Investment Policy which guaranteed an attractive return on a four year investment along with a life cover and a unique interim payment at the end of two years.
- 'Ran Aswanu' a unique policy which never lapses was re-launched as 'Thanga Aruwadai' for the convenience of our Tamil speaking customers. Designed for seasonal income earners, customers could stop after paying one premium or continue to pay flexible premiums as and when they wish. We also added a critical illness cover to the initial life and disability covers offered.



Re-branding products - Thanga Maligai and Thanga Aruwadai

Service Enhancements

• Online help desk

All inquiries, complaints and suggestions made via email, telephone or fax are channelled through our Customer Relations Centre (CRC) Online help desk. Persons responsible in the particular area will automatically be assigned the task and notifications given to supervisors if service standards are not met, enabling us to maintain a high level of customer service. Initiated first with the Life Division with CRC being responsible for follow up, this will be expanded to General and other divisions in 2011.

• Better service through technology

- Mobile technology – To leverage on the improvements in mobile technology and the popularity of mobile telephone use, several initiatives were taken to serve our customers better.
 - Fast and accurate information is sent to customers via text messages regarding Life policy status, premium notice, Motor renewal notice, etc. Advisors are able to check policy status through SMS inquiry.
 - Text (SMS) alerts to customer and relevant branch officer when claim payment is credited to customer's bank account
- Other Service improvements for our Motor Insurance customers are discussed in detail on page 36 of the Management Discussion and Analysis.
- All Life and General Insurance products have been migrated to the new centralised core insurance application (TCS Bancs). Migration of the Finance module is currently in progress.
 - All types of policies can now be issued from branches enabling us to add value through decentralisation
 - Accurate information is readily available at Head Office and throughout the branch network, enabling a better and faster service



Efficient service from our Motor Claims Department

Island-wide distribution network and service points

- Our customers can now access us through our branch network totalling 51 branches at the year end (2009 – 47) with the addition of four new branches. Our branches are spread out across 23 districts covering all provinces of the country and our presence in the North and East is very strong with 9 branches in the region.
- A total of 98 Bancassurance officers are stationed at HNB branches island wide, which together with our own branches add up to 152 service points for our customers including our Head office, the customer desk at HNB Towers and our Customer Relations Centre (CRC).
- We are able to serve customers through our 1401 strong Field Force, HNB branches in every corner of the country and all insurance Brokers and financial institutions island-wide who are affiliated with us.
- We also relocated 3 branches to more spacious premises whilst expanding another for the convenience of our customers.

- Over 150 service points island wide
- Facility for premium payment from any HNB branch
- Standing order from any credit card
- Standing order from any bank account
- Online via www.hnbassurance.com
- 0% installment plan for HNB credit card holders
- Direct credit of claim payments to bank accounts of HNB account holders
- Updates via text messages (SMS)
- 24 hr call centre and online help desk
- Onsite claim settlements made by our Fast Track Claims Settlement

New Branches	Relocations	Expansions
Nelliady	Galle	Matara
Manipay	Kurunegala	
Thambuththegama	Batticaloa	
Balangoda		

Restructuring the General Division

The General Division was restructured to align underwriting and claims operations with the regional branch structure. Dedicated staff members are assigned to service each region, facilitating a more efficient service to our customers. A fully integrated Motor Claims Department was established by merging the Motor Engineering Department with the Motor Claims.

Talent pool for General Insurance underwriting

Aimed at enhancing the skills and knowledge of our underwriting staff, a talent pool was formed this year with the creation of the General Insurance Academy. Specialised training sessions are conducted by our own experienced senior staff members for Basic, Intermediate and Advanced levels. As this is open to the entire staff of the Company, the knowledge imparted would help enhance service levels to all our Customers.

In addition, pooling data through the intranet has also widened, making our customers the ultimate beneficiary.

Region-wise trainings - General and Life

General Insurance underwriting and claims handling training programmes were organised for all 5 regions of the Company to improve the technical competency and knowledge on claims handling procedure in both Motor and Non- Motor classes.

Life Insurance underwriting and claims handling training programmes were also conducted for branch network staff of all 5 regions.

In addition we also provided trainings on using our new system, TCS Bancs, throughout the country.



Opening of the Nelliady Branch

Sustainability Report



Dhammika Kalapuge

"The mere significance which I noticed while working with HNB Assurance was that setting up this customer service culture was initiated by the CEO and the top management. Moreover, they were present at every programme, which was conducted across the company to all staff members, to assure support and the guidance needed to establish this service culture. The enthusiasm demonstrated by all at all levels at the learning sessions made the fact evident that they are going to achieve the desired response from this initiative. I was pleased that I had the opportunity to associate with such a company that continues to make a difference in the society."

- **Customer service training**

Our commitment to deliver a superior level of service to our Customers was solidified through the training conducted by Mr. Dhammika Kalapuge on Customer Service Excellence, for all our Employees throughout the island. Participation of every employee was mandatory and members of the EXCO were present at all training sessions facilitating a two way discussion on employee concerns and suggestions on customer service. A high level of enthusiastic participation during group work and discussions was a feature of this programme.

- **Focus on the North and East**

As one of corporate strategies in year 2010, we recruited more Tamil speaking employees during the year to focus on customers in the North and East as well as to provide clear communications to all our Tamil speaking customers, whilst better understanding their needs. Now all divisions in the Company have at least one employee fluent in Tamil especially at decision making level. In line with these objectives, job focused Tamil training programmes were also conducted for staff in both executive and non-executive grades.

- **Recruitment of a new Head of Distribution**

We created a new position and recruited a Head of Distribution to lead our distribution network under the guidance of our General Manager, Marketing and Distribution. We believe this would enhance the service levels we provide to our customers in regions by ensuring a closer monitoring of the distribution network.

- **Streamlining claims and payments processes**

We are currently in the process of streamlining and removing bottlenecks in our claims and payments processes which would result in a more efficient customer service.

- **Faster, efficient and accurate claim estimations**

- Assessors are deployed for accident inspections within set standard time frames after intimation (within 30 minutes is the expected standard) and communication between customer, CRC and assessor is made through telephone and text messages.
- Upon inspection and mobile upload of photographs, Assessors use the new data base of spare part prices to provide more accurate claim estimations, enabling our customers to get a realistic idea about the claim amount and the cost of repair.
- We maintain a database of Approved Suppliers island-wide who would deliver spare parts to any garage upon our request.

- **Fair and hassle free claims settlement**

- Our prime responsibility is to support our customers in a spirit of caring when their risks become unfortunate realities. Consequently, we not only honour all claims that are within our terms and conditions but the management considers humanitarian reasons and settles claims even if policy conditions are breached in certain cases. This process is handled through the Claims Panel with the involvement of the top management.
- To relieve customers of the hassle of waiting for or collecting claim payment cheques, we have introduced a direct credit facility to the customers' bank accounts upon their consent. At present this is only offered to HNB account holders but we hope to expand it to account holders in other banks in future. When payments are made we also notify the customer via text messages.

Awareness Creation on Insurance

Creating awareness on the benefits of insurance for individuals or businesses is a key area of concern. Our field promotional staff visit even remote villages to educate the general public - 149 towns and villages (2009 – 199) were covered this year. We visited 5 preschools to convey this message to parents and also visited 3 garment factories to educate their young employees on the insurance needs of youth through a promotional campaign on ‘mylife’. The Company has also committed its support towards the public awareness campaign that will be launched in 2011 by the Insurance Association of Sri Lanka (IASL).



Field promotions

Rewarding Our Customers

Every year we celebrate our anniversary by rewarding a number of customers that matches the number of our anniversary year. During the year, while celebrating our 9th anniversary, 5 Life insurance Policyholders and 4 General Insurance Policyholders became the lucky recipients of return air tickets to popular tourist destinations.



- ‘Sathkara’ a co-branded product with SEEDS, the micro-finance arm of the Sarvodaya Movement, is available for its members. Customers can opt for policies with or without maturity values. Financial benefits are also provided for Policyholders’ children on reaching important milestones in their education.
- ‘Saviya’ is yet another product affordable even to very low-income earners such as estate workers and daily pay casual workers.

Products for Social Benefit

We are committed to uplifting the living standards of fellow citizens, especially those who are low income earners.

- Our Micro Insurance cover offered for HNB’s ‘Gami Pubuduwa’ loans is designed purely with this purpose in mind. Not confining to simply settling the loan amount in case of the Policyholders’ demise, we also pay the entire sum assured to their dependants to tide them over their difficulties.



ප්‍රියන්තිලතා කුමාරි මහත්මිය
(ඔප්පු හිමි - ජෛල රක්ෂණ)

“HNB ඇපුරන්ස් ආයතනයෙන් මට ලැබූ රක්ෂණ ආවරණය නිසා ව්‍යාපාරය දියුණු කරන්න මම ගත්ත ණය මුදල හිතට බරක් වූයේ නෑ. ඒ නිසා හිත නිදහසින් ව්‍යාපාරය දියුණු කරන්න මට හැකි වූනා. අපි වගේ පොඩ් මිනිස්සුන්ට දියුණු වෙන්න පිටුවහලක් වෙත HNB ඇපුරන්ස් වගේ ආයතන අපිටත් රටත් ලොකු ශක්තියක්.”

Sustainability Report



Community

HNB Assurance has gained respect over the years for being a socially responsible corporate citizen, closely partnering the people of Sri Lanka towards common progress. We are unwavering and passionate about lending a helping hand to the community within which we operate, which has contributed tremendously to make us who we are today. We have demonstrated our strong commitment towards society through our efforts to meaningfully enrich lives and meet the needs of the society. We attempt to fulfil our responsibility and duty towards society by means of community investment projects and sponsorships. We proudly say that our Company has built a trusting and steadfast relationship with all communities over the years.

While our core business of insurance is in itself a responsibility towards society, we have also made significant contributions to a variety of segments in society through our initiatives in education, health, and arts and culture.

As a socially responsible corporate citizen we are committed to catering to the needs of our Community. We are committed to facilitating basic needs such as water, education and health. Promoting arts and culture is another core focus.

Engaging with Our Community

We engage with our community in different ways. A vastly expanded distribution network and advisor force, activities and initiatives through visits made by our propaganda vehicle island wide, our website and regular press releases are a few of our customer engagement points. Community needs are identified through all these sources and we intervene where possible to fulfil them.



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“අප ජලය ලබාගන්නේ පාසලේ තිබෙන පොදු ලිඳෙන්ය. මෙම ලිඳේ ජලය පායන කාලයට සිඳී යයි. එවිට අප ජලය ලබාගන්නේ පාසල අවට නිවෙස් වලින්ය. මේ ලිඳෙන් ජලය ලබාගැනීමට කුඩා ළමුන්ට අපහසුය. කුඩා නංගිලා මල්ලිලා ජලය ලබාගැනීමට යනවිට ඔවුන්ගේ බෝතල් ද ලිඳට වැටුණි.

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K/Iddamalpana Maha Vidyalaya Kegalle

K/Iddamalpana Maha Vidyalaya is the alma mater of around 260 girls and boys in the Kegalle District. Although the students of this school are eager learners, their school could only provide them with very basic facilities; even the drinking water was collected from a nearby spring. These children and their teachers had no way of storing the water or using it in a convenient manner due to the lack of a water tank and a proper pipe borne water system.

As a continuation of our initiative to provide water to needy schools, we at HNB Assurance decided to step in and provide these children with this basic facility.

Now, every section of the school has access to water through pipe lines and a water tank is also available. The magnitude of the importance of this facility is best displayed by the students forming a "Water Management Committee" to protect this facility.

A Drop of Water

In 2008, we set 'making clean water and sanitation accessible to under privileged schools in the country' as a CSR goal of HNB Assurance. Since then, providing clean water to quench the thirst of students in remote schools has become one of the major ongoing community projects of our Company. We screen remote schools where students have no access to purified drinking water and take measures to establish a supply of water to fulfil this basic need.

During the year in review, we came forward to facilitate safe drinking water to five needy schools, a project from which their students have benefited enormously.

In Moneragala, we provided safe drinking water to the Muthukandiya Kanishta Vidyalaya which our Moneragala branch identified as a school in need of our assistance. Around 130 students at this school were forced to use deep wells to meet their water requirements. We constructed a water supply line connected to the main line and installed taps and sinks which has helped the children to avoid the dangers associated with drawing water from such deep wells.

In Kilinochchi, we targeted the Kilinochchi Hindu Primary Vidyalayam, which is the main primary school in the vicinity and is home to 390 students. The school was displaced during the war and has only found a permanent resettlement recently, but it continued to be deprived of basic facilities. The deep well they had on the premises was not at all suitable for primary students and getting water for day to day needs had become a challenge to these small children. We were able to install taps and other facilities in the school so that these young students were no longer deprived of this basic need.

In Anuradhapura, we provided safe drinking water systems to Vellaragama Kanishta Vidyalaya and Thiriyankulama Vidyalaya, two schools catering to the educational needs of around 200 students in total. Most of the students in these two schools are from very low income earning families who have no means to assist in the development of the schools. Through our initiative both schools now have proper water supply lines and water storage facilities from which the students benefit immensely.

We also helped K/ Iddamalpahana Maha Vidyalaya, Atala which is a school providing education to around 260 students in the Kegalle district. This school had no pipe borne water system or even a tank to store the water collected from a nearby spring.

Education

Education is a prerequisite to building a harmonious society; it opens the doors for better prospects in life and in careers. Thousands of underprivileged students face many obstacles to their education due to a lack of resources and we are committed to help at least some of these students with an opportunity to improve their lives through better education. Our Kalutara branch staff identified 28 such deserving children at Ukgalbooda Maha Vidyalaya, Kalutara and donated all the books and equipment they required to commemorate the 10th anniversary of the branch.

St. Mary's Pre School, Seeduwa is another such centre of education which was identified as a place in need of financial



Happy faces at play – Children's Park at G/Dombagoda Maha Vidyalaya

Sustainability Report



Upali Senanayake

*Principal, G/ Dombagoda Maha Vidyalaya
Tiththagalle, Ahangama*

"After the renovation of our Children's Park, our students come to school more eagerly and spend their school hours with greater enthusiasm. This has also helped a rapid development in our school whilst adding beauty to the school grounds."



Mohamed Zawahir

*Secretary General
United Nations Association of Sri Lanka*

"Being the principal sponsors of this event HNB Assurance PLC has always come forward in making this event a success particularly at a time when our country was going through business difficulties. This clearly outlines the commitment of this organisation and their people towards creating people of value to the progress of our nation. This is a towering strength to all of us at the Association not only for their valuable financial contribution but also in the active involvement in organising an event of this magnitude."

assistance. Upon a request made by the Zonta Club III of Colombo, we identified that the pre-school was at risk of being shut down due to lack of funds. The school provides high quality pre-school education at a comparatively low fee of Rs. 300/- per month and therefore attracted a vast number of underprivileged students whose parents were unable to afford even the low fees levied. We took measures to lend a hand by providing financial assistance to run the preschool for a period of one year.

Children's Park

Children's recreation is also given top priority in our community investments. We focus on children in remote areas not only to enrich their living standards, but also to bring a smile to their little faces. One such initiative was to refurbish and improve the facilities at the children's park of G/ Dombagoda Maha Vidyalaya which was in bad condition. The delighted little faces enjoying the newly opened park reflected the impact it had on them.

Helping the Differently Abled

We believe we have a duty to provide opportunities to differently abled children to be treated with equality and inclusivity. The Company looked in to the needs of the children at the Nuffield School for the Deaf and Blind in Kaithadi, Jaffna and found that many of them did not have proper facilities for a good night's rest. We stepped in and facilitated the provision of 25 beds and mattresses to enhance the comforts available to these children.

UN Day

The 65th UN Day Celebration held in Colombo was sponsored by HNB Assurance for the 6th consecutive year with Honourable Prof. G. L. Peiris, Minister of External Affairs as the chief guest and Mr. Neil Buhne, Resident Representative of the United Nations as the guest of honour. A large number of children representing all parts of the island were recognised for winning oratorical, essay and quiz competitions held by the United Nations Association of Sri Lanka. We are humbled by our ability to bring happiness to a large gathering of students by this action, which has now become an annual event in the HNB Assurance calendar as well.



A good night's rest for the differently abled



Arts and Culture

Throughout the years we have proven our passion and commitment towards the protection and promotion of Sri Lankan Arts and Culture. We firmly believe that the arts and culture lay a solid foundation for a civilized society, instilling and sharpening human values and moulding good citizens, paving the way for an enlightened society. Therefore, we have made a serious effort to encourage and uplift arts and culture in Sri Lanka.

For the 3rd consecutive year we made our sincere contribution to ‘*Pehesara Kala Ulela*’, which is an event organised by a group of volunteers in Thawalama, an extremely remote area in Galle district.

We also continued to extend our generous support to Lanka Children’s and Youth Theatre Foundation (LCYTF) which strives to inculcate positive values in children and youth through the creative arts. This year’s Youth Drama Festival featuring three award winning stage dramas – *Vikurthi*, *Gladiator Premaya* and *Sanda Langa Maranaya*, was held at Lionel Wendt Theatre and attracted a large gathering.

The Company co-sponsored the 5th mega album, ‘*Sara Sihina*’ by our brand ambassadors, Bathiya & Santhush. This album featuring Bathiya & Santhush along with renowned Indian artistes Asha Bosle and Hariharan is a valuable contribution to the music industry in Sri Lanka and was launched at a well-attended event.

Media coverage of the Chennai Vesak celebrations organised by the Mahabodhi Society was sponsored by the Company considering the importance of this religious as well as cultural event. Donations to places of worship of all major religions in the country were also made during the year.



Somalatha Subasinghe

Founding Director of Lanka Children’s and Youth Theatre Foundation

“At a time when the commercial sector in Sri Lanka was almost reluctant to support the artistic national culture of the country, the gesture of sponsorship by HNB Assurance to us is greatly encouraging and so we the LCTYF has been able to tread forward with our regular service to the cause of children and youth theatre of the nation as well as theatre at large. The regular annual festival is a symbol of appreciation and recognition artistes need and it has carried to the nation the message of invaluable contribution theatre can make to the development of the younger generation. Our sincere gratitude and appreciation to the aesthetic and humane vision of HNB Assurance.”

Sustainability Report



Donations to places of worship



An evening of classical music - SWARA

Further, our Welfare Society organised “SWARA”, a concert featuring four renowned Sri Lankan classical artistes, Neela Wickremesinghe, Amarasiri Peris, T. M. Jayaratne and Victor Ratnayake with music by Suresh Maliyadda and team, especially for the fans of classical music. The event was held at the Ananda College auditorium with the participation of about 800 music lovers.

Health

In keeping with our tradition of helping to save lives by supporting the National Blood Bank, we organised a blood donation campaign for the 5th consecutive year. Our sincere appreciation goes to the 203 noble donors who participated in this life saving event.

We also donated medical equipment to the Paediatric Ward of the General Hospital, Kegalle. This hospital is the main hospital in the district from which patients from all parts of the district including remote villages benefit. Renovation of the surgical ward of the Jaffna Hospital started last year was also completed this year.

Further, we offered a sponsorship for the Annual Fund Raiser of Mahamaya Girl’s College Past Pupils Association (Colombo Branch) to be utilised towards the needs of the Nephrology - Renal Transplant Unit of the Teaching Hospital Kandy. This hospital is presently the largest facility in Sri Lanka that has a regular renal transplant programme.

Pehesara Kala Ulela

We sponsored the ‘Pehesara Kala Ulela’, a touching event organized by a group of volunteers in Thawalama, an extremely remote area off Galle. Amidst great financial difficulties, this annual event is organized with a genuine wish to inspire the rural community to get involved in arts and culture and thereby identify and sharpen their own skills and talents. At the same time, three renowned artistes - Lucian Bulathsinhala, Jayalath Manorathne and Nissanka Diddeniya - were recognised for their invaluable contributions towards the enrichment of performing arts



Medical equipment for the Kegalle Hospital

Also, our welfare society undertook to install a shelter at the entrance to the Medical Intensive Care Unit of the Paediatric Ward of the Lady Ridgway Hospital, which will be completed within the current year.

Our Company also participated in the 2010 Colours of Courage Cricket Tournament organised by the Colours of Courage Trust to support the National Cancer Institute. The National Cancer Institute, Maharagama is the only government owned hospital in Sri Lanka where patients from all over the island come for medication for this serious illness and therefore continued support for this institution is vital to provide adequate facilities to their needs.

Entrepreneurship

We acknowledge the need to recognise and reward Sri Lankan entrepreneurs to encourage to contribute positively to the country’s economy. Thus, we partnered with the Federation of Chambers of Commerce and Industry of Sri Lanka (FCCSL) by sponsoring the “Young Entrepreneur of the Year” awards category of the Sri Lankan Entrepreneur of the Year, 15th Annual Awards. In addition to the National level winners, Regional Entrepreneurs were also recognised at 4 provincial level awards ceremonies covering all provinces of the country held in Vavuniya, Ratnapura, Kurunegala and Hambantota in collaboration with Regional Chambers of Commerce. The gala national event at which Mr Richard Jayatissa Managing Director of Richard Trading Company (Pvt) Ltd. was crowned the Sri Lankan Entrepreneur of the year 2010 and Mr D Marlon Ferreira of Exterminators (Pvt) Ltd. was recognised with the Young Entrepreneur of the year 2010 award was held at the BMICH under the auspicious of the Honourable D.M. Jayaratne, Prime Minister of Sri Lanka.



Sri Lankan Entrepreneur of the Year Awards - 2010

Environment

As an insurance service provider, drastic changes in the environment leading to heavy rains, floods or droughts present challenges to our business operations. We are committed to safeguarding our environment not merely because of this reason, but also because all of us have a duty to protect our environment which gives life to all earth’s living beings. No fines or sanctions were imposed on the Company for non-compliance with environmental laws and regulations during the year.

We strive to conduct our business activities in an eco-friendly manner and aid in safeguarding our environment.

Energy Saving Initiatives

We continue to implement and improve on the energy saving initiatives started last year, and have also rolled out some new initiatives this year:

- Removal of one 20w fluorescent tube each from all three panelled fittings
- Only laptops or computers with LCD monitors which consume less energy are purchased upon new computer requests
- Replacement of monitors with LCD screens
- Automatic switching off of monitors to standby mode after a specified time
- Virtualisation of servers to maximise energy saving.
- Switching off of all unnecessary lights and air conditioners after standard office hours.
- Fixing standard times for staff transportation after late work, saving fuel

Conservation of Trees

We aim to reduce the number of trees that are being felled because of our actions and the initiatives taken include;

- Strict use of reusable envelopes for all internal communications (each envelope can be used up to 40 times)
- Using both sides of paper and recycling used paper - we entered into an agreement with Neptune Papers (Private) Limited to collect and recycle our used paper towards the latter part of the year. Savings from the said initiative within a short period of time in the current year are shown in the table.



Dr. Ananda Gunasekara
Director
National Blood Transfusion Services

“It’s with great pleasure that we inform you that, we at the National Blood Transfusion Services regard, HNB Assurance and its employees as a valuable asset to the National Blood Bank. Their enthusiasm and commitment in organising annual blood donation drives through the past five years are very much appreciated as it helped us to find much needed blood donors and to save many lives.”

Type	Savings made
Trees	41
Water	78,337 litres
Electricity	9860 Kilowatts
Oil	4326 litres
Landfill	7 cubic metres

Sustainability Report



Green IT

We continue leveraging on technology and conform to the concept of Green IT to transform our business operations to an eco-friendly platform. Several steps were taken to use information technology and communication systems efficiently and effectively in order to reduce the impact on the environment.

- 7 servers were virtualised during the year, and 23 more servers are identified for virtualisation
- Minimising paper usage through a department-wise request tracking system (online help desk) which eliminates the need to maintain duplicate copies and to maintain printouts of requests made via email
- Paper size unification to reduce paper wastage and the need to use several types of printers, thereby conserving energy.
- Conversion to e-docs with the adoption of TCS Bancs, eliminating the need to print documents thereby saving paper, energy and storage space
- Leave application system in Head office is now computerised and completely paperless
- Communication with both internal and external parties is made via email on all possible occasions, saving both paper and energy
- Mobile photo upload facility used by 31% of our assessors renders the development of photos unnecessary, thereby reducing the release of harmful chemicals to the environment and saving energy in the process
- Adoption of workflow driven requests and approvals for internal processes is currently initiated to eliminate the use of paper and energy, while minimising the usage of storage space via the introduction of e-documents
- We hope to expand the request tracker to other divisions and build a remote receipting facility in 2011 along with more server virtualisations

Conservation of Eco-systems

In addition to the initiatives taken to protect our environment in our day to day operations, this year we decided to get actively involved in environmental conservation outside our business activities. This will be implemented through the erection of sign boards around the Bolgoda Lake Environmental Protection Area. The objective of this initiative is to create awareness among the peripheral community about the legal status and the importance of conserving this eco-system which is the largest natural water body in the Western Province of Sri Lanka. The Bolgoda Lake system has also been declared as an Environmental Protection Area by the Central Environmental Authority upon whose request this initiative was launched.

Key Performance Indicators

Stakeholder	Indicator	2010	2009	2008
Customers	Number of active policies			
	General Insurance	195,439	129,796	75,559
	Life Insurance	79,321	70,485	65,982
	Value of Insurance Claims and Benefits – net (paid and outstanding)	Rs.648 million	Rs.512 million	Rs.408 million
	Number of branches	51	47	43
	Number of new products	3	3	Nil
	Our staff located in HNB Branches	98	74	29
	Number of customers who won return air tickets	9	8	7
	Maximum rate of Bonus to life policyholders (per Rs. 1,000/- sum assured)	Rs.50/-	Rs.45/-	Rs.40/-
	Percentage of onsite claim inspections	97%	96%	73%
	Number of employees given training on customer service	All employees	40	46
	Number of villages/towns visited by our propaganda vehicle	149	199	120
	Number of customer news letters	1	1	1
	Customer feedback surveys	-	1	-
	Number of web inquiries	787	553	10
	Number of customer complaints received	365	429	284
	Number of customer complaints settled	284	319	229
Number of third party cases settled	23	4	2	
Employees	Number of employees	597	540	457
	Employee forums			
	CEO's forum	6	9	4
	Management Meetings	4	3	4
	Distribution Management Meetings	5	5	6
	Employee recognitions			
	Chairman's Awards	7	7	7
	Five year completion awards	29	22	51
	Number of Employees who received assistance for Insurance examinations	42	68	78
	Employees eligible for insurance covers	100%	100%	100%
	Number of employees appraised (all confirmed employees are appraised twice a year)	430	395	345
	Attendance at the Staff Conference	97%	96%	96%
	Employees' participation at in-house, out bound, local - external and overseas training programmes are available on	Page 72	Page 72	-
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Stakeholder	Indicator	2010	2009	2008
	Employee Distribution			
	Western Province	63%	65%	70%
	Other Provinces	37%	35%	30%
	Number of "Puwath" Magazines	2	1	2
	Employee turnover	24%	16%	18%
Business Partners				
Insurance Advisors and the Field Management	Number of training programmes offered to Insurance Advisors			
	Sinhala Medium	151	46	66
	Tamil Medium	36	15	06
	Number of Insurance Advisors and the Field Management (Decline is due to termination of advisors who have not passed the SLII Examination in line with the IBSL rule)	1,401	1,546	2,200
	Number of full time trainers	6	4	3
	Pass rate for Life Insurance Technical competence test (by SLII)			
	Sinhala Medium	81%	83%	78%
	Tamil Medium	61%	53%	55%
	Commission paid to Field staff	Rs. 181 million	Rs. 167 million	Rs. 186 million
Insurance Brokers	Number of training programmes conducted	1	5	3
	Commission paid to Brokers	Rs. 44 million	Rs. 39 million	Rs. 15 million
Suppliers	Total Premiums to Reinsurers	Rs. 450 million	Rs. 454 million	Rs. 389 million
	Number of recommended garages	52	53	40
	Number of recommended Laboratories/ Hospitals	134	115	127
	Number of Assessors	97	90	89
	Fees Paid to Assessors	11 million	Rs. 10 million	Rs. 7 million
Community	Total investment on community	Rs. 2 million	Rs. 2.6 million	Rs. 2.3 million
	Number of Micro insurance policies issued during the year	2,141	1,689	3,227
Environment	Electricity Consumption at Head Office	535,154 units	429,541 units	479,528 units
	Further initiatives taken on Electricity Savings			
	Number of Laptop Computers purchased	16	21	17
	Number of Flat Screen Computers purchased	68	57	21
	Number of SMS based services	12	6	Nil
	Server Virtualisations (as at year end)	17	10	Nil
Shareholders	Earnings Per Share	Rs. 6.45	Rs. 5.38	Rs. 4.39
	Market price Per Share	Rs. 78.00	Rs. 49.50	Rs. 18.25
	Dividend Per Share	Rs. 1.80	Rs. 1.50	Rs. 1.25
	Market Capitalisation	Rs. 2,925 million	Rs. 1,856 million	Rs. 694 million
	PE Ratio	12.10 times	9.21 times	4.16 times

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EC1	Direct economic value generated and distributed	R	64 - 65
EC2	Financial Implications due to Climate Change	R	91 - 92, 130
EC3	Coverage of the organisation's defined benefit plan obligations	R	75
EC4	Significant financial assistance received from Government	R	65
EC5	Standard entry level wage compared to local minimum wage (additional)	R	74
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit	R	86 - 91
EC9	Significant indirect economic impacts (additional)	R	65 - 92
	Environmental Performance Indicators		
	Disclosure on Management Approach		62 - 63, 91 - 92
EN4	Indirect energy consumption by primary source	R	94
EN5	Energy saved due to conservation and efficiency improvements (additional)	NM	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved (additional)	R	91 - 94
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	R	91
	Social Performance Indicators : Labour Practices & Decent Work		
	Disclosure on Management Approach		62 - 63, 68 - 92
LA1	Breakdown of total workforce	R	69
LA2	Employee turnover	R	70
LA3	Benefits provided to full-time employees that are not provided to temporary/part-time employees (additional)	R	68 - 76
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	NM	
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees (additional)	R	76
LA7	Rates of injury, occupational diseases, lost days and absenteeism, and of work-related fatalities by region	NM	
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	NM	
LA10	Average hours of training per year per employee (additional)	R	71
LA11	Programmes for skills management and lifelong learning	R	71 - 74
LA12	Employees receiving regular performance and career development reviews (additional)	R	74, 93
LA13	Employees according to diversity	R	69
LA14	Basic salary of men and women	R	74
	Social Performance Indicators: Human Rights		
	Disclosure on Management Approach		62 - 63, 68 - 92
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	NM	
HR4	Total number of incidents of discrimination and actions taken	R	75
HR6	Operations identified as having significant risk for incidents of child labour	R	75
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour	R	75

Sustainability Report

Index No:	GRI Indicator	Status	Page No:
Society Performance Indicators			
	Disclosure on Management Approach		62 - 63, 68 - 92
SO2	Percentage and total number of business units analysed for risks related to corruption	R	136
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	R	100%
SO4	Actions taken in response to incidents of corruption	R	None reported
SO5	Public policy positions and participation in public policy development and lobbying	R	Participation through IASL and CCC
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions (additional)	R	No contributions made
SO7	Legal actions for anticompetitive behaviour, anti-trust, and monopoly practices (additional)	R	None reported
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	R	None reported
Product Responsibility Performance Indicators			
	Disclosure on Management Approach		62 - 63, 68 - 92
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	R	Provided on product brochures
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling (additional)	R	None reported
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction (additional)	R	84
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	R	Complied with all laws
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 (additional)	R	None reported
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (additional)	R	None reported
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	R	None reported

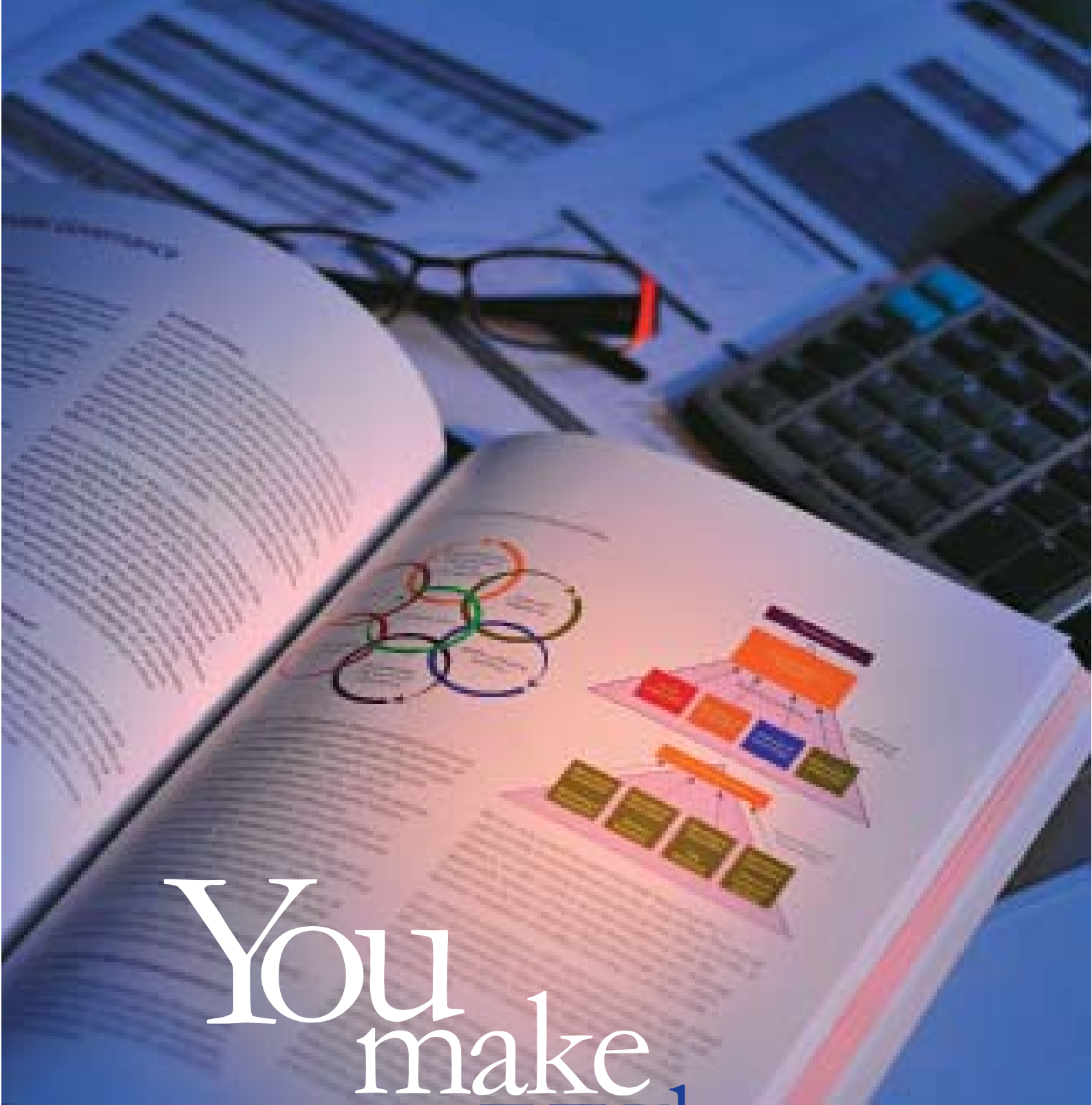
R - Reported **NM - Not Material**

Following sections of the GRI Guidelines are not reported as they are not applicable to HNB Assurance PLC.

Economic Performance Indicators: EC6, EC7
 Environmental Performance Indicators: EN1 - EN3, EN6, EN8 - EN27, EN29 - EN30
 Social Performance Indicators: LA4, LA9, HR1, HR3, HR5, HR8, HR9
 Society Performance Indicators: SO1
 Product Responsibility Performance Indicators: PR1, PR2

Report Application Levels

		C	C+	B	B+	A	A+
Mandatory	Self Declared			√			
Optional	Third Party checked						
	GRI checked						



You
make
us **Who**
We are

**Corporate Governance
& Risk Management**

Corporate Governance

What is Good Governance?

Governance is the act of exercising power and decision-making for a group of people. It happens everywhere – from urban centres to rural villages – and the well-being of a community depends on the choices made by those people who are vested with the authority to govern.

Good Governance has become a widely discussed subject today in every corner of the world. Good governance is, in short, a situation in which authority and its institutions are accountable, effective and efficient, participatory, transparent, responsive, consensus-oriented, and equitable. In recent years, the need to institutionalise strong governance systems in both the public sector and private enterprise has become a widely discussed subject. It is commonly agreed that good governance is integral to economic growth, the eradication of poverty, hunger and inequality, and sustainable development. **For good governance to exist in both theory and practice, citizens must be empowered to participate in meaningful ways in decision-making processes.**

Good governance is a prerequisite for the effective and efficient functioning of every government, corporation, NGO, society, association, etc. Thus, Governance within an entity can definitely contribute towards enhancing the overall performance of an organisation.

What is Corporate Governance?

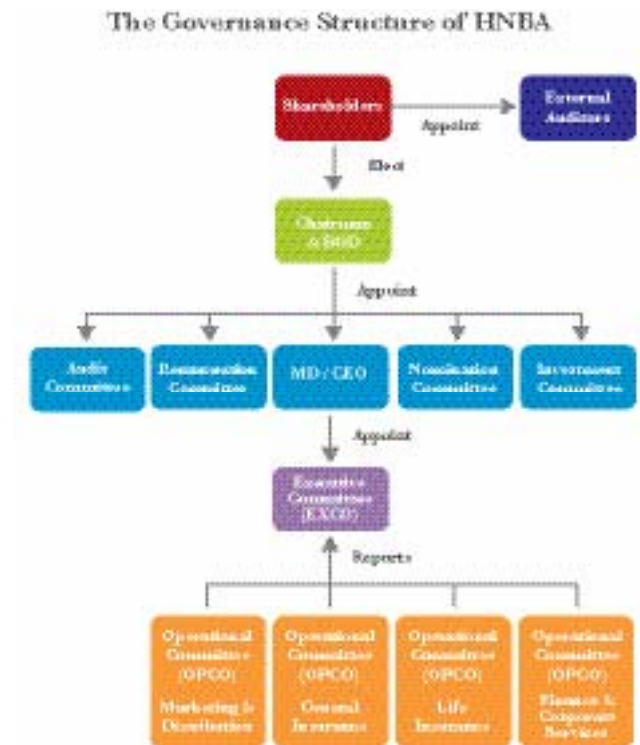
Corporate Governance deals with the manner in which rights and responsibilities are shared among the managers, directors and shareholders of a corporate entity. The exact structure of how Corporate Governance is carried out will determine what rights, responsibilities and privileges are extended to each of the corporate participants, and the degree to which each participant may enjoy those rights.

In essence, Corporate Governance revolves around ensuring that the objectives of all stakeholders of a corporate entity are considered and reasonably met. **At HNB Assurance, we believe in Corporate Governance as a pillar of success and thus take all possible measures to make sure all stakeholders are recognised equitably.** This commitment of caring for everybody is ingrained even in our Vision, which is “to be Sri Lanka’s most admired and trusted partner in meeting insurance needs professionally with a spirit of caring”.

In pursuing the Corporate Objectives, we are committed to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity and respect for others. Our approach to Governance is firmly based on the belief that Good Corporate Governance is the glue that binds responsible business practices,

which ensures positive workplace management, marketplace responsibility, environmental stewardship, community engagement, and sustained financial performance.

The following diagram depicts the Governance Structure of HNBA.



The Board of Directors (BOD), as the body responsible to stakeholders for the sustainable development of the Company, recognises Corporate Governance as one of their most critical responsibilities. Accordingly, the Board together with the management has proven their commitment to effective Corporate Governance through several measures, such as -

- Forming a Board comprising professionals who have vast knowledge and experience in different areas of expertise
- Appointing three Independent Non-Executive Directors out of eight Non-Executive Directors, which is over and above the regulatory requirement
- Ensuring substantial compliance with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities and Exchange Commission of Sri Lanka (SEC), and full compliance with the Rules on Corporate Governance published by the Colombo Stock Exchange (CSE).

- Assigning board responsibilities to four Board Sub Committees, to make sure that the Board oversees the Company’s operations effectively and demonstrates the commitment to transparency in all dealings. Such committees are;
 - **Audit Committee**
 - **Nomination Committee**
 - **Remuneration Committee**
 - **Investment Committee**
- Introducing ‘Audit Committee evaluation procedures’ to improve the performance of the Audit Committee. Performance of the Audit Committee was evaluated by the members themselves and the Executive Committee.
- Performing a voluntary Interim Audit (though not mandatory) for the six months ended 30th June 2010 to obtain an independent opinion on Company’s financial performance and internal controls
- Publishing the Company’s Quarterly Financial Statements in newspapers and circulating same to all shareholders even though it is no longer a mandatory requirement
- Complying with all laws applicable to the Company and settling all taxes and dues to regulatory authorities on time without a single exception
- Encouraging all members of the Company to demonstrate integrity and transparency in all their activities both at Company and personal level.

The Company’s commitment to Corporate Governance was further affirmed when our Corporate Governance disclosures in the Annual Report of 2009 won us second place in the Corporate Governance Disclosure category at the South Asian Federation of Accountants (SAFA) Best Presented Accounts Awards 2010 held in Kathmandu, Nepal.

At HNBA, it is our belief that compliance with Corporate Governance requirements demonstrates the Company’s commitment to transparency and accountability. We also believe that it supports us to stay strong and to grow rapidly in a highly competitive and dynamic environment. Better Corporate Governance makes our business better managed and directed in a more transparent and accountable manner, which in turn makes us more attractive to our stakeholders.

Our Compliance with the Laws

As discussed above, we have taken every possible action to ensure compliance with the Laws and Best Practices on Corporate Governance. **We are very proud to say that HNBA is substantially compliant with the code of best practice on Corporate Governance issued jointly by the SEC and ICASL. In addition, we have achieved fully compliant status with the applicable sections 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 is outlined below. We have also included a table which summarises the Company’s compliance status with Rule No. 7.10 of the Listing Rules of the CSE on pages 124 and 125.

We trust that this Report will assist you to gain a better understanding on how Corporate Governance works at HNB Assurance PLC. **As an organisation which believes in transparency and accountability as the key to success, we welcome your valuable feedback as it is important for us to continuously improve our Corporate Governance framework. Please contact us on;**

E-mail	-	info@hnbassurance.com
Address	-	HNB Assurance PLC 10, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.
Website	-	www.hnbassurance.com

Compliance with the Code of Best Practice on Corporate Governance Issued Jointly by the SEC and the ICASL

The above code was issued in 2008 with the objective of establishing good Corporate Governance practices in Sri Lanka. The code deals with six key areas which a Company should focus on when developing the Corporate Governance structure of that company.

- A. Directors
 - B. Directors’ Remuneration
 - C. Relations with Shareholders
 - D. Accountability and Audit
- } Focuses on the Company
- E. Institutional Shareholders
 - F. Other Investors
- } Focuses on the Shareholders

As discussed above, HNB Assurance is fully committed to be compliant with the Code. During the last few years, the Company has been taking a number of initiatives in order to achieve this target and at present it is substantially complete. The Company’s commitment to compliance with the Code is discussed below in detail, under each of the criteria required by the Code. We continuously review our Corporate Governance principles and practices not only to improve our Corporate Governance framework but also to ensure that it remains relevant.

Corporate Governance

A Snapshot of HNBA Level of Compliance with the Code of Best Practice on Corporate Governance



HNBA is committed to an effective governance procedure, in order to provide benefits to our stakeholders. Our structures, rules and processes are designed to facilitate proper organisational conduct within the Company. The above diagram depicts a Snapshot of the level of compliance of HNBA 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 (ICASL). The Company's commitment to comply with the above code is discussed in detail from pages 103 to 119.

HNBA Compliance with the Code of Best Practice on Corporate Governance issued jointly by the SEC and ICASL

Section No.	Principle	Compliance Status	Company's Commitment
1	THE COMPANY		
A	DIRECTORS		
A.1	THE BOARD		
	Every public company should be headed by an effective Board.	Compliant	The Board comprises nine Directors including Executive, Non-Executive and Independent Non- Executive Directors. The Managing Director is the only Executive Director on the Board.
	<p>The names of the Directors of the Company who held office as at the year end, together with a brief description of their profiles are presented on page 12 to 14, of this Annual Report.</p> <p>The Board's main role is to provide entrepreneurial leadership to the Company through a prudent and effective process. The Board has delegated the responsibility and the authority to achieve the corporate objectives to the Managing Director/CEO.</p> <p>The Board monitors the decisions and actions of the Managing Director/CEO and the performance of the business to gain assurance that progress is being made towards the achievement of corporate objectives.</p> <p>Key performance indicators are used to monitor the progress at Board meetings held every month.</p>		
A.1.1	The Board should meet regularly (at least once every quarter).	Compliant	The Board meets once a month to review the Company's performance and to determine whether its strategies and business practices are in line with the expectations of the Board as well as other stakeholders. It may hold additional meetings as and when necessary.
	<p>During the year the Board met on 12 occasions.</p> <p>The following sub-committees also meet on a regular basis.</p> <ul style="list-style-type: none"> • Audit Committee (5 times) • Remuneration Committee (2 times) <p>The number of Board meetings and subcommittee meetings held during 2010 together with individual attendance of board members is given on page 147.</p>		
A.1.2	The Board should, <ul style="list-style-type: none"> • ensure formulation and implementation of a sound business strategy. 	Compliant	The Board has taken the full responsibility for the overall success of the Company. The Board is involved in formulating the overall strategy and makes sure the same is implemented through the MD/CEO.
	<p>MD/CEO together with the management team develops corporate strategies, annual budgets, and the business plan in line with the overall strategy for each year. The corporate plan is approved by the Board every year and achievement of the objectives set in the plan is monitored very closely by the Board.</p> <p>A Non-Executive Director sits with the management every quarter and reviews the effectiveness of implementation of the set strategies.</p>		
	<ul style="list-style-type: none"> • ensure that MD/CEO and the management team possess the necessary skills, experience and knowledge for effective implementation of the strategy. 	Compliant	The Board actively works to ensure that MD/CEO and the management team continue to have the right balance of skills, experience, and knowledge necessary to discharge their responsibilities in accordance with the highest standards of governance.
	The Board gets involved in the recruitment of the senior management, paying due attention to knowledge, skills and experience.		

Corporate Governance

Section No.	Principle	Compliance Status	Company's Commitment
	<p>The qualifications of the MD/CEO, Executive Committee (EXCO) members and the Management Team are provided on page 15 to 17.</p> <p>During the year, the Executive Committee (EXCO) was strengthened by increasing its composition from four members to seven members. New members brought into the EXCO are;</p> <ul style="list-style-type: none"> - Head of IT - Head of Corporate Business Development - Head of Finance <p>In addition, the Company recruited a new Head of Distribution during the year to strengthen the management of the distribution network.</p>		
	<ul style="list-style-type: none"> • adopt effective CEO and senior management succession strategy. 	<p>Compliant</p>	<p>Succession plans are in place for all members of the senior management and have been tabled at a meeting of the Remuneration Committee. The key aspect of the succession plan is to develop internal people in order to ensure that there are adequate options available internally to replace key personnel when required to ensure smooth transition and business continuity. The Company culture is designed to identify and develop internal personnel to fill key positions whenever possible.</p>
	<ul style="list-style-type: none"> • ensure effective systems are in place to secure integrity of information, internal controls and risk management. 	<p>Compliant</p>	<p>Effective systems and procedures are in place to ensure 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 in relevant areas.</p> <p>Also, effective mechanisms are in place to identify, assess and manage/mitigate risks faced by the Company. Please refer the Risk Management section on page 127 to 138 for further information.</p> <p>The Board monitors this process closely through the Audit Committee and the Investment Committee.</p>
	<ul style="list-style-type: none"> • ensure that the Company activities are conducted in compliance with laws, regulations and ethical standards. 	<p>Compliant</p>	<p>The Board ensures that the Company adheres to the highest ethical standards in compliance with all statutory requirements.</p> <p>The Company has appointed a Manager - Legal and Compliance, who reports to the Audit Committee on a quarterly basis for continuous monitoring of the level of compliance with laws and regulations.</p> <p>A compliance checklist covering all applicable laws and regulations is signed off by the management on a quarterly basis and tabled at the Audit Committee meetings.</p> <p>The Company has also issued a Code of Ethics applicable to all employees. Refer pages 117 and 118 for details.</p>
	<ul style="list-style-type: none"> • ensure that all stakeholder interests are considered in corporate decisions. 	<p>Compliant</p>	<p>The Board ensures that the rights of all stakeholders are considered and safeguarded in making corporate decisions. Details are discussed under Sustainability Reporting on pages 56 to 98.</p> <p>As a measure of the Company's success in this regard, the Company was awarded second place in the Small Scale category at the ACCA Annual Sustainability Reporting Awards 2010.</p>

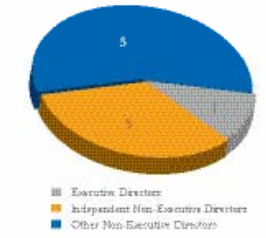
Section No.	Principle	Compliance Status	Company's Commitment
	<ul style="list-style-type: none"> ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations. 	Compliant	<p>The Company's accounting policies are fully in line with Sri Lanka Accounting Standards. Accounting policies are reviewed annually to be in line with the changing business requirements, evolving international and local accounting standards and best practices in the industry.</p> <p>There were no changes in accounting policies during the year under review.</p> <p>However, the Institute of Chartered Accountants of Sri Lanka has issued a new Volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2012. These will have a significant impact on the Company's financials. The management is in the process of reviewing and measuring the impact of these standards on the Company.</p> <p>Please refer Independent Auditor's Report which affirms that the Company's Financial Statements are in line with Sri Lanka Accounting Standards, given on page 157.</p> <p>In addition, significant emphasis is placed on compliance with applicable financial regulations such as IBSL rules and determinations, CSE and SEC rulings, CBSL rulings etc.</p>
	<ul style="list-style-type: none"> fulfil other Board functions that are vital, given the scale, nature and complexity of the business concerned. 	Compliant	<p>The Board takes all its decisions paying due attention to the interests of all stakeholders. Also the Board intervenes where necessary in any other function that is vital, given the scale, nature and the complexity of the Company's business.</p>
A.1.3	<p>The Board collectively, and Directors individually, must act in accordance with the laws of the country. Also there should be a procedure for Directors to obtain independent professional advice where necessary.</p>	Compliant	<p>As mentioned above, the Board is collectively and individually devoted to ensure full compliance with all laws and regulations applicable to the Company.</p> <p>All Directors are permitted to seek independent professional advice at the Company's expense if considered appropriate and necessary, at any time, which could be coordinated through the Company Secretary.</p> <p>However, no such advice has been taken by any of the Directors during the period.</p>
A.1.4	<p>All Directors should have access to the advice and services of the Company Secretary.</p>	Compliant	<p>The Company Secretary, who is an Attorney-at-Law by profession, is accessible to any Director at any time. The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. Removal of the Company Secretary has to be by a resolution involving the entire Board.</p> <p>The Company Secretary possesses the required qualifications set out in the Companies Act, to discharge duties as a Company Secretary. Please refer Page 14 for the profile of the Company Secretary.</p>

Corporate Governance

Section No.	Principle	Compliance Status	Company's Commitment
A.1.5	All Directors should bring independent judgment to bear on issues of strategy, performance, resources and standards of business conduct.	Compliant	<p>The Board is conscious of its obligations to ensure that Directors avoid conflicts of interests (both real and apparent) between their duty to the Company and other interests.</p> <p>Directors are expected to make decisions objectively and in the best interest of the Company. All Non-Executive Directors in particular are expected to bring independent judgment and scrutinise the decisions taken by the Board on issues of strategy, performance, resources and business conduct.</p> <p>The Board of Directors is required to disclose all the transactions with the Company including those of their close family members as required by the Sri Lanka Accounting Standards - 30 and the Companies Act, No. 7 of 2007. This has been fully complied with and disclosed adequately in this Annual Report.</p> <p>Please refer page 151 for information on related parties and Directors' Interest in Contracts respectively.</p>
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	Compliant	<p>The Board met 12 times during the year in addition to the various Board Sub Committee meetings held. Please refer page 147 to see the attendance of each Director at Board and Sub Committee meetings.</p> <p>Board and Sub-Committee meetings are conducted based on a formal agenda covering the main responsibilities and duties, which is prepared and circulated among all the Board or sub-committee members with adequate time for perusal.</p> <p>In addition, the Board members have meetings and discussions with the management when required.</p>
A.1.7	Every Director should receive appropriate training when first appointed to the Board and subsequently as necessary.	Compliant	<p>New Directors are inducted to the Board with comprehensive understanding of their duties and responsibilities. The Board acknowledges the need for continuous professional development and knowledge expansion to perform their duties as Directors.</p> <p>Accordingly, the Company facilitates appropriate knowledge sharing opportunities for both new and existing Directors on a continuous basis in respect of matters relating to the general aspects of directorships and matters specific to the industry and the Company.</p> <p>Particularly, the Directors are constantly updated on the latest trends and issues facing the Company and the insurance industry in general. For instance, the Company facilitated the attendance of the Audit Committee Chairman at seminars on changes in Accounting Standards during the year.</p>
A.2	CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)		
	There should be a clear division of responsibilities at the head of the Company.	Compliant	<p>The functions of the Chairman and the Managing Director/ CEO are clearly separated to ensure a balance of power and authority.</p> <p>The Chairman is responsible for providing effective leadership to the Board whilst the MD/CEO is responsible for ensuring the effective functioning of day to day operations and the achievement of financial and non-financial objectives agreed annually with the Board.</p>
A.2.1	If the positions of Chairman and the CEO are combined, the fact needs to be disclosed.	Not Applicable	The positions of the Chairman and the Managing Director/ CEO are separated.

Section No.	Principle	Compliance Status	Company's Commitment
A.3	CHAIRMAN ROLE		
	The Chairman should preserve order and facilitate effective discharge of Board functions.	Compliant	The Chairman is responsible for leading the Board and ensuring that it operates at the highest standards of governance. The Chairman is charged with encouraging the effective participation of all directors in decision making processes and thereby ensuring effective performance of the Board.
A.3.1	<p>The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that</p> <ul style="list-style-type: none"> the effective participation of both Executive and Non-Executive Directors is secured all Directors are encouraged to make an effective contribution a balance of power exists between Executive and Non-Executive Directors the views of Directors on issues under consideration are ascertained; and the Board is in complete control of the Company's affairs. 	Compliant	<p>The Chairman is a Non-Executive Director elected by the Board and has experience in performing the role of Chairman in other large corporate entities in the country including HNBA's parent company. With his vast experience and knowledge, the Chairman provides effective leadership to the Board by,</p> <ul style="list-style-type: none"> maintaining effective participation and contribution of both Executive and Non-Executive Directors, encouraging debate and constructive criticism, setting agendas for meetings of the Board in conjunction with the Company Secretary, ensuring that adequate time is available for discussion on strategic issues, ensuring a proper balance of power between Executive and Non- Executive Directors, representing the views of the Board to the shareholders and public and ensuring that the Board is in complete control of the Company's affairs.
A.4	FINANCIAL ACUMEN		
	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	Compliant	<p>The Board is made up of knowledgeable and experienced individuals for guidance on matters of finance. All Directors possess qualifications and/or experience in accounting and finance.</p> <p>Members of our Board are;</p> <ul style="list-style-type: none"> Rienzie T. Wijetilleke <i>FCIB (London), FIB (Sri Lanka)</i> – Chairman (Banker with over 50 years of experience) Manjula de Silva <i>BA Hons (Colombo), MBA (London), FCMA (UK)</i> - Managing Director (Management Accountant with over 20 years of experience in Fund Management and Insurance) R Theagarajah <i>FCMA (UK), FCA (Sri Lanka), MBA (Cranfield), FIB (Hon) Sri Lanka</i> – Non-Executive Director (Chartered and Management Accountant with over 25 years of experience in banking) M U De Silva <i>FCIB (London)</i> – Non-Executive Director (Banker with over 40 years of experience) Pratap Kumar de Silva <i>FICM (Sri Lanka), FICM (England)</i> – Independent Non-Executive Director (Fellow of the Institute of Credit Management with over 50 years of experience in finance sector) D M De S Wijeyeratne <i>ACA (Sri Lanka)</i> - Independent Non-Executive Director (Chartered Accountant and an experienced CFO) J M J Perera <i>FCIB (London)</i> - Non-Executive Director (Banker with over 35 years of experience) Sarath Ratwate <i>FCMA (UK)</i> - Independent Non-Executive Director (Management Accountant and an experienced Treasurer) J D N Kekulawala <i>FCIB (London), FCA (England & Wales), MBA (Manchester)</i> - Non-Executive Director (Chartered Accountant, experienced CFO and a Banker with over 25 years of banking experience) <p>Brief profiles of each Board member can be found on pages 12 and 14.</p>

Corporate Governance

Section No.	Principle	Compliance Status	Company's Commitment
A.5	BOARD BALANCE		
	The Board should have a balance of Executive and Non-Executive Directors.	Compliant	The Board comprises eight Non-Executive Directors and one Executive Director who also functions as the Managing Director/CEO. Names of the Directors in each category are given on page 146.
A.5.1	The Board should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of the total number of Directors, whichever is higher.	Compliant	<p>The Board has eight Non-Executive Directors which is far in excess of one third of the total number of Directors. Please refer page 12 to 14 for the profiles of these directors.</p> 
A.5.2	Two or one-third of Non-Executive Directors appointed to the Board, should be 'Independent Non-Executive Directors'.	Compliant	Of the eight Non-Executive Directors of the Company, Mr. Pratapkumar de Silva, Mr. D M de S Wijeyeratne and Mr. Sarath Ratwatte are independent Non- Executive Directors. Therefore, the number of Independent Non-Executive Directors is in excess of one third of Non-Executive Directors.
A.5.3	For a Director to be deemed 'Independent', such Director should be independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.	Compliant	All three Independent Non-Executive Directors meet the criteria for independence as per the Rules and are deemed to be independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment.
A.5.4	A declaration should be signed by each Non-Executive Director annually, stating independence or non-independence against specified criteria.	Compliant	All Non-Executive Directors have submitted the declaration of independence or non-independence as per the Code of Best Practice on Corporate Governance and Listing Rules.
A.5.5	The Board should make a determination of independence or non-independence of Directors based on the above declaration and other information available to the Board.	Compliant	<p>The Board, in its Annual Report has determined the Independence or non-independence of each director. This has been declared at the Board Meeting held on 31st January 2011.</p> <p>The report is given on pages 145 to 150.</p>
A.5.6	When the Chairman and the CEO is the same, the Board should appoint Independent Non-Executive Director to be the Senior Independent Director.	Not Applicable	Since the roles of the Chairman and the CEO are separated, this requirement does not arise.

Section No.	Principle	Compliance Status	Company's Commitment
A.5.7	The Senior Independent Director should make himself available for confidential discussions with other Directors.	Not Applicable	Please refer the comment above.
A.5.8	The Chairman should hold meetings with Non-Executive Directors, without the presence of the Executive Directors, at least once a year.	Compliant	The Board meets at least once a year, without the presence of MD/CEO. One of the main areas of focus at this meeting is the performance of MD/CEO and to agree on his remuneration package. Any other such meeting would be held on a need basis.
A.5.9	When Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should be recorded in the Board Minutes.	Compliant	All decisions of the Board were taken unanimously and there were no such concerns raised by the Directors during the year, which needed to be recorded in the Board Minutes. However, if there is such an incident, the Company policy is to record such concerns accordingly.
A.6	SUPPLY OF INFORMATION		
A.6.1	Management has an obligation to provide the Board with appropriate and timely information.	Compliant	The Management ensures that a set of information which is timely, accurate, relevant and comprehensive is provided to the Directors before the Board Meeting every month, with adequate time for Directors to review the same and prepare for discussions. All significant financial and non-financial information for the period is included in these analyses. In addition, the Board requests additional information with respect to the Company's operations, industry and competitors, risk management, laws and regulations, Corporate Governance etc. on a need basis.
A.6.2	The minutes, agenda and papers required for a Board Meetings should be provided at least Seven days before the meeting.	Compliant	All Board Papers and papers for Sub Committee meetings are circulated at least one week (seven days) prior to such meetings.
A.7	APPOINTMENTS TO THE BOARD		
	There should be a formal and transparent procedure for appointment of new Directors to the Board.	Compliant	When appointing new Directors, the Board adopts a formal and transparent procedure. However, no new Directors were appointed to the Board during the year.
A.7.1	A Nomination Committee should be established to make recommendations to the Board.	Compliant	The Nomination Committee comprises four Directors including the Chairman and the MD/CEO. The members are;
	<ul style="list-style-type: none"> - Rienzie T. Wijetilleke - Chairman <i>Non-Executive Director</i> - Manjula de Silva - Member <i>Managing Director</i> 	<ul style="list-style-type: none"> - R Theagarajah - Member <i>Non-Executive Director</i> - M U De Silva - Member <i>Non-Executive Director</i> 	
	Responsibilities and other information in respect of the Nomination Committee is disclosed on page 126.		

Corporate Governance

Section No.	Principle	Compliance Status	Company's Commitment
A.7.2	An annual assessment of the Board composition should be conducted by the Nomination Committee	Compliant	The composition of the Board is subject to continuous review by the Nomination Committee, especially with regard to changes in environment and regulations. The Committee makes recommendations for new appointments where necessary. After the last review, the Board was satisfied about the current composition of the Board and therefore the composition remained unchanged during the year 2010.
A.7.3	The Company should disclose information to the shareholders upon new appointments of Directors.	Compliant	All appointments of new Directors are informed to the shareholders with sufficient details, via immediate notification to the Colombo Stock Exchange. The Annual Report also carries details of new appointments of Directors together with a brief profile of each Director.
A.8	RE-ELECTION		
	All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.		
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election.	Compliant	According to the Articles of Association of the Company, each Director other than the MD/CEO and any nominee Director, retires by rotation and is required to stand for re-election by the shareholders at the Annual General Meeting. The proposed re-election of Directors is subject to prior review by the full Board. Accordingly, Mr. M U de Silva retires by rotation at the AGM and offers himself for re-election under the Articles of Association of the Company. The Board has recommended his re-election. Please refer the Notice of Meeting on page 208 for more information in this regard.
A.8.2	All Directors and Chairman should be subject to election by shareholders at the first opportunity after the appointment and to re-election at regular intervals.	Compliant	Directors who have been appointed to the Board during the year, hold office until the next AGM. They are required to retire and be re-elected by the Shareholders. No new Directors were appointed to the Board during the year.
A.9	APPRAISAL OF BOARD PERFORMANCE		
	The Board should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.		
A.9.1	The Board should annually appraise its own performance in the discharge of key responsibilities.	To be fully implemented in year 2011	The performance of the Board and its Sub Committees are evaluated by the Chairman. The Audit Committee started a self-assessment process from the current year to ensure it functions effectively and efficiently and discharges all its responsibilities as outlined in the Audit Committee Charter. The self-assessment was carried out using a formal questionnaire covering all the responsibilities of the Committee. In addition, the Executive Committee also carried out a performance review of the Audit Committee with the objective of facilitating continuous improvement of the role of the Audit Committee in the Company's operations. It is planned to expand this performance appraisal process to a 360 degree appraisal by getting Internal Auditors and External Auditors also involved in the year 2011.

Section No.	Principle	Compliance Status	Company's Commitment
A.9.2	The Board should undertake an annual self-evaluation of its own performance and that of its committees.	To be fully implemented in year 2011	As noted above, the Audit Committee started a self-assessment process for the year 2010. We have already planned to implement a formal appraisal procedure for the Board as well as for other Board Sub Committees in the year 2011.
A.9.3	The Board should state in the Annual Report how such performance evaluations have been conducted.	To be fully implemented in year 2011	The performance of the Audit Committee was evaluated based on the Audit Committee Charter. Main areas of focus were; <ul style="list-style-type: none"> • Objective, Composition, Meetings, etc. • Financial Reporting • Risk Management, Internal Control and Internal Audit • External Audit • Compliance and Litigation • Other Responsibilities However, as discussed above, performance evaluations should be extended to the Board and other Sub Committees, which we intend to do in the year 2011.
A.10	DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS		
	Shareholders should be kept advised of relevant details in respect of Directors.		
A.10.1	Annual Report should contain details of all Directors.	Compliant	Required information in respect of Directors is disclosed in this Annual Report where relevant. <ul style="list-style-type: none"> - The profiles of all Board members are provided on pages 12 to 14. - Details of Directors' Interests in Contracts are provided on pages 151. - Details of related party transactions are provided on pages 188 and 190. - The composition of Board sub committees and attendance at Board meetings and Board sub-committee meetings by each Director are provided on pages 126 and 147 respectively.
A.11	APPRAISAL OF MD/CEO		
	The Board should be required, at least annually, to assess the performance of the MD/CEO.		
A.11.1	The Board should set, with consultation of CEO, the financial and non-financial targets to be achieved by the CEO during the year in line with short, medium and long term objectives of the Company.	Compliant	In consultation with the MD/CEO, the Board sets reasonable financial and non-financial targets to be achieved by the MD/CEO every year which are in line with short, medium and long term objectives of the Company. These Corporate Objectives are included in the Corporate Plan for the year which is reviewed and approved by the Board. The main areas of focus of the Corporate Plan 2010 were; <ul style="list-style-type: none"> - Market Share - Dividend Payout - Premium Persistency - Gross Written Premium for Life and General Insurance - Profitability - Underwriting Results - Reasonable remuneration to employees The Board monitored the achievement of these targets throughout the year and provided guidance to the MD/CEO where necessary.

Corporate Governance

Section No.	Principle	Compliance Status	Company's Commitment
A.11.2	The performance of the MD/CEO should be evaluated by the Board at the end of each year.	Compliant	Based on the agreed objectives described in A.11.1, the performance of the MD/CEO is evaluated by the Board at the end of each year.
B	DIRECTORS' REMUNERATION		
B.1	REMUNERATION PROCEDURE		
	Companies should establish a formal and transparent procedure for developing policies on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.		
B.1.1	Board should set up a Remuneration Committee to make recommendations to the Board.	Compliant	<p>A Remuneration Committee has been appointed and functions within agreed terms of reference.</p> <p>The Main responsibility of the Remuneration Committee is to assist the Board with regard to the remuneration policy of the Company. According to the Company policy, no Director or employee should get involved in deciding his/her own remuneration.</p> <p>The MD/CEO and Assistant Manager – Human Resources participate in Remuneration Committee Meetings by invitation. Remuneration Committee met twice during the year.</p> <p>Please refer pages 143 and 144 for the Remuneration Committee Report.</p>
B.1.2	The Remuneration Committee should consist of Non-Executive Directors, accompanied by a Chairman.	Compliant	<p>All members of the Remuneration Committee are Non-Executive Directors. The Board appoints its Chairman.</p> <p>Please refer Remuneration Committee Report on pages 143 and 144 for the functions of the Remuneration Committee.</p>
B.1.3	Members of the Remuneration committee should be listed in the Annual report.	Compliant	<p>Members of the Committee are;</p> <ul style="list-style-type: none"> - M U De Silva FCIB (London) - Chairman <i>Non-Executive Director</i> - D M De S Wijeyeratne ACA - Member <i>Independent Non-Executive Director</i> - Sarath Ratwatte FCMA (UK)- Member <i>Independent Non-Executive Director</i> <p>Responsibilities and other information in respect of the Remuneration Committee are disclosed on page 126.</p>
B.1.4	Determination of Remuneration of Non-Executive Directors.	Compliant	<p>Non- Executive Directors who are nominees of the parent company are paid a nominal fee and other Non-Executive Directors are remunerated in line with market practices, based on attendance at Board and Sub Committee meetings.</p>
B.1.5	Remuneration Committee can consult MD/CEO or outside consultant regarding the remuneration of Executive Directors.	Compliant	<p>The Committee consults the MD/CEO where necessary and has access to professional advice from within and outside the Company.</p> <p>The Committee reviewed the results of the Employee Satisfaction Survey carried out during the year by an external consultant (M/S MTI Consultants) and a few reports of Salary Surveys in which the Company participated. Information gathered from these sources was used when deciding the remuneration levels for the year 2011.</p>

Section No.	Principle	Compliance Status	Company's Commitment
B.2	THE LEVEL AND MAKE UP OF REMUNERATION		
	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 Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.		
B.2.1	Remuneration Committee should provide attractive packages to retain Executive Directors.	<i>Compliant</i>	The remuneration package of the MD/CEO who is the only Executive Director is linked to corporate and individual performance. Remuneration of all executive employees will be dependent on the achievement of personal objectives set at the beginning of the year and their individual performance on selected personal attributes. Remuneration of Non-Executive employees will be dependent only on their personal attributes.
B.2.2	Remuneration Committee should set remuneration in line with industry standards and the Company performance.	<i>Compliant</i>	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 assessment of comparable industry standards.
B.2.3	Remuneration Committee should consider employment conditions and remuneration elsewhere in the Company or within the Group, when determining the remuneration levels.	<i>Compliant</i>	Remuneration Committee considers the group remuneration levels when deciding HNBA's remuneration packages. However in most cases, HNBA's scales are not comparable with other companies in the Group as they operate in different industries.
B.2.4	Performance related elements of remuneration of Executive Directors should be aligned with the interest of the Company and main stakeholders.	<i>Compliant</i>	As stated above, performance related elements of the remuneration package of MD/CEO and other executive employees are linked to corporate and individual performance.
B.2.5	Executive Share Options should not be offered at a discount.	<i>Not Applicable</i>	The Company does not have any type of share option scheme for the employees, at present.
B.2.6	Remuneration Committee should design a performance related remuneration scheme, in line with the provisions set in the standard.	<i>Compliant</i>	<ul style="list-style-type: none"> - The MD/CEO and employees at all levels are eligible for annual performance linked bonuses based on the achievement of Life and General business targets and profitability targets. - The Company does not have any long term incentive schemes, including share option schemes.
	<ul style="list-style-type: none"> - There are no pension schemes other than gratuity. The consequences on gratuity are considered when determining salary increases. - Performance-related remuneration schemes are not applied retrospectively. - Annual bonuses are not pensionable. - Non-Executive Directors are not eligible for performance based remuneration schemes. 		

Corporate Governance

Section No.	Principle	Compliance Status	Company's Commitment
B.2.7 & B.2.8	Compensation commitments on early termination.	Compliant	There are no terminal compensation commitments other than gratuity in the Company's contracts of service.
B.2.9	Remuneration of Non-Executive Directors should reflect the time, commitment and responsibilities of their role, in line with market practices.	Compliant	All Non-Executive Directors are paid only on his/her 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		
	The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.		
B.3.1	Remuneration policy and details of remuneration of the Board should be stated in the Annual Report.	Compliant	The aggregate remuneration paid to MD/CEO and Non-Executive Directors is disclosed on pages 188 to 190 of this report. The Remuneration Committee's report which highlights the remuneration policy of the Company is given on pages 143 and 144.
C	RELATIONS WITH SHAREHOLDERS		
C.1	CONSTRUCTIVE USE OF THE ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS		
	The Board should use the AGM to communicate with Shareholders and should encourage their participation.		
C.1.1	Companies should count all Proxy Votes	Compliant	The Company has a mechanism to record all proxy votes and proxy votes lodged on each resolution.
C.1.2	Companies should propose a separate resolution at the AGM on each substantially separate issue.	Compliant	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.
C.1.3	The Board Sub Committees' Chairman should be available at the AGM to answer questions of the shareholders.	Compliant	The Chairman of the Board makes sure that the Chairmen of Board Sub Committees, External Auditors, etc. are present at the AGM to answer any query by shareholders. No queries were raised by shareholders to the Chairmen of the Sub Committees at the last AGM held on 30th March 2010.
C.1.4	Companies should arrange for circulation of notice of meeting and related documents to shareholders before the meeting.	Compliant	The Annual Report together with notice of meeting and related documents and other resolutions, if any, are circulated to the shareholders at least fifteen (15) working days prior to the date of the AGM.

Section No.	Principle	Compliance Status	Company's Commitment
			<p>2009 Annual Report was submitted to the Colombo Stock Exchange on 24th February 2010 and posted to all shareholders by 1st March 2010. The AGM was held on 30th March 2010.</p> <p>Please refer page 208 for the notice of meeting of the AGM 2011.</p> <p>The latest Annual Report and Interim Financial Statements are published in the Company's web site for the benefit of other stakeholders.</p> <p>The Company's Financial Results are also published in leading newspapers on a quarterly basis as a demonstration of the Company's commitment to transparency.</p>
C.1.5	Summary of procedures governing voting at the AGM should be circulated with every notice of General Meeting.	Compliant	The proxy form which includes a summary of the procedures governing voting at the AGM is circulated to all shareholders as noted.
C.2	MAJOR TRANSACTIONS		
	All material transactions i.e. which if entered into, would materially alter/vary the net asset value of the Company should be disclosed.		
C.2.1	Directors should disclose all material facts of major transactions to the shareholders.	Compliant	<p>During the financial year under review, there were no major transactions which materially affected/alterd the Company's net asset position.</p> <p>However, if there were such transactions, it is the policy of the Company to disclose them in the Quarterly and Annual Financial Statements in accordance with relevant Sri Lanka Accounting Standards and the Companies Act.</p>
D	ACCOUNTABILITY AND AUDIT		
D.1	FINANCIAL REPORTING		
	The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.		
D.1.1	The Board should be responsible in presenting balanced and understandable Financial Statements, other price-sensitive public reports and reports to regulators.	Compliant	<p>The Company presents its Financial Statements in line with Sri Lanka Accounting Standards and other applicable laws and regulations. The Company strives to provide a detailed and transparent analysis of performance and future strategies to enable investors to make informed decisions.</p> <p>The Interim Annual Financial Statements were published on a timely basis during 2010.</p> <p>All Regulatory Reports were filed by the due dates.</p> <p>Price sensitive information was also disclosed to the Colombo Stock Exchange on a timely basis during the year 2010.</p> <p>The Company's financial position and prospects have been discussed in detail in the following reports:</p> <ul style="list-style-type: none"> Chairman's Message on pages 6 and 7. MD's Review on pages 8 to 11. Management Discussion and Analysis (MD&A) on pages 20 to 54.
D.1.2	Directors' Report should contain declaration by the Directors.	Compliant	Directors' report contains a declaration by Directors addressing the areas given in the Code of Best Practice on Corporate Governance.

Corporate Governance

Section No.	Principle	Compliance Status	Company's Commitment
D.1.3	Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements together with the Auditors' Report.	Compliant	Page 147 contains the statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements. Auditor's Report is provided on page 157.
D.1.4	Annual Report should contain a Management Discussion and Analysis.	Compliant	Management Discussion and Analysis section is included in pages 20 to 54 covering all relevant areas.
D.1.5	The Board should report that the business is a going concern.	Compliant	The Board, after conducting necessary reviews and inquiries, decided to apply the 'Going Concern' assumption in preparing the Company's Financial Statements for the year 2010. The declaration of the Company as a "Going Concern" is given in the Directors' Report on page 145.
D.1.6	Directors shall summon an EGM to notify shareholders, if net assets fall below one half of the shareholder's funds.	Compliant	Although the likelihood of such a situation is remote, if it arises, an EGM would be called to inform shareholders.
D.2	INTERNAL CONTROL		
	The Board should maintain a sound system of internal controls to safeguard shareholders' investments and Company's assets.		
D.2.1	The Board should review the effectiveness of the internal control system at least annually.	Compliant	The Board has overall responsibility for the system of internal controls and has delegated some of these responsibilities to the Board Audit Committee. The Audit Committee closely monitors the internal controls system through various mechanisms. Some of these include; <ul style="list-style-type: none"> - Review and agree on the Internal Audit and External Audit Plans and their scope - Review the Company's Risk Management Report with the assistance of the management and discuss and agree on further actions to be taken to mitigate identified risks - Review all Internal Audit Reports/ Management Letters and discuss issues/ concerns with the management and auditors where necessary - Maintain an effective relationship with Internal/ External Auditors at all times - Meet separately with Internal and External Auditors to discuss matters relating to the Company where necessary
D.2.2	Need for internal audit function. Should be reviewed from time to time.	Compliant	The Company has appointed M/S Ernst & Young Advisory Services (Pvt) Ltd as the internal auditors for the Company. Also, Ernst & Young has been appointed as the IT Auditor to cover IT-related risk areas. All reports by internal auditors are filed with the Audit Committee in a timely manner. In addition, the Company is planning to establish a new department namely Internal Control and Compliance Department in the year 2011 in order to strengthen this area further.

Section No.	Principle	Compliance Status	Company's Commitment
D.3	AUDIT COMMITTEE		
	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.		
D.3.1	The Audit Committee should comprise Non-Executive Directors, a majority of whom should be independent.	Compliant	The Audit Committee comprises three Directors, all of whom are Non-Executive. Also, two Directors of the Committee are Independent Non-Executive Directors.
D.3.2	Effectiveness of the audit and independence and objectivity of auditors should be reviewed by the Audit Committee	Compliant	The Audit Committee monitors and reviews the effectiveness of the Company's Internal and External Audit functions and ensures proper coordination exists between all the relevant parties, so that the Company receives adequate services. Also, in 2010, the Audit Committee conducted evaluations to ensure the integrity, competency and professionalism of auditors and concluded that no aspect of the auditor's work was impaired due to lack of independence. The Audit Committee has the primary responsibility for making recommendations on the appointment, re-appointment or removal of the External Auditor in-line with professional standards and regulatory requirements. Further, the Company's external auditor, M/S KPMG Ford, Rhodes, Thornton & Co. has given a declaration of its independence to the Audit Committee as per the relevant rules.
D.3.3	Audit committee should have a written Terms of Reference.	Compliant	The Audit Committee operates with clearly defined terms of reference. Main areas of focus in the Audit Committee Charter are; <ul style="list-style-type: none"> - Composition - Meetings - Financial Reporting - Risk management and internal control - Other responsibilities - Internal Audit - External Audit - Compliance and litigation - Reporting responsibilities The summary of the duties of the Committee is provided on page 126.
D.3.4	Names of the Directors comprising the Audit Committee and their independence should be disclosed in the Annual Report.	Compliant	Members of the Audit Committee are; <ul style="list-style-type: none"> - D M De S Wijeyeratne <i>ACA</i> - Chairman <i>Independent Non-Executive Director</i> - Sarath Ratwatte <i>FCMA (UK)</i> - Member <i>Independent Non-Executive Director</i> - J D N Kekulawala <i>FCIB (London), FCA (England & Wales), MBA (Manchester)</i> - Member <i>Non-Executive Director</i> The Audit Committee Report, which is given on pages 140 to 142, also highlights the names of the members, determination of independence of auditors and other information on relevant areas.
D.4	CODE OF BUSINESS CONDUCT & ETHICS		
	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.		

Corporate Governance

Section No.	Principle	Compliance Status	Company's Commitment
D.4.1	<p>Companies must adopt a Code of Business Conduct and Ethics for Directors and senior management</p> <p>The code addresses areas such as</p> <ul style="list-style-type: none"> - avoiding conflict of interests - confidentiality and privacy - protection and proper use of Company assets - communication with regulators and auditors - ethical business standards and fraudulent conduct - avoiding acceptance of expensive gifts, fees - trading of Company shares by employees - non-discrimination - duty of loyalty and communication of any misconduct or unethical behaviour <p>There were no material violations of the Code of Business Conduct and Ethics during the year except for certain insignificant fraudulent activities noted at operational level for which appropriate actions have been taken.</p>	<p>To be fully implemented in year 2011</p>	<p>The Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without any exception. The Company is planning to issue a Code of Business Conduct and Ethics for the Board in the year 2011.</p> <ul style="list-style-type: none"> - fair dealings - proper use of computer systems - compliance with laws and regulations - insider information - outside business activities - political activities - conduct in public, etc.
D.4.2	The Board must affirm that there is no violation of provisions of the Code.	<p>Compliant</p>	Please refer Annual Report of the Board of Directors on page 150 which affirmed that there are no material violations of the Company's Code of Business Conduct and Ethics during the year 2010.
D.5	<p>CORPORATE GOVERNANCE DISCLOSURE</p>		
	<p>Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.</p>		
D.5.1	The Directors should include a Corporate Governance report in the Annual Report.	<p>Compliant</p>	<p>The Board has implemented a systematic process supported by a culture in which compliance is at a maximum level with the provisions of the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC and the</p> <p>Rule No. 7.10 of Listing Rules issued on Corporate Governance by the CSE.</p> <p>This report sets out the manner and extent to which the Company has complied with the principles and provisions of the above mentioned Codes and Rules. The Corporate Governance section can be found from pages 100 to page 126 of this Annual Report.</p>
2	<p>SHAREHOLDERS</p>		
E	<p>INSTITUTIONAL INVESTORS</p>		
E.1	<p>Shareholders Voting</p>		
	<p>Should ensure institutional shareholders' voting intentions are translated into practice.</p>		
E.1.1	Listed companies should conduct regular and structured dialogue with shareholders.	<p>Compliant</p>	<p>The Annual Report, Quarterly Financial Statements and the AGM are the main means of communication between the Company and the shareholders. The shareholders are always encouraged to participate and vote at the AGM.</p> <p>The Chairman ensures that the views expressed at the AGM are properly addressed.</p>

Section No.	Principle	Compliance Status	Company's Commitment
E.2	Evaluation of Governance Disclosures		
	Institutional investors should be encouraged to give due weight to relevant governance arrangements.	Compliant	Adequate attention has been given to institutional investors. This report highlights the governance structure of the Company.
F.	OTHER INVESTORS		
F.1	Investing/ Divesting Decisions		
	Individual shareholders are encouraged to seek independent advice on investing or divesting decisions.	Compliant	The Annual Report contains sufficient information to make an informed decision. Following are the main reports included in this Annual Report which provide an overall assessment of the Company's affairs during the financial year 2010: <ul style="list-style-type: none"> - Chairman's Message from pages 6 and 7. - Managing Director's Review from pages 8 to 11. - Management Discussion and Analysis from pages 20 to 54. - Sustainability Report from pages 56 to 98. - Corporate Governance Report from pages 100 to 126. - Annual Financial Statements from pages 140 to 205.
F.2	Shareholder Voting		
	The Company must encourage individual Shareholders to participate in General Meetings and exercise voting rights.	Compliant	All shareholders are encouraged to participate at General Meetings and cast their votes.

Corporate Governance

Other Aspects of Corporate Governance Initiatives

The following table demonstrates the other aspects of Corporate Governance at HNBA, apart from the Code of Best Practice on Corporate Governance issued jointly by the ICASL and SEC.

INVESTMENT COMMITTEE	
<p>The Investment Committee is chaired by a Non-Executive Director and comprises three other members including the Managing Director. Members of the Committee are;</p> <ul style="list-style-type: none"> - J D N Kekulawala <i>FCIB (London), FCA (England & Wales), MBA (Manchester)</i> – Chairman <i>Non-Executive Director</i> - Sarath Ratwatte <i>FCMA (UK)</i> – Member <i>Independent Non-Executive Director</i> - Manjula de Silva <i>BA Hons (Colombo), MBA (London), FCMA (UK)</i> – Member <i>Managing Director</i> 	<ul style="list-style-type: none"> - Rajive Dissanayake <i>BBA (Colombo), ACMA (UK), CFA (USA)</i> - Member <i>Senior Manager - Strategic Planning (HNB)</i> <p>The Committee meets quarterly to review the asset allocation and performance of the key investment portfolios and provides guidance on investment strategy at a macro level. It also monitors compliance with Investment, Asset and Liability Management (ALM) and Liquidity policies that have been adopted by the Company.</p> <p>The responsibilities of the Investment Committee are given on page 126.</p>
EXECUTIVE COMMITTEE (EXCO)	
<p>The EXCO currently comprises seven members.</p> <ul style="list-style-type: none"> - Managing Director, - General Manager - Marketing & Distribution - General Manger - Life Insurance - General Manager - General Insurance - Head of Information Technology - Head of Corporate Business Development - Head of Finance 	<p>The EXCO is the top management committee of the Company which is chaired by the Managing Director. The EXCO is responsible for the effective functioning of all operations of the Company. The Committee meets regularly and during the year 2010, it has met on 18 occasions.</p> <p>EXCO together with other members of the management team also meets periodically with a designated Non-Executive Director to review the progress of the implementation of strategies and action plans contained in the Corporate Plan, which is approved by the Board of Directors annually.</p>
OPERATIONAL COMMITTEE (OPCOs)	
<p>Operational Committees (OPCOs) are headed by the General Manager or the Head of Division, and consists of the senior management teams of the respective divisions. Existing OPCOs are;</p> <ul style="list-style-type: none"> - Marketing and Distribution OPCO - General Insurance OPCO - Life Insurance OPCO - Finance and Corporate Services OPCO <p>The Objectives of OPCOs are to ensure the effective functioning of divisional responsibilities and to ensure proper coordination among all divisions.</p>	<p>Operational Committees meet on a regular basis to discuss and resolve issues relating to day to day operations. Key officers of other divisions are also invited where necessary, a strategy that has been proven to be very effective in improving communication and co-ordination among different divisions.</p> <p>The Managing Director also attends OPCO meetings at times, by invitation, to brief the OPCOs on important developments in the Company.</p>

CLAIMS PANELS

Settlement of Insurance Claims is one of the most critical processes of the Company. According to the nature of the process, we receive complaints or appeals from our customers to review a repudiation decision that has been made in respect of a claim or to reconsider the amount offered.

In order to handle these cases, we have introduced two claims panels that will look into these cases independently.

Members of the panel are:

- *Managing Director*
- *Relevant Technical General Manager (General or Life Insurance depending on the line of business)*
- *Head of Finance*

The Panel reviews the complaint or the appeal together with the opinion of technical claim managers and decides on the best course of action as a team. Other relevant factors such as the commercial value of the customers and humanitarian grounds are also taken into consideration in the process. The effectiveness of this process has been proven by the fact that HNBA has only a limited number of court cases or matters referred to the Insurance Ombudsman with respect to claims.

PROCUREMENT COMMITTEES

HNBA has formed Procurement Committees in order to handle purchasing of Fixed Assets and services in a more transparent and accountable manner. Currently, the following two committees are functioning effectively.

- IT Related Fixed Assets Procurement Committee
- Other Fixed Assets Procurement Committee

Another Committee was recently appointed to handle purchasing of marketing related services.

These Committees comprise members of the relevant function as well as from the Finance Division.

The procedures adopted by these committees are transparent and auditable. The Procurement Committee renders its recommendations to the relevant approving authority only after a unanimous decision is reached.

OTHER COMMITTEES

In addition, the Company makes it a practice at all times to appoint cross functional committees to handle those activities on which the Company spends a substantial amount of money. This practice has proven to be very effective and also provides opportunities for employees to demonstrate their talents outside their job scope.

A few such committees that functioned effectively during the year are;

- Annual Report Committee headed by the Head of Finance
- Complementary Items Committee headed by the Manager Marketing Communications
- Staff Conference Committee headed by the Assistant Manager – Human Resources
- Business Continuity Planning Committee headed by the Head of Finance

As this practice has shown a lot of positives such as transparency and participative decision - making, we are planning to introduce a few more committees in the year 2011 to handle various other aspects.

Corporate Governance

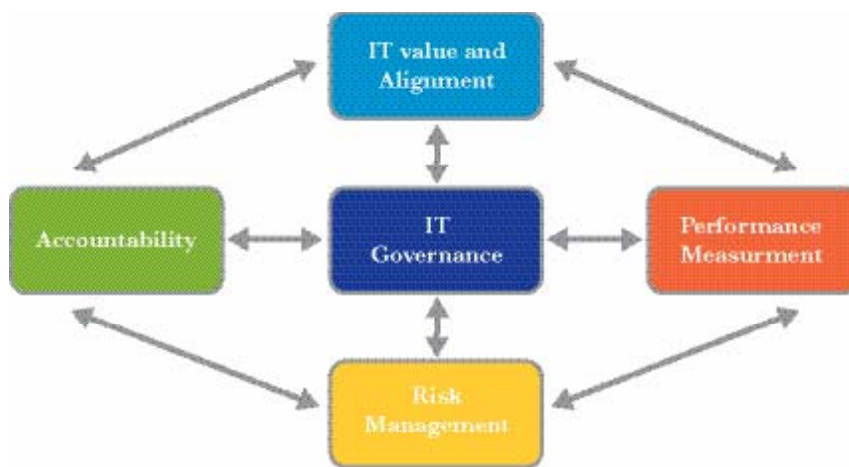
Manual of Financial Authority

The Board has delegated its financial authority to the MD/CEO and the management through a comprehensively documented Manual of Financial Authority (MOFA). The MOFA indicates the responsibilities of all staff members who enter into financial transactions and commitments on behalf of the Company, including persons responsible for recommendation, as well as the approval and payment. Adherence to the MOFA is strictly monitored throughout the year.

- Information Security
- Risk Management

Service level management has concentrated on implementing best practices on

- IT Service Management
- Knowledge Management
- Project Governance



IT Governance

IT Governance is considered an integral part of Corporate Governance in the modern business world. HNBA's IT Governance is an exercise where IT strategy is aligned with overall business strategy, thereby ensuring that the Company stays on track to achieve strategies and goals and implement better ways to measure IT performance. It makes sure that all stakeholders' interests are taken into account and that processes provide measurable results.

HNBA follows a carefully planned IT Governance system, where IT values and alignment, accountability, performance measurement, and risk management are considered the key objectives driving the governance process.

HNBA's IT Governance implementation is two dimensional, focussing on Governance in operational management and in service level management. The ownership of the implementation of IT Governance is distributed between both IT personnel as well as Non IT personnel to ensure that good governance prevails in the Company.

Governance in operational management concentrates on vital areas such as;

- Business Continuity and Disaster Recovery,
- Compliance with Regulatory Requirements,

While IT standards are continuously improved within the organisation, regular reviews by the Executive Committee, Board Sub Committees and independent evaluations by internal / external audits ensure adherence to key governance objectives in operational and service level IT values and risk management. Periodic performance measurement and reviews guarantee operational excellence, ensuring continuous assessment and the mitigation of current and emerging threats. These reviews facilitate implementing accountability and strict compliance, while enabling continued enrichment of the IT Governance processes.

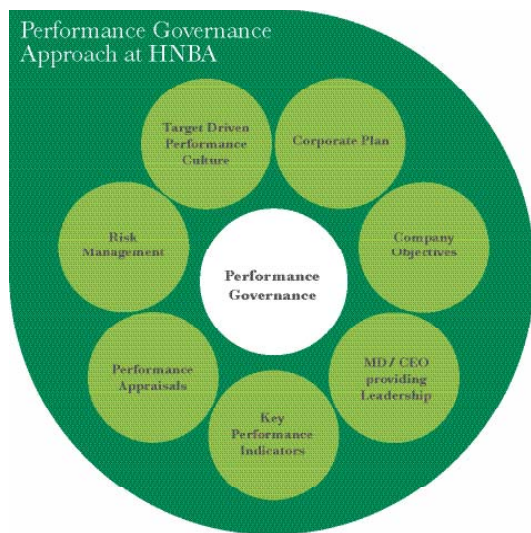
Performance Governance

Performance Governance at HNBA is derived from the strategic direction and corporate objectives, aimed at successfully managing business risks. Based on corporate strategy, the Board sets objectives for the year in consultation with the MD/CEO. The Corporate Plan is the formal presentation of the Company's strategy. The Board with the MD/CEO provides leadership in achieving those objectives. The achievement of objectives is measured against key performance indicators.

HNBA has a target driven performance culture where employees are motivated to achieve targets within the set deadlines. Achievement of these targets is monitored closely at different levels throughout the year. Some such mechanisms are;

- Performance objectives given to all executive staff and semi annual performance appraisals being conducted to evaluate their performance,
- Performance linked increments and bonus payments,
- Periodic distribution management meetings, regional meetings to discuss performance,
- Discussion of Company performance at Executive Committee meetings based on monthly management information,
- Submission of monthly financial information to the Board, listing KPIs in comparison with budgeted targets and the growth over the previous year
- Quarterly review of the status of the Corporate Plan objectives by the Executive Committee together with a Non-Executive Director

The performance governance approach at HNBA is shown in the following Diagram.



HR Governance

HR Governance is a systematic approach that enables the different functions of the Company to achieve their strategic and operational objectives and performance outcomes. By establishing a HR Governance system at HNBA, we intend to achieve following objectives:

- Establish a clear reporting structure
- Provide role clarity
- Create value additions to HR activities and decisions taken at each level of the organisation
- Integrate logical decision making processes and controls with business priorities
- Minimise duplication of activities
- Manage organisational conflicts
- Enhance the transparency of the processes in order to increase employee trust and commitment

All these activities would enable us to reduce operational and legal risks while enhancing the ability to deliver strong performance.

HR Governance Objectives of HNBA



Corporate Governance

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

The following table has been published in accordance with the requirement to disclose the level of compliance with the above Rules.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.1	Non-Executive Directors	Two or one third of total number of Directors shall be Non-Executive Directors, whichever is higher	Compliant	Eight out of nine Directors at HNBA function as Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one third of Non-Executive Directors appointed to the board, whichever is higher shall be Independent	Compliant	Three out of eight Non-Executive Directors are Independent.
7.10.2 (b)		Each Non-Executive Director shall submit a declaration of Independence/non-independence in the prescribed format	Compliant	Non-Executive Directors have submitted the declaration during 2010.
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 Annual Report of the Board of Directors on page 146.
7.10.3 (b)		In the event a Director does not qualify as independent as per the Rule 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 Directors' brief resume in the Annual Report with the experience in relevant area	Compliant	Please refer Directors' profiles on pages 12 to 14.
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Exchange for dissemination to the public	Compliant	No new appointments were made during the year 2010.
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee	Compliant	Details of the Remuneration Committee are given on Page 143.
7.10.5 (a)		<ul style="list-style-type: none"> - The Remuneration Committee shall comprise Non-Executive Directors, a majority of whom shall be independent - One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors. 	Compliant	<ul style="list-style-type: none"> - The Remuneration Committee comprises three Non-Executive Directors, two of whom are independent. - Mr. M U de Silva (Non-Executive Director) functions as the Chairman of the Remuneration Committee.
7.10.5 (b)		The Remuneration Committee shall recommend the remuneration of Managing Director/Chief Executive Officer.	Compliant	Please refer the functions of the Remuneration Committee on page 126.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.5 (c)		The annual report should set out: <ul style="list-style-type: none"> - Names of the Directors serving in the Remuneration Committee - Statement of Remuneration Policy - Aggregate remuneration paid to Executive and Non- Executive Directors 	Compliant	<ul style="list-style-type: none"> - Please refer page 126 for composition of the Remuneration Committee - Please refer Remuneration Committee Report on pages 143 and 144 - Please refer Notes to the Financial Statements on page 189.
7.10.6	Audit Committee	A Listed Entity shall have an audit committee	Compliant	Please refer page 126.
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 Chairman of the Committee by the Board of Directors	Compliant	Mr. D M de S Wijeyeratne (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	MD/CEO attends meetings by invitation. Head of Finance also attends meetings in the capacity of Secretary to the Committee and CFO
		Chairman or one member of the Committee should be a Member of a recognised professional accounting body.	Compliant	Chairman is an Associate Member of the Institute of Chartered Accountants of Sri Lanka (ICASL). The other two members are also members of recognised professional accounting bodies
7.10.6 (b)		The Functions of the Audit Committee shall be as set out in the section 7.10 of the Listing Rules	Compliant	Please refer page 126 for a brief description of the functions of the Committee and pages 140 to 142 for Report of the Audit Committee
7.10.6 (c)		The Annual Report should set out, <ul style="list-style-type: none"> - Names of the Directors serving in the Audit Committee - The Committee shall make a determination of the independence of the Auditors and disclose the basis of such determination - 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	<ul style="list-style-type: none"> - Please refer page 126 for the composition of the Audit Committee - Please refer page 141 for the Report of the Audit Committee - Please refer pages 140 to 142 for the report on Audit Committee

Corporate Governance

Composition and Main Functions of Board Sub-Committees

Committee	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee
Chairman	D M de S Wijeyeratne*	M U de Silva**	Rienzie T. Wijetilleke**	J D N Kekulawala**
Members	Sarath Ratwatte* J D N Kekulawala**	Sarath Ratwatte* D M de S Wijeyeratne*	Manjula de Silva*** R Theagarajah** M U de Silva**	Sarath Ratwatte* Manjula de Silva*** Rajive Dissanayake
Frequency	Quarterly	Twice a year	As required	Quarterly
Circulation of the Agenda & Papers	One week in advance	One week in advance	One week in advance	One week in advance
Secretary	Head of Finance	Assistant Manager-HR	Board Secretary	Head of Finance
Invitees	Managing Director General Managers Head of IT Compliance Officer Accountant External & Internal Auditors Consultant Actuary	Managing Director	None	Manager - Investments Executive - Investments
Main Functions of the Committees	<p>Overseeing the process of preparation and presentation of the Financial Statements (Interim and Annual).</p> <p>Continuous review of the Company's compliance with financial reporting requirements such as Sri Lanka Accounting Standards, Companies Act, Regulations of Insurance Industry Act and other regulations of the Insurance Board of Sri Lanka.</p> <p>Reviewing the Company's internal control and risk management process.</p> <p>Monitoring and reviewing the effectiveness of the Internal Audit function.</p> <p>Making recommendations to the Board on the remuneration, appointment, re-appointment and removal of the External Auditors.</p> <p>Reviewing and monitoring the External Auditor's independence and objectivity and the effectiveness of the audit process.</p>	<p>Reviewing and recommending to the Board on remuneration package for MD/CEO, top management and other employees of the Company.</p> <p>Reviewing and making recommendations to the Board on annual increments, promotions, etc.</p> <p>Reviewing and ensuring that the Company has a sound performance appraisal process for employees at all levels.</p> <p>Review of 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 market place.</p>	<p>Identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.</p> <p>Regularly reviewing and evaluating the structure, size, and composition, balance of skills, knowledge and experience of the Board and making recommendations for improvement.</p>	<p>Developing and setting guidelines and policies on investment portfolios of the Company.</p> <p>Making recommendations on investment strategies by evaluating and reviewing the performance of the investment portfolios.</p> <p>Monitoring compliance with laws and regulations relating to Investments.</p> <p>Monitoring the implementation of the Investment policy, Asset and Liability Management (ALM) policy and Liquidity policy of the Company</p>

* Independent Non-Executive Director ** Non-Executive Director *** Executive Director

Risk Management

How we value Risk Management.....

Risk is an integral part of any business and being an insurance company, our business is transferring and managing various types of risks to generate profitable returns. Hence, Risk Management is a fundamental aspect of our business activity. **We have, therefore, embedded risk management practices into our daily operations in order to ensure that it remains the core responsibility of everyone within the Company.**

At HNB Assurance, we follow a Risk Management process which includes developing strategies and different techniques to recognise and confront risks which can negatively impact on the business, with the objective of early identification and minimising impact.

Risks we face.....

As an insurance company, we face a number of risks specific to our business in addition to generic risks faced by all others in the environment in which we operate. 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 five main categories.

- Strategic Risk
- Insurance Risk
- Operational Risk
- Regulatory Risk
- Investment Risk

These categories are discussed in detail throughout this report.

What we expect from a sound Risk Management process.....

If risks are not managed effectively, the chance of failure by way of incurring losses, missing potential opportunities etc. can be very high and perhaps not redeemable. Moreover, factors such as high turbulence on a global scale, fierce competition, interest rate fluctuations, emergence of Corporate Governance codes and complex regulatory requirements are persuading organisations to consider Risk Management as an integral component of the overall business strategy. Hence, today a formal Risk Management framework is considered a requirement for every company, with this task becoming much more serious and challenging everyday. Accordingly, we expect our Risk Management framework to encompass many features including;

- creating value for the organisation
- supporting the decision making process
- being systematic and structured
- blending with the Company culture
- being clear to everyone and being transparent
- being capable of continuous improvement and enhancement
- being an integral part of organisational processes
- addressing uncertainty in the business processes
- capturing and using better available information
- considering the human factors
- being dynamic, iterative and responsive to change

How we manage Risks at HNB Assurance.....

The Risk Management framework at HNB Assurance provides us the means to identify, measure, manage and monitor different types of risks we face. This enables us to make appropriate decisions to limit and control the impact that such risks may have on our strategic objectives.

However, as seen by the tragic events that unfolded during the recent natural catastrophes, which was partly attributable to irresponsible behavior of people, it is almost impossible to identify and measure some of the risks faced by an insurer sufficiently or estimate their potential impact accurately.

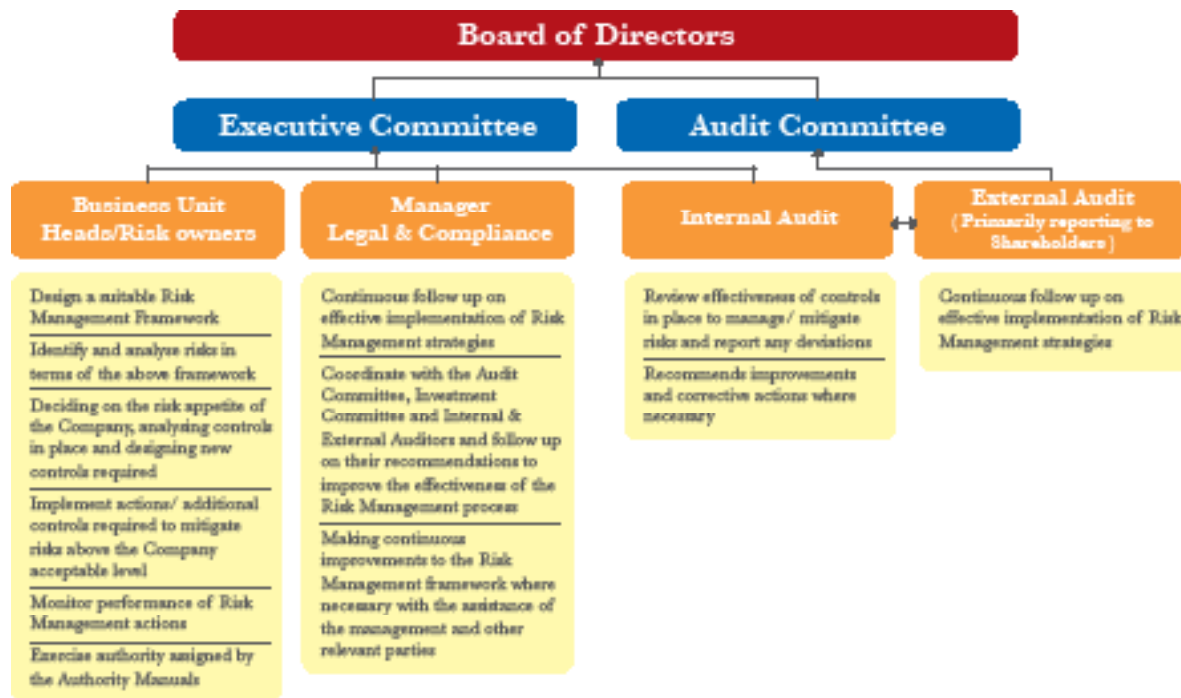
Nevertheless, every effort is taken to identify and manage all risks faced by the Company to the maximum possible extent. Based on the set measurement criteria which fall outside the tolerance limit, we decide what actions need to be taken to manage the risks (or groups of risks). After agreeing on the actions required to mitigate the identified risks the implementation component is assigned to the relevant member of the management with target timelines and is subjected to close monitoring.

Responsibility of Managing Risks at HNB Assurance.....

The Board of Directors is principally responsible for establishing a sound Risk Management policy for the Company and monitoring effectiveness of implementation. In discharging the said responsibility the Board mainly relies upon the Audit and Investment Committees.

Risk Management

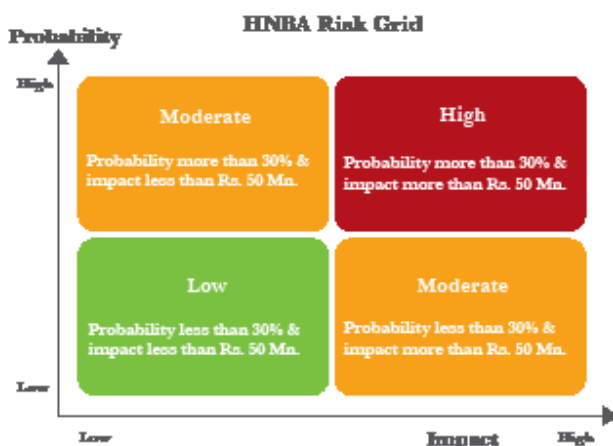
The Executive Committee (EXCO) as the top management team of the Company together with other representatives of all departments actively takes part in the risk management process. Operational Committees (OPCOs) who represent the management team of each division also play a major role as do employees who are in front line operations. The Manager - Legal and Compliance monitors whether all actions planned to mitigate the identified risks are effectively implemented and operated throughout the Company.



M/S Ernst & Young Advisory Services (Pvt) Ltd. acts as the Internal Auditor and they report their findings to the management on a monthly basis and to the Audit Committee on a quarterly basis. Moreover, M/S KPMG Ford Rhodes, Thornton & Co. the External Auditor of the Company also plays a vital role in the monitoring process of Risk Management activities in the Company.

Risk Management activities at HNB Assurance.....

The Risk Assessment report that was prepared in the previous year was updated this year by the Risk Management team. The team discussed in detail the risks faced by the Company in terms of the main categories identified above and analysed them based on the experiences and future possibilities. This year this process led to a change in the weighting of the 73 risks identified and all identified risks were documented in the risk schedule and plotted on the risk grid as per the diagram given below.



The updated position was reported to the Audit Committee and necessary steps for improvements as recommended by the Committee were taken.

Significant risks identified in the said process together with controls in place to mitigate/manage such risks are presented in summary form.

Each major risk category discussed below consists of one or more individual risks which fall into the different quadrants of the HNBA risk grid. The risk rating of the quadrant which contains the highest number of individual risks of a particular major category has been taken as the overall risk rating of that major

category. For instance, if there are five risks identified under one risk category, overall risk rating has been determined as “Low” if three of them fall into the “Low” risk quadrant. In certain cases, past experience and the managements’ judgment are also used in determining the overall risk rating.

STRATEGIC RISK

Risk Rating - Low

Nature of the Risk

Strategic Risk or Business risk is the risk associated with the Company’s future business plans and strategies. This category includes failure of future business plans, unexpected threats from rivals or new entrants, inadequate expansion of service levels and infrastructure, etc. (e.g. information technology and networking).

In other words, strategic risk refers to non achievement of set objectives and the risk of the Corporate Plan and Budgets becoming irrelevant/ inappropriate due to unexpected changes in external and internal environments.

HNB Assurance responses to manage Strategic Risk

- Corporate Plan is prepared every year by the planning team addressing potential risks and future plans for the next three years and subsequently approved by the Board after a due review.
- Based on the agreed plan, objectives for the year are set for all employees above the executive category.
- Performance appraisals of such employees will be done primarily based on the achievement of the objectives given (performance appraisals are done twice a year).
- The EXCO, together with other members of the senior management, reviews the achievement of agreed milestones periodically and action is taken to manage unfavorable deviations. A Non-Executive Director participates in these reviews to bring independent monitoring into the process.
- Monthly budget review meetings are held with relevant members of the management to address unfavorable variances.
- Company’s Corporate Plan and Budgets are reviewed in the middle of the year to ensure that these are in line with the changes in the environment in which the Company operates and necessary revisions are done with the agreement of the Board.

Proof of the effectiveness of Strategic Risk Management

- | | |
|---|---------------|
| • Life Insurance GWP target for the year | 102% Achieved |
| • General Insurance GWP target for the year | 100% Achieved |
| • Profitability target for the year | 100% Achieved |

REGULATORY RISK

Risk Rating - Low

Nature of the Risk

Regulatory Risk may arise if the Company is not able to comply with regulatory requirements which may change from time to time.

HNB Assurance responses to manage the Regulatory Risk

- All employees are educated to commit to the goal of 100% compliance to applicable laws and regulations.
- A compliance checklist is prepared on a quarterly basis covering all the applicable laws and regulations for the Company by taking sign-offs from all relevant members of the management.
- Manager - Legal and Compliance submits a report to the Audit Committee highlighting the Company’s compliance with applicable laws on a quarterly basis.
- The Audit Committee reviews and approves all financial reports and statutory returns to IBSL and information to CSE before they are submitted.

Risk Management

- The Board also focuses on the need to be in compliance with all laws and regulations applicable and monitors the same through the Audit and Investment Committees.
- The services of a separate Compliance Officer, an Attorney at Law by profession, is obtained and this individual is made responsible for the Company's compliance with applicable laws and regulations.
- Special care and attention is given when handling all employee related areas and thereby avoid labour law related issues.
- Both Internal and External Auditors have been requested to review the Company's compliance to laws and regulations and all deviations are to be reported to the management and the Audit Committee.

Proof of the effectiveness of Regulatory Risk Management

- All compliance reports were submitted to IBSE on time.
- Quarterly and year end financial statements were submitted to CSE on time.
- All taxes and other dues to regulators were paid on time.
- No penalty or surcharges were paid during the year for non-compliance with any laws or regulations.

INSURANCE RISK

Risk Rating - Low

Insurance Risk can be specifically identified in the following categories in light of the operations of the Company.

UNDERWRITING RISK

Risk Rating - Low

Nature of the 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.

This is a primary area of focus in the Company's Risk Management programme. Underwriting risk could also arise due to a lack of understanding regarding changes in the environment, particularly the effect of climate change on account of global warming and other issues.

HNB Assurance mechanisms to manage Underwriting Risk

- Always ensuring an adequate level of segregation of duties.
- Strict adherence to the Manual of Financial Authority which is reviewed regularly.
- Significant investment on conducting regular training for underwriting and claims management staff including those attached to the distribution network.
- "General Insurance Academy" started during the year aimed at improvement of technical knowledge in General Insurance across the Company.
- Selective underwriting considering both the risk and return, not just focusing on the growth in the top line.
- Strict controls on the issue of cover notes.
- Underwriters carrying key performance indicators on both turnover and profitability.
- Maintenance of statistical databases on loss making clients and making sure such clients are declined strategically.
- Carrying out post-underwriting audits to ensure set guidelines have been observed.
- No insurance cover is issued without placing adequate reinsurance and also reviewing the adequacy of reinsurance support for catastrophe / extreme events on a regular basis.

Specific to Life Insurance

- Getting the maximum input of its Consultant Actuary and Reinsurer in deciding on the terms and conditions of products and thereby ensuring that the products are adequately priced.
- Using only registered laboratories when obtaining medical reports.

- Regular visits by the management to such laboratories to monitor the quality of their service.
- Providing focused training on proper selling in all three languages (Sinhala, Tamil and English) to Insurance Advisors.
- Using Customer Need Analysis Form to identify and sell the most appropriate policy in terms of customer needs.

Proof of the effectiveness of Underwriting Risk Management

- Receiving profit commission from the reinsurer due to profitable business underwritten.
- Ability to reduce the loss ratio on Motor Insurance which is the predominant class of business.

REINSURANCE RISK

Risk Rating – Low

Nature of the Risk

Reinsurance risk is;

- Retaining risks beyond the Company’s net retention capacity without having adequate reinsurance.
- Inability of reinsurers to meet their commitments due to insufficient financial strength.

HNB Assurance responses to manage Reinsurance Risk

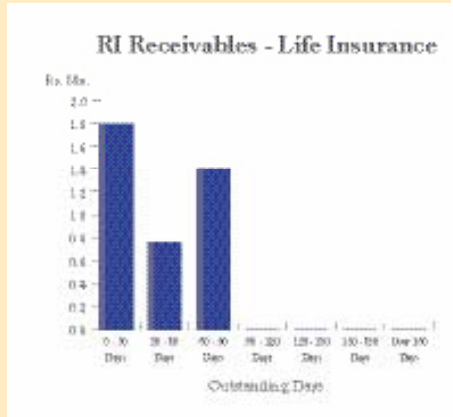
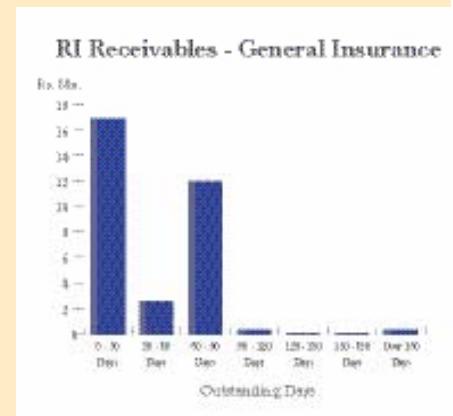
- Maintaining a very close and professional relationship with all reinsurers.
- Making sure that no cover is issued without a properly confirmed reinsurance in place.
- Using only globally trusted and stable portfolio of reinsurance companies who are all rated ‘A-’ and above by Standard & Poor or AM Best.
- Constantly reviewing our reinsurer ratings.
- Reviewing the outstanding reinsurance receivables in a timely manner and making sure that all dues are collected or set off against payables on time.

Proof of the effectiveness of Reinsurance Risk Management

- No failures on reinsurance arrangements.
- All dues from reinsurers are collected without any provisions for bad debts. Age analysis of reinsurance receivables as at 31st December 2010 is shown below.
- Using only reinsurers rated ‘A-’ and above by Standard & Poor or AM Best.

Reinsurer	Security Rating	Rating Agency
Mitsui Sumitomo Re	AA-	Standard & Poor
Munich Re	A+	AM Best
Toa Re	A+	Standard & Poor
General Insurance Corporation of India	A-	AM Best
Trust International	A-	AM Best
Malaysian Re	A-	AM Best
BEST Re	A-	AM Best

- Continuous support on training and development for the staff from reinsurers.
- Year on year increase in treaty limits and benefits.



Risk Management

CLAIM RESERVING RISK

Risk Rating – Low

Nature of the Risk

Risk of not providing adequate reserves to meet future obligations arising from claims in the General Insurance business and claims and maturities in the Life Insurance business.

HNB Assurance responses to manage Claim Reserving Risk

General Insurance

- Claim intimation through a 24 hour fully fledged Customer Relations Center (CRC).
- Independent and expert panel of assessors/ loss adjustors working throughout the island on a 24 hour basis.
- Certified garages located islandwide to provide a better service to customers by comprehensive assessments of claims.
- Immediate assessment of claims upon intimation and reserving accordingly.
- Involvement of the Claims Panel (comprising Managing Director, General Manager - General and Head of Finance) to take decisions on significant/ problematic claims and appeals made in respect of claims.
- Monthly review of significant outstanding claims by the management.
- Engaging the services of a qualified Independent Actuary twice a year to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- Review of all third party claim intimations separately with the support of Manager - Legal and Compliance.

Life Insurance

- Engaging an Independent Actuary to carry out valuations of the Life Fund twice a year.
- Immediate reserving for claims at the intimation or on the availability of information of a death or injury of an insured.
- Making additional reserves to meet contingency needs in excess of statutory requirements as a measure of prudence with the advice of the Consultant Actuary.
- Involvement of the Claims Panel (comprising Managing Director, General Manager - Life and Head of Finance) to take decisions on significant/problematic claims and appeals made in respect of claims.

CREDIT RISK

Risk Rating – Low

Nature of the Risk

Risk pertaining to uncertainty in the debtors' ability to meet obligations to the Company.

HNB Assurance responses to manage Credit Risk

- Strict implementation of Premium Payment Warranty (PPW) and cancelling all General Insurance policies for which payment is outstanding for more than 60 days.
- Follow up meetings on debt collections with the participation of Finance, Distribution and Underwriting officials on a monthly basis
- Information regarding policies cancelled due to non payment of premiums being submitted to the industry database on a routine basis.
- Use of new technology such as SMSs to inform customers on premiums due to the Company.
- Claim settlements being done only after reviewing the position of outstanding receivables.
- All other receivables including reinsurance receivables being reviewed on a timely basis and recoveries being made on time.
- No credit risk in Life Insurance as premiums are recorded only upon collection of cash.

Proof of the effectiveness of Credit Risk Management

- No receivables over 60 days at any given month end unless there is a subsequent settlement within the next 7 days
- Nil bad debts in Reinsurance Receivables
- Very low level of bad debts in other receivables

INVESTMENT RISK

Risk Rating – Moderate

Company handles a significant portfolio of investments and is therefore exposed to a substantial amount of risks relating to the investments held. We have identified specific investment related risk categories as discussed below.

CONCENTRATION RISK

Risk Rating – Moderate

Nature of the Risk

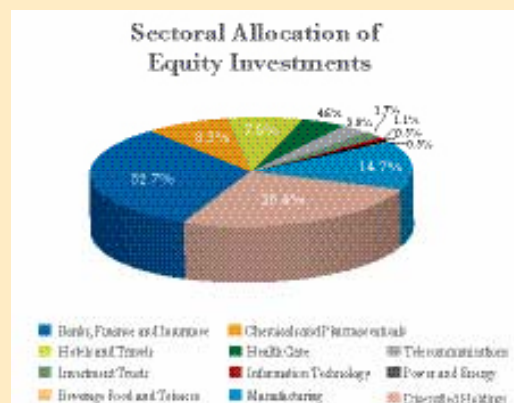
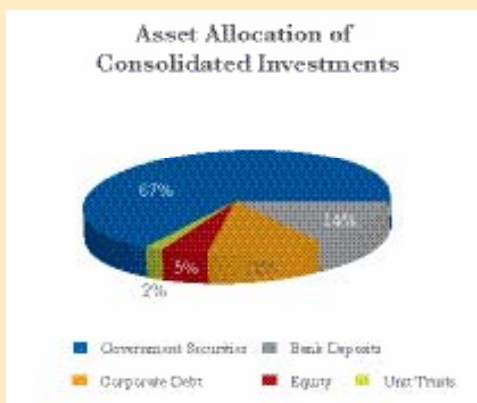
The risk of over exposure to a particular company or sector due to lack of diversification in the investment portfolio.

HNB Assurance responses to manage Concentration Risk

- Investment Committee in consultation with the management sets the target asset allocations which is regularly reviewed in terms of changes in the environment. Particularly, Company’s exposure to Equities and Corporate Debt is regularly reviewed and updated.
- Strict adherence to the Investment Policy guidelines and Investment Authority Manual in all placements.
- Review of the investment portfolio by the Managing Director and Head of Finance on a monthly basis with the participation of both front office and back office investment staff.
- Meeting with the Investment Committee on a quarterly basis to review the investment portfolios, investment strategy, future outlook, etc.
- Monthly review by the Board of all new investment placements made by the Company.
- Single party exposure limits are decided based on the credit ratings and regulatory requirements which are monitored closely at different levels.
- Allocating a considerable portion of investments to Government Securities which is risk free.
- Review by the Internal Auditors on the Company’s compliance with set policies and best practices.

Proof of the effectiveness of Concentration Risk Management

Diversity of the Company’s asset allocation and the sectoral allocation of equity investments as at 31st December 2010 is shown in the graphs below.



CREDIT RISK IN INVESTMENTS

Risk Rating – Moderate

Nature of the Risk

This relates to the risk of not being able to recover the capital and/or interest relating to investments. This is mainly applicable to investment in Corporate Debt.

Risk Management

HNB Assurance responses to manage Credit Risk in Investments

- Investment Committee has adopted a list of approved entities which in the opinion of the Committee carries minimal credit risk.
- Creditworthiness of potential investment entities are checked mainly through ratings assigned to the issuing institution or to an issue.
- Any investments made in any other entity are carried out only with the explicit approval of the Committee.
- Single party exposure limits are decided based on the credit ratings and regulatory requirements which is monitored closely at different levels.
- Master Repo agreements are signed with all primary dealers the Company works with in order to ensure zero level of default risk in respect of Government securities bought through such parties even in the event of their bankruptcy.

Proof of the effectiveness of Investment Credit Risk Management

Credit quality of the Corporate Debt portfolio as at 31st December 2010 is well within acceptable levels as seen from the graph given on page 47.

INTEREST RATE RISK

Risk Rating – Moderate

Nature of the Risk

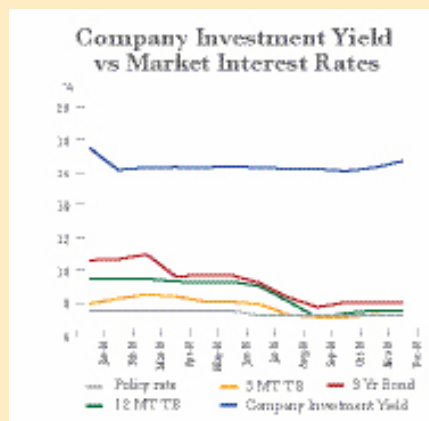
This refers to the risk of the Company's inability to earn adequate returns to meet promised liabilities due to volatility in interest rates.

HNB Assurance responses to manage Interest Rate Risk

- Market interest rates and other macro economic indicators are monitored closely by both the management and the Investment Committee and necessary changes to the asset allocations are made, where necessary.

Proof of the effectiveness of Interest Rate Risk Management

The Company yield was well above the market yield during the year, as indicated in the graph.



LIQUIDITY RISK

Risk Rating – Low

Nature of the Risk

This refers to the inability to meet contractual obligations such as claim settlements and payments to reinsurers due to the insufficient availability of cash and other liquid investments.

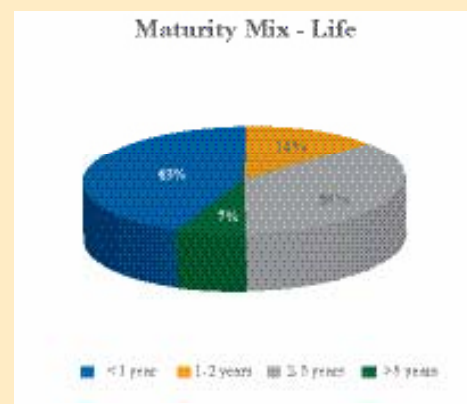
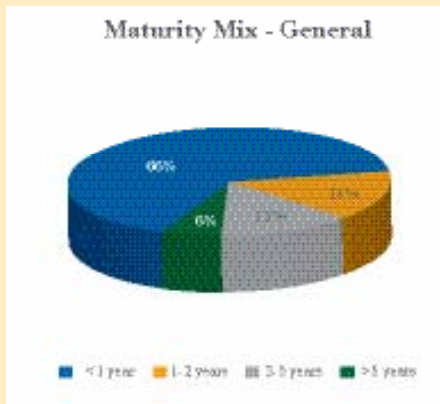
HNB Assurance responses to manage Liquidity Risk

- Maturity mix of investment portfolio is reviewed and agreed by the management and the Investment Committee on a regular basis.
- All large cash outflows are planned in advance and necessary arrangements are made to ensure the availability of funds to meet such outflows.
- Life Insurance policies sold with a guaranteed return are fully backed by corresponding investments for a similar return and period.

Proof of the effectiveness of the Liquidity Risk Management

The Company has never faced a liquidity issue in its history. The maturity mix of the investment portfolios as at 31st December 2010 is shown below.

- In addition, the Company is entitled to obtain cash calls from reinsurers in the event of large claims.
- Being a subsidiary of a large commercial bank in the country, we have the ability to negotiate quick overdraft facilities in the event of a cash need.



MARKET RISK

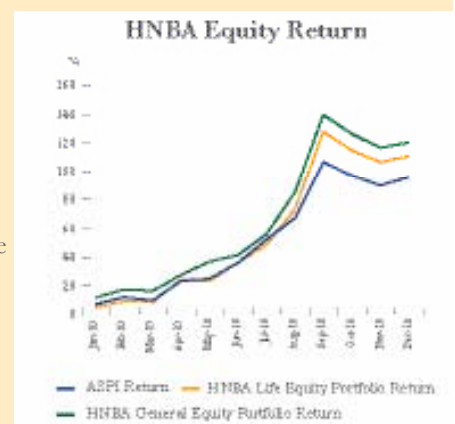
Risk Rating – Moderate

Nature of Risk

Market risk refers to change in the value of investments due to volatility of stock prices.

HNB Assurance responses to manage Market Risk in Investments

- Investments decisions are based on fundamental principles.
- The Company has developed a target portfolio of stocks based on the financial strength and growth potential of listed companies.
- Only selected investments are made after carrying out in-depth research into identified stocks.
- Review of the investment portfolio by the Managing Director and Head of Finance on a monthly basis with the participation of both front office and back office investment staff.
- Meeting with the Investment Committee on a quarterly basis to discuss about the investment portfolios, investment strategy, future outlook, etc.



Proof of the effectiveness of the Market Risk Management

Performance of the Company’s equity portfolio against the market is shown in the graph.

OPERATIONAL RISK

Risk Rating – Low

This refers to operational failures due to inadequate or failed internal processes, people and systems or on account of external events.

BUSINESS CONTINUITY RISK

Risk Rating – Moderate

Nature of the Risk

This is the risk of business operations being disrupted due to an unexpected eventuality.

HNB Assurance responses to manage Business Continuity Risk

- Effective implementation of the Business Continuity Plan (BCP)
- Availability of IT infrastructure to support the virtual operation of the Company in a situation where the Company Head Office is not accessible

Risk Management

Proof of the effectiveness of the Business Continuity Risk Management

- During the year there were no incidents reported on business interruption due to any reason
- The Company was able to serve its customers and branch network from its BCP location on two days when the head office was inaccessible due to security reasons.

FRAUD RISK

Risk Rating – Moderate

Nature of the Risk

This refers to the risk of fraud being perpetrated due to inadequate internal controls.

HNB Assurance responses to manage Fraud Risk

- Strict adherence to the Manual of Financial Authority (MOFA) which is approved by the Board.
- Properly delegated responsibilities through a clearly defined organisation structure.
- Proper segregation of duties implemented for all significant operations.
- Strong control environment which is subjected to periodic monitoring by an independent Internal Audit team (M/S Ernst & Young Advisory Services (Pvt) Ltd).
- Monthly reports submitted by the Internal Auditors reviewed by the Audit Committee of the Board which monitors the implementation of all agreed follow-up actions.
- Availability of a Code of Best Practice and Ethics to be adopted by employees at all levels without exception.
- Any complaints or indications whatsoever regarding possible fraud or misappropriation by employees or members of the agency force are investigated immediately and appropriate action is taken promptly. There is zero tolerance on fraud.
- With the implementation of the new system, a number of initiatives have been taken to minimise the dependence on manual controls and documents

Proof of the effectiveness of the Fraud Risk Management

- No significant frauds were noted during the year.

SOCIO-ECONOMIC AND POLITICAL RISK

Risk Rating – Low

Nature of the Risk

Socio-economic and political factors have a direct impact on insurance business as well as on the investment activities of the Company. Particularly, when the country is economically or politically unstable, insurance business similar to other businesses can be seriously affected. This was clearly evident at the height of the conflict and during the recent economic downturn, for example.

HNB Assurance responses to manage Socio-Economic and Political Risk

- Significant attention is paid to Socio-Economic and Political factors at the corporate planning sessions on an annual basis.
- Company seeks advice from independent specialists such as economists whenever necessary to identify these trends and to understand their financial implications.
- Review pricing of insurance policies in light of inflation, fluctuation in interest rates, etc.
- Take actions to minimise lapsations in Life Insurance which is likely to increase in unstable economic conditions.

Proof of the effectiveness of the Socio-Economic and Political Risk Management

- Improvements in lapsation position in Life Insurance and over 20% growth in GWP from Endowment Policies.
- Achieving General GWP growth of 19% in spite of losing terrorism premium income of Rs. 90 million.

INFORMATION SECURITY RISK

Risk Rating – Low

Nature of the Risk

This refers to incurring losses as a result of the improper use of information systems or as a result of a disaster or breakdown. It also covers losses that could occur due to the leakage or misuse of vital data or information.

HNB Assurance responses to manage Information Security Risk

- Adequate investments have been made on IT infrastructure to improve both access and applications controls.
- Strict application of IT Security Policy which is communicated to all employees.
- Carrying out IT Security Audits/ penetration tests periodically to ensure the Company's systems are well secured and are not exposed to hacking.
- The Company has also set up a Disaster Recovery Center with adequate IT infrastructure.

Proof of the effectiveness of the Information Security Risk Management ...

- No Information Security issues were noted during the year.

REPUTATIONAL RISK

Risk Rating – Moderate

Nature of the risk

This refers to the impairment of the goodwill of the Company due to a particular event or behavior.

HNB Assurance responses to manage Reputational Risk

- A sound system of internal controls has been established and this is regularly monitored by various parties as discussed above.
- The Company is highly committed to be in full compliance with all laws and regulations applicable to the Company.
- All employees and advisors of the Company are required to show a high level of integrity and professionalism at all times.
- Management maintains a good relationship with regulators, other players in the industry and all other stakeholders in order to ensure any potential risk is identified in advance and addressed adequately.
- The Company has adopted a Code of Business Conduct and Ethics to be followed by all employees and advisors without exception .
- The release of financial information to the public is subject to approval by the Audit Committee and the Board.

Proof of the effectiveness of the Reputational Risk Management ...

- The Company's reputation has remained intact during the year.
- The Company maintains a very good relationship with all printed and electronic media.

Risk Management

HUMAN RESOURCE RISK

Risk Rating – Low

Nature of the Risk

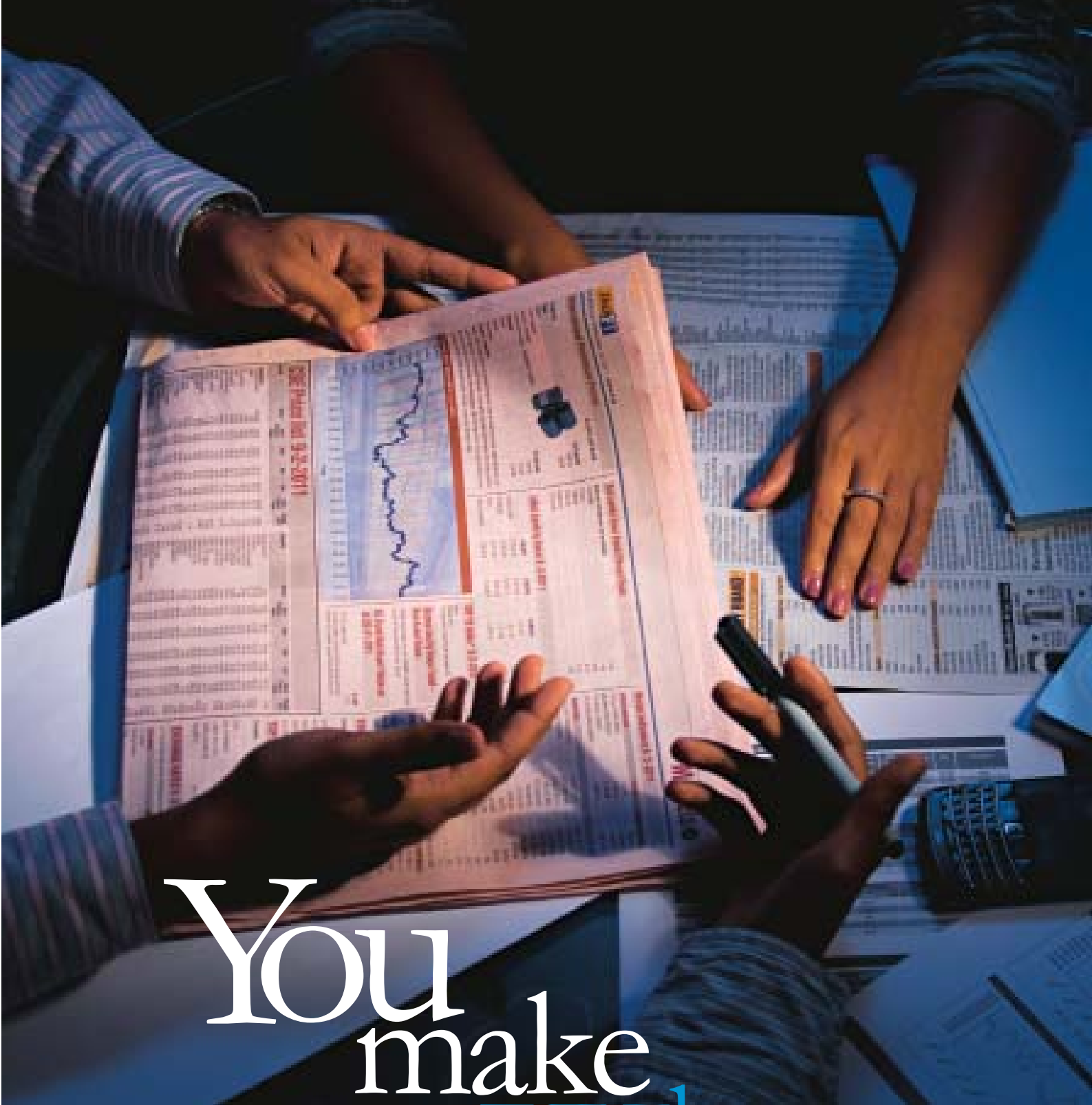
The main risk in human resource area is the lack of professionally qualified personnel in the industry, which has resulted in relatively high staff turnover ratios.

HNB Assurance responses to manage Human Resource Risk

- Company HR policy is to support continuous education and development of employees at all levels.
- At every opportunity, employees at all levels are provided with in-house, external and other training to enhance knowledge and develop skills.
- The Company always aims to have its remuneration packages in line with the industry to retain and attract qualified staff.
- The Company supports all industry initiatives to address the training and development needs of professionals engaged in the industry and those seeking to join it.
- Opportunities are given to the staff to meet the Managing Director and exchange ideas without the presence of their superiors through CEO's forums.
- An 'open-door' culture enables any employee to access the highest levels of management to report or discuss any issues requiring their attention.
- Exit interviews are carried out when a member of the staff leaves in order to identify the causes for the person leaving the Company.
- Employee satisfaction surveys are carried out to assess satisfaction levels and identify areas for improvement.
- The Company invests in staff welfare through the Welfare Society, Human Resource Department and relevant divisional activities to motivate 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.
- An Annual Staff Conference is held at which the entire staff of the Company is briefed on the Company's performance and future plans.

Proof of the effectiveness of the Human Resource Risk Management

- High level of training provided to employees at all levels. (Please refer Sustainability Report in page 72 for details)
- Overall employee satisfaction level was ascertained to be 79% and employee response rate was 78% in the customer satisfaction survey conducted by M/S MTI consulting (454 out of total staff of 575 had responded to the survey).



You
make
us **Who**
We are

Financial Statements

Audit Committee Report

Composition

The Audit Committee, appointed by and responsible to the Board of Directors, comprises three Non-Executive Directors, two of whom are independent. The Committee is made up of members who bring their varied expertise and knowledge to effectively carry out their duties.

Mr. D M de S Wijeyeratne ACA - Chairman
Independent Non- Executive Director

Mr. J D N Kekulawala FCIB (London), FCA (England & Wales), MBA (Manchester) - Member
Non-Executive Director

Mr. Sarath Ratwatte FCMA (UK) - Member
Independent Non- Executive Director

A brief profile of each member is given on pages 12 and 14 of this Annual Report.

The Head of Finance acts as the Secretary to the Audit Committee.

The functions of the Audit Committee are governed by an Audit Committee Charter, which is reviewed on an annual basis.

Meetings

The Committee met five times during the financial year under review. The attendance of each member is given on page 147. There were additional meetings with the Internal Auditors, External Auditors and members of the management during the year. Agendas of the Meetings were prepared and distributed sufficiently in advance to members, along with appropriate briefing material.

The Managing Director attends all meetings by invitation. The Head of Finance also attends all meetings in the capacity of Secretary to the Audit Committee as well as the Chief Financial Officer. Executive Committee Members, Manager – Legal and Compliance and other members of the Management are also invited to attend these meetings when necessary.

Objective and Authority

The key objectives of the Audit Committee are;

- To satisfy themselves that a good financial reporting system is in place in order to present accurate and timely financial information to the Board of Directors, regulators and shareholders and to make sure that these are prepared in accordance with Sri Lanka Accounting Standards (SLAS) and other relevant laws and regulations.
- To satisfy themselves of the effectiveness of the Company's risk management processes to identify and mitigate risks.
- To review the design and implementation of the internal control systems and take steps to strengthen them as necessary.

- To ensure that the conduct of the business is in compliance with the applicable laws and regulations of the country and policies and procedures of the Company
- To monitor processes for compliance with laws and regulations
- To assess the independence of the External Auditors and monitor the performance of Internal and External Auditors
- To assess the Company's ability to continue as a going concern in the foreseeable future

The Audit Committee is empowered to seek any information it requires from the management and staff (all of whom are directed to co-operate with the Committee) or external parties, meet with the management and staff, External and Internal Auditors, the Consultant Actuary, regulators or outside counsel, in order to achieve the objectives stated above.

Activities and Responsibilities

The Committee carried out following activities during the year.

Financial Reporting:

The Committee, as a part of its responsibility to oversee the Company's financial reporting process on behalf of the Board of Directors, reviewed in consultation with the External Auditors and the management when necessary, significant accounting and reporting issues, developments in the financial reporting framework (Sri Lanka Accounting Standards), the consistency of the accounting policies and methods adopted and their compliance with the Sri Lanka Accounting Standards, disclosure requirements and other applicable accounting and financial reporting requirements such as Companies Act, No. 7 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000, etc.

The Committee also reviewed with the management the Interim and year-end Financial Statements and recommended the adoption of the same to the Board.

Compliance with Laws and Regulations:

The Committee reviewed the quarterly compliance reports submitted by the Compliance Officer to ensure that the Company has complied with all statutory requirements including those set out by the Regulation of Insurance Industry Act, No. 43 of 2000.

Statutory Reporting to the Insurance Board of Sri Lanka (IBSL):

The Committee reviewed and approved all Quarterly and Annual Returns submitted by the Company to the Insurance Board of Sri Lanka under the Regulation of Insurance Industry Act, No. 43 of 2000.

External Audit:

The Audit Committee met with the External Auditors to discuss the proposed audit scope and plan, including coordination of the audit effort with the internal auditors and its audit quality control /assurance processes for the year.

The Committee perused the Report of the Auditors and the Management Letters issued by them. The Committee followed up on recommendations made in those reports. The External Auditors were given adequate access to the Audit Committee and all relevant information required.

The Committee has recommended to the Board of Directors that Messrs. KPMG Ford, Rhodes, Thornton & Co. be reappointed as Auditors for the financial year ending 31st December 2011 subject to the approval of Shareholders at the Annual General Meeting to be held on 29th March 2011.

The Audit Committee also recommends the fees payable to the statutory auditors for approval by the Board.

The Audit Committee met the External Auditors without the management being present on one occasion during the year.

Independence of External Auditors

As far as the Audit Committee is aware, the Auditors do not have any relationship (other than that of the Auditor) with the Company. The Committee has also received a declaration from Messrs. KPMG Ford, Rhodes, Thornton & Co, as required by the Companies Act, No. 7 of 2007, confirming that they do not have 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) and the Guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka (SEC). In addition, the lead audit partner is rotated every five years.

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 in such circumstances. However, no such non-audit services were provided by the External Auditors during the year under review.

Internal Audit:

The Internal Audit function has been out-sourced to Messrs. Ernst & Young Advisory Services (Pvt) Ltd. The Committee reviewed and approved the Internal Audit plan, scope, and reporting requirements, etc. of the Company.

The Committee reviewed 11 Internal Audit reports covering the operations of 33 branch locations and several head office

functions i.e. underwriting, claims, reinsurance, credit control, finance, investments, etc. Audit findings presented in the reports are prioritised based on the level of risk. Progress on implementation of Internal Audit recommendations was also regularly followed up by the Committee. Internal Audit reports are made available to the External Auditors as well. The Audit Committee met the Internal Auditors without the management being present once during the year.

Reports of External Actuaries

The Audit Committee received written representations from the Life and General Independent External Actuaries and their observations and comments with regard to the work performed in valuing Life Insurance Policyholder Liabilities and General Insurance Incurred But Not Reported Claims (IBNR) and Incurred But Not Enough Reported Claims (IBNER).

Internal Control and Risk Management

During the year, the Committee reviewed all reports published by the Internal and External Auditors. The Committee also received an update of the Risk Management Report which included significant risks identified by the Risk Management Committee of the Company. The Committee therefore reviewed the process for identification, evaluation and management of significant risks throughout the Company and the effectiveness of the mitigating actions taken or to be taken by the management. The effectiveness of the Company's internal controls and risk management processes are mainly evaluated by the reports furnished by the management, External and Internal Auditors.

A Manager – Internal Control and Compliance, who reports to the Managing Director and the Audit Committee has been appointed from within the staff from the year 2011. He will assist the Committee to carry out its functions more effectively, ensure that internal and external auditor's recommendations are implemented, independently review the design and implementation of internal controls and ensure that risk identification and mitigation measures are adequate, effective and function as designed.

IT Risk and Control Assessment

The Committee pays attention to the risks of IT related processes of the Company. Thus, the Committee appointed Messrs. Ernst & Young to carry out a comprehensive IT Security Audit which is to be commenced soon .

The Committee also reviewed the comments in respect of IT general controls made by the Internal Auditors and discussed with the management appropriate actions required to mitigate identified risks.

Audit Committee Report

Compliance with the Code of Best Practices on Corporate Governance

The Company is fully compliant with the Corporate Governance Rules as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange. Please refer pages from 124 to 125 for the Compliance table.

In addition, the Company is substantially compliant 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 (ICASL). Please refer pages from 103 to 119 for the Compliance table.

Performance Evaluation of the Committee

The Audit Committee formally approved a checklist indicating their responsibilities / functions in order to achieve the objectives of the Committee. Based on the checklist, the Committee is currently conducting a self evaluation. An evaluation by the management of the Committee's performance is also being carried out. The Committee intends to discuss these evaluations with the Chairman of the Board and the Board of Directors. The final objective of these evaluations is to improve the effectiveness of the activities of the Committee and enhance its support to the management and the Board of Directors.

Conclusion

The Committee is satisfied that the Company's internal controls are effectively implemented as designed, and the Company's assets are adequately safeguarded. The Company's Internal and External Auditors have been effective and independent throughout the year. The Committee is also satisfied that the operational controls and the application of appropriate accounting policies provide reasonable assurance that the Financial Statements of the Company are true and fair.



D M de S Wijeyeratne,
Chairman - Audit Committee

Colombo, Sri Lanka
31st January 2011

Remuneration Committee Report

Composition and Charter of the Remuneration Committee;

The Remuneration Committee comprises the following Directors as at the year end.

- Mr. M U de Silva – Chairman (Non-Executive Director)
- Mr. D M de S Wijeyeratne (Independent Non-Executive Director)
- Mr. Sarath Ratwatte (Independent Non-Executive Director)

The Managing Director attends all meetings by invitation. The Assistant Manager – Human Resources acts as the Secretary to the Committee and also assists the Committee by providing information required for its decision making process.

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.
- Ensuring that no Director is involved in setting his own remuneration package.

Remuneration Committee Meetings

The Committee meets twice each year and the minutes of the meetings are circulated to the Board. Please refer page 147 for each Director’s attendance record.

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

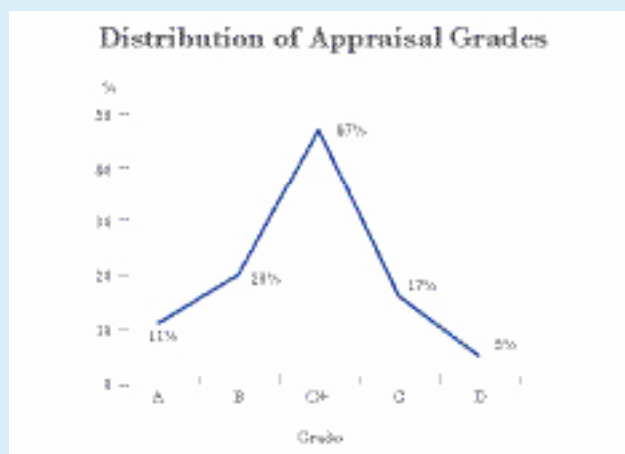
Employees

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
Basic Salary	Annual bonus for all staff	Vehicle Loans (Selected categories of staff)
Traveling Allowance	Production Bonus for Distribution Management Team, Other Marketing personnel and Bancassurance officers	Examination Loans Other Loans (Emergency, Wedding etc) Insurance Benefits Education Assistance Scheme

Fixed Components

Basic salary and traveling allowance are the fixed components in the package which is based on the scope and complexity of the role and is reviewed annually. Annual performance appraisals are conducted and increments and promotions are granted purely based on results of such exercises. Distribution of performance gradings in the year-end appraisal process is shown in the graph below. Overall competence and performance are key factors that determine an individual’s base pay.



Variable Components

The main component of our variable pay is the annual bonus to employees at all levels based on individual performance as evaluated at the annual performance appraisals and the

Remuneration Committee Report

performance of the Company. In addition, the Distribution Management Team, other marketing personnel in the distribution network and the Bancassurance Officers are entitled to a production bonus scheme based on achievement of business targets under pre determined criteria.

Other Employee Benefits

Benefits provided to employees include vehicle loans, examination loans, other loans, various insurance benefits including the Staff Health Insurance Cover, Critical Illness Cover and the Personal Accident Cover, regular health check ups and doctor consultations through a reputed medical services provider.

Retirement Benefits

There are no retirement benefits to employees other than gratuity.

Board of Directors

No remuneration is paid to Non-Executive Directors other than the nominal fees paid based on their participation at Board and Sub Committee meetings. The Managing Director's remuneration is decided by the Board annually on the recommendation of the Remuneration Committee based on the achievement of Company objectives and individual performance. Total fees and remuneration paid to all Directors is disclosed on page 189. Non-Executive Directors are not entitled to retirement benefits. The Managing Director is entitled to gratuity as all other employees.

Share Plans for Directors

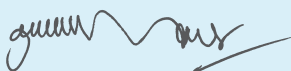
The Company does not have a share plan for Directors.

Directors' Shareholding

The shareholdings of Directors are provided on page 147.

Personal Loans for Directors

No Director is entitled to Company loans.



M U de Silva

Chairman - Remuneration Committee

Colombo, Sri Lanka
31st January 2011

Annual Report of the Board of Directors on the Affairs of the Company

The Board of Directors of HNB Assurance PLC (the Company) has pleasure in presenting their Report with the audited Financial Statements for the year ended 31st December 2010 and the Auditors' Report thereon. The Financial Statements were accepted and approved by the Board of Directors on 31st January 2011.

Principal Activities

General Insurance and Life Insurance businesses remained the principal activity of the Company with no significant changes during the financial year under review. The Company has not engaged in any activities which contravene laws and regulations of the country.

Review of Performance and Future Developments

A review of the Company's financial and operational performance during the year and future developments is contained in the Chairman's Message (pages 6 to 7), Review of the Managing Director (pages 8 to 11) and Management Discussion and Analysis (pages 19 to 54). These reports, together with the Financial Statements, reflect the state of affairs of the Company and form an integral part of this report.

Financial Statements

The Financial Statements of the Company are prepared in conformity with the Sri Lanka Accounting Standards (SLAS) laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL) 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 other rules and regulations of the Insurance Board of Sri Lanka (IBSL). The formats and disclosures are also in accordance with the Statement of Recommended Practice (SoRP) for Insurance Contracts, adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

The Financial Statements of the Company for the year ended 31st December 2010 duly signed by the Chairman, Managing Director and Head of Finance of the Company are given on pages 158 to 198 which form an integral part of the Annual Report of the Board.

Significant Accounting Policies

The significant accounting policies adopted in preparation of these Financial Statements are given on pages 168 to 175. There were no material changes in the accounting policies adopted with those of the previous year.

Going Concern

The Board has made necessary reviews and inquiries including review of the Company's budget and Corporate Plan for ensuing years, future prospects and risks, capital expenditure requirements, cash flows, etc. Accordingly, the Board is satisfied that the Company has adequate resources to continue its

operations in the foreseeable future and continues to adopt the going concern basis in preparing these Financial Statements.

Auditors

The Financial Statements for the year ended 31st December 2010 have been audited by Messrs. KPMG Ford, Rhodes, Thornton & Co., (Chartered Accountants) and their report on the Financial Statements which form an integral part of the Report of the Board of Directors is given on page 157 of this Annual Report.

Reappointment of Auditors

The retiring Auditors, Messrs. KPMG Ford, Rhodes, Thornton & Co., have expressed their willingness to continue in office as the Company Auditor. In accordance with the Companies Act, No. 7 of 2007, a resolution relating to their re-appointment and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Auditors Fees and Expenses

The fees paid/ payable to auditors Messrs. KPMG Ford, Rhodes, Thornton & Co., for the services provided to the Company during the year together with corresponding figures for the previous year are presented below.

	2010 Rs.'000	2009 Rs.'000
Audit Fees and Expenses	888	800
Audit Related Fees and Expenses	551	100
Total	1,439	900

Audit related fees and expenses consist of fees for the interim audit, reports issued to Commissioner General of Inland Revenue (CGIR), Insurance Board of Sri Lanka (IBSL), etc. As far as the Directors are aware, the Auditors do not have any relationship (other than that of an Auditor) with the Company. The Auditors have provided a declaration confirming their independence.

Risk and Internal Control

The Board considers that strong internal controls are integral to the sound management of the Company and is committed to maintain strict financial, operational and risk management controls over all activities of the Company.

The Directors are ultimately responsible for the Company's system of internal controls and for reviewing its effectiveness. Such a system is designed to manage, 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 Company has an ongoing process for identifying, evaluating

Annual Report of the Board of Directors on the Affairs of the Company

and managing the risks that are faced by the Company, and the Directors have reviewed this process through the Audit Committee.

The Board is satisfied with the effectiveness of the system of internal control for the year under review and up to the date of approval of the Annual Report and Financial Statements.

Corporate Governance

The Board of Directors is committed to maintain an effective Corporate Governance structure and process and to be in compliance with all possible rules, regulations and best practices on Corporate Governance.

The Company, being a listed Company of the Colombo Stock Exchange (CSE), is fully compliant with the rules on Corporate Governance under the Listing Rules of the CSE with regard to the composition of the Board and its Sub Committees. In addition, the Company is substantially compliant with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and Institute of Chartered Accountants of Sri Lanka (ICASL).

A separate report on governance is given on pages 103 to 119.

Turnover / Gross Written Premium (GWP)

The total turnover as measured by Gross Written Premium (GWP) of the Company for the financial year under review amounted to Rs. 2,428 million (2009 - Rs. 2,116 million).

The above GWP is made up of General and Life Insurance premium income amounting to Rs. 1,344 million (2009 - Rs. 1,131 million) and Rs. 1,084 million (2009 - Rs. 985 million) respectively.

A detailed analysis of the total GWP achieved by the Company is given in Note 20 to the Financial Statements on page 185.

Financial Results and Appropriations

The Income Statement of the Company is given on page 159. Transfers to/from reserves of the Company are shown in the Statement of Changes in Equity on page 160.

Description	2010 Rs. '000	2009 Rs. '000
Profit Before Taxation (PBT)	269,525	231,081
Income Tax Expense	(27,786)	(29,471)
Profit After Taxation (PAT)	241,739	201,610
Unappropriated Profit brought forward	455,851	301,116
Profits available for appropriation	697,590	502,726
Appropriations		
Dividends Paid	(56,250)	(46,875)
Unappropriated Profit carried forward	641,340	455,851

Dividends

The Board of Directors is satisfied with the Solvency Test in terms of the provisions of the Companies Act, No. 7 of 2007, immediately after distribution of the first and final dividends proposed and to be paid on 7th April 2011. The Statement of Solvency prepared by the Board was audited by Messrs. KPMG Ford, Rhodes, Thornton & Co.

The Board of Directors recommend a first and final dividend of Rs. 1.80 (2009 - Rs. 1.50) per share payable on 7th April 2011 to holders of issued and paid up Ordinary Shares of the Company as at the close of business on 29th March 2011.

The dividend will be paid partly out of dividend received and partly out of taxable profits of the Company. The dividends to be paid out of profits will be subject to withholding tax.

The Board of Directors

The Board of Directors of the Company consists of nine Directors (2009 – nine Directors) during the year with wide financial and commercial knowledge and experience.

The following Directors held office as at the Balance Sheet date and their brief profiles are given on pages 12 and 14 of the Annual Report.

Name of the Director	Status
Rienzie T. Wijetilleke	<i>(Chairman) Non-Executive Director</i>
Manjula de Silva	<i>(Managing Director) Executive Director</i>
M U de Silva	<i>Non-Executive Director</i>
Pratapkumar de Silva	<i>Independent Non-Executive Director</i>
D M de S Wijeyeratne	<i>Independent Non-Executive Director</i>
Sarath Ratwatte	<i>Independent Non-Executive Director</i>
R Theagarajah	<i>Non-Executive Director</i>
J M J Perera	<i>Non-Executive Director</i>
J D N Kekulawala	<i>Non-Executive Director</i>

Appointments of Directors

No new appointments were made to the Board during the year under review.

Retirement and re-election/ Re-appointment of Directors recommended

Mr. M U de Silva retires by rotation at the AGM and offers himself for re-election under the Articles of Association of the Company.

Mr. Rienzie T. Wijetilleke and Mr. Pratapkumar de Silva – Directors, having attained the age of 70 years, retire at the AGM under the provisions of the Companies Act. Mr. Pratapkumar de Silva offers himself for re-appointment. Mr. Rienzie T. Wijetilleke has declared that he would not be offering himself for re-appointment.

The re-election/re-appointment of the aforesaid Directors has the unanimous support of the Board.

Board Sub Committees

The Board while assuming the overall responsibility and accountability in the management of the Company has also appointed Board Committees to ensure control over certain affairs of the Company, conforming to Corporate Governance Standards of the Listing Rules of the Colombo Stock Exchange (CSE) and adopting best practices. Accordingly, the following Committees have been constituted by the Board.

- Audit Committee
- Remuneration Committee
- Nomination Committee

In addition, the Board has appointed an Investment Committee comprising members of the Board and an outside expert to oversee control over investments. The composition of each

to reflect a true and fair view of the state of its affairs of the Company. The Statement of Directors' Responsibility for Financial Reporting is given on page 152 which forms an integral part of the Annual Report of the Board of Directors.

Directors' Interests Registers

The Company maintains a Directors' Interest Register conforming to the provisions of the Companies Act.

All Directors of the Company have disclosed their interests in other Companies to the Board and those interests are recorded in the Interest Register conforming to the provisions of the Companies Act. The particulars of those entries are set out on page 151 of the Financial Statements which form an integral part of the Annual Report of the Board of Directors.

a) Directors' Interests in Contracts

None of the Directors had a direct or indirect interest in any contracts or proposed contracts with the Company other than as disclosed on page 151.

Name of the Director	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Investment Committee Meetings		Nomination Committee Meetings	
	A	B	A	B	A	B	A	B	A	B
Rienzie T. Wijetilleke (Chairman)	12	11	-	-	-	-	-	-	-	-
Manjula de Silva (Managing Director)	12	12	-	-	-	-	4	4	-	-
M U de Silva	12	11	-	-	2	2	-	-	-	-
Pratap Kumar de Silva	12	10	-	-	-	-	-	-	-	-
D M de S Wijeyeratne	12	11	5	5	2	2	-	-	-	-
Sarath Ratwatte	12	11	5	5	2	2	4	4	-	-
R Theagarajah	12	12	-	-	-	-	-	-	-	-
J M J Perera	12	12	-	-	-	-	-	-	-	-
J D N Kekulawala	12	9	5	5	-	-	4	4	-	-

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

B = Number of meetings attended.

Committee is given on page 126 which is a part of the Annual Report of the Board.

Directors' Meetings

The number of Directors' meetings which comprise Board meetings, Audit Committee meetings, Remuneration Committee meetings, Nomination Committee meetings and Investment Committee meetings together with the attendance of each Director at these meetings during the year are tabulated above.

Directors' responsibility for Financial Reporting

The Directors are responsible for the preparation and presentation of these Financial Statements of the Company

b) Directors' Interests in Shares as at the Balance Sheet date.

The following table discloses the Directors' interest in shares of the Company.

Name of the Director	As at 31st Dec 2010	As at 31st Dec 2009
Rienzie T. Wijetilleke	750	750
Manjula de Silva	25,000	25,000
M U de Silva	2,250	2,250
Pratap Kumar de Silva	1,000	-
D M de S Wijeyeratne	500	500
Sarath Ratwatte	11,000	11,000
R Theagarajah	6,250	6,250
J M J Perera	5,250	5,250
J D N Kekulawala	30,000	26,000

Annual Report of the Board of Directors on the Affairs of the Company

There has been no change in their interests in shares between 31st December 2010 and 31st January 2011, being the date of this Report.

c) Directors' Remuneration and Other Benefits

Total Directors' emoluments including post employment benefits to Directors for the financial year ended 31st December 2010 is Rs. 16.7 million (2009 - Rs. 12.8 million). Directors are not allowed to obtain loans of any kind from the Company.

The Managing Director's remuneration is decided by the Board with the recommendation of the Remuneration Committee considering the individual and Company performance. Due attention is also paid to industry standards, inflationary factors and future plans when deciding the remuneration package of the Managing Director.

No remuneration is paid to Non- Executive Directors other than the nominal fees paid in line with the attendance of each Director to Board and Sub Committee meetings.

Related Party Transactions

The Directors have also disclosed the transactions with related parties in terms of Sri Lanka Accounting Standard 30, Related Party Disclosures (revised 2005), which is adopted in the preparation of these Financial Statements. Those transactions disclosed by the Directors are given in Note 31 to the Financial Statements in page 188 which forms a part of the Annual Report of the Board.

Share Information

Information relating to earnings, dividend, net assets and market price per share is given on page 202. Information on share trading is also given on page 202 of the Annual Report.

Shareholding

The number of registered shareholders of the Company as at 31st December 2010 was 3,665 (2009 - 3,845). The distribution and analysis of shareholdings are given on pages 200 and 201.

Equitable Treatment to all Shareholders

The Company has at all times ensured that all shareholders are treated equitably.

Major Shareholders

The twenty largest shareholders of the Company as at 31st December 2010, together with comparative shareholding as at 31st December 2009 are given on page 201. Hatton National Bank PLC (Mr. Rienzie T. Wijetilleke, Chairman and Mr. R. Theagarajah, Managing Director who are also Directors of the Company) owns 59.99% (2009 - 59.99%) shares of HNB Assurance PLC.

Corporate Donations

The Company made charitable donations amounting to Rs. 300,000 (2009 - Rs. 300,000). This includes the supply of medical and other needed items to a value of Rs. 200,000 to the Pediatric Unit of the General Hospital, Kegalle. Additionally, the Company donated a sum of Rs. 100,000 to religious institutions belonging to the four main religions. No donations were made to political parties or for politically influential activities.

Taxation

Income Taxes are computed on rates enacted or substantively enacted as at the Balance Sheet date. The Income Tax rate applicable to the Company's operations is 35% (2009 - 35%). The income tax expense of the Company is given in Note 28 to the Financial Statements on page 187.

As further explained in Note 28.3 to the Financial Statements, no Deferred Tax asset is recognised since it is not probable that future taxable profits will be adequate to utilise the available tax losses fully in the foreseeable future.

Statutory payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government, the Insurance Board of Sri Lanka (IBSL) and related to the employees have been made on time.

Compliance with Laws and Regulations

The Company has complied with all applicable laws and regulations. A compliance checklist is signed on a quarterly basis by responsible officers, and reported to the Audit Committee.

The Company has submitted all returns and other required details to the relevant regulators on or before the due dates.

Investments

The amount of investments (excluding cash and cash equivalents) held by the Company as at 31st December 2010 amounted to Rs. 3,404 million (2009 - Rs. 2,717 million). A detailed description of the Investments held is disclosed in Note 4 to the Financial Statements on pages 176 and 179.

Property, Plant and Equipment (PPE)

The capital expenditure on acquisition of Property, Plant and Equipment during the year amounted to Rs. 44.9 million (2009 - Rs. 53.2 million). Net book value of Property, Plant and Equipment as at the Balance Sheet date amounted to Rs. 131 million (2009 - Rs. 117 million). An analysis of the Property, Plant and Equipment of the Company, additions and disposals made together with the depreciation charge for the year are set out in Note 6 to the Financial Statements on page 180.

Market Value of Property, Plant and Equipment (PPE)

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 values.

Intangible Assets

The capital expenditure on acquisition of Intangible Assets during the year amounted to Rs. 22.2 million (2009 - Rs. 40 million) which is mainly the expenditure on acquisition of the new software TCS Bancs. The Net Book Value of Intangible Assets as at the Balance Sheet date amounted to Rs. 67 million (2009 - Rs. 55 million). A movement of Intangible Assets from the balance as at 1st January 2010 to the balance as at 31st December 2010 having additions and disposals made together with the amortisation charge for the year are set out in Note 5 to the Financial Statements on page 179.

Capital Commitments

No significant capital expenditure commitments exist as at 31st December 2010 (2009 - Rs. Nil).

Liabilities Provisions

The Directors have taken all reasonable steps to ensure adequate provisioning for all known liabilities.

Adequate provisions are 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 General Insurance. The Directors have also consulted an independent Actuary in the process of valuing IBNR and IBNER reserves and his report is given on page 154.

Moreover, the Directors have arranged a Consultant Actuary to value the Life Fund and the report of the Consultant Actuary is given on page 155.

Gratuity liability was also valued by an independent Actuary as required by the Sri Lanka Accounting Standards No 16 - Employee Benefits (revised 2006).

As at the date of this report, the Directors are not aware of any circumstances which would render inadequate provisions made in the Financial Statements.

Contingencies

In the opinion of the Directors, and in consultation with the Company Lawyers, litigation 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.

Stated Capital and Reserves

The stated capital of the Company as at 31st December 2010 was Rs. 375 million (2009 - Rs. 375 million) comprising 37,500,000 ordinary shares. There were no changes in the stated capital during the year.

The total reserves of the Company as at 31st December 2010 amounted to Rs. 641.3 million (2009 - Rs. 455.9 million). The movement of reserves is shown in the Statement of Changes in Equity on page 160.

Minimum Capital Requirements to continue General and Life Insurance Businesses

Section 13 (b) of the Regulation of Insurance Industry Act, No. 43 of 2000 requires a minimum stated capital of Rs. 100 million each to carry on General and Life Insurance businesses. HNB Assurance has an issued and fully paid stated capital of Rs. 375 million and therefore has fulfilled the above mentioned statutory requirement. The Company has set aside Rs. 100 million out of Shareholders' funds and invested in a separate fund, namely the Life Shareholder's Fund, which is dedicated to the solvency requirements of Life Insurance.

Environment

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

Events occurring after the Balance Sheet Date

There have not been any material events that occurred subsequent to the Balance Sheet date which requires adjustments to or disclosure in the Financial Statements other than the proposal of dividends for the year which is disclosed in Note 30 to these Financial Statements.

Human Resources

The employment strategies of the Company are framed to employ, train, develop and retain the best talent available. In order to facilitate the process of matching people to jobs, the Company's employment policy is structured to include recruitment from external sources as well as internal promotions. The Company always respects the merits of the individual and provides career opportunities irrespective of gender, race or religion. The island wide distribution network of the Company helps providing employment opportunities to youth from almost all parts of the country, including the North and the East.

Annual Report of the Board of Directors on the Affairs of the Company

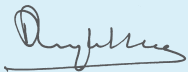
Recruitment levels are determined by the staff requirements forecast, which is updated every year. The annual staff requirements forecast is prepared by considering the projected growth and expansion of the distribution network, profitability, expense ratio, level of automation of activities, productivity, work volumes, multiple skills etc. The number of employees as at 31st December 2010 was 597 (2009 - 540).

Medical and Life Insurance is available for all employees of the Company irrespective of their period of service. The Company encourages sports and recreational activities by supporting the Employees' Welfare Society, which organises such activities, in addition to those organised by the Company's HR Department.

Code of Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without any exception. There were no material violations of the Code during the year except certain insignificant fraudulent activities noted at the operational level for which appropriate action has been taken.

For and on behalf of the Board



Rienzie T. Wijetilleke
Chairman



Manjula de Silva
Managing Director



Indrani Goonesekera
Board Secretary

Colombo, Sri Lanka
31st January, 2011

Vision, Mission and Corporate Conduct

The Company's vision and mission is provided on page 2 of this report. In achieving its vision and mission, all Directors and employees conduct their activities with the highest level of ethical standards and integrity as set out in the Code of Ethics and in conformity with the values stated on page 2 of this report.

Reports of the Audit Committee and the Remuneration Committee

The Audit Committee and the Remuneration Committee reports are given on pages 140 to 142 and 143 to 144 respectively of this Annual Report.

Annual General Meeting

The ninth 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 Tuesday, the 29th day of March 2011 at 10.00 in the forenoon. The Notice of the ninth Annual General Meeting is on page 208 of the Annual Report.

Directors' Interest in contracts with the Company

- a) The Company carries out transactions in the ordinary course of business at commercial rates with entities in which a Director of the Company is the Chairman or a Director. The transactions with entities where a Director of the Company either has control or exercises significant influence have been classified as related party transactions and disclosed in Note No. 31 to the Financial Statements. The details of such entities are given below.

Company	Name of Director / Relationship
Hatton National Bank PLC	Rienzie T. Wijetilleke – <i>Chairman</i> R Theagarajah - <i>Managing Director</i>
Sithma Development (Pvt) Ltd	Rienzie T. Wijetilleke - <i>Chairman</i> R Theagarajah - <i>Director</i> J D N Kekulawala - <i>Director</i>
Acuity Partners (Pvt) Ltd.	R Theagarajah - <i>Chairman</i> J M J Perera - <i>Director</i>
Acuity Securities Ltd	R Theagarajah - <i>Chairman</i> J M J Perera - <i>Director</i>
Acuity Stockbrokers (Pvt) Ltd.	R Theagarajah - <i>Chairman</i> J M J Perera - <i>Director</i>
Alliance Finance Co. PLC	Pratapkumar de Silva - <i>Chairman & Jt. Managing Director</i>
Alliance Tech Trading (Pvt) Ltd.	Pratapkumar de Silva - <i>Chairman</i>
Aprico Finance Co. PLC	Pratapkumar de Silva - <i>Chairman</i>
Colours of Courage Trust (Guarantee) Ltd.	R Theagarajah - <i>Director</i>

- b) The entities where Directors of the Company neither have control nor exercise significant influence, but only hold directorship and has transactions during the year are disclosed below:

Company	Name of Director/Relationship	Nature of Transaction	Transaction Amount	
			2010 Rs. '000	2009 Rs. '000
Nawaloka Hospitals PLC	Rienzie T. Wijetilleke - <i>Director</i>	Insurance Premiums General	77	23

Directors' Responsibility for Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Company 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 are set out in the Report of the Auditors given on page 157 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 the balance sheet as at 31st December 2010, the Income Statement, Statement of Changes in Equity and Cash Flow statement for the year then ended and notes thereto.

The Financial Statements of the Company give a true and fair view of:

1. the state of affairs of the Company as at the Balance Sheet date; and
2. the profit or loss of the Company for the financial year ended on the Balance Sheet date.

In preparing these Financial Statements, the Directors are required to ensure that:

1. the 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 which are reasonable and prudent; and
3. all applicable accounting standards, as relevant have been followed.

The Directors are also required to ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparation of these Financial Statements.

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy the financial position of the Company.

These Financial Statements which have been prepared and presented in the Report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, 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. In addition, the Financial Statements are in conformity with the formats and disclosures prescribed in the Statement of Recommended Practice (SoRP) for Insurance Companies issued by the Institute of Chartered Accountants of Sri Lanka (ICASL).

The Directors have also taken reasonable steps to establish and maintain appropriate systems of internal controls to safeguard the assets of the Company, 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 Financial Statements and to provide the Company's External Auditors, Messrs KPMG Ford, Rhodes, Thornton & Company, with every opportunity to carry out whatever reviews and sample checks on the system of internal control they may consider appropriate and necessary for expressing their independent audit opinion on the Financial Statements.

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. 1.80 per share for this year, to be paid on 7th April 2011.

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the Company as at the Balance Sheet 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



Indrani Goonesekera

Board Secretary

Colombo, Sri Lanka
31st January 2011

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements are prepared in compliance with the Sri Lanka Accounting Standards (SLAS) issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000. The formats and disclosures are also in accordance with the Statement of Recommended Practice for Insurance Contracts (SoRP), adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL). The 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 recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by Messrs. KPMG Ford, Rhodes, Thornton & Co., 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.



Manjula de Silva

Managing Director / Chief Executive Officer



Vipula Dharmapala

Head of Finance / Chief Financial Officer

Colombo, Sri Lanka
31st January 2011

Certification of Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Claims Reserve

PARTNERS :

D. K. PANDIT
B.Sc., LL.B., A.I.A. (London), F.I.A.I.
APPROVED VALUER
REGD. NO. : CAT/X-3 OF 1988

AKSHAY PANDIT
B.Sc., A.I.A.I.

M. G. DIWAN
M.Sc., F.I.A. (London), F.I.A.I., F.I.I.I.

N. K. PARIKH
M.Com., LL.B., A.I.A. (London), F.I.A.I.

P. I. MAJMUDAR
B.Com., F.I.A. (London), F.I.A.I., F.C.I.I., F.I.I.I.



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M/S. K. A. PANDIT
CONSULTANTS & ACTUARIES
(ISO 9001:2008 CERTIFIED)

CERTIFICATE

As Consulting Actuaries to the HNB Assurance PLC, Colombo- 3, Sri Lanka, we are required to estimate and certify the IBNR and IBNER Claims Reserves of the Company's General Insurance Division as on 31st December, 2010.

IBNR and IBNER Claims Reserves include the following:

- 1) A reserve for claims that have occurred but have not been reported to the insurer. This is referred to as Incurred But Not Reported (IBNR) Claims Reserve. Such reserves should be both in respect of insurer's direct (including coinsurance) business as well as the inward reinsurance business;
- 2) A reserve for future development of known (reported) claims referred to as Incurred But Not Enough Reported (IBNER) Claims Reserve, which may alternatively be described as reserve for Incurred (& Reported) But Not Enough Reserved Claims. This would arise in respect of claims which are settled for amounts higher than the corresponding reserve amounts;
- 3) A reserve for claims that may re-open after they have been closed; and
- 4) Claims administration expenses in respect of the above.

The Company submitted the data, as required, which were analysed in two segments – Motor and Non-Motor. The distinguishing features of the Company's business, procedures and practices were noted; also the considerations impacting the calculations of IBNR/IBNER Claims Reserves were taken into account whilst applying appropriate methods to arrive at a scientific estimate of the IBNR/IBNER Claims Reserves required.

We certify, on the above basis, that the IBNR and IBNER Claims Reserves as on 31-12-2010 to be provided by the HNB Assurance PLC in respect of its non-life business are estimated as Rs.16,924,000 equal to 1.97% of the Net Earned Premium of Rs.859,076,171 as on 31-12-2010. They seem adequate and may be provided accordingly.

(N. K. PARIKH)
(PARTNER)
Mumbai, India,
6th January, 2011.

Report of the Life Actuary



31 January 2011

To the Shareholders of HNB Assurance PLC.

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER, 2010

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December, 2010. 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, 2010, 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, 2010 by Rs.432.715 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.108.139 million, including the solvency margin for the new reversionary bonus allotted as at 31 December 2010. This solvency margin is maintained in the Long Term Insurance Fund.



**M POOPALANATHAN
ACTUARY**

Financial Calendar

SUBMISSION OF STATUTORY RETURNS TO IBSL	Date of Submission	Deadlines set by IBSL
<ul style="list-style-type: none"> Annual Audited Financial Statement for year ended 31st December 2009 	24th February 2010	30th June 2010
<ul style="list-style-type: none"> Annual Statutory Returns for the year ended 31st December 2009 	1st June 2010	30th June 2010
<ul style="list-style-type: none"> Quarterly Returns for 2010 <ul style="list-style-type: none"> - March - June - September - December 	13th May 2010 4th August 2010 12th November 2010 14th February 2011	15th May 2010 15th August 2010 15th November 2010 15th February 2011
<ul style="list-style-type: none"> Biannual Compliance (Circular 18) Certificate <ul style="list-style-type: none"> - 30th June 2010 - 31st December 2010 	6th August 2010 11th February 2011	15th August 2010 15th February 2011
All IBSL statutory returns are submitted within the stipulated time lines		

FINANCIAL CALENDAR	Target set for 2011	Achievements in 2010
Interim Unaudited Reports 1st Quarter (ended 31st March) 2nd Quarter (ended 30th June) 3rd Quarter (ended 30th September) 4th Quarter (ended 31st December)	May 2011 August 2011 November 2011 February 2012	26th April 2010 4th August 2010 29th October 2010 3rd February 2011
Annual Report and Accounts 2009 2010	February 2011	February 2010
Dividend Payments First and final dividend for 2009 First and final dividend for 2010	April 2011	April 2010
Annual General Meeting Eight Annual General Meeting Ninth Annual General Meeting	29th March 2011	30th March 2010

Independent Auditor's Report



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

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TO THE SHAREHOLDERS OF HNB ASSURANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of HNB Assurance PLC (the "Company"), which comprise the balance sheet as at 31st December 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes exhibited on pages 158 to 198 this Annual Report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st December 2010 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act, No. 07 of 2007. Pursuant to Regulation of Insurance Industry Act, No. 43 of 2000 Section 47 (2), we also report, so far as appear from our examination, proper accounting records have been maintained as required by the relevant rules made by the Insurance Board of Sri Lanka.

Ford Rhodes Thornton & Co.

CHARTERED ACCOUNTANTS

Colombo,
31st January 2011

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

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

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

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

Balance Sheet

<i>As at 31st December,</i>		2010	2009	
	Note No.	Page No.	Rs.'000	Rs.'000
Assets				
Investments	4	176	3,403,905	2,717,415
Intangible Assets	5	179	66,999	54,744
Property, Plant and Equipment	6	180	130,971	117,070
Loans to Life Policyholders	7	180	13,263	9,309
Reinsurance Receivables	8	180	122,431	73,824
Premium Receivables	9	181	231,929	157,029
Other Assets	10	181	497,352	448,210
Cash and Cash Equivalents	11	181	81,354	94,100
Total Assets			4,548,204	3,671,701
Liabilities and Equity				
Liabilities				
Insurance Provision - Life	12	181	2,385,246	1,853,513
Insurance Provision - General	13	182	730,658	599,364
Other Liabilities	14	183	308,901	282,542
Reinsurance Creditors	15	184	81,983	87,251
Retirement Benefit Obligation	16	184	25,076	18,180
Total Liabilities			3,531,864	2,840,850
Equity				
Stated Capital	17	184	375,000	375,000
Revenue Reserves	18	184	641,340	455,851
Total Equity			1,016,340	830,851
Total Liabilities and Equity			4,548,204	3,671,701

The Notes to the Financial Statements set out on pages 168 to 198 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.

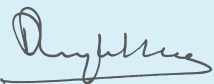


Vipula Dharmapala

Head of Finance/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;



Rienzie T. Wijetilleke

Chairman



Manjula de Silva

Managing Director / Chief Executive Officer

Statement of Income

<i>For the Year Ended 31st December,</i>			2010	2009	Change
	Note No.	Page No.	Rs.'000	Rs.'000	%
Revenue	19	185	2,361,240	2,036,785	16
Gross Written Premium	20	185	2,428,183	2,115,647	15
Premium Ceded to Reinsurers			(449,461)	(453,517)	(1)
Net Written Premium			1,978,722	1,662,130	19
Net Change in Reserves for Unearned Premium			(134,362)	(94,383)	42
Net Earned Premium			1,844,360	1,567,747	18
Benefits, Losses and Expenses					
Insurance Claims and Benefits (Net)	21	185	(648,137)	(511,911)	27
Increase in Life Insurance Fund	12	181	(531,733)	(493,008)	8
Underwriting and Net Acquisition Costs	22	185	(164,991)	(150,108)	10
Other Insurance Related Costs			(15,758)	(9,865)	60
Total Benefits, Losses and Expenses			(1,360,619)	(1,164,892)	17
Net Earned Premium less Benefits, Losses and Expenses			483,741	402,855	20
Other Revenue					
Income from Investments	23	186	517,198	467,823	11
Other Net Income / (Loss)	24	186	(318)	1,215	(126)
Expenses					
Other Operating, Investment Related and Administration Expenses	25	186	(731,096)	(640,768)	14
Profit from Operations	26	186	269,525	231,125	17
Finance Expenses	27	186	-	(44)	(100)
Profit Before Taxation			269,525	231,081	17
Income Tax Expenses	28	187	(27,786)	(29,471)	(6)
Profit for the Year			241,739	201,610	20
Basic Earnings Per Share (Rs.)	29	188	6.45	5.38	20
Dividends Per Share (Rs.)	30	188	1.80	1.50	20

The Notes to the Financial Statements set out on pages 168 to 198 form an integral part of these Financial Statements.

Statement of Changes in Equity

For the Year Ended 31st December 2010

	Number of Shares	Stated Capital	Revenue Reserves	Total Equity
	'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 31st December 2008	37,500	375,000	301,116	676,116
Profit for the Year	-	-	201,610	201,610
Dividend Paid for 2008	-	-	(46,875)	(46,875)
Balance as at 31st December 2009	37,500	375,000	455,851	830,851
Profit for the Year	-	-	241,739	241,739
Dividend Paid for 2009	-	-	(56,250)	(56,250)
Balance as at 31st December 2010	37,500	375,000	641,340	1,016,340

The Notes to the Financial Statements set out on pages 168 to 198 form an integral part of these Financial Statements.

Cash Flow Statement

<i>For the Year Ended 31st December,</i>		2010	2009
	Note No.	Rs.'000	Rs.'000
Cash Flows from Operating Activities			
Premium Received from Customers		2,368,943	2,079,023
Reinsurance Premium Paid		(364,416)	(362,623)
Claims Paid		(739,086)	(498,057)
Reinsurance Receipts in Respect of Claims		85,215	53,680
Cash Paid to and on behalf of Employees		(267,169)	(220,603)
Interest Received		490,107	429,806
Dividend Received		7,609	3,873
Other Operating Cash Payments		(776,437)	(707,233)
Cash Inflow Generated from Operating Activities	(A)	804,766	777,866
Gratuity Paid		(795)	(648)
Economic Service Charges (ESC) Paid		(12,374)	(14,247)
Net Cash Generated from Operating Activities		791,597	762,971
Cash Flows from Investing Activities			
Purchase of Liquid Investments (Other than Cash Equivalents)		(45,623,529)	(21,037,765)
Purchase of Other Investments (Other than Cash Equivalents)		(496,835)	(380,888)
Sale of Liquid Investments (Other than Cash Equivalents)		45,246,960	20,546,911
Sale of Other Investments (Other than Cash Equivalents)		186,913	200,217
Purchase of Intangible Assets		(22,238)	(19,781)
Purchase of Property, Plant and Equipment		(39,734)	(49,026)
Proceeds on Sale of Property, Plant and Equipment		370	2,096
Net Cash used in Investing Activities		(748,093)	(738,236)
Net Cash Inflow before Financing Activities		43,504	24,735
Cash Flows from Financing Activities			
Lease Installments Paid		-	(1,031)
Dividend Paid		(56,250)	(46,875)
Cash used in Financing Activities		(56,250)	(47,906)
Net Increase / (Decrease) in Cash and Cash Equivalents	(B)	(12,746)	(23,171)
Notes to the Cash Flow Statement			
A. Reconciliation of Profit Before Taxation with Cash Flow from Operating Activities			
Profit Before Taxation		269,525	231,081
Amortisation Charge		9,983	8,279
Depreciation Charge		30,354	26,933
Provision for Retiring Gratuity		7,691	7,510
Provision for Diminution in Value of Investments		-	(8,245)
(Profit)/ Loss on Sale of Property, Plant and Equipment		318	(1,215)
Lease Interest Paid		-	44
Increase in Trade and Other Receivables		(204,761)	(162,815)
Increase in Life Insurance Fund		531,733	493,008
Increase in Unearned Premium		124,127	96,421
Increase in Claims Provisions		12,451	38,364
Increase in Creditors		23,345	48,501
Cash Inflow Generated from Operating Activities		804,766	777,866
B. Increase / (Decrease) in Cash and Cash Equivalents			
Net Cash and Cash Equivalents at the end of the Year	11	81,354	94,100
Net Cash and Cash Equivalents at the beginning of the Year	11	94,100	117,271
Net Increase / (Decrease) in Cash and Cash Equivalents		(12,746)	(23,171)

The Notes to the Financial Statements set out on pages 168 to 198 form an integral part of these Financial Statements.

Balance Sheet

Segmental Review - 2010

As at 31st December 2010

	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Assets			
Investments	1,161,203	2,242,702	3,403,905
Intangible Assets	46,096	20,903	66,999
Property, Plant and Equipment	126,398	4,573	130,971
Loans to Life Policyholders	-	13,263	13,263
Reinsurance Receivables	103,814	18,617	122,431
Premium Receivables	231,929	-	231,929
Other Assets	251,434	245,918	497,352
Cash and Cash Equivalents	68,349	13,005	81,354
Total Assets	1,989,223	2,558,981	4,548,204
Liabilities and Equity			
Liabilities			
Insurance Provision - Life	-	2,385,246	2,385,246
Insurance Provision - General	730,658	-	730,658
Other Liabilities	163,913	144,988	308,901
Reinsurance Creditors	56,642	25,341	81,983
Retirement Benefit Obligation	21,670	3,406	25,076
Total Liabilities	972,883	2,558,981	3,531,864
Equity			
Stated Capital	375,000	-	375,000
Revenue Reserves	641,340	-	641,340
Total Equity	1,016,340	-	1,016,340
Total Liabilities and Equity	1,989,223	2,558,981	4,548,204

The Notes to the Financial Statements set out on pages 168 to 198 form an integral part of these Financial Statements.

Balance Sheet

Segmental Review - 2009

As at 31st December 2009

	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Assets			
Investments	1,031,342	1,686,073	2,717,415
Intangible Assets	40,091	14,653	54,744
Property, Plant and Equipment	110,896	6,174	117,070
Loans to Life Policyholders	-	9,309	9,309
Reinsurance Receivables	57,541	16,283	73,824
Premium Receivables	157,029	-	157,029
Other Assets	227,686	220,524	448,210
Cash and Cash Equivalents	48,848	45,252	94,100
Total Assets	1,673,433	1,998,268	3,671,701
Liabilities and Equity			
Liabilities			
Insurance Provision - Life	-	1,853,513	1,853,513
Insurance Provision - General	599,364	-	599,364
Other Liabilities	165,321	117,221	282,542
Reinsurance Creditors	62,314	24,937	87,251
Retirement Benefit Obligation	15,583	2,597	18,180
Total Liabilities	842,582	1,998,268	2,840,850
Equity			
Stated Capital	375,000	-	375,000
Revenue Reserves	455,851	-	455,851
Total Equity	830,851	-	830,851
Total Liabilities and Equity	1,673,433	1,998,268	3,671,701

The Notes to the Financial Statements set out on pages 168 to 198 form an integral part of these Financial Statements.

Income Statement Segmental Review - 2010

For the Year Ended 31st December 2010

	Note No.	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Revenue		1,036,662	1,324,578	2,361,240
Gross Written Premium	20	1,343,703	1,084,480	2,428,183
Premium Ceded to Reinsurers		(350,264)	(99,197)	(449,461)
Net Written Premium		993,439	985,283	1,978,722
Net Change in Reserves for Unearned Premium		(134,362)	-	(134,362)
Net Earned Premium		859,077	985,283	1,844,360
Benefits, Losses and Expenses				
Insurance Claims and Benefits (Net)		(588,237)	(59,900)	(648,137)
Increase in Life Insurance Fund		-	(531,733)	(531,733)
Underwriting and Net Acquisition Costs		12,539	(177,530)	(164,991)
Other Insurance Related Costs		(8,264)	(7,494)	(15,758)
Total Benefits, Losses and Expenses		(583,962)	(776,657)	(1,360,619)
Net Earned Premium less Benefits, Losses and Expenses		275,115	208,626	483,741
Other Revenue				
Income from Investments		177,889	339,309	517,198
Other Net Income / (Loss)		(304)	(14)	(318)
Expenses				
Other Operating, Investment Related and Administration Expenses		(339,175)	(391,921)	(731,096)
Profit from Operations		113,525	156,000	269,525
Finance Expenses		-	-	-
Profit Before Taxation		113,525	156,000	269,525
Income Tax Expenses		(27,786)	-	(27,786)
Profit for the Year		85,739	156,000	241,739

The Notes to the Financial Statements set out on pages 168 to 198 form an integral part of these Financial Statements.

Income Statement Segmental Review - 2009

<i>For the Year Ended 31st December 2009</i>				
		General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
	Note No.			
Revenue		833,247	1,203,538	2,036,785
Gross Written Premium	20	1,130,781	984,866	2,115,647
Premium Ceded to Reinsurers		(360,459)	(93,058)	(453,517)
Net Written Premium		770,322	891,808	1,662,130
Net Change in Reserves for Unearned Premium		(94,383)	-	(94,383)
Net Earned Premium		675,939	891,808	1,567,747
Benefits, Losses and Expenses				
Insurance Claims and Benefits (Net)		(448,210)	(63,701)	(511,911)
Increase in Life Insurance Fund		-	(493,008)	(493,008)
Underwriting and Net Acquisition Costs		1,887	(151,995)	(150,108)
Other Insurance Related Costs		(2,561)	(7,304)	(9,865)
Total Benefits, Losses and Expenses		(448,884)	(716,008)	(1,164,892)
Net Earned Premium less Benefits, Losses and Expenses		227,055	175,800	402,855
Other Revenue				
Income from Investments		156,091	311,732	467,823
Other Net Income / (Loss)		1,217	(2)	1,215
Expenses				
Other Operating, Investment Related and Administration Expenses		(283,238)	(357,530)	(640,768)
Profit from Operations		101,125	130,000	231,125
Finance Expenses		(44)	-	(44)
Profit Before Taxation		101,081	130,000	231,081
Income Tax Expenses		(29,471)	-	(29,471)
Profit for the Year		71,610	130,000	201,610

The Notes to the Financial Statements set out on pages 168 to 198 form an integral part of these Financial Statements.

Cash Flow Statement

Segmental Review - 2010

For the Year Ended 31st December 2010

	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Cash Flows from Operating Activities			
Premium Received from Customers	1,276,828	1,092,115	2,368,943
Reinsurance Premium Paid	(270,398)	(94,018)	(364,416)
Claims Paid	(692,652)	(46,434)	(739,086)
Reinsurance Receipts in Respect of Claims	65,155	20,060	85,215
Cash Paid to and on behalf of Employees	(224,117)	(43,052)	(267,169)
Interest Received	179,655	310,452	490,107
Dividend Received	6,102	1,507	7,609
Other Operating Cash Payments	(70,738)	(705,699)	(776,437)
Cash Inflow Generated from Operating Activities	269,835	534,931	804,766
Gratuity Paid	(534)	(261)	(795)
Economic Service Charges (ESC) Paid	(12,374)	-	(12,374)
Net Cash Generated from Operating Activities	256,927	534,670	791,597
Cash Flows from Investing Activities			
Purchase of Liquid Investments (Other than Cash Equivalents)	(17,627,530)	(27,995,999)	(45,623,529)
Purchase of Other Investments (Other than Cash Equivalents)	(207,593)	(289,242)	(496,835)
Sale of Liquid Investments (Other than Cash Equivalents)	17,575,505	27,671,455	45,246,960
Sale of Other Investments (Other than Cash Equivalents)	129,757	57,156	186,913
Purchase of Intangible Assets	(12,536)	(9,702)	(22,238)
Purchase of Property, Plant and Equipment	(39,126)	(608)	(39,734)
Proceeds on Sale of Property, Plant and Equipment	347	23	370
Net Cash used in Investing Activities	(181,176)	(566,917)	(748,093)
Net Cash Inflow before Financing Activities	75,751	(32,247)	43,504
Cash Flows from Financing Activities			
Lease Installments Paid	-	-	-
Dividend Paid	(56,250)	-	(56,250)
Cash used in Financing Activities	(56,250)	-	(56,250)
Net Increase / (Decrease) in Cash and Cash Equivalents	19,501	(32,247)	(12,746)
Notes to the Cash Flow Statement			
A. Reconciliation of Profit Before Taxation with Cash Flow from Operating Activities			
Profit Before Taxation	113,525	156,000	269,525
Transfer of Profit	156,000	(156,000)	-
Amortisation Charge	6,531	3,452	9,983
Depreciation Charge	28,183	2,171	30,354
Provision for Retiring Gratuity	6,621	1,070	7,691
Provision for Diminution in Value of Investments	-	-	-
(Profit)/ Loss on Sale of Property, Plant and Equipment	304	14	318
Lease Interest Paid	-	-	-
Increase in Trade and Other Receivables	(173,079)	(31,682)	(204,761)
Increase in Life Insurance Fund	-	531,733	531,733
Increase in Unearned Premium	124,127	-	124,127
Increase in Claims Provisions	7,167	5,284	12,451
Increase in Creditors	456	22,889	23,345
Cash Inflow Generated from Operating Activities	269,835	534,931	804,766
B. Increase / (Decrease) in Cash and Cash Equivalents			
Net Cash and Cash Equivalents at the end of the Year	68,349	13,005	81,354
Net Cash and Cash Equivalents at the beginning of the Year	48,848	45,252	94,100
Net Increase / (Decrease) in Cash and Cash Equivalents	19,501	(32,247)	(12,746)

The Notes to the Financial Statements set out on pages 168 to 198 form an integral part of these Financial Statements.

Cash Flow Statement Segmental Review - 2009

For the Year Ended 31st December 2009

	General Insurance Rs.'000	Life Insurance Rs.'000	Total Rs.'000
Cash Flows from Operating Activities			
Premium Received from Customers	1,095,726	983,297	2,079,023
Reinsurance Premium Paid	(265,305)	(97,318)	(362,623)
Claims Paid	(451,947)	(46,110)	(498,057)
Reinsurance Receipts in Respect of Claims	38,264	15,416	53,680
Cash Paid to and on behalf of Employees	(186,455)	(34,148)	(220,603)
Interest Received	158,430	271,376	429,806
Dividend Received	3,708	165	3,873
Other Operating Cash Payments	(49,788)	(657,445)	(707,233)
Cash Inflow Generated from Operating Activities	342,633	435,233	777,866
Gratuity Paid	(568)	(80)	(648)
Economic Service Charges (ESC) Paid	(14,247)	-	(14,247)
Net Cash Generated from Operating Activities	327,818	435,153	762,971
Cash Flows from Investing Activities			
Purchase of Liquid Investments (Other than Cash Equivalents)	(9,692,626)	(11,345,139)	(21,037,765)
Purchase of Other Investments (Other than Cash Equivalents)	(325,658)	(55,230)	(380,888)
Sale of Liquid Investments (Other than Cash Equivalents)	9,612,314	10,934,597	20,546,911
Sale of Other Investments (Other than Cash Equivalents)	153,748	46,469	200,217
Purchase of Intangible Assets	(9,685)	(10,096)	(19,781)
Purchase of Property, Plant and Equipment	(48,584)	(442)	(49,026)
Proceeds on Sale of Property, Plant and Equipment	2,095	1	2,096
Net Cash used in Investing Activities	(308,396)	(429,840)	(738,236)
Net Cash Inflow before Financing Activities	19,422	5,313	24,735
Cash Flows from Financing Activities			
Lease Installments Paid	(1,031)	-	(1,031)
Dividend Paid	(46,875)	-	(46,875)
Cash used in Financing Activities	(47,906)	-	(47,906)
Net Increase / (Decrease) in Cash and Cash Equivalents	(28,484)	5,313	(23,171)

Notes to the Cash Flow Statement

A. Reconciliation of Profit Before Taxation with Cash Flow from Operating Activities

Profit Before Taxation	101,081	130,000	231,081
Transfer of Profit	130,000	(130,000)	-
Amortisation Charge	7,094	1,185	8,279
Depreciation Charge	24,518	2,415	26,933
Provision for Retiring Gratuity	6,514	996	7,510
Provision for Diminution in Value of Investments	(4,643)	(3,602)	(8,245)
(Profit)/ Loss on Sale of Property, Plant and Equipment	(1,217)	2	(1,215)
Lease Interest Paid	44	-	44
Increase in Trade and Other Receivables	(81,911)	(80,904)	(162,815)
Increase in Life Insurance Fund	-	493,008	493,008
Increase in Unearned Premium	96,421	-	96,421
Increase in Claims Provisions	32,737	5,627	38,364
Increase in Creditors	31,995	16,506	48,501
Cash Inflow Generated from Operating Activities	342,633	435,233	777,866

B. Increase / (Decrease) in Cash and Cash Equivalents

Net Cash and Cash Equivalents at the end of the Year	48,848	45,252	94,100
Net Cash and Cash Equivalents at the beginning of the Year	77,332	39,939	117,271
Net Increase / (Decrease) in Cash and Cash Equivalents	(28,484)	5,313	(23,171)

The Notes to the Financial Statements set out on pages 168 to 198 form an integral part of these Financial Statements.

Notes to the Financial Statements

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).

1.1 Principal Activities and Nature of Operations

The principal activity of the Company continued to be carrying on insurance business (both Life and General Insurance). There were no significant changes in the nature of the principal activities of the Company during the financial year under review.

1.2 Parent Entity and Ultimate Parent Entity

The Company’s parent entity is Hatton National Bank PLC. In the opinion of the Directors, the Company’s ultimate parent undertaking and controlling party is Hatton National Bank PLC which is incorporated in Sri Lanka.

1.3 Date of Authorisation for Issue

The Financial Statements of the Company for the year ended 31st December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 31st January 2011.

1.4 Responsibility for Financial Statements

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

1.5 Number of Employees

The staff strength of the Company as at 31st December 2010 is 597 (2009 - 540).

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statement together with notes have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS) laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL), and comply with the requirements of the Companies Act, No. 7 of 2007 and the Regulation of Insurance Industry Act, No. 43 of 2000. The formats and disclosures are also in accordance with the Statement of Recommended Practice (SoRP) for Insurance Contracts, adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

Supplementary Statements - Balance Sheet of the Life Insurance Fund

Supplementary Balance Sheet of the Life insurance Fund together with the notes is disclosed in page numbers 192 to 198 as required by the Statement of Recommended Practice (SoRP) for Insurance Contracts, adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL).

2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for investments in quoted securities which are stated at the lower of cost and market value on a portfolio basis, and applied consistently.

2.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company’s functional currency. Except as indicated, financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

2.4 Use of Estimates and Judgements

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. 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 estimate is revised and in any future periods affected.

Information about significant areas of estimation and uncertainty that have the most significant effects on the amounts recognised in the Financial Statements are described below;

2.4.1 Assessment of Impairment

The Company assesses at each Balance Sheet date whether there is objective evidence that an asset or a portfolio of assets is impaired. The recoverable amount of an asset or a cash generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future

cash flows are discounted to present value using appropriate discount rates that reflect the current market assessments of the time value of money and risks specific to the asset.

2.4.2 Insurance Provision - Life

The valuation of the Long Term insurance business as at 31st December 2010 was made by the Consultant Actuary based on the assumptions set out in Note No. 12.

2.4.3 Unearned Premium Reserve and Deferred Acquisition Cost

The valuation of Unearned Premium Reserve and Deferred Acquisition Cost are measured in accordance with guidelines of the Regulation of Insurance Industry Act, No. 43 of 2000.

2.4.4 Reserve for Gross Outstanding Claims

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 at the Balance Sheet date.

The Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims reserve has been actuarially computed as set out in Note No. 13.4.

2.4.5 Retirement Benefit Obligations

The Liability as at the Balance Sheet date was actuarially valued based on the assumptions set out in Note No. 16.

2.5 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.

2.6 Comparative Information

Comparative information has been re-classified where necessary, to conform to the current year's presentations.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are consistent with those used in the previous year and have been consistently applied by the Company.

3.1 Segmental Reporting

Segmental information reflects General Insurance and Life Insurance. Inter-segment transfers are based on fair market prices.

The Company's business activities are located in Sri Lanka. Consequently, assets and liabilities by geographic region are considered not material to be disclosed. Expenses directly identified to a particular segment are charged accordingly. Expenses that cannot be directly identified to a particular segment are allocated on a basis decided by the management and applied consistently throughout the year.

3.2 Foreign Currency Transactions

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the Balance Sheet date. Foreign exchange differences arising on the settlement or reporting of the Company's monetary items at rates different from those which were initially recorded are dealt with in the Income Statement.

Non-monetary assets and liabilities denominated in foreign currency that are stated at historical cost at the Balance Sheet date are translated in to Sri Lankan Rupees at the foreign exchange rates ruling at the date of the initial transaction.

ASSETS AND BASES OF THEIR VALUATION

3.3 Investments

3.3.1 Investments in Government Securities

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

3.3.2 Investments in Debt Instruments

Debt instruments are held on a long term basis and stated at cost. Provision for diminution in value is made when there is a permanent decline in the value of the investment together with the accrued interest.

3.3.3 Investment in Quoted Equities and Unit Trusts

Investments in Quoted Equities and Unit Trusts are carried at the lower of cost and market value/ Managers' buying price determined on the basis of the

Notes to the Financial Statements

aggregate portfolio. Unrealised losses and gains arising from reduction in market value and reversals of such reduction required to state current investments at lower of cost and market value are included in the Income Statement.

3.3.4 Disposal of Investments

On disposal of an investment, the difference between net disposal proceeds and the carrying amount is recognised as an income or expense.

3.4 Intangible Assets

3.4.1 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 Company and the cost of the asset can be measured reliably. All computer software costs incurred, licensed for use by the Company, which are not integrally related to the associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the Balance Sheet under the category of intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

3.4.2 Subsequent Expenditure

Subsequent expenditure incurred on software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

3.4.3 Amortisation

Intangible assets are amortised on a straight line basis in the Income Statement from the date when the asset is available for use, over the best estimate of its useful economic life. The estimated useful life of computer software is six years. Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

3.4.4 De-recognition

An Intangible Asset is de-recognised on disposal or when no future economic benefits are expected from it.

The gain or loss arising from the de-recognition of such Intangible Assets is included in the Income Statement when the item is derecognised.

3.5 Property, Plant and Equipment

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.

3.5.1 Basis of Recognition

Property, Plant and Equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be measured reliably.

3.5.2 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 Company applies the cost model to Property, Plant and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

3.5.3 Subsequent Costs

The cost of replacing a part of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably.

The cost of day to day servicing of Property, Plant and Equipment are charged to the Income Statement as incurred.

3.5.4 Depreciation

The Company 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:

Office equipment	5 years
Computer hardware	6 years
Furniture and fittings	10 years
Motor vehicles	4 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

3.5.5 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 Property, Plant and Equipment is included in the Income Statement 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.

3.6 Reinsurance Receivables

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

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly to recognise a loss in the Income Statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after the initial recognition of the reinsurance asset, that the Company may not receive all or part of the amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amount that the Company will receive from the reinsurer.

3.7 Premium Receivables

Collectability of premiums is reviewed on an ongoing basis. However, according to the Premium Payment Warranty (PPW) directive issued by the Insurance Board of Sri Lanka (IBSL), all policies are issued subject to

PPW and are cancelled upon the expiry of 60 days if not settled.

3.8 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.

3.9 Inventories

Inventories include all consumable items which are stated at lower of cost and net realisable value.

3.10 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 Balance Sheet, bank overdrafts are included under liabilities.

3.11 Impairment of Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed

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only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount.

LIABILITIES AND PROVISIONS

All known liabilities have been accounted for in preparing these Financial Statements.

3.12 Insurance Provision - Life

The Directors make the provision for the Life Insurance business based on the recommendation of the Independent Consultant Actuary following his annual investigation of the Life Insurance business. The actuarial valuation takes into account all liabilities including contingent liabilities and is based on assumptions recommended by the Independent Consultant Actuary.

3.13 Trade and Other Payables

Trade and other payables are stated at their cost.

3.14 Provisions (excluding Insurance Contracts)

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is virtually certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3.15 Employee Benefits

3.15.1 Defined Benefit Plan - Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Gratuity is a defined benefit plan. The Company accounts for the provision for Defined Benefit Plan - Gratuity in conformity with SLAS 16 - Employee Benefits (revised 2006). However, under the payment of Gratuity Act, No. 12 of 1983, the liability to an employee arises only on completion of five years of continued service. The Company measured the present value of promised retirement benefits of Gratuity using the actuarial valuation method as recommended by SLAS 16 -

Employee Benefits (revised 2006), every year using the Projected Unit Credit method (PUC). The Gratuity liability is not externally funded.

3.15.2 Defined Contribution Plan

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 a further amount. Obligations for contributions to defined contribution plans are recognised as an expense in the Income Statement as and when they are due.

a) Employees Provident Fund

All employees of the Company are members of the Employees' Provident Fund (EPF). The Company and employees contribute 12% and 8% respectively of the basic salary to EPF.

b) Employees Trust Fund

All employees of the Company are members of the Employees' Trust Fund (ETF). The Company contributes 3% of the basic salary of each employee to ETF.

3.16 Income Tax Expense

Income tax expense comprises current tax and deferred tax. Income tax expense is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

3.16.1 Current Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the Balance Sheet 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.

3.16.2 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

of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax assets, including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets, 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.

3.16.3 Withholding Tax on Dividends

Withholding tax that arises from the distribution of dividends by the Company is recognised at the same time as the liability to pay the related dividend is recognised.

3.16.4 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 liability can be carried forward and set off against the income tax payable as per the relevant provisions in the Act.

3.16.5 Social Responsibility Levy (SRL)

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

3.17 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 Balance Sheet but are disclosed unless they are remote.

3.18 Events Occurring after the Balance Sheet Date

All material post Balance Sheet events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the Financial Statements.

3.19 Proposed Dividends

Dividend proposed by the Board of Directors after the Balance Sheet date is not recognised as a liability and is only disclosed as a Note to the Financial Statements (Note 30). 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.

3.20 Earnings Per Share

The Company 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 Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by dividing the profit or loss attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares.

3.21 Cash Flow Statement

The Cash Flow Statement has been prepared using the Direct Method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard (SLAS) 9, Cash Flow Statements. Interest and dividend received are classified as operating 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.

INSURANCE SPECIFIC TRANSACTIONS AND BALANCES

3.22 General Insurance Business

3.22.1 Gross Written Premium

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

Notes to the Financial Statements

3.22.2 Reinsurance Premium

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance services received. Reinsurance premiums are decided based on rates agreed with reinsurers.

3.22.3 Unearned Premium

The unearned premium reserve represents the portion of the premiums net of outward reinsurance premiums written in the current year in respect of risks related to subsequent periods. Unearned premiums are calculated on the 1/24th basis in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000.

3.22.4 Unexpired Risk

Provision is made where appropriate for the estimated amount required over and above unearned premiums to meet future claims and related expenses on the business in force as at end of the year.

3.22.5 Title Insurance Reserve

Title insurance reserve is maintained by the Company 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 three years of the policy given the higher probability of claims occurring in the first three years. From the 4th year onwards, profit is recognised by amortising the premium received and will be distributed throughout the remaining period of the policy using the straight line method. Profit up to the 3rd year will be recognised in the 4th year. Balance premiums are transferred to the Title Insurance reserve as set out in Note No. 13.3 to these Financial Statements.

3.22.6 Net Deferred Acquisition Expenses

Acquisition expenses, representing commissions, which vary with and 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.

3.22.7 Claims

Claims include provisions for the estimated cost of claims and related handling expenses in respect of incidents up to the year end, including those which have not yet been notified, net of salvage, anticipated reinsurance and other recoveries. 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 and the estimates made are reviewed regularly.

3.23 Life Insurance Business

3.23.1 Gross Written Premium

Premiums from traditional Life Insurance contracts, including participating contracts and annuity policies with life contingencies, are recognised as revenue when cash is received from the policyholder. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

3.23.2 Reinsurance Premium

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

3.23.3 Benefits, Losses and Expenses

Expenses on the Life Insurance revenue account relate to the acquisition and maintenance of Life Insurance business and include investment expenses not treated as a part of the capital cost of investment. Claims by death and maturity are charged against revenue on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

3.23.4 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.

INCOME STATEMENT

3.24 Income from Investments and Other Income

Investment income and Other Income is accounted for on the following basis:

Interest income - on accrual basis
 Dividends - when the right to receive is established
 Capital gains / losses- as and when realised / incurred
 Other Income - on accrual basis

3.25 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.

3.26 Expenses

3.26.1 Interest and Other Expenses

Interest and other expenses are recognised on an accrual basis.

3.26.2 Operating Leases

Payments made under operating leases are recognised in the Income Statement on a straight line basis over the term of the lease.

3.26.3 Commission and Fee Expenses

Commission and fee expenses are recognised on an accrual basis.

FUTURE CHANGES IN ACCOUNTING POLICIES

3.27 New Accounting Standards issued but not effective as at Balance Sheet date

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2012. Accordingly these Standards have not been applied in preparing these Financial Statements as they were not effective for the year ended 31st December 2010.

These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRS's.

The Company is currently in the process of evaluating the potential effects of these Standards on its Financial Statements and the impact on the adoption of these Standards have not been quantified as at Balance Sheet date.

Notes to the Financial Statements

4. INVESTMENTS

		2010 Rs.'000	2009 Rs.'000
Government Securities		1,923,387	1,885,572
Repurchase Agreements on Government Securities		371,630	142,591
Quoted Shares	(Note 4.1)	174,136	40,821
Corporate Debt	(Note 4.2)	391,760	259,837
Investment in Unit Trusts	(Note 4.3)	63,703	50,000
Term Deposits		479,289	338,594
		3,403,905	2,717,415

4.1. Quoted Shares

	No. of Shares	2010		No. of Shares	2009	
		Cost Rs.'000	Market Value Rs.'000		Cost Rs.'000	Market Value Rs.'000
<i>Banks, Finance and Insurance</i>						
National Development Bank PLC	17,100	2,646	5,976	36,100	4,489	7,437
Commercial Bank of Ceylon PLC	67,050	17,046	17,426	19,500	2,535	3,695
Sampath Bank PLC	92,724	19,945	25,212	-	-	-
Nations Trust Bank PLC	180,000	11,767	15,012	-	-	-
DFCC Bank	43,000	5,390	8,609	24,700	3,649	4,125
Singer Finance (Lanka) Ltd	4,400	66	66	-	-	-
Sector Total		56,860	72,301		10,673	15,257
<i>Diversified Holdings</i>						
John Keells Holdings PLC	81,193	20,472	24,228	40,393	5,310	6,927
Richard Pieris and Company PLC	325,000	2,449	3,413	-	-	-
Hayleys PLC	22,000	7,258	7,590	-	-	-
Hemas Holdings PLC	321,000	14,106	14,285	4,200	447	516
Sector Total		44,285	49,516		5,757	7,443
<i>Telecommunications</i>						
Dialog Axiata PLC	217,500	5,243	2,567	217,500	5,243	1,577
Sector Total		5,243	2,567		5,243	1,577
<i>Manufacturing</i>						
Royal Ceramics Lanka PLC	12,000	633	3,659	46,000	2,000	3,059
Dipped Products PLC	19,500	1,829	2,334	19,500	1,829	1,677
Chevron Lubricants Lanka PLC	24,000	3,619	3,828	-	-	-
ACL Cables PLC	25,000	1,414	2,128	36,700	2,055	2,817
ACL Plastics PLC	3,600	372	576	-	-	-
Tokyo Cement Company (Lanka) PLC	304,512	12,764	16,748	-	-	-
Kelani Cables PLC	44,300	5,035	4,652	-	-	-
Sector Total		25,666	33,925		5,884	7,553
<i>Hotels and Travels</i>						
Asian Hotels & Properties PLC	5,000	167	970	35,500	1,426	3,355
Dolphin Hotels PLC	149,900	5,506	9,174	123,500	3,181	3,396
Aitken Spence Hotel Holdings PLC	23,375	820	2,471	4,500	1,073	1,212
Riverina Hotels PLC	52,000	5,060	5,476	-	-	-
The Lighthouse Hotel PLC	21,400	1,433	1,348	-	-	-
Sector Total		12,986	19,439		5,680	7,963

4. INVESTMENTS (Contd.)

4.1. Quoted Shares

	No. of Shares	2010		No. of Shares	2009	
		Cost Rs.'000	Market Value Rs.'000		Cost Rs.'000	Market Value Rs.'000
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC	116,500	10,905	16,392	63,600	3,882	4,007
Haycarb PLC	20,500	3,547	3,454	-	-	-
Sector Total		14,452	19,846		3,882	4,007
Power and Energy						
Laugfs Gas Ltd	26,700	614	692	-	-	-
Laugfs Gas Ltd - (Non Voting)	19,200	288	355	-	-	-
Hemas Power PLC	-	-	-	65,000	1,300	1,268
Sector Total		902	1,047		1,300	1,268
Construction and Engineering						
Colombo Dockyard PLC	-	-	-	6,000	974	1,469
Sector Total		-	-		974	1,469
Beverage Food and Tobacco						
Renuka Agri Foods PLC	309,100	815	2,071	318,300	716	716
Cargills (Ceylon) PLC	-	-	-	12,000	712	783
Sector Total		815	2,071		1,428	1,499
Information Technology						
PC House PLC	178,800	1,967	2,020	-	-	-
Sector Total		1,967	2,020		-	-
Investment Trusts						
Renuka Holdings PLC	70,000	2,970	4,333	-	-	-
Sector Total		2,970	4,333		-	-
Health Care						
Asiri Hospital Holdings PLC	928,200	7,990	8,168	-	-	-
Sector Total		7,990	8,168		-	-
Portfolio Total		174,136	215,233		40,821	48,036
Less. Provision for Diminution in Market Value Brought Forward		-	-		(8,245)	-
(Provision)/Reversal Made During the Year		-	-		8,245	-
Provision for Diminution in Market Value Carried Forward		-	-		-	-
Carrying Value of total Investment in Quoted Shares		174,136	-		40,821	-

Notes to the Financial Statements

4. INVESTMENTS (Contd.)

4.2 Corporate Debt

	Redeemable Date	No. of Debentures	2010		Interest Rate (Per Annum)	No. of Debentures	2009		Interest Rate (Per Annum)
			Cost Rs.'000	Market Value Rs.'000			Cost Rs.'000	Market Value Rs.'000	
a) Debentures - Quoted									
Hatton National Bank PLC	31/03/2012	125,000	12,500	12,500	6 Month Net TB +2.25%	125,000	12,500	12,500	6 Month Net TB +2.25%
Hatton National Bank PLC	31/03/2021	75,000	7,500	7,500	11%	75,000	7,500	7,500	11%
DFCC Bank	31/02/2016	5,000	5,000	5,000	14%	5,000	5,000	5,000	14%
DFCC Bank	26/09/2012	5,000	5,000	5,000	6 Months Gross TB +1%	5,000	5,000	5,000	6 Months Gross TB +1%
Seylan Bank PLC	26/09/2011	100,000	10,000	10,000	16.75%	100,000	10,000	10,000	16.75%
Sampath Bank PLC	29/05/2012	250,000	25,000	25,000	3 Month Gross TB +1.5%	250,000	25,000	25,000	3 Month Gross TB +1.5%
Singer Sri Lanka PLC	29/08/2012	240,000	24,000	24,000	1 Year Gross TB +1.65%	240,000	24,000	24,000	1 Year Gross TB +1.65%
Bank of Ceylon	30/09/2012	200,000	20,000	20,000	6 Month Gross TB +0.75%	200,000	20,000	20,000	6 Month Gross TB +0.75%
Bank of Ceylon	28/06/2015	200,000	20,000	20,000	11.50%	-	-	-	-
Bank of Ceylon	23/11/2013	150,000	15,000	15,000	6 Month Gross TB +0.75%	-	-	-	-
Nations Trust Bank PLC	30/04/2013	17,000	17,000	17,000	20.53%	17,000	17,000	17,000	20.53%
Urban Development Authority	05/10/2015	1,124,200	112,420	112,420	11.00%	-	-	-	-
Total Investment in Quoted Debentures			273,420	273,420			126,000	126,000	
b) Debentures - Unquoted									
Singer Sri Lanka PLC		-	-	-	-	50,000	5,000	5,000	14%
Senkadagala Finance Ltd	21/09/2012	40,000	40,000	40,000	15.50%	40,000	40,000	40,000	15.50%
Seylan Bank PLC	23/11/2011	150,000	15,000	15,000	15%	150,000	15,000	15,000	15%
DSI Holdings Ltd	31/12/2015	25,500	25,500	25,500	13.50%	-	-	-	-
Total Investment in Unquoted Debentures			80,500	80,500			60,000	60,000	
c) Commercial Papers									
People's Merchant Bank PLC		-	-	-			12,018	12,018	15.25%
Sampath Leasing and Factoring Ltd		-	-	-			22,023	22,023	21.66%
Abans (Pvt) Ltd	06/06/2011		27,840	27,840	11.90%		29,796	29,796	13.70%
Total Investment in Commercial Paper			27,840	27,840			63,837	63,837	
d) Promissory Notes									
People's Leasing Co. Ltd	23/06/2011		10,000	10,000	12.50%		10,000	10,000	19.25%
Total Investment in Promissory Notes			10,000	10,000			10,000	10,000	
Total Investment in Corporate Debt			391,760	391,760			259,837	259,837	

4. INVESTMENTS (Contd.)

4.3 Unit Trusts

	2010			2009		
	No. of Units	Cost Rs.'000	Market Value/ Managers' Buying price Rs.'000	No. of Units	Cost Rs.'000	Market Value/ Managers' Buying price Rs.'000
Quoted						
NAMAL Acuity Value Fund	114,400	7,203	10,296	-	-	-
Total Investment in Quoted Unit Trusts		7,203	10,296	-	-	-
Unquoted						
Ceybank Gilt-Edged Fund	1,500,000	15,000	18,480	1,500,000	15,000	18,705
NAMAL Gilt-Edged Fund	1,000,000	10,000	12,870	1,000,000	10,000	12,840
Ceybank Savings plus Money Market Fund	2,500,000	25,000	26,350	2,500,000	25,000	26,250
Ceylon Financial Sector Fund	664,622	6,500	6,267	-	-	-
Total Investment in Unquoted Unit Trusts		56,500	63,967		50,000	57,795
Total Investment in Unit Trusts		63,703	74,263		50,000	57,795

5. INTANGIBLE ASSETS

	Balance As at 01.01.2010 Rs.'000	Additions/ Transfers Rs.'000	Disposals/ Transfers Rs.'000	Balance As at 31.12.2010 Rs.'000
5.1 Gross Carrying Amounts				
At Cost				
Computer Software	63,484	31,666	-	95,150
5.2 Amortisation				
At Cost				
Computer Software	32,859	9,983	-	42,842
5.3 Capital work in progress				
At Cost				
Software under Development	24,119	18,344	27,772	14,691
5.4 Net Book Values				
At Cost				
Computer Software	30,625			52,308
Software under development	24,119			14,691
Total Carrying Amount of Intangible Assets	54,744			66,999

5.5 Capital work in progress represents the capital expenditure incurred for upgrading the Computer Software, which is in progress as at the year end.

5.6 During the financial year, the Company acquired Intangible Assets (Computer Software) to the aggregate value of Rs. 22.2 million (2009 - Rs. 40 million). Cash payments amounting to Rs. 22.2 million (2009 - Rs. 19.8 million) were made during the year for purchase of Intangible Assets (Computer Software).

5.7 Intangible Assets includes fully depreciated Computer Software which are in the use of normal business activities having a cost of Rs. 21.2 million (2009 - Rs. 5.2 million)

Notes to the Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT

	As at 01.01.2010 Rs.'000	Additions/ Transfers Rs.'000	Disposals/ Transfers Rs.'000	As at 31.12.2010 Rs.'000
6.1 Gross Carrying Amounts				
At Cost				
Computer Hardware	87,965	21,238	-	109,203
Motor Vehicles	17,143	366	100	17,409
Office Equipment	36,402	9,709	1,749	44,362
Furniture and Fittings	60,744	13,632	700	73,676
Total Value of Depreciable Assets	202,254	44,945	2,549	244,650
6.2 Depreciation				
At Cost				
Computer Hardware	43,319	12,971	-	56,290
Motor Vehicles	5,026	4,304	55	9,275
Office Equipment	19,823	6,580	1,472	24,931
Furniture and Fittings	17,016	6,499	332	23,183
Total Depreciation	85,184	30,354	1,859	113,679

	As at 01.01.2010 Rs.'000	As at 31.12.2010 Rs.'000
6.3 Net Book Values		
At Cost		
Computer Hardware	44,646	52,913
Motor Vehicles	12,117	8,134
Office Equipment	16,579	19,431
Furniture and Fittings	43,728	50,493
Total Carrying Amount of Property, Plant and Equipment	117,070	130,971

6.4 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 44.9 million (2009 - Rs. 53.1 million). Cash payments amounting to Rs. 39.7 million (2009 - Rs. 49 million) were made during the year for purchase of Property, Plant and Equipment.

6.5 Property, Plant and Equipment includes fully depreciated assets which are in the use of normal business activities having of a cost of Rs. 28.2 million (2009 - Rs. 22 million)

7. LOANS TO LIFE POLICYHOLDERS

	2010 Rs.'000	2009 Rs.'000
Balance as at 1st January	9,309	4,666
Loans Granted during the Year	8,583	6,354
Repayments	(4,629)	(1,711)
Balance as at 31st December	13,263	9,309
8. REINSURANCE RECEIVABLES		
Reinsurance Receivable on Outstanding Claims	86,309	56,963
Reinsurance Receivable on Settled Claims	36,122	16,861
	122,431	73,824

9. PREMIUM RECEIVABLES

		2010 Rs.'000	2009 Rs.'000
Premium Receivable from;			
Policyholders		15,580	15,458
Premium Receivable from Related Parties	(Note 9.1)	19,755	38,543
Agents, Brokers and Intermediaries		196,594	103,028
		231,929	157,029

9.1 Premium Receivable from Related Parties

		2010 Rs.'000	2009 Rs.'000
Hatton National Bank PLC		12,306	27,538
Sithma Development (Pvt) Ltd.		6,057	9,404
Others		1,392	1,601
		19,755	38,543

No allowance for bad and doubtful debts have been made in respect of the amount due from any party during the year.

10. OTHER ASSETS

		2010 Rs.'000	2009 Rs.'000
Staff Loans	(Note 10.1)	110,540	104,452
Agent / Advisor related Receivables	25,741	26,151	
Allowance for Bad and Doubtful Advisor receivable	(472)	-	26,151
Interest and Dividend Receivable		179,074	159,548
Advance Payments		33,560	23,177
Notional Tax, Economic Service Charge (ESC) and Other Taxes recoverable from the Commissioner General of Inland Revenue (CGIR)		145,275	125,919
Others		3,634	8,963
		497,352	448,210

10.1 Staff Loans

Balance as at 1st January	105,917	67,278
Loans granted during the year	58,101	75,127
	164,018	142,405
Repayments during the year	(51,964)	(36,488)
	112,054	105,917
Allowance for Bad and Doubtful Staff Loans	(1,514)	(1,465)
Balance as at 31st December	110,540	104,452

11. CASH AND CASH EQUIVALENTS

Cash in Hand and at Bank	64,318	43,987
Other Cash Equivalents	17,036	50,113
	81,354	94,100

12. INSURANCE PROVISION - LIFE

Balance as at 1st January	1,853,513	1,360,505
<i>Increase in Life Insurance Fund</i>		
Increase in Life Insurance Fund Before Distribution	687,733	623,008
Surplus Distributed to Shareholders	(156,000)	(130,000)
Increase in Life Insurance Fund	531,733	493,008
Balance as at 31st December	2,385,246	1,853,513

Notes to the Financial Statements

12. INSURANCE PROVISION - LIFE (Contd.)

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 (IBSL).
- mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the Insurance Board of Sri Lanka (IBSL).
- surrender rates based upon actual experience.

The valuation of the Life Insurance business as at 31st December 2010 was made by Mr. M Poopalanathan, AIA, of M/S Actuarial and Management Consultants (Pvt.) Ltd. for and on behalf of HNB Assurance PLC. In accordance with the Consultant Actuary's report, the reserve for the year amounts to Rs. 2,108.5 million (2009 - Rs. 1,588.4 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 these Financial Statements exceeds the required actuarial reserves as at 31st December 2010 by Rs. 432.7 million (2009 - Rs. 395.1 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.

Further the Actuary has estimated that the solvency margin required (including the solvency margin for the new reversionary bonus allotted as at 31st December 2010) under the Regulation of Insurance Industry Act, No. 43 of 2000 as Rs. 108.1 million (2009 - Rs. 81.4 million)

13. INSURANCE PROVISION - GENERAL

		2010 Rs.'000	2009 Rs.'000
The General Insurance reserve as shown in the Balance Sheet represents the following:			
Reserve for Unearned Premium - Gross		748,857	626,056
- Reinsurance		(196,675)	(202,352)
- Net	(Note 13.1)	552,182	423,704
Reserve for Deferred Acquisition Expenses	(Note 13.2)	(12,392)	(4,644)
Reserve for Title Insurance	(Note 13.3)	12,641	9,244
Reserve for Gross Claims Outstanding	(Note 13.4)	178,227	171,060
Total		730,658	599,364
13.1 Reserve for Net Unearned Premium			
Balance as at 1st January		423,704	331,148
Transfer during the Year		128,478	92,556
Balance as at 31st December		552,182	423,704
13.2 Reserve for Deferred Acquisition Expenses			
Balance as at 1st January		(4,644)	(6,735)
Transfer during the Year		(7,748)	2,091
Balance as at 31st December		(12,392)	(4,644)
13.3 Reserve for Title Insurance			
Balance as at 1st January		9,244	7,470
Net transfer during the Year		3,397	1,774
Balance as at 31st December		12,641	9,244

13. INSURANCE PROVISION - GENERAL (Contd.)

	2010 Rs.'000	2009 Rs.'000
13.4 Reserve for Gross Outstanding Claims		
Balance as at 1st January	151,825	124,678
Claims Incurred during the Year	695,002	479,094
Claims Paid during the Year	(692,652)	(451,947)
Balance as at 31st December	154,175	151,825
IBNR / IBNER balance as at 1st January	19,235	13,645
Increase / (Decrease) in IBNR / IBNER	4,817	5,590
IBNR / IBNER balance as at 31st December	24,052	19,235
Total Reserve for Gross Outstanding Claims	178,227	171,060
13.5 Reconciliation between Insurance Provision and Technical Reserve		
Insurance Provision	730,658	599,364
Reinsurance on Claims Reserves	(71,759)	(49,127)
Technical Reserve	658,899	550,237

13.6 Gross Written Premium on Title Insurance is transferred 100% to the Title Insurance Reserve account to pay potential claims arising from title insurance policies and during the year Company recognised Rs. 2.7 million as profit from Title Insurance. (Accounting policy on Title Insurance, refer Note 3.22.5).

13.7 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 Balance Sheet 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 reserve has been actuarially computed by Messrs. K A Pandit, Consultants & Actuaries, Mumbai, India. The valuation is based on internationally accepted actuarial methods and is performed on a semi annual basis.

14. OTHER LIABILITIES

	2010 Rs.'000	2009 Rs.'000
Policyholders Advance Payments	37,494	29,860
Payables		
Acquisition Cost Payable	75,631	55,688
Government Levies	31,409	23,413
Income Taxes Payable	28,618	35,000
Amounts due to Related Parties (Note 14.1)	10,057	3,459
Others	125,692	135,122
	308,901	282,542

14.1 Amounts due to Related Parties

	2010 Rs. '000	2009 Rs. '000
Hatton National Bank PLC	9,975	3,313
Others	82	146
	10,057	3,459

Notes to the Financial Statements

15. REINSURANCE CREDITORS

	2010 Rs.'000	2009 Rs.'000
Domestic Reinsurers	34,161	39,105
Foreign Reinsurers	47,822	48,146
	81,983	87,251

Payable to domestic reinsurers includes payables under co-insurance arrangements too.

16. RETIREMENT BENEFIT OBLIGATION

Provision for Retiring Gratuity		
As at 1st January	18,180	11,318
Provision during the year	7,691	7,510
	25,871	18,828
Payments during the year	(795)	(648)
Balance as at 31st December	25,076	18,180

As at 31st December 2010, 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 - 16.

16.1 Principal assumptions used

	2010	2009
(a) Discount Rate	9.50%	10.50%
(b) Salary Increase Rate	9%	10%

The Gratuity Liability is not externally funded.

17. STATED CAPITAL

	2010		2009	
	Number	Rs.'000	Number	Rs.'000
Fully Paid Ordinary Shares	37,500,000	375,000	37,500,000	375,000

17.1 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 meetings of the Company.

18. REVENUE RESERVES

	2010 Rs.'000	2009 Rs.'000
Balance as at 1st January	455,851	301,116
Profit for the year	241,739	201,610
Dividend paid for previous year	(56,250)	(46,875)
Balance as at 31st December	641,340	455,851

19. REVENUE

		2010 Rs.'000	2009 Rs.'000
Gross Written Premium	(Note 20)	2,428,183	2,115,647
Premium Ceded to Reinsurers		(449,461)	(453,517)
Net Written Premium		1,978,722	1,662,130
Net Change in Reserves for Unearned Premium		(134,362)	(94,383)
Net Earned Premium		1,844,360	1,567,747
Income from Investments	(Note 23)	517,198	467,823
Other net Income / (Loss)	(Note 24)	(318)	1,215
Total Revenue		2,361,240	2,036,785

20. GROSS WRITTEN PREMIUM**General Insurance**

Fire		287,660	304,151
Motor		916,406	740,274
Marine		24,147	23,086
Miscellaneous		115,490	63,270
Gross Written Premium - General Insurance		1,343,703	1,130,781

Life Insurance

Individual Policies		1,074,972	975,537
Corporate Policies		9,508	9,329
Gross Written Premium - Life Insurance		1,084,480	984,866
Total Gross Written Premium		2,428,183	2,115,647

21. INSURANCE CLAIMS AND BENEFITS (NET)**General Insurance**

Gross Claims			
Fire		101,721	30,457
Motor		503,005	409,456
Marine		7,318	2,081
Miscellaneous		87,620	42,732
Total Gross Claims		699,664	484,726
Reinsurance Recoveries		(111,427)	(36,516)
General Insurance Net Claims and Benefits		588,237	448,210

Life Insurance

Gross Claims - Death, Disability and Hospitalisation		51,718	51,737
Reinsurance Recoveries		(22,393)	(21,674)
Net Insurance Claims		29,325	30,063
Surrenders		14,129	26,022
Policy Maturities		16,446	7,616
Life Insurance Net Claims and Benefits		59,900	63,701
Net Insurance Claims and Benefits		648,137	511,911

22. UNDERWRITING AND NET ACQUISITION COSTS

Net Underwriting and Policy Acquisition Costs		186,240	152,779
Increase / (Decrease) in Deferred Acquisition Expenses		(7,747)	2,091
Policy fees		(13,502)	(4,762)
		164,991	150,108

Notes to the Financial Statements

23. INCOME FROM INVESTMENTS

	2010 Rs.'000	2009 Rs.'000
Interest Income	450,226	463,631
Dividend Income	8,689	3,873
Realised Capital Gains	58,283	319
	517,198	467,823

24. OTHER NET INCOME/(LOSS)

Profit / (Loss) on Sale of Property, Plant and Equipment	(318)	1,215
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25. OTHER OPERATING, INVESTMENT RELATED AND ADMINISTRATION EXPENSES

Staff Expenses (Note 25.1)	281,439	246,728
Administration and Establishment Expenses	265,493	233,264
Selling Expenses	143,827	125,564
Amortisation of Intangible Assets	9,983	8,279
Depreciation of Property, Plant and Equipment	30,354	26,933
	731,096	640,768

25.1 Staff Expenses

Staff Salaries	168,934	142,853
EPF and ETF	25,341	21,429
Provision for Retirement Benefit Obligation	7,691	7,510
Other Staff Costs (Travelling, Over-time, Bonus, etc)	79,473	74,936
	281,439	246,728

26. PROFIT FROM OPERATIONS

Profit from Operations for the year is arrived after charging all the expenses including the following.

Auditor's Fees and expenses;

Audit Fees and Expenses	888	800
Audit Related Fees and Expenses	551	100
Non Audit Services	Nil	Nil

Employees Benefits including the following;

Defined Benefit Plan Costs - Gratuity	7,691	7,510
Defined Contribution Plan Costs - EPF and ETF	25,341	21,429
Directors' Emoluments and Post Employment Benefits	16,694	12,836
Provision / (Reversal) for Diminution in Value of Investments	-	(8,245)
Amortisation of Intangible Assets	9,983	8,279
Depreciation of Property, Plant and Equipment	30,354	26,933
Loss on Foreign Exchange	5,489	94
Loss / (Profit) on sale of Property, Plant and Equipment	318	(1,215)
Legal Fees	50	170
Donations	300	300

27. FINANCE EXPENSES

Interest on Finance Leases	-	44
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28. INCOME TAX EXPENSES

	2010		2009	
	Rs.'000		Rs.'000	
The major components of income tax expense for the years ended 31st December are as follows :				
Current Tax				
Current Tax on profit for the year		28,208		29,074
Under/(Over) Provision for the year in respect of Prior Years		(422)		397
		27,786		29,471
Deferred Income Tax				
Deferred Taxation Charge / (Reversal) (Note 28.3)		-		-
Income Tax Expense reported in the Income Statement		27,786		29,471
28.1 A reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows :				
Profit for the year		241,739		201,610
Income Tax Expenses		27,786		29,471
Accounting Profit before Income Tax		269,525		231,081
At the statutory income	35.0%	94,334	35.0%	80,878
Adjustments to Current Tax in respect of Previous Year	(0.2%)	(422)	0.2%	397
Income Exempt from Tax	(24.5%)	(66,137)	(20.5%)	(47,360)
Net Non-Deductible Expenses	5.4%	14,558	4.6%	10,606
Social Responsibility Levy	0.2%	417	0.2%	430
Statutory Income Set-off Against Tax Losses Brought Forward	(5.6%)	(14,964)	(6.7%)	(15,480)
Income Tax Expenses	10%	27,786	13%	29,471

28.2 The Company is liable to pay income tax at the rate of 35% on its taxable profits in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and subsequent amendments thereto. As per the amendment made to Section 32 of the Inland Revenue Act, any loss incurred in the business of Life Insurance on or after 1st April 2007 shall be deducted only to the extent of the statutory income generated in the business of Life Insurance.

28.3 Deferred Tax Assets, Liabilities and Income Tax relates to the followings

	Balance Sheet		Income Statement	
	2010	2009	2010	2009
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deferred Tax Liability				
Capital allowances for tax purposes	13,911	22,212	(8,301)	9,289
	13,911	22,212	(8,301)	9,289
Deferred Tax Assets				
Defined Benefit Plans	(6,068)	(5,454)	(614)	(2,081)
Brought Forward Tax Losses	(7,843)	(16,758)	8,915	(7,208)
	(13,911)	(22,212)	8,301	(9,289)
Net Deferred tax charge/(reversal)			-	-
Net Deferred Tax Liability	-	-		

28.4 Impact due to corporate income tax change

The corporate income tax rate has been reduced to 28% commencing from year of assessment 2011/12 as per budget proposals for 2011 announced by the Finance Minister, which is considered to be substantially enacted pending legislation in 2011. Accordingly, deferred tax asset and liability have been computed based on 28%.

28.5 Tax loss brought forward and utilised during the year

As at the year end, total carried forward tax loss is Rs. 224 million (2008 - Rs. 267 million). The Company has utilised such tax losses to recognise a deferred tax asset up to the extent of the deferred tax liability arising from taxable temporary differences. 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 2010 amounted to Rs. 55 million (2009 - Rs. 77 million)

Notes to the Financial Statements

29. BASIC EARNINGS PER SHARE

29.1 Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	2010	2009
29.2 The following reflects the profit and share data used in the Basic Earnings Per Share computation.		
Net Profit Attributable to Ordinary Shareholders (Rs. '000)	241,739	201,610
Weighted Average Number of Ordinary Shares ('000)	37,500	37,500
Basic Earnings Per Share (Rs.)	6.45	5.38

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.

30. DIVIDENDS PAID AND PROPOSED

30.1 Dividend Declared and Paid during the Year

Final dividend for 2009 : Rs 1.50/- per share (2008 : Rs 1.25/- per share) (Rs. '000)

	2010	2009
	56,250	46,875

30.2 Proposed Dividends for approval at AGM

The Board of Directors has recommended the payment of a first and final dividend of Rs. 1.80 per share for the year ended 31st December 2010 (2009 - Rs. 1.50/- per share) which is to be approved at the Annual General Meeting to be held on 29th March 2011. In accordance with Sri Lanka Accounting Standards No.12 - Events after the Balance Sheet Date (revised 2006), this proposed dividend has not been recognised as a liability as at 31st December 2010.

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.

30.3 Compliance with Section 56 and 57 of the Companies act No. 7 of 2007

As required by 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 2010. A statement of solvency completed and duly signed by the Directors on 31st January 2011 has been audited by M/S KPMG Ford, Rhodes, Thornton & Co.

31. RELATED PARTY DISCLOSURES

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 - 30, Related Party Disclosures (revised 2005).

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 Balance Sheet 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.

31.1 Transaction with the parent and Ultimate Controlling Party

Hatton National Bank PLC

	2010 Rs.'000	2009 Rs.'000
Nature of Transaction		
Insurance Premium		
General	19,628	29,995
Life	3,834	4,098
Administration Expenses		
General	47,572	42,289
Life	21,502	9,706
Claims Incurred		
General	7,099	7,288

31. RELATED PARTY DISCLOSURES (Contd.)

	2010 Rs.'000	2009 Rs.'000
Investments Balance as at 31 December (Includes Deposits & Debentures)		
General	74,090	67,516
Life	41,973	38,549
Current Account Balances as at 31 December		
General	33,979	13,732
Life	25,121	22,554
Investment Income		
General	3,955	8,084
Life	5,289	2,069
Rent Expenses	16,756	13,581
Dividends Paid	33,742	28,118

31.2 Transaction with / between Subsidiary Companies of the Parent Company**Sithma Development (Pvt) Ltd****Nature of Transaction**

Insurance Premium

General

5,853

8,785

Claims Incurred

General

4,464

7,236

31.3 Transactions with Key Management Personnel of the Company or its parent

According to Sri Lanka Accounting Standard 30 (revised 2005) Related Party Disclosure, Key Management Personnel 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 and their immediate family members have been classified as Key Management Personnel 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 more than 50% of 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.

a) Key Management Personnel Compensation

	2010 Rs.'000	2009 Rs.'000
Short-term employee benefits	13,814	10,595
Non-Cash Benefits	2,880	2,241
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 the Executive Director .		
b) Other Transactions with Key Management Personnel		
Insurance Premium - General	823	189
Insurance Premium - Life	5,685	2,139
Claims Paid - General	679	-

31.4 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 a more than 20% shareholding in an entity, unless otherwise reported by the Key Management Person . Further significant influence is also established if in the view of the respective Key Management Person, he has the ability to influence the operating and financial policies of an entity even in the absence of a 20% shareholding.

Notes to the Financial Statements

31. RELATED PARTY DISCLOSURES (Contd.)

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Nature of transactions	Insurance Segment	2010 Rs.'000	2009 Rs.'000
ACUITY Stock Brokers (Pvt) Ltd	R Theagarajah and J.M.J Perera	Insurance Premium	General	1,309	370
		Claims Incurred	General	270	433
ACUITY Securities Ltd.	R Theagarajah and J.M.J Perera	Insurance Premium	General	353	195
		Claims Incurred	General	364	188
		Investment in REPO*	General	46,483	59,207
			Life	98,894	67,428
		Investment Income from REPO*	General	5,175	4,099
			Life	8,367	4,296
ACUITY Partners (Pvt) Ltd	R Theagarajah and J.M.J Perera	Insurance Premium	General	510	-
			Life	470	-
Colours of Courage Trust (Guarantee) Ltd.	R Theagarajah	Sponsorship	General	112	-
Aitken Spence Garments Ltd	D H S Jayawardena	Insurance Premium	General	356	438
Aitken Spence Cargo (Pvt) Ltd	D H S Jayawardena	Insurance Premium	General	221	-
Alliance Finance Co. PLC	Pratap Kumar de Silva	Insurance Premium	General	5,187	3,137
		Claims Incurred	General	6,277	1,210
Alliance Tech Trading (Pvt) Ltd	Pratap Kumar de Silva	Purchase and Maintenance of Property, Plant and Equipment	General	143	240
			Life	13	-
Arpico Finance Co. PLC	Pratap Kumar de Silva	Insurance Premium	General	668	-
		Claims Incurred	General	98	-
Ceylon Garden Coir (Pvt) Ltd	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	66	104
Elpitiya Plantations PLC	D H S Jayawardena	Insurance Premium	General	198	291
		Claims Incurred	General	9	15
Milford Exports (Ceylon) Ltd	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	39	25
Milford Developers (Pvt) Ltd	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	460	-
Stassen Exports Ltd	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	11,922	12,170
		Claims Incurred	General	9,767	9,839
Stassen Natural Foods (Pvt) Ltd	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	207	251
Stassen International Ltd	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	1,325	885
		Claims Incurred	General	-	276
Ambewela Live Stock Company Ltd.	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	-	25
Ambewela Products (Pvt) Ltd.	D H S Jayawardena	Insurance Premium	General	-	52
		Claims Incurred	General	6	-
Beruwala Distillery (Pvt) Ltd.	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	-	164
		Claims Incurred	General	386	-
Distilleries Company of Sri Lanka PLC.	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	210	18,554
		Claims Incurred	General	2,758	1,303
Lanka Bell (Pvt) Ltd.	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	44	737
		Claims Incurred	General	1,269	225
		Telephone Expenses	General	56	-
Periceyl (Pvt) Ltd.	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	328	187
		Claims Incurred	General	1,516	-
Texpro Industries Ltd.	D H S Jayawardena	Insurance Premium	General	613	582
Kelani Valley Plantations PLC	R. Seevaratnam	Insurance Premium	General	-	96
		Claims Incurred	General	20	-
Lanka Milk Foods (CWE) PLC	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	385	-
		Claims Incurred	General	1,153	-
Metecno Lanka (Pvt) Ltd	R. Seevaratnam	Insurance Premium	General	191	-
		Claims Incurred	General	61	-
Finlay Rentokil Ceylon (Pvt) Ltd	N G Wickremeratne	Purchase of services	General	227	-
Lanka Dairies (Pvt) Ltd	D H S Jayawardena and R.K.Obeyesekere	Insurance Premium	General	13	-
Hethersett Hotels Ltd	D H S Jayawardena	Insurance Premium	General	61	-
Ace Distriparks (Pvt) Ltd	D H S Jayawardena	Insurance Premium	General	49	-
Ace Containers (Pvt) Ltd	D H S Jayawardena	Insurance Premium	General	15	-
Sri Lanka Insurance Corporation Ltd. (SLIC)	SLIC holds a 15% stake in Hatton National Bank PLC (HNB), and thereby enjoys a significant influence over HNB and its controlled entities	Co-Insurance Premium	General	687	1,860
		Co-Insurance Claims	General	-	1,551

* Investments held in the form of Repurchase Agreements in Government Securities (REPO) as at 31st December

32. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements, other than those disclosed in Note 30, in respect of proposed dividend for the year.

33. CAPITAL COMMITMENTS

- a) As at the year end, no capital expenditure approved by the Board and contracted for which a provision has been made in the Financial Statements.
- b). Future commitments on operating leases

	2010 Rs.'000	2009 Rs.'000
Less than one year	17,721	15,994
Between one and five years	10,351	7,612
Total Operating Lease Commitments	28,072	23,606

34. CONTINGENCIES

In the opinion of the Directors, and in consultation with the Company Lawyers, litigation 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.

35. COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements are amended to ensure comparability with the current year information.

		2009 Rs.'000
As reported previously (2009 Financial Statements):		
Revenue	(a)	2,038,096
Underwriting and Net Acquisition Costs	(a)	154,870
Other net Income / (Loss)	(a)	2,526
Other Operating, Investment Related and Administration Expenses	(a)	637,317

	2010 Rs.'000	2009 Rs.'000
Current Presentation:		
Revenue	2,361,240	2,036,785
Underwriting and Net Acquisition Costs	164,991	150,108
Other net Income / (Loss)	(318)	1,215
Other Operating, Investment Related and Administration Expenses	731,096	640,768

Reason for changes in the presentation and classifications

- a) Policy Fees charged from customers were recorded under Other Income (in Life Insurance) and Other Operating, Investment Related and Administration Expenses (in General Insurance) previously. However, as the Policy Fees are charged at the acquisition of the business to cover the direct administration costs, the same were re-classified under Underwriting and Net Acquisition Costs from the current financial year.

36. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Please refer to page 152 of the Statement of Directors' Responsibility for Financial Reporting.

Balance Sheet of the Life Insurance Fund - Supplemental

<i>As at 31st December,</i>		2010	2009
		Rs.'000	Rs.'000
Assets			
Investments	(A)	2,242,702	1,686,073
Intangible Assets	(B)	20,903	14,653
Property, Plant and Equipment	(C)	4,573	6,174
Loans to Life Policyholders		13,263	9,309
Reinsurance Receivables	(D)	18,617	16,283
Other Assets	(E)	245,918	220,524
Cash and Cash Equivalents	(F)	13,005	45,252
Total Assets		2,558,981	1,998,268
Liabilities			
Insurance Provision - Life	(G)	2,385,246	1,853,513
Other Liabilities	(H)	144,988	117,221
Reinsurance Creditors	(I)	25,341	24,937
Retirement Benefit Obligation	(J)	3,406	2,597
Total Liabilities		2,558,981	1,998,268

The Notes to the Financial Statements set out on pages 168 to 198 form an integral part of these Financial Statements.

Notes to the Balance Sheet of the Life Insurance Fund - Supplemental

		2010 Rs.'000	2009 Rs.'000
A. INVESTMENTS			
Government Securities		1,406,591	1,258,989
Repurchase Agreements on Government Securities		176,429	55,428
Quoted Shares	(Note A.1)	118,901	21,821
Corporate Debt	(Note A.2)	199,210	114,203
Investment in Unit Trusts	(Note A.3)	27,020	8,000
Term Deposits		314,551	227,632
		2,242,702	1,686,073

A.1. Quoted Shares

	No. of Shares	2010		No. of Shares	2009	
		Cost Rs. '000	Market Value Rs. '000		Cost Rs. '000	Market Value Rs. '000
Banks, Finance and Insurance						
National Development Bank PLC	11,600	1,733	4,054	19,600	2,510	4,038
Commercial Bank of Ceylon PLC	44,750	11,270	11,631	10,500	1,403	1,990
Sampath Bank PLC	70,718	14,174	19,228	-	-	-
Nations Trust Bank PLC	120,000	7,843	10,008	-	-	-
DFCC Bank	38,000	4,353	7,608	17,700	2,614	2,956
Singer Finance (Lanka) Ltd	2,200	33	33	-	-	-
Sector Total		39,406	52,562		6,527	8,984
Diversified Holdings						
John Keells Holdings PLC	63,245	15,353	18,872	22,745	2,534	3,901
Richard Pieris and Company PLC	230,000	1,728	2,415	-	-	-
Hayleys PLC	17,000	5,617	5,865	-	-	-
Hemas Holdings PLC	221,000	9,553	9,835	4,200	447	516
Sector Total		32,251	36,987		2,981	4,417
Telecommunications						
Dialog Axiata PLC	80,000	1,663	944	80,000	1,663	580
Sector Total		1,663	944		1,663	580
Manufacturing						
Royal Ceramic Lanka PLC	9,000	475	2,744	24,000	1,053	1,596
Dipped Products PLC	11,000	1,031	1,317	11,000	1,031	946
Chevron Lubricants Lanka PLC	16,000	2,412	2,556	-	-	-
ACL Cables PLC	25,000	1,414	2,128	25,000	1,414	1,919
ACL Plastics PLC	3,600	372	576	-	-	-
Tokyo Cement Company (Lanka) PLC	212,325	8,775	11,678	-	-	-
Kelani Cables PLC	27,000	3,058	2,835	-	-	-
Sector Total		17,537	23,834		3,498	4,461
Hotels and Travels						
Asian Hotels & Properties PLC	-	-	-	8,000	268	756
Dolphin Hotels PLC	117,600	4,161	7,197	68,000	1,758	1,870
Aitken Spence Hotel Holdings PLC	13,875	486	1,467	2,500	596	673
Riverina Hotels PLC	30,600	2,975	3,222	-	-	-
The Lighthouse Hotel PLC	11,400	763	718	-	-	-
Sector Total		8,385	12,604		2,622	3,299

Notes to the Balance Sheet of the Life Insurance Fund - Supplemental

A. INVESTMENTS (Contd.)

	2010			2009		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Chemicals and Pharmaceuticals						
Chemical Industries (Colombo) PLC	87,500	7,555	12,311	37,500	2,284	2,363
Haycarb PLC	13,000	2,245	2,191	-	-	-
Sector Total		9,800	14,502		2,284	2,363
Power and Energy						
Laugfs Gas Ltd	16,800	386	435	-	-	-
Laugfs Gas Ltd - (Non Voting)	12,100	182	224	-	-	-
Hemas Power PLC	-	-	-	38,900	778	759
Sector Total		568	659		778	759
Construction and Engineering						
Colombo Dockyard PLC	-	-	-	3,500	568	857
Sector Total		-	-		568	857
Beverage Food and Tobacco						
Renuka Agri Foods PLC	309,100	815	2,071	189,100	425	425
Cargills (Ceylon) PLC	-	-	-	8,000	475	522
Sector Total		815	2,071		900	947
Information Technology						
PC House PLC	110,200	1,212	1,245	-	-	-
Sector Total		1,212	1,245		-	-
Investment Trusts						
Renuka Holdings PLC	50,000	2,121	3,095	-	-	-
Sector Total		2,121	3,095		-	-
Health Care						
Asiri Hospital Holdings PLC	598,200	5,143	5,204	-	-	-
Sector Total		5,143	5,204		-	-
Portfolio Total		118,901	153,707		21,821	26,667
Less. Provision for Diminution in Market Value Brought Forward		-	-		(3,602)	-
(Provision)/Reversal Made During the Year		-	-		3,602	-
Provision for Diminution in Market Value Carried Forward		-	-		-	-
Carrying Value of total Investment in Quoted Shares		118,901	-		21,821	-

A. INVESTMENTS (Contd.)

A.2 Corporate Debt

	Redeemable Date	No. of Debentures	2010 Cost Rs.'000	Market Value Rs.'000	Interest Rate (Per Annum)	No. of Debentures	2009 Cost Rs.'000	Market Value Rs.'000	Interest Rate (Per Annum)
a) Debentures - Quoted									
Hatton National Bank PLC	31/03/2021	75,000	7,500	7,500	11%	75,000	7,500	7,500	11%
DFCC Bank	26/06/2016	5,000	5,000	5,000	14%	5,000	5,000	5,000	14%
Seylan Bank PLC	29/05/2012	50,000	5,000	5,000	16.75%	50,000	5,000	5,000	16.75%
Sampath Bank PLC	29/08/2012	130,000	13,000	13,000	3 Month Gross TB +1.5%	130,000	13,000	13,000	3 Month Gross TB +1.5%
Singer Sri Lanka PLC	30/09/2012	120,000	12,000	12,000	1 Year Gross TB +1.65%	120,000	12,000	12,000	1 Year Gross TB +1.65%
Bank of Ceylon	23/11/2013	150,000	15,000	15,000	6 Month Gross TB +0.75%	150,000	15,000	15,000	6 Month Gross TB +0.75%
Bank of Ceylon	28/06/2015	200,000	20,000	20,000	11.50%	-	-	-	-
Nations Trust Bank PLC	30/04/2013	10,000	10,000	10,000	20.53%	10,000	10,000	10,000	20.53%
Urban Development Authority	05/10/2015	867,100	86,710	86,710	11%	-	-	-	-
Total Investment in Quoted Debentures			174,210	174,210			67,500	67,500	

	Redeemable Date	No. of Debentures	Cost Rs.'000	Directors' Valuations Rs.'000	Interest Rate (Per Annum)	No. of Debentures	Cost Rs.'000	Directors' Valuations Rs.'000	Interest Rate (Per Annum)
b) Debentures - Unquoted									
Seylan Bank PLC		-	-	-	-	80,000	8,000	8,000	15%
Senkadagala Finance Ltd.	21/09/2012	25,000	25,000	25,000	15.50%	25,000	25,000	25,000	15.50%
Total Investment in Unquoted Debentures			25,000	25,000			33,000	33,000	
c) Commercial Papers									
Sampath Leasing and Factoring Ltd.			-	-	-		13,703	13,703	21.66%
Total Investment in Commercial Paper							13,703	13,703	
Total Investment in Corporate Debt			199,210	199,210			114,203	114,203	

A.3 Unit Trusts

	No. of Units	2010 Cost Rs.'000	Market Value/ Managers' Buying price Rs.'000	No. of Units	2009 Cost Rs.'000	Market Value/ Managers' Buying price Rs.'000
Quoted						
NAMAL Acuity Value Fund	80,000	5,020	7,200	-	-	-
Total Investment in Quoted Unit Trust			5,020	7,200	-	-
Unquoted						
Ceybank Savings plus Money Market Fund	1,800,000	18,000	18,972	-	-	-
Ceylon Financial Sector Fund	408,998	4,000	3,857	-	-	-
Ceybank Savings plus Money Market Fund	-	-	-	800,000	8,000	8,400
Total Investment in Unquoted Unit Trust			22,000	22,829	8,000	8,400
Total Investment in Unit Trusts			27,020	30,029	8,000	8,400

Notes to the Balance Sheet of the Life Insurance Fund - Supplemental

B. INTANGIBLE ASSETS

	Balance As at 01.01.2010 Rs.'000	Additions /Transfers Rs.'000	Disposals/ Transfers Rs.'000	Balance As at 31.12.2010 Rs.'000
B.1 Gross Carrying Amounts				
At Cost				
Computer Software	17,083	9,702	-	26,785
B.2 Amortisation				
At Cost				
Computer Software	2,560	3,452	-	6,012
B.3 Capital work in progress				
At Cost				
Software under Development	130	2,951	2,951	130
B.4 Net Book Values				
At Cost				
Computer Software	14,523			20,773
Software under development	130			130
Total Carrying Amount of Intangible Assets	14,653			20,903

B.5 Capital work in progress represents the capital expenditure incurred for upgrading the computer software, which is under development as at the year end.

B.6 During the financial year, the Company acquired Intangible Assets (Computer Software) to the aggregate value of Rs. 9.7 million (2009 - Rs. 10.1 million). Cash payments amounting to Rs. 9.7 million (2009 - Rs.10.1 million) were made during the year for purchase of Intangible Assets (Computer Software).

B.7 Intangible Assets includes fully depreciated Computer Software which are in the use of normal business activities having a cost of Rs. 0.15 million (2009 - Rs. 0.06 million)

C. PROPERTY, PLANT AND EQUIPMENT

	Balance As at 01.01.2010 Rs.'000	Additions /Transfers Rs.'000	Disposals/ Transfers Rs.'000	Balance As at 31.12.2010 Rs.'000
C.1 Gross Carrying Amounts				
At Cost				
Computer Hardware	5,415	322	-	5,737
Motor Vehicles	4,874	139	55	4,958
Office Equipment	922	101	-	1,023
Furniture and Fittings	2,196	46	19	2,223
Total Value of Depreciable Assets	13,407	608	74	13,941
C.2 Depreciation				
At Cost				
Computer Hardware	3,914	546	-	4,460
Motor Vehicles	2,034	1,216	25	3,225
Office Equipment	388	198	-	586
Furniture and Fittings	897	211	11	1,097
Total Depreciation	7,233	2,171	36	9,368

C. PROPERTY, PLANT AND EQUIPMENT (Contd.)

	As at 01.01.2010 Rs.'000	As at 31.12.2010 Rs.'000
C.3 Net Book Values		
At Cost		
Computer Hardware	1,501	1,277
Motor Vehicles	2,840	1,733
Office Equipment	534	437
Furniture and Fittings	1,299	1,126
Total Carrying Amount of Property, Plant and Equipment	6,174	4,573

C.4 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 0.6 Million (2009 - Rs. 0.4 Million). Cash payments amounting to Rs. 0.6 Million (2009 - Rs. 0.4 Million) were made during the year for purchase of Property, Plant & Equipment.

	2010 Rs.'000	2009 Rs.'000
D. REINSURANCE RECEIVABLES		
Reinsurance Receivable on Outstanding Claims	14,550	7,836
Reinsurance Receivable on Settled Claims	4,067	8,447
	18,617	16,283
E. OTHER ASSETS		
Staff Loans (Note E.1)	-	8,690
Agent / Advisor related Receivables	3,751	25,146
Interest and Dividend Receivable	143,578	116,227
Advance Payments	5,187	4,139
Notional Tax, Economic Service Charge (ESC) and Other Taxes recoverable from the Commissioner General of Inland Revenue (CGIR)	93,289	66,250
Others	113	72
	245,918	220,524

During the year, all Staff and Advisor Loans under Life Insurance Fund were transferred to Life Shareholders Fund (which is classified together with General Insurance Fund) in order to ensure compliance with the Approved Assets requirement under Determination 1 (30/10/2005) of the Insurance Board of Sri Lanka.

	2010 Rs.'000	2009 Rs.'000
E.1 Staff Loans		
Balance as at 1st January	8,690	8,563
Loans granted/transferred during the year	(8,690)	4,926
	-	13,489
Repayments during the year	-	(4,799)
Balance as at 31st December	-	8,690
F. CASH AND CASH EQUIVALENTS		
Cash in Hand and at Bank	13,005	22,835
Other Cash Equivalents	-	22,417
Balance as at 31st December	13,005	45,252

G. INSURANCE PROVISION - LIFE

Please refer - Note 12 on Page 181.

Notes to the Balance Sheet of the Life Insurance Fund - Supplemental

	2010 Rs.'000	2009 Rs.'000
H. OTHER LIABILITIES		
Policyholders Advance Payments	37,494	29,860
Payables		
Acquisition Cost Payable	58,426	40,901
Government Levies	624	370
Others	48,444	46,090
	144,988	117,221
I. REINSURANCE CREDITORS		
Foreign Reinsurers	25,341	24,937
J. RETIREMENT BENEFIT OBLIGATION		
Provision for Retiring Gratuity		
As at 1st January	2,597	1,681
Provision during the year	1,070	996
	3,667	2,677
Payments during the year	(261)	(80)
Balance as at 31st December	3,406	2,597

As at 31st December 2010, 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 - 16.

Principal assumptions used

	2010	2009
(a) Discount Rate	9.50%	10.50%
(b) Salary Increase Rate	9%	10%

The Gratuity Liability is not externally funded.

Insurance Revenue Accounts

<i>For the Year Ended 31st December,</i>	2010 Rs.'000	2009 Rs.'000
General Insurance		
Gross Written Premium	1,343,703	1,130,781
Premium Ceded to Reinsurers	(350,264)	(360,459)
Net Written Premium	993,439	770,322
Net Change in Reserves for Unearned Premium	(134,362)	(94,383)
Net Earned Premium	859,077	675,939
Net Claims Incurred	(588,237)	(448,210)
Net Commission	(7,013)	527
(Increase) / Decrease in Deferred Acquisition Expenses	7,747	(2,091)
Expenses	(335,634)	(282,348)
Underwriting Surplus / (Deficit)	(64,060)	(56,183)
Income from Investments	177,889	156,091
Other net Income / (Loss)	(304)	1,217
Operating Profit from General Insurance Business	113,525	101,125
Life Insurance		
Gross Written Premium	1,084,480	984,866
Premium Ceded to Reinsurers	(99,197)	(93,058)
Net Written Premium	985,283	891,808
Net Benefits Expense	(59,900)	(63,701)
Net Commission	(177,530)	(151,995)
Expenses Attributable to Policyholders	(399,415)	(364,834)
Increase in Life Insurance Fund	(531,733)	(493,008)
Income from Investments	339,309	311,732
Other net Income / (Loss)	(14)	(2)
Surplus from Life Insurance Business	156,000	130,000
Reconciliation of Statement of Income and Insurance Revenue Accounts		
Operating Profit from General Insurance Business	113,525	101,125
Surplus from Life Insurance Business	156,000	130,000
Profit from Operations	269,525	231,125
Finance Expenses	-	(44)
Profit Before Taxation	269,525	231,081
Income Tax Expenses	(27,786)	(29,471)
Profit for the Year	241,739	201,610

Share Information

1. Stock Exchange Listing

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

2. The Share

Stated Capital	- Rs. 375,000,000/- i.e. 37,500,000 shares
Class of Shares	- Ordinary Shares
Voting Rights	- One vote per Ordinary Share
Shares held by the public	- 39.80% (as at 31st December 2010)

3. Shareholdings

There were 3,665 registered shareholders as at 31st December 2010 (2009 – 3,845). As per the rule No.7.6 (X) of the Colombo Stock Exchange, distribution and composition of Shareholders are given as follows.

Shares	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	%
1 - 1,000	2,165	736,961	1.97	8	4,100	0.01	2,173	741,061	1.98
1,001 - 10,000	1,352	4,292,838	11.45	10	42,000	0.11	1,362	4,334,838	11.56
10,001 - 100,000	112	2,476,426	6.60	4	147,500	0.40	116	2,623,926	7.00
100,001 - 1,000,000	11	2,517,625	6.71	-	-	-	11	2,517,625	6.71
Over - 1,000,000	3	27,282,550	72.75	-	-	-	3	27,282,550	72.75
Total	3,643	37,306,400	99.48	22	193,600	0.52	3,665	37,500,000	100

4. Analysis of Shareholders

a) Resident / Non-Resident

	31st December 2010			31st December 2009		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	3,643	37,306,400	99.48	3,813	37,256,250	99.35
Non-Resident	22	193,600	0.52	32	243,750	0.65
Total	3,665	37,500,000	100	3,845	37,500,000	100

b) Individual / Institutional

	31st December 2010			31st December 2009		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,592	7,866,833	20.98	3,788	8,973,583	23.93
Institutional	73	29,633,167	79.02	57	28,526,417	76.07
Total	3,665	37,500,000	100	3,845	37,500,000	100

5. Directors' Shareholding

As per the rule No. 7.6 (V) of the Colombo Stock Exchange, the Directors shareholding details during the year are given as follows

Name of the Director	No. of Shares as at 31st December 2010	No. of Shares as at 31st December 2009
Rienzie T. Wijetilleke (Chairman)	750	750
Manjula de Silva (Managing Director)	25,000	25,000
M U de Silva	2,250	2,250
Pratap Kumar de Silva	1,000	-
D M de S Wijeyeratne	500	500
Sarath Ratwatte	11,000	11,000
R Theagarajah	6,250	6,250
J M J Perera	5,250	5,250
J D N Kekulawala	30,000	26,000

6. Top 20 Shareholders

As per the rule No. 7.6 (III) of the Colombo Stock Exchange, the 20 largest shareholders as at 31st December 2010 together with their Shareholding as at 31st December 2009 are given below.

Name of the Shareholder	2010		2009	
	Shareholding	% on Total No. of Shares	Shareholding	% on Total No. of Shares
Hatton National Bank PLC	22,494,750	59.99	22,494,750	59.99
Mercantile Merchant Bank Ltd.	3,287,800	8.77	-	-
The Ceylon Guardian Investment Trust PLC	1,500,000	4.00	-	-
National Savings Bank	768,600	2.05	-	-
Employees Trust Fund Board	309,200	0.82	465,700	1.24
Mr. M. F. Hashim	303,350	0.81	264,000	0.70
Bank of Ceylon A/C Ceybank Century Growth Fund	288,100	0.77	-	-
Deutsche Bank AG - Comtrust Equity Fund	150,000	0.40	-	-
Mr. K.N.J. Balendra	142,300	0.38	-	-
Mr. M. H. V. U. Gunatilaka	120,075	0.32	117,545	0.31
Mr. R. Senathirajah	119,900	0.32	60,000	0.16
Mr. A. P. Somasiri	115,000	0.31	115,000	0.31
Mr. S. Abishek	101,000	0.27	101,000	0.27
Mr. K. Laveendrakumar	100,100	0.27	142,000	0.38
Mrs. N. Hashim	96,650	0.26	91,650	0.24
Malship Ceylon Ltd.	93,500	0.25	93,500	0.25
Mr. B. Selvanayagam & Mrs. L. Selvanayagam	90,000	0.24	100,000	0.27
Union Bank of Colombo Ltd.	76,500	0.20	-	-
Union Investments Ltd.	75,000	0.20	75,000	0.20
The Sri Lanka Fund	70,700	0.19	-	-
	30,302,525	80.82		

7. Public Shareholding

As per the Rule No. 7.6 (IV) of the Colombo Stock Exchange, the details of the public shareholding are given as follows.

	2010		2009	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Number of Shares	14,923,250	39.80	14,928,250	39.81

Share Information

8. Share Performance

As per the Rule No. 7.6 (XI) of the Colombo Stock Exchange, details relating to the Share Performance are given below.

	2010	2009	2008	2007
Number of Transactions	4,812	7,084	3,641	6,141
Number of Shares Traded	13,201,900	10,535,000	3,566,900	7,343,100
Value of Shares Traded (Rs.)	784,213,895	391,270,975	85,513,100	195,286,050
CSE Turnover (Rs. Bn.)	570.30	142.50	110.50	105.00
Market Capitalisation (Rs. Mn.)				
HNB Assurance PLC	2,925	1,856	694	919
CSE	2,210,452	1,092,138	488,813	820,652
Dividend Per Share (Rs.)	1.80	1.50	1.25	1.00
Dividend pay-out (Rs. Mn.)	67.5	56.3	46.9	37.5
Basic Earnings Per Share (Rs.)	6.45	5.38	4.39	3.29
Net Assets Per Share (Rs.)	27.10	22.16	18.03	14.64
Market Price Per Share (Rs.)				
Highest	90.00	57.00	27.00	37.00
Lowest	45.00	17.25	17.00	18.00
Year end (VWA)	78.00	49.50	18.25	24.50
P/E Ratio (Times)	12.09	9.20	4.16	7.45

9. Disclosure of Related Party Transactions

As required by the CSE listing rule number 7.6.(xvi), it is required to disclose Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity. There were no individual transactions falling under this criteria during the year. However, all related party transactions at aggregate level have been disclosed under Note 31 to the Financial Statements.

Quarterly Analysis 2010 and 2009

Quarterly Analysis 2010 Company Statement of Income

	1st Quarter Jan-Mar 10 Rs. '000	2nd Quarter Apr-Jun 10 Rs. '000	3rd Quarter Jul-Sep 10 Rs. '000	4th Quarter Oct-Dec 10 Rs. '000	Total Jan-Dec 10 Rs. '000
Revenue	525,635	536,019	618,367	681,219	2,361,240
Gross Written Premium	538,028	526,173	661,408	702,574	2,428,183
Premiums Ceded to Reinsurers	(102,429)	(113,467)	(114,500)	(119,065)	(449,461)
Net Written Premium	435,599	412,706	546,908	583,509	1,978,722
Net Change in Reserves for Unearned Premium	(28,500)	476	(52,494)	(53,844)	(134,362)
Net Earned Premium	407,099	413,182	494,414	529,665	1,844,360
Benefits, Losses and Expenses					
Insurance Claims and Benefits (Net)	(142,147)	(150,914)	(177,863)	(177,213)	(648,137)
Increase in Life Insurance Fund	(140,169)	(135,712)	(195,426)	(60,426)	(531,733)
Underwriting and Net Acquisition Costs	(43,271)	(28,855)	(42,872)	(49,993)	(164,991)
Other Insurance Related Costs	(4,856)	(4,192)	(4,233)	(2,477)	(15,758)
Total Benefits, Losses and Expenses	(330,443)	(319,673)	(420,394)	(290,109)	(1,360,619)
Net Earned Premium less Benefits, Losses and Expenses	76,656	93,509	74,020	239,556	483,741
Other Revenue					
Income from Investments and Other Income	118,536	122,837	123,953	151,554	516,880
Expenses					
Other Operating, Investment Related and Administration Expenses	(166,577)	(182,709)	(176,746)	(205,064)	(731,096)
Profit from Operations	28,615	33,637	21,227	186,046	269,525
Finance Expenses	-	-	-	-	-
Profit Before Taxation	28,615	33,637	21,227	186,046	269,525
Income Tax Expense	(8,506)	(9,468)	(4,557)	(5,255)	(27,786)
Profit for the period	20,109	24,169	16,670	180,791	241,739

Quarterly Analysis 2009 Company Statement of Income

	1st Quarter Jan-Mar 09 Rs. '000	2nd Quarter Apr-Jun 09 Rs. '000	3rd Quarter Jul-Sep 09 Rs. '000	4th Quarter Oct-Dec 09 Rs. '000	Total Jan-Dec 09 Rs. '000
Revenue	456,086	488,528	607,523	484,648	2,036,785
Gross Written Premium	457,287	537,110	640,272	480,978	2,115,647
Premiums Ceded to Reinsurers	(93,100)	(148,379)	(96,794)	(115,244)	(453,517)
Net Written Premium	364,187	388,731	543,478	365,734	1,662,130
Net Change in Reserves for Unearned Premium	(17,484)	(19,690)	(55,899)	(1,310)	(94,383)
Net Earned Premium	346,703	369,041	487,579	364,424	1,567,747
Benefits, Losses and Expenses					
Insurance Claims and Benefits (Net)	(123,592)	(116,119)	(129,916)	(142,284)	(511,911)
Increase in Life Insurance Fund	(131,772)	(166,670)	(224,926)	30,360	(493,008)
Underwriting and Net Acquisition Costs	(42,390)	(25,262)	(43,947)	(38,509)	(150,108)
Other Insurance Related Costs	(1,883)	(2,065)	(3,688)	(2,229)	(9,865)
Total Benefits, Losses and Expenses	(299,637)	(310,116)	(402,477)	(152,662)	(1,164,892)
Net Earned Premium Less Benefits, Losses and Expenses	47,066	58,925	85,102	211,762	402,855
Other Revenue					
Income from Investments and Other Income	109,383	119,487	119,944	120,224	469,038
Expenses					
Other Operating, Investment Related and Administration Expenses	(134,545)	(153,907)	(175,963)	(176,353)	(640,768)
Profit from Operations	21,904	24,505	29,083	155,633	231,125
Finance Expenses	(28)	(15)	-	(1)	(44)
Profit Before Taxation	21,876	24,490	29,083	155,632	231,081
Income Tax Expense	(6,009)	(6,453)	(7,666)	(9,343)	(29,471)
Profit for the Period	15,867	18,037	21,417	146,289	201,610

Ten Year Summary

Statement of Income for the year ended 31st December,	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
GENERAL INSURANCE										(*)
Gross Written Premium	1,343,703	1,130,781	924,709	704,577	618,502	469,929	338,708	243,392	122,232	11,785
Net Earned Premium	859,077	675,939	541,463	468,595	362,540	270,059	199,777	134,654	26,328	123
Income from Investments and Other Income	177,585	157,308	126,784	85,880	56,164	38,506	31,088	28,377	32,165	12,890
Net Claims Incurred	(588,237)	(448,210)	(363,813)	(291,283)	(219,336)	(144,548)	(123,751)	(59,632)	(22,399)	(85)
Net Commission Incurred	12,539	1,887	(6,272)	1,546	(6,058)	(4,947)	(4,957)	(7,460)	(1,847)	136
Expenses	(347,439)	(285,843)	(228,288)	(186,406)	(130,609)	(107,061)	(85,038)	(61,502)	(28,272)	(4,793)
Profit Before Taxation	113,525	101,081	69,874	78,332	62,701	52,009	17,119	34,437	5,975	8,271

(*) General Insurance business commenced on 22.11.2001

LIFE INSURANCE

Gross Written Premium	1,084,480	984,866	914,170	767,576	503,321	354,181	205,885	104,436	35,297	-
Net Written Premium	985,283	891,808	834,218	698,048	451,920	318,684	188,980	95,009	32,755	-
Income from Investments and Other Income	339,295	311,730	217,223	114,920	53,497	26,483	12,208	6,172	1,140	-
Net Benefits Incurred	(59,900)	(63,701)	(44,669)	(25,595)	(14,924)	(12,183)	(7,673)	(1,478)	(129)	-
Net Commission Incurred	(177,530)	(151,995)	(161,894)	(154,212)	(115,132)	(88,675)	(58,785)	(20,960)	(1,427)	-
Expenses	(399,415)	(364,834)	(265,047)	(195,208)	(138,458)	(103,259)	(49,191)	(23,541)	(3,312)	-
Increase in Life Insurance Fund	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)	(85,539)	(55,202)	(29,027)	-
Profit Before Taxation	156,000	130,000	100,000	65,000	30,000	10,000	-	-	-	-

(**) Life Insurance business commenced on 01.01.2002

COMPANY

Gross Written Premium	2,428,183	2,115,647	1,838,879	1,472,153	1,121,823	824,110	544,593	347,828	157,529	11,785
Net Earned Premium	1,844,360	1,567,747	1,375,681	1,166,643	814,460	588,743	388,757	229,663	59,083	123
Income from Investments and Other Income	516,880	469,038	344,007	200,800	109,661	64,989	43,296	34,549	33,305	12,890
Net Claims and Benefits (Net)	(648,137)	(511,911)	(408,482)	(316,878)	(234,260)	(156,731)	(131,424)	(61,110)	(22,528)	(85)
Net Commission Incurred	(164,991)	(150,108)	(168,166)	(152,666)	(121,190)	(93,622)	(63,742)	(28,420)	(3,274)	136
Expenses	(746,854)	(650,677)	(493,335)	(381,614)	(269,067)	(210,320)	(134,229)	(85,043)	(31,584)	(4,793)
Increase in Life Insurance Fund	(531,733)	(493,008)	(479,831)	(372,953)	(206,903)	(131,050)	(85,539)	(55,202)	(29,027)	-
Profit Before Taxation	269,525	231,081	169,874	143,332	92,701	62,009	17,119	34,437	5,975	8,271
Income Tax Expense	(27,786)	(29,471)	(5,401)	(20,000)	(1,377)	(1,720)	(733)	1,374	(1,109)	(3,636)
Profit for the Year	241,739	201,610	164,473	123,332	91,324	60,289	16,386	35,811	4,866	4,635
Basic Earnings per Share (Rs.)	6.45	5.38	4.39	3.29	2.44	1.61	0.44	0.95	0.13	0.12
Dividend per Share (Rs.)	1.80	1.50	1.25	1.00	1.00	0.50	-	-	-	-

Balance Sheet as at 31st December,	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
GENERAL INSURANCE										
Assets										
Investments	1,161,203	1,031,342	774,477	627,655	530,914	442,077	352,050	307,301	267,092	251,900
Intangible Assets	46,096	40,091	17,316	17,603	18,530	21,175	17,391	4,893	-	-
Property, Plant and Equipment	126,398	110,896	83,566	68,064	54,096	44,881	27,486	33,713	7,396	2,492
Reinsurance Receivable	103,814	57,541	59,289	24,683	7,620	14,268	1,558	1,499	-	-
Premium Receivable from Policyholders	231,929	157,029	120,922	86,721	95,572	67,538	67,536	48,350	36,130	11,399
Other Assets	251,434	227,686	184,361	121,267	104,772	98,798	68,777	16,929	9,834	6,939
Cash and Cash Equivalents	68,349	48,848	77,332	71,181	66,785	42,838	36,839	25,165	16,700	317
Total Assets	1,989,223	1,673,433	1,317,263	1,017,174	878,289	731,575	571,637	437,850	337,152	273,047
Liabilities and Equity										
Liabilities										
Insurance Provision - General	730,658	599,364	470,206	340,562	319,338	267,020	210,611	114,841	53,831	2,905
Other Liabilities	163,913	165,321	110,800	84,539	51,754	64,970	30,827	18,924	15,858	15,507
Reinsurance Creditors	56,642	62,314	50,504	36,375	52,661	24,961	17,022	8,017	7,802	-
Retirement Benefit Obligation	21,670	15,383	9,637	6,555	3,525	2,637	1,479	756	160	-
Total Liabilities	972,883	842,582	641,147	468,031	427,478	359,588	259,939	142,538	77,651	18,412
Equity										
Stated Capital	375,000	375,000	375,000	375,000	250,000	250,000	250,000	250,000	250,000	250,000
Revenue Reserves	641,340	455,851	301,116	174,143	200,811	121,987	61,698	45,312	9,501	4,635
Total Equity	1,016,340	830,851	676,116	549,143	450,811	371,987	311,698	295,312	259,501	254,635
Total Liabilities and Equity	1,989,223	1,673,433	1,317,263	1,017,174	878,289	731,575	571,637	437,850	337,152	273,047

(*) General Insurance business commenced on 22.11.2001

<i>Balance Sheet as at 31 st December,</i>	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
LIFE INSURANCE										
Assets										
Investments	2,242,702	1,686,073	1,263,166	852,943	513,475	335,222	177,987	89,207	27,878	-
Intangible Assets	20,903	14,653	5,742	2,936	1,872	204	116	50	-	-
Property, Plant and Equipment	4,573	6,174	8,151	4,333	3,086	2,994	2,637	2,429	-	-
Loans to Life Policyholders	13,263	9,309	4,666	1,588	1,277	982	-	-	-	-
Reinsurance Receivable	18,617	16,283	10,025	6,234	8,647	2,271	-	-	-	-
Other Assets	245,918	220,524	150,521	78,783	31,857	20,058	12,308	1,584	541	-
Cash & Cash Equivalents	13,005	45,252	39,939	44,890	36,981	13,102	19,028	14,707	5,522	-
Total Assets	2,558,981	1,998,268	1,482,210	991,707	597,195	374,833	212,076	107,977	33,941	-
Liabilities										
Insurance Provision - Life	2,385,246	1,853,513	1,360,505	880,674	507,721	300,818	169,768	84,229	29,027	-
Other Liabilities	144,988	117,221	87,489	68,059	53,152	64,009	32,577	18,247	3,603	-
Reinsurance Creditors	25,341	24,937	32,535	42,052	35,867	9,542	9,489	5,441	1,305	-
Retirement Benefit Obligation	3,406	2,597	1,681	922	455	464	242	60	6	-
Total Liabilities	2,558,981	1,998,268	1,482,210	991,707	597,195	374,833	212,076	107,977	33,941	-

(**) Life Insurance Business commenced on 01.01.2002

<i>Balance Sheet as at 31 st December,</i>	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
COMPANY										
Assets										
Investments	3,403,905	2,717,415	2,037,643	1,480,598	1,044,389	777,299	530,037	396,508	294,970	251,900
Intangible Assets	66,999	54,744	23,058	20,539	20,402	21,379	17,507	4,943	-	-
Property, Plant and Equipment	130,971	117,070	91,717	72,397	57,182	47,875	30,123	36,142	7,396	2,492
Loans to Life Policyholders	13,263	9,309	4,666	1,588	1,277	982	-	-	-	-
Reinsurance Receivable	122,431	73,824	69,314	30,917	16,267	16,539	1,558	1,499	-	-
Premium Receivable	231,929	157,029	120,922	86,721	95,572	67,538	67,536	48,350	36,130	11,399
Other Assets	497,352	448,210	334,882	200,050	136,629	118,856	81,085	18,513	10,375	6,939
Cash and Cash Equivalents	81,354	94,100	117,271	116,071	103,766	55,940	55,867	39,872	22,222	317
Total Assets	4,548,204	3,671,701	2,799,473	2,008,881	1,475,484	1,106,408	783,713	545,827	371,093	273,047
Liabilities and Equity										
Liabilities										
Insurance Provision - Life	2,385,246	1,853,513	1,360,505	880,674	507,721	300,818	169,768	84,229	29,027	-
Insurance Provision - General	730,658	599,364	470,206	340,562	319,538	267,020	210,611	114,841	53,831	2,905
Other Liabilities	308,901	282,542	198,289	152,598	104,906	128,979	63,404	37,171	19,461	15,507
Reinsurance Creditors	81,983	87,251	83,039	78,427	88,528	34,503	26,511	13,458	9,107	-
Retirement Benefit Obligation	25,076	18,180	11,318	7,477	3,980	3,101	1,721	816	166	-
Total Liabilities	3,531,864	2,840,850	2,123,357	1,459,738	1,024,673	734,421	472,015	250,515	111,592	18,412
Equity										
Stated Capital	375,000	375,000	375,000	375,000	250,000	250,000	250,000	250,000	250,000	250,000
Revenue Reserves	641,340	455,851	301,116	174,143	200,811	121,987	61,698	45,312	9,501	4,635
Total Equity	1,016,340	830,851	676,116	549,143	450,811	371,987	311,698	295,312	259,501	254,635
Total Liabilities and Equity	4,548,204	3,671,701	2,799,473	2,008,881	1,475,484	1,106,408	783,713	545,827	371,093	273,047

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Investor Information										
Return on Equity	23.79%	24.27%	24.32%	22.46%	20.26%	16.21%	5.26%	12.13%	1.88%	1.82%
Market Price per Share as at 31st Dec (VWA) (Rs.)	78.00	49.50	18.25	24.50	25.00	12.75	12.50	10.25	-	-
Market Price per Share as at 31st Dec (VWA) (Rs.) - Adjusted for Bonus issue	78.00	49.50	18.25	24.50	16.67	8.50	8.33	6.83	-	-
Price Earnings Ratio (Times)	12.10	9.20	4.16	7.45	10.25	7.92	28.41	10.79	-	-
Market Capitalisation (Rs.Mn)	2,925	1,856	694	919	625	319	313	256	-	-
Employee Information										
Number of Employees	597	540	457	377	308	262	208	180	99	23
GWP per Employee (Rs.Mn)	4.07	3.92	4.02	3.90	3.64	3.15	2.62	1.93	1.59	0.51
Net profit per Employee (Rs.'000)	404.92	373.35	359.90	327.14	296.51	230.11	78.78	198.95	49.15	201.52
General Insurance Operations										
Net Claims Ratio	68%	66%	67%	62%	60%	54%	62%	44%	85%	69%
Expense Ratio	39%	42%	43%	39%	38%	41%	45%	51%	114%	3786%
Combined Ratio	107%	108%	110%	102%	98%	95%	107%	95%	199%	3855%

Glossary

Acquisition Expenses

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

Actuary

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

Admissible Assets

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

Approved Assets

Assets that represent the technical reserve and the Long- Term insurance Fund as per the Determinations made under the Regulation of Insurance Industry Act, No. 43 of 2000.

Bancassurance

An arrangement whereby banks sell insurance products to their customers on behalf of insurance companies.

Beneficiary

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

Claims

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

Claims Incurred

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

Claims Incurred But Not Reported (IBNR)

Claims arising out of events which have occurred by the Balance Sheet date but have not been reported to the insurer as at that date.

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)

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

Claims Outstanding Reserve (Life Insurance Business)

The amount provided to cover the estimated ultimate cost of settling claims arising out of events which have been notified by the Balance Sheet date being the sums due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.

Co-Insurance

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

Commission

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

Deferred Acquisition Expenses (General Insurance Business)

Acquisition Expenses relating to the unexpired period of risk of contracts in force at the Balance Sheet date which are carried forward from one accounting period to subsequent accounting periods.

Earned Premiums

Written premiums adjusted by the unearned premium provisions at the beginning and at the end of the accounting period.

Fair Value

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Gross/net

The terms gross and net mean before and after deduction of the portion attributable to reinsurance.

Gross Written Premium - General Insurance

Premium which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance, before any reinsurance is taken into account.

Gross Written Premium - Life Insurance

Premium to which the insurer is contractually entitled and received during the accounting period.

Insurance Provision - General

Include net unearned premium, gross claims outstanding, reserve for claims incurred but not reported (IBNR) and reserve for claims incurred but not enough reported (IBNER) net of any deferred acquisition expenses.

Insurance Provision - Life

The funds to be maintained by an insurer in respect of its Long Term Insurance business in accordance with the Regulation of Insurance Industry Act, No. 43 of 2000.

Key Insurance Ratios

Net Claims Ratio = $\frac{\text{Net Claims Incurred}}{\text{Net Earned Premium}}$

Expense Ratio = $\frac{\text{Expenses other than Net Claims Incurred}}{\text{Net Earned Premium}}$

Combined Ratio = $\frac{\text{Net Claims Incurred} + \text{Expenses}}{\text{Net Earned Premium}}$

Market Capitalisation

Number of shares in issue multiplied by the market value of each share as at a given date.

Net Earned Premium

Net Earned Premium is the proportion of written premiums attributable to the risks borne, net of premiums ceded to reinsurance.

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 too.

Non-Participating Business

Life Insurance business where policyholders are not entitled to share in the surplus of the relevant life fund.

Participating Business

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

Primary Insurers

Insurance Companies that assume risks in return for an insurance premium and have a direct contractual relationship with the holder of the insurance policy.

Reinsurance

Transfer of all or part of the risk assumed by a primary insurer under one or more insurance to another insurer, called the reinsurer.

Reinsurance Commission / Discount

Commission / discount received or receivable in respect of premiums paid to any reinsurer.

Retention

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

Solvency Margin - Life Insurance

The difference between the value of admissible assets and the value of liabilities, required to be maintained by the insurer who carries on Long Term Insurance business as defined in Solvency Margin rules 2002, made under the Section 26 of the Regulation of Insurance Industry Act, No. 43 of 2000.

Solvency Margin - General Insurance

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

Surrender value

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

Underwriting

The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned.

Underwriting Profit

The underwriting results generated by transacting in General Insurance business, without taking into account the investment income.

Unearned Premium

Amount set aside as at end of a financial year of an insurer, out of premiums in respect of risks to be borne by such insurer after the end of such financial year, under a contract of insurance entered into, prior to the end of that financial year.

Yield

Rate of return on an investment in percentage terms, taking in to account annual income and any change in capital value. Also the dividend payable on a share expressed as a percentage of the market price.

Notice of Meeting

Notice is hereby given that the Ninth (9th) Annual General Meeting of HNB Assurance PLC is convened on Tuesday the Twenty Ninth (29th) day of March 2011, 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 **Ordinary Business** will be transacted.

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 2010, the Auditors’ Report thereon.

To declare a dividend of Rs. 1.80 per share for the year 2010, to the shareholders as recommended by the Directors.

To re-elect Mr M U de Silva who retires by rotation at the Annual General Meeting, a Director of the Company in terms of Article 86 of the Articles of Association of the Company.

To re-appoint Mr J E P A de Silva who retires at the Annual General Meeting, having attained the age of 72 years, a Director of the Company and to adopt the following resolution :-

Resolution - *“That Mr Joseph Eardley Pratapkumar Aditya de Silva who has attained the age of 70 years on 18th December 2008, be and is hereby re-appointed a Director of the Company in terms of Section 211 of the Companies Act No: 7 of 2007 and it is hereby declared that the age limit of 70 years referred to in Section 210 of the Companies Act, shall not apply to the said Director”.*

To re-appoint the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.

To authorise the Directors to determine payments for the year 2011 for charitable and other purposes.

By Order of the Board
HNB ASSURANCE PLC



Indrani Goonesekera
Board Secretary

Colombo, Sri Lanka.
31st January, 2011.

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 19, 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 being *a member/ members of the HNB Assurance PLC, hereby appoint of or failing him/her Rienzie Theobald Wijetilleke or failing him Manjula Hiranya de Silva or failing him Madapathage Upali de Silva or failing him Joseph Eardley Pratapkumar Aditya de Silva or failing him Deepal Manik de Silva Wijeyeratne or failing him Sarath Carlyle Ratwatte or failing him Rajendra Theagarajah or failing him Joseph Michael Jayanth Perera or failing him Joseph Dacius Nihal Kekulawala, 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 Ninth Annual Ordinary General Meeting of the Company to 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 2011 at 10.00 in the forenoon and at any adjournment thereof and at every poll which may be taken in consequence thereof :

To declare a dividend of Rs. 1.80 per share	In favour	
	Against	
To re-elect Mr M U de Silva, a Director of the Company	In favour	
	Against	
To re-appoint Mr J E P A de Silva, a Director of the Company	In favour	
	Against	
To re-appoint 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 2011.

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 19, 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.

In 2001, a small sapling; HNB Assurance was planted in the vast Insurance Industry by Hatton National Bank PLC, one of the largest commercial banks in Sri Lanka. It was a small player among the giants, but its intentions were high to grow bigger and stronger. Day by day it grew taking the attention of all; customers, shareholders and business partners who were looked after with extended care. Its existence could not be shaken by the intense competition. Extensive skills and competencies have been rendered by the workforce showing great potential in achieving success, a fact that can never be forgotten.

Time has created it so firm; now it can give protection to whoever who comes under it. HNBA is standing at the threshold of an important milestone in its history, with open arms to welcome an enlightened future...





www.hnbassuranc.com

