

SOLID. ENDURING.



HNB Assurance PLC

INTEGRATED ANNUAL REPORT 2020

SOLID. ENDURING.

Any entity is only as strong as the foundation on which it stands. And at HNB Assurance, we have built your Company on firm, rock-solid fundamentals that kept us resilient and unwavering through time.

This report you hold is a testament to the strength and achievements of HNB Assurance – over 19 years of operations, we have remained steady and unwavering, despite the ever-evolving world around us. Firmly fixed on a strong foundation and reinforced by the partnerships and values that underpin our success, we have adapted to the changing circumstances and challenges that surround us. We stand before you today, ever-transforming; shaped and sculpted to deliver phenomenal value to the nation and its people both now and in the years to come.

HNB Assurance. A solid foundation. An enduring symbol of strength.

Across the world, the balance of natural forces creates unbelievable stone structures that defy all logic. These colossal structures are a tribute to resilience, stability and strength; having witnessed the rise and fall of civilisations, they remained steadfast in the face of earthquakes, floods, and other natural phenomena, with some formations dating back millions of years.

CONTENTS

We present our report in five sections to enable our stakeholders to have a better understanding of the content presented.

The Statutory Disclosures, Financial Statements of the Group and Company along with the accounting policies and related notes provides an assessment of how value was created through our financial performance.

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ABOUT THE REPORT

GRI 102-1, 102-12, 102-45, 102-46, 102-50, 102-51, 102-52, 102-54, 102-56



About Our Integrated Report

This is the 9th integrated Annual Report of HNB Assurance PLC prepared in accordance with the guidelines of the International Integrated Reporting Framework (IR) and the 12th report prepared using Global Reporting Initiative Standards. Following guiding principles underpin the preparation and presentation of the report.

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder relationships
- Materiality
- Conciseness
- Reliability and completeness
- Consistency and comparability

Scope and Boundary

The report includes both financial and non-financial performance of HNB Assurance PLC and its fully owned subsidiary HNB General Insurance Limited for the financial period covering 1st January 2020 to 31st December 2020. The last Annual report was for the twelve month period ended 31st December 2019.

Reporting Principles



Strategic Focus and Future Orientation

This report provides a concise narrative of the strategy and value creation process of the Group in driving towards its Vision and Mission.

Pages 17 to 23



Connectivity of Information

This report presents a holistic picture on factors that affect Group's ability to create value over time. We have effectively drawn connections between qualitative and quantitative information to provide both context and credibility to the report. Internal information presented in the report are collated from relevant department officials and information systems. External information is obtained from reliable sources which have been quoted.

Pages 1 to 360



Stakeholder Relationships

Our relationship with the key stakeholders and the measures taken to cater to their needs and interests are reported to enhance transparency and accountability.

Page 19



Materiality

We have adopted the concept of materiality in determining the content of this integrated report and accordingly have presented matters deemed material in creating sustainable value to our stakeholders.

Pages 6 to 7



Conciseness

The report includes sufficient context to understand the organisation's strategy, governance, performance and prospects in a concise manner by using materiality determination and internal cross-references as appropriate to limit repetition.

Pages 1 to 360



Reliability and Completeness

External assurance has been obtained for the financial statements and the resulting notes from Messrs KPMG, the independent auditors of the Group. Independent actuaries have confirmed the technical reserves and liability adequacy.

Information provided have been verified by the Board of Directors, Audit Committee, Other Board Sub-Committees and Group Executive Committee as applicable.

All measures have been taken to include and present material matters in an unbiased manner.

This report include forward-looking statements with respect to the future performance and prospects of the Group. These are based on the future expectation of the industry and the external environment and it must be well noted that the actual results may materially differ from such forward-looking statements made.

Pages 1 to 360



Consistency and Comparability

Same reporting concepts are followed from the most recent published report unless a change is needed to improve the quality of information reported.

Comparative information is provided where relevant and any change made to be consistent with current year's presentation have been reported.

Pages 1 to 360

Guiding Frameworks and Principles



Financial Reporting

- ▶ Companies Act No. 07 of 2007
- ▶ Listing Rules of Colombo Stock Exchange (CSE)
- ▶ Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CASL)
- ▶ Regulations and Directions issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL)
- ▶ Regulation of Insurance Industry Act. No. 43 of 2000 and the subsequent amendments



Corporate Governance

- ▶ Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka
- ▶ Corporate Governance Framework for insurers issued by the Insurance Regulatory Commission of Sri Lanka
- ▶ Companies Act No. 07 of 2007
- ▶ Listing Rules of Colombo Stock Exchange



Integrated Reporting

- ▶ International Integrating Reporting Framework



Sustainability Reporting

- ▶ Global Reporting Initiative Sustainability Reporting Standards
- ▶ Sustainable Development Goals (SDGs) of United Nations
- ▶ Sustainability Guide of Colombo Stock Exchange
- ▶ Gender Parity Reporting issued by the Institute of Chartered Accountants of Sri Lanka

Available Forms



Print - Available on request

Online - Available as PDF at www.hnbassurance.com

Sinhala and Tamil Translations of Chairperson's Message, Chief Executive Officer's Review and Financial Statements

Print - Available on request

Online - Available as PDF at www.hnbassurance.com

Any Feedback to;



boardsecretariat@hnbassurance.com



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Company Secretary
HNB Assurance PLC,
 4th Floor, Iceland Business Centre, No.30,
 Sri Uttarananda Mawatha, Colombo 3,
 Sri Lanka

Stakeholder Feedback Form is given on page 357



Reporting Improvements in 2020

- ▶ Linking GRI Standards and United Nation's Sustainable Development Goals
- ▶ Presentation of a comprehensive socio-economic impact of the business and its link to the SDGs of United Nations
- ▶ Discussion on capital trade-offs
- ▶ Disclosure of Corporate Governance of the Subsidiary

Icon Navigation



Financial Capital



Human Capital



Social and Relationship Capital



Intellectual Capital



Manufactured Capital



Natural Capital



Shareholders



Customers



Employees



Business Partners



Regulator



Communities

ABOUT THE REPORT

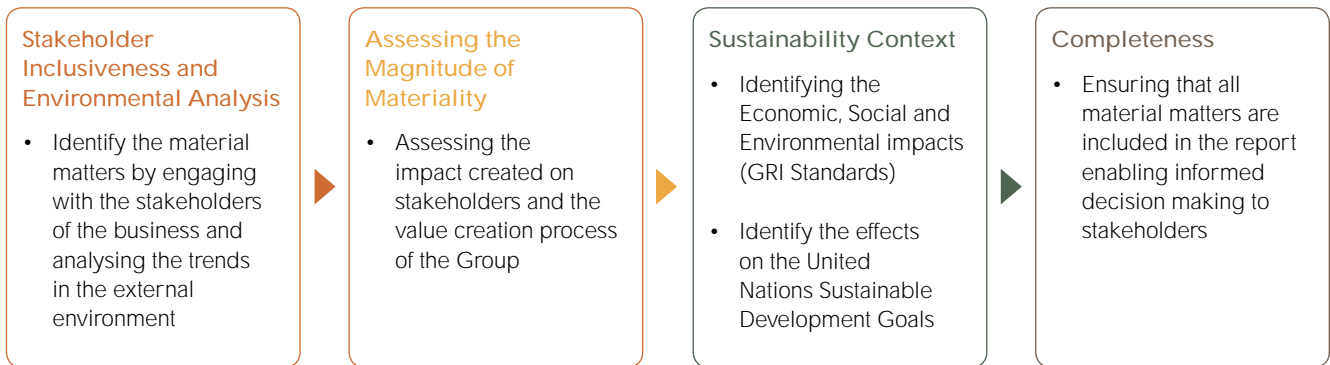
Our Readers

We present this report to all present and future stakeholders of HNB Assurance Group. The financial and non-financial information provided describes how we have created value to our stakeholders who comprise our shareholders, customers, employees, business partners, regulator and the community. We have also compared our performance with the local insurance industry based on available information for the better understanding of our readers.

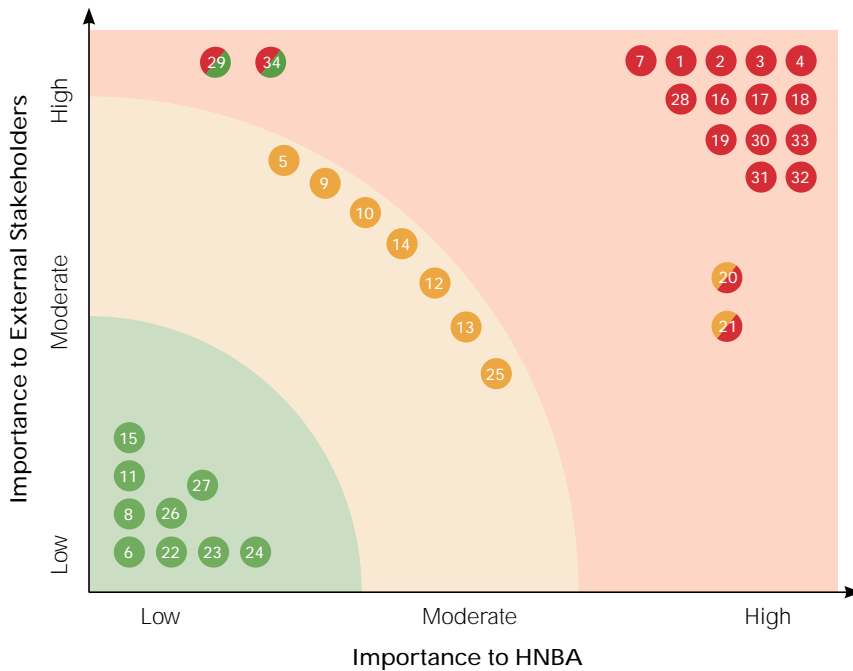
Materiality Assessment

Assessing material matters enables us to identify both internal and external matters which influence our stakeholder interests and the value creation process adopted by the Group. We at HNB Assurance identify material matters by looking at the trends in the external environment and analysing the varying needs of our stakeholders and in this report, we have outlined the material aspects by considering the impact such matters would have on our stakeholders as well as the value creation process of the Group.

Our Materiality Identification and Reporting Process



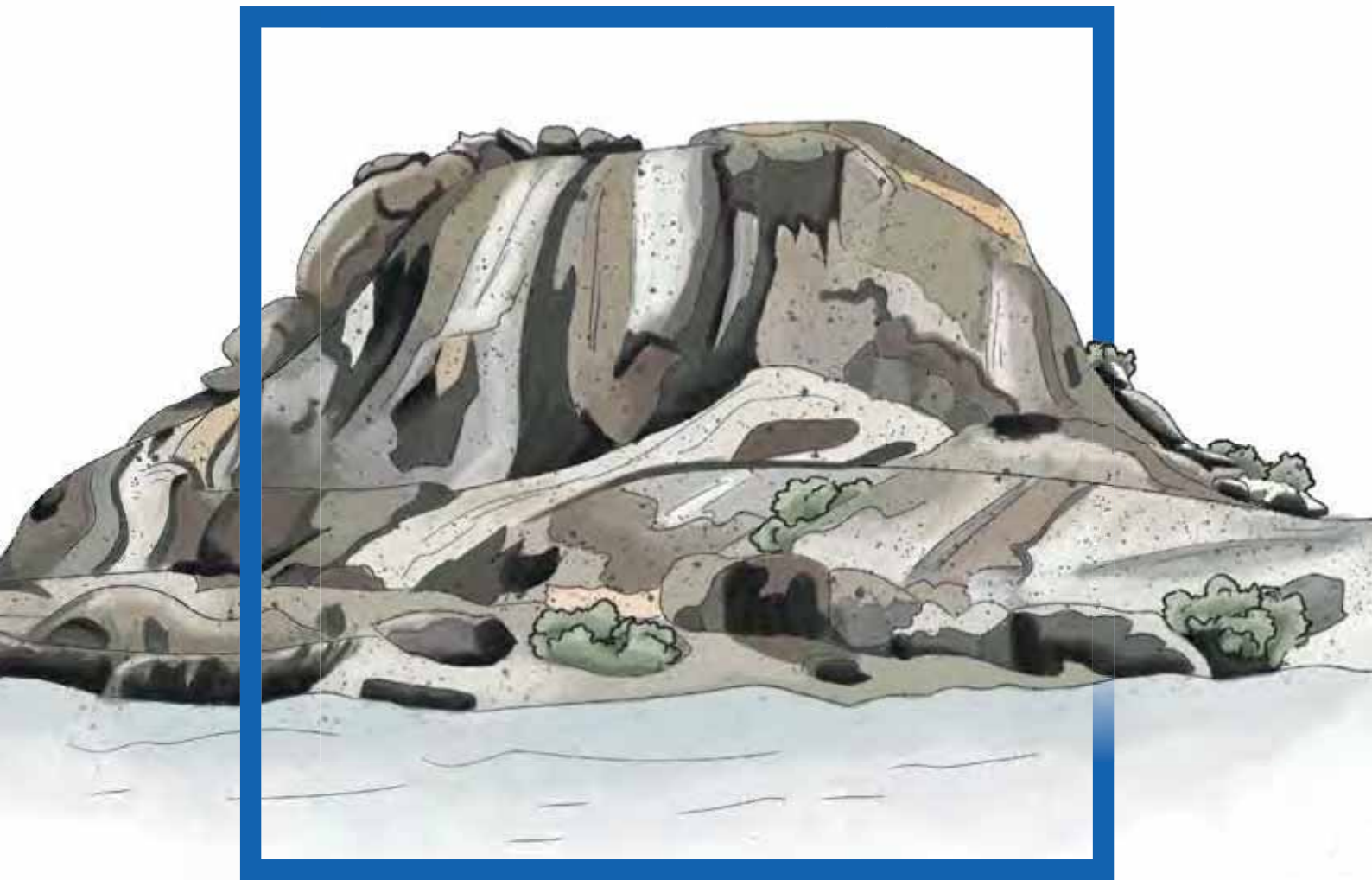
Materiality Matrix



A detailed list of our material matters aligned to GRI Standards and United Nations SDGs are given below.

	GRI Standard	GRI Coverage	Importance to HNBA	Importance to External Stakeholders	Change in Materiality	SDG
Economic						
1	201	Economic Performance	●	●	No Change	
2	202	Market Presence	●	●	No Change	
3	203	Indirect Economic Impacts	●	●	No Change	
4	204	Procurement Practices	●	●	No Change	
5	205	Anti-Corruption	●	●	No Change	
6	206	Anti-Competitive Behaviour	●	●	No Change	
7	207	Tax	●	●	No Change	
Environmental						
8	301	Materials	●	●	No Change	
9	302	Energy	●	●	No Change	
10	303	Water and Effluents	●	●	No Change	
11	304	Bio Diversity	●	●	No Change	
12	305	Emissions	●	●	No Change	
13	306	Waste	●	●	No Change	
14	307	Environmental Compliance	●	●	No Change	
15	308	Supplier Environmental Assessment	●	●	No Change	
Social						
16	401	Employment	●	●	No Change	
17	402	Labour/Management Relations	●	●	No Change	
18	403	Occupational Health and Safety	●	●	Increase	
19	404	Training and Education	●	●	No Change	
20	405	Diversity and Equal Opportunity	●	●	No Change	
21	406	Non-Discrimination	●	●	No Change	
22	407	Freedom of Association and Collective Bargaining	●	●	No Change	
23	408	Child Labour	●	●	No Change	
24	409	Forced or Compulsory Labour	●	●	No Change	
25	410	Security Practices	●	●	No Change	
26	411	Rights of Indigenous Peoples	●	●	No Change	
27	412	Human Rights Assessment	●	●	No Change	
28	413	Local Communities	●	●	No Change	
29	414	Supplier Social Assessment	●	●	No Change	
30	415	Public Policy	●	●	No Change	
31	416	Customer Health and Safety	●	●	No Change	
32	417	Marketing and Labelling	●	●	No Change	
33	418	Customer Privacy	●	●	No Change	
34	419	Socio-economic Compliance	●	●	No Change	

● High ● Moderate ● Low




Patanangala, Yala.

Patanangala is one of many Vijayan rock formations in Yala National Park, most of which date back 600 million years – and having faced external pressures and natural cataclysmic events, they remain intact, standing steadfast despite turbulent forces.

ABOUT US

STANDING THE TEST OF TIME



The past years have seen incredible change and transformation take place - yet through it all, we remained constant and unwavering. We are firmly established on a foundation built to last; structured to stand tall and withstand the elements for decades to come.

Here we explore the structures and fundamentals that have shaped our journey, ensuring our survival and integrity since we first began - enabling us to extend a promise of lifelong value to the people.

ABOUT US

HNB Assurance PLC

HNB Assurance PLC is one of the fastest growing insurers in Sri Lanka with a history of 19 years, offering a range of Life Insurance products to customers. We also offer a diverse portfolio of General Insurance products through our fully-owned subsidiary HNB General Insurance Limited. An extensive network of branches, Bancassurance Officers, Advisors and Brokers supports a deep reach into communities throughout the island across diverse customer segments.

We play a crucial role in the economy and lifestyles by supporting individuals and businesses to hedge their risks through a wide range of insurance products that provide safety nets against potential threats. Trust is key to our relationship and HNBA has built a stable and profitable business with a prudent risk management profile to achieve our vision of being a trusted partner to our stakeholders.

“ We Cover All Your Insurance Needs ”

Life Insurance

HNB Assurance PLC (HNBA) is the 6th largest operator in the Life Insurance market, recognised among the top 100 brands in the country with a ‘National Insurer Financial Strength’ Rating of A (Ika) by Fitch Ratings Lanka Ltd. HNBA provides a full suite of differentiated insurance solutions covering Protection, Retirement, Health and Investment Plans to serve the discerning needs of customers.

148,809 Customers	590 Employees	Rs. 17.1 Bn Insurance Contract Liabilities
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General Insurance

HNB General Insurance Limited (HNBGI) is a specialised provider of both motor and non-motor insurance policies covering Fire, Medical, Engineering and Miscellaneous classes. HNBGI also carries a ‘National Insurer Financial Strength’ Rating of A (Ika) by Fitch Ratings Lanka Ltd.

167,702 Customers	555 Employees	Rs. 3.3 Bn Insurance Contract Liabilities
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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

Differentiating the HNBA Group



Governance and Policies

Sound Governance Framework

The HNBA Group is committed to maintaining high standards of Governance and Ethics and promote a culture of compliance throughout the Group.



People

Experienced Teams

An experienced workforce of 1,145 employees

HNBA produced 113 Million Dollar Round Table winners including 75 Bancassurance Officers and 38 Advisors during 2020.



Trusted Brand

Customer Satisfaction

We are committed to doing business in a manner that supports the upliftment of our consumers and society. Winning consumer trust through engagement and service excellence is a priority at HNBA.



Diversity

Multiple Channels and Products

148,809 policies in Life Insurance including Protection, Retirement, Health and Investment Plans.

167,702 policies in General Insurance covering Motor and Non-Motor such as Home, Medical, Travel, Construction, Marine and Fire.

Access to every part of the country through multiple distribution channels including the Bancassurance channel through our parent company, Hatton National Bank PLC.



Agile and Responsive

Digital Adoption and Innovation

We invest in technology and innovation to enhance customer experiences and evolve our products, channels and business processes to be more agile and responsive to the rapidly-changing operating environment.

OUR MILESTONES

2013

To ensure customer service excellence we establish a dedicated Customer Service Centre

2011

Adjudged the joint winner of Bronze award for Overall Excellence in Annual Financial Reporting

We made a successful Rights Issue of 6.25 Million shares to meet future regulatory changes

2009

We are crowned with the first and foremost International Award for Best Presented Accounts – Corporate Governance presented by South Asian Federation of Accountants (SAFA)

2007

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

2001

The milestone year that we embarked on a steadfast journey to serve customers beyond their expectations

2003

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

2020

For the first time in history, the HNBA Group is able to surpass the Rs. 10 Bn GWP milestone

HNB Assurance PLC and Subsidiary HNB General Insurance Limited obtain the Great Place to Work® certification and is accredited as one of the Top 40 Great Places to Work in Sri Lanka

2018

HNB Assurance obtain the Great Place to Work® Certification upon meeting the required global assessment standards in Sri Lanka. This denotes the confidence and trust the organisation has earned over time

2015

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

2016

We became coveted winners of the Micro Insurance Contribution category and CSR Contribution category at the 1st edition of Fintelekt Insurance Industry Awards 2016

STATEMENT OF VALUE CREATION

GRI 102-7, 404-1

	Key Performance Indicators	Units	Group			Company		
			2020	2019	Change	2020	2019	Change
Financial Capital	Financial Performance							
	GWP	Rs. Mn	10,399	9,943	5%	5,487	5,175	6%
	Investment Income	Rs. Mn	2,565	2,333	10%	2,183	2,013	8%
	Profit After Tax	Rs. Mn	1,175	1,010	16%	724	827	(12%)
	Funds Under Management	Rs. Mn	26,953	21,937	23%	22,415	18,379	22%
	Market Capitalisation	Rs. Mn	8,730	6,900	27%	8,730	6,900	27%
	Returns to Investors							
	Shareholders' Funds	Rs. Mn	8,194	6,714	22%	7,261	6,278	16%
	Return on Equity	%	16%	16%	0%	11%	14%	(3%)
	Earnings Per Share	Rs.	7.83	6.73*	16%	4.83	5.51*	(12%)
	Net Asset Value Per Share	Rs.	54.63	44.76 *	22%	48.41	41.85	16%
	Dividends Per Share	Rs.				2.80	8.00**	(65%)
Market Price Per Share	Rs.				58.20	138.00**	(58%)	
P/E Ratio	Times				7.43	6.83	9%	
Human Capital	Number of Employees		1,145	1,076	6%	590	583	1%
	GWP per Employee	Mn	9.08	9.24	(2%)	9.30	8.88	5%
	Profit per Employee	Mn	1.03	0.94	9%	1.23	1.42	(13%)
	Training Hours per Employee		11.08	11.98	(8%)			
	Employee Turnover	%	13%	20%	7%	16%	21%	5%
Social and Relationship Capital	Business Partners							
	Number of Advisors		2,473	2,552	(3%)	2,052	2,067	(1%)
	Commissions Paid	Rs. Mn	1,087	1,110	(2%)	583	626	(7%)
	Number of Brokers		60	60	0%	17	18	(6%)
	Number of Assessors		91	66	38%			
	Acquisition Cost as a % of GWP	%	10%	11%	(1%)	11%	12%	(1%)
	Customers							
	Claims and Benefits	Rs. Mn	3,559	3,621	(2%)	1,494	1,338	12%
	Customer Complaints Settled	%	97%	100%	(3%)	98%	100%	(2%)
	Number of Policies		316,511	306,532	3%	148,809	150,689	(1%)
	Bonus for Policyholders	Rs. Mn	88	116	(24%)	88	116	(24%)
	Rate of Dividend for Non-Participatory Policyholders	%	7.25%	8.00%	(0.75%)	7.25%	8.00%	(0.75%)
	Community							
Number of Micro Insurance Policies		1,874	3,627	(48%)	1,874	3,627	(48%)	
Number of School Water Projects Completed		6	7	(14%)	6	7	(14%)	
Manufactured Capital	Capital Expenditure	Rs. Mn	83	60	38%	65	40	60%
	Number of New Products		3	2	50%	2	2	0%
Natural Capital	Electricity Consumption	Units	1,502,348	1,835,217	(18%)			
	Water Consumption	Liters	12,406,912	12,881,560	(4%)			
	Paper Recycled	kg	3,666	2,154	70%			

	Unit	2020	2019	Change
Life Insurance				
Life Fund	Rs. Mn	16,833	14,269	18%
Lapse Ratio	%	41%	44%	(3%)
Premium Persistency Ratio	%	76%	81%	(5%)
Claim Ratio (With Maturities)	%	29%	27%	2%
Claim Ratio (Without Maturities)	%	9%	9%	0%
Expense Ratio	%	45%	49%	(4%)
Capital Adequacy Ratio	%	338%	322%	16%
General Insurance				
General Fund	Rs. Mn	3,309	2,871	15%
Claim Ratio	%	55%	64%	(9.0%)
Expense Ratio	%	39%	37%	2.0%
Combine Ratio	%	94%	101%	(7.0%)
Capital Adequacy Ratio	%	256%	226%	30.0%
Economic Value Added				
	Unit	2020	2019	Change
Employees	Rs. Mn	1,404	1,176	19%
Business Partners Fees and Commission	Rs. Mn	1,293	1,339	(3%)
Policyholders	Rs. Mn	2,576	2,173	19%
Shareholders	Rs. Mn	420	400	5%
Government	Rs. Mn	191	106	81%
Communities	Rs. Mn	3	4	(25%)
Retained in Business	Rs. Mn	1,227	1,180	4%

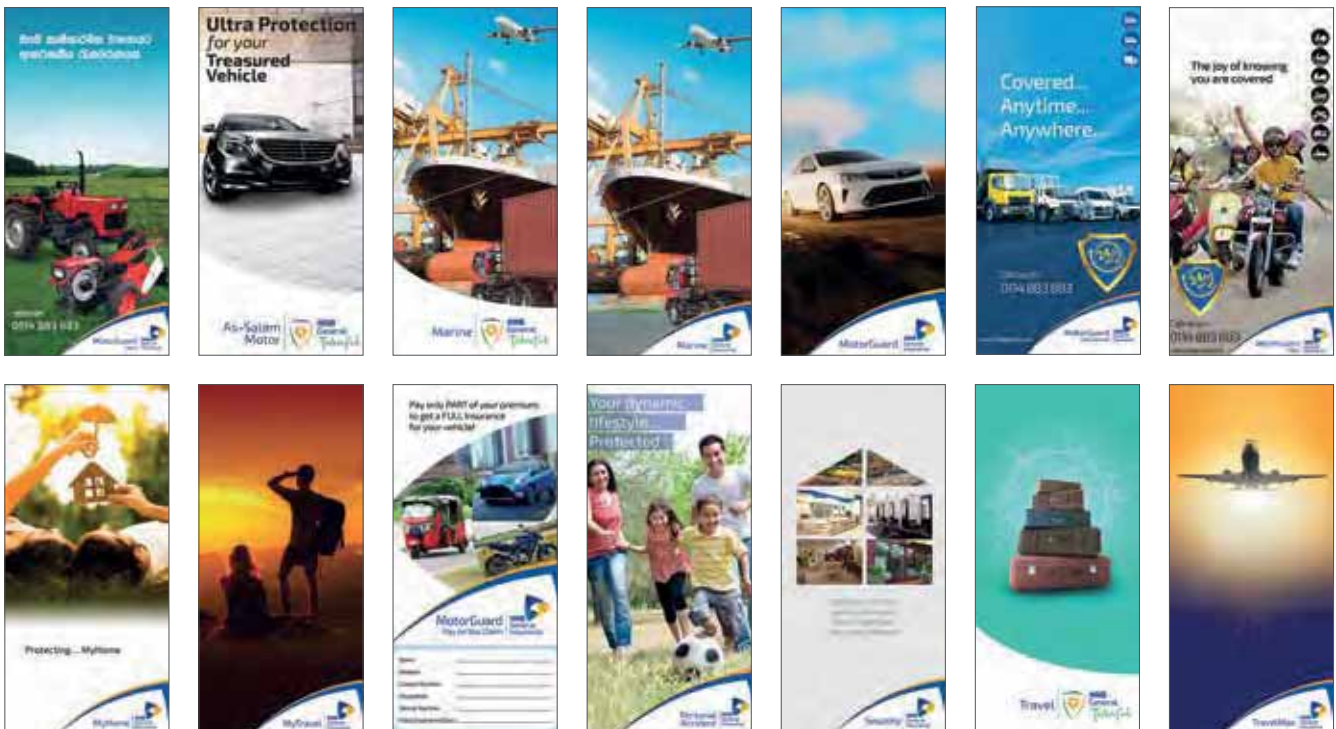
* Restated ** Prior to Sub Division

OUR PRODUCTS

Life Insurance



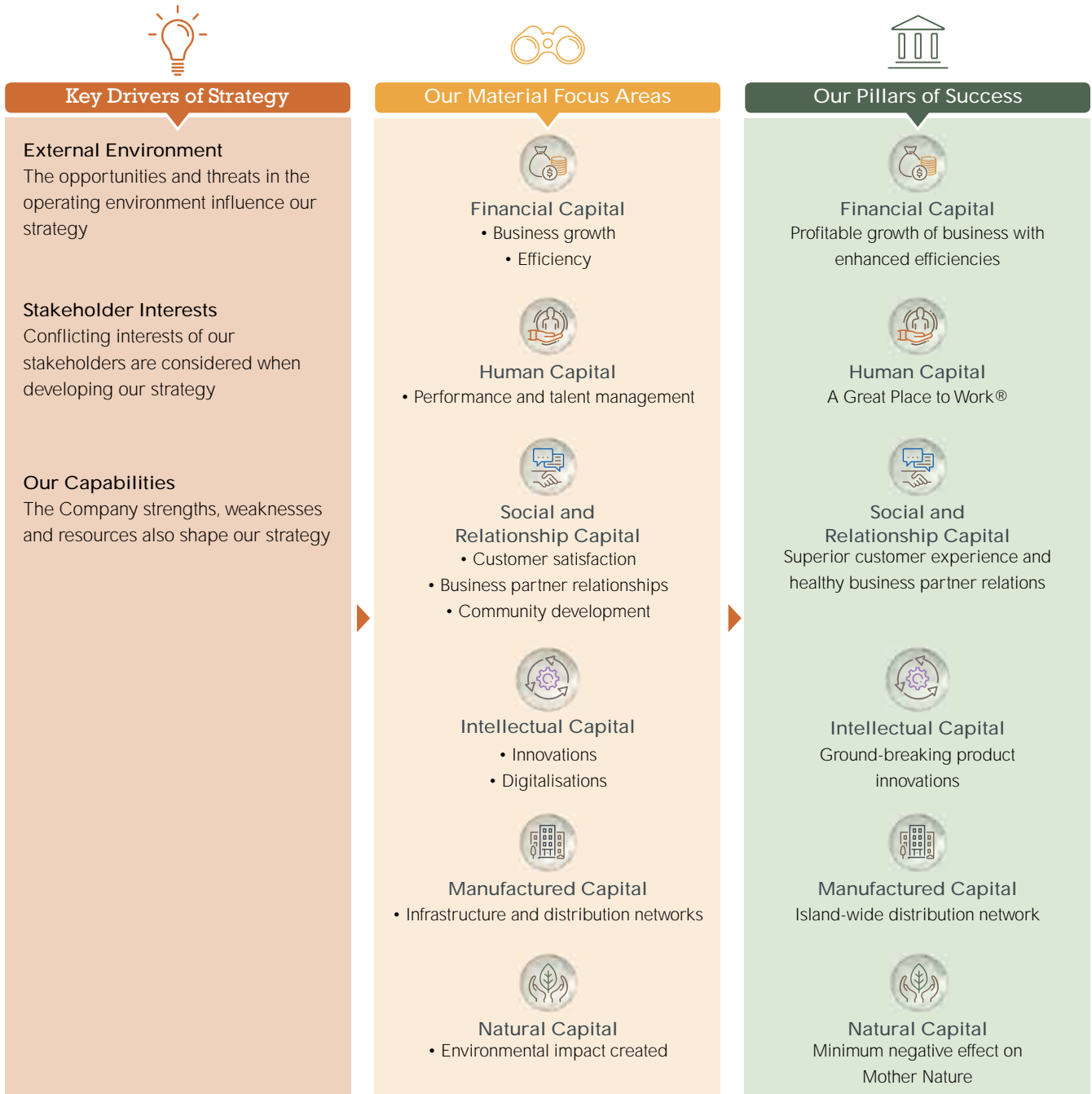
General Insurance



STRATEGIC REPORT

Our Integrated Thinking Model

Creation of value to our stakeholders requires us to evaluate the key drivers shaping strategy and contemplate the material areas that would enable us to be successful. The following diagram depicts our integrated thinking model in delivering value to our stakeholders.



Responsible and Responsive Leadership
Our good Governance practices supports the balancing of our stakeholder interest and creation of sustainable value aligning strategy to a dramatically different business landscape

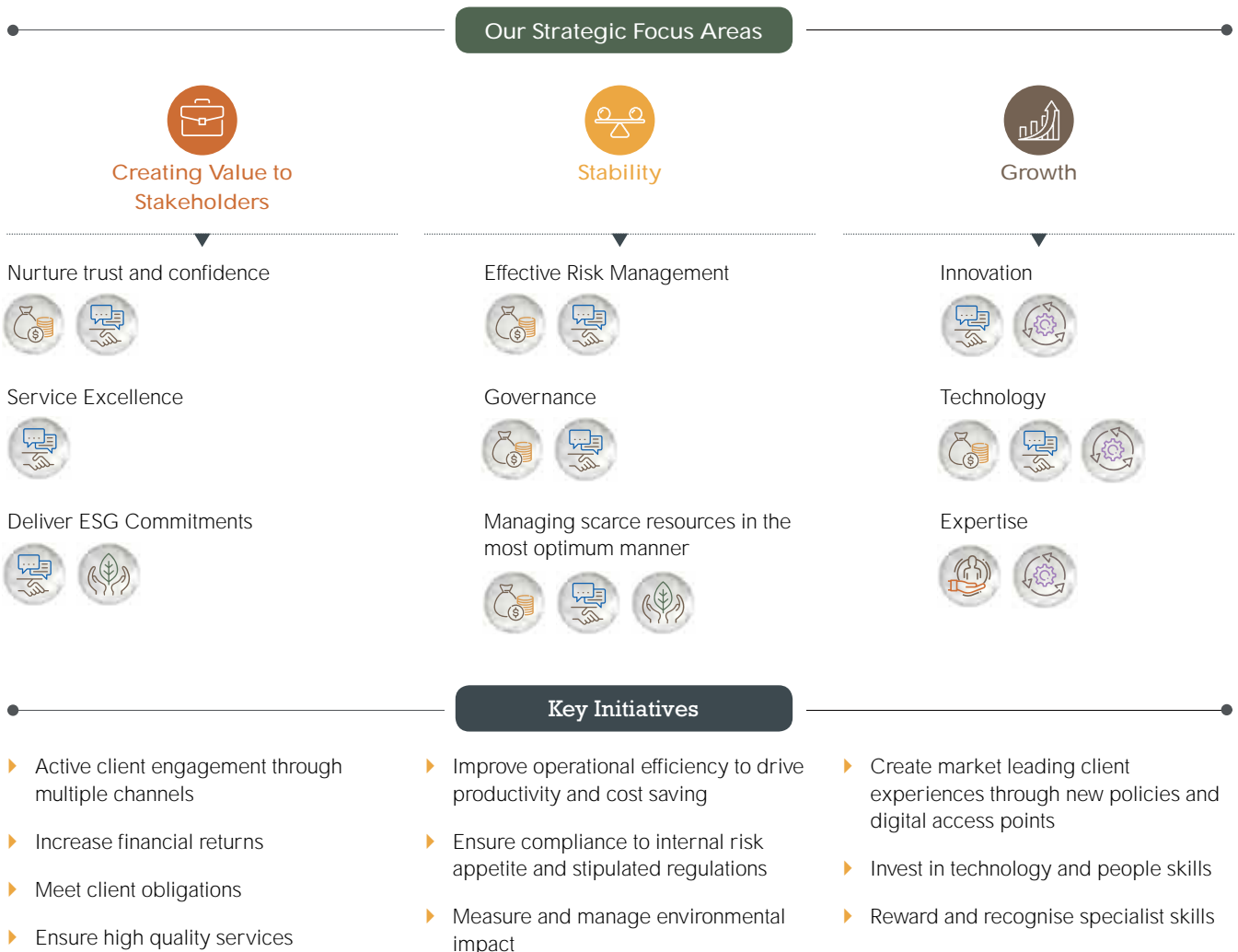
Prudent Risk Management
Our prudent risk management approach drives the Company towards creating long-term sustainable value

STRATEGIC REPORT

Strategy and Resource Allocation

As a trusted brand, HNBA is well positioned to extend the positive impact it has already made on individuals, communities and businesses. Although the impact of COVID-19 is extensive and unprecedented, agile corporate strategy enabled navigation through difficult times to deliver growth and stability while creating enhanced value to stakeholders.

HNB Assurance PLC develops a Corporate Plan that sets out the key strategic priorities, key milestones, and strategies to achieve the goals of the Group. The Corporate Plan also includes a detailed action plan giving each line manager the responsibility of achieving the strategies and guidance on the resource allocation among the departments of the organisation.

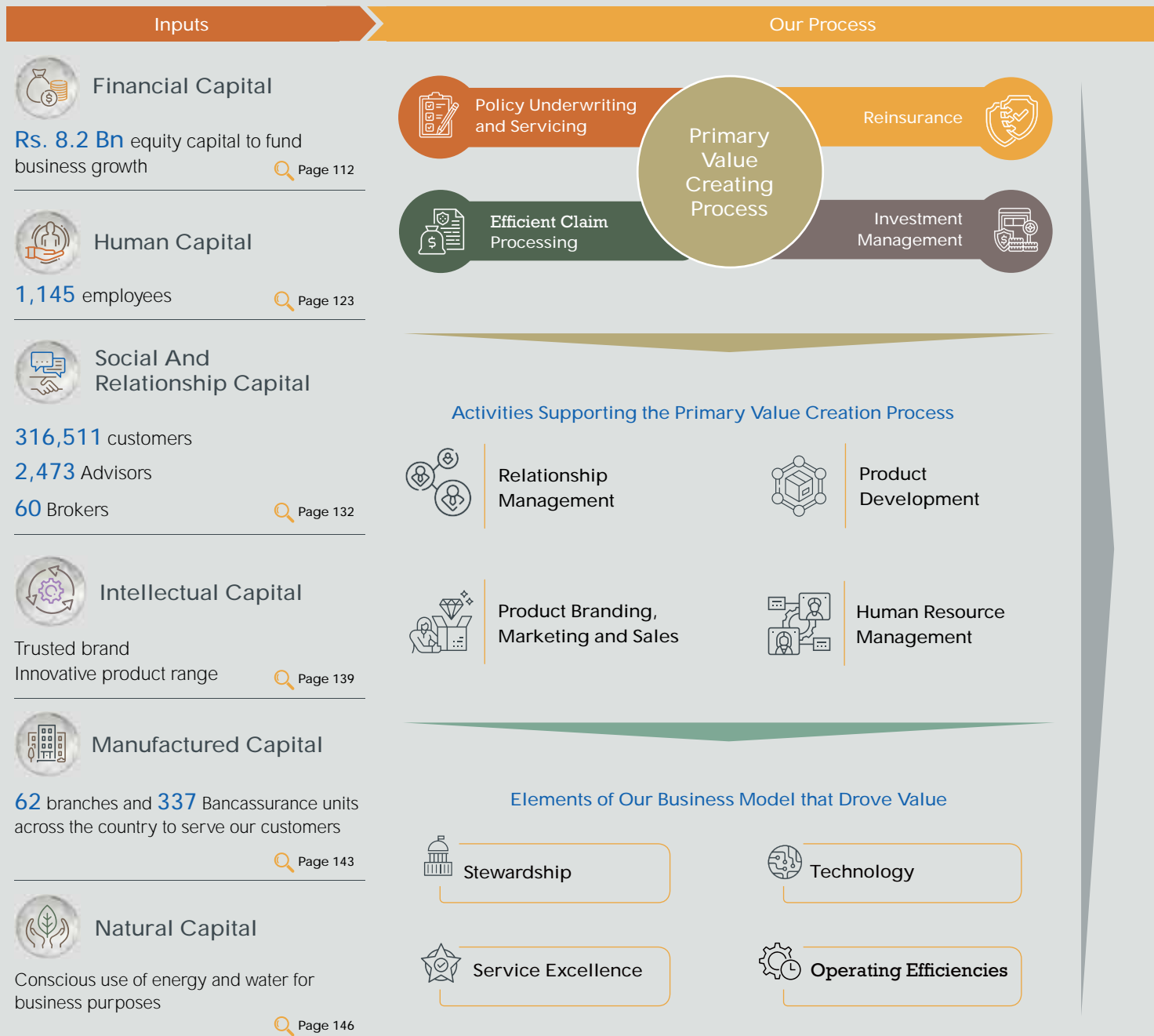


Partnering with Our Stakeholders

High levels of engagement with our stakeholders is key to our business model. These relationships support our organisation to create and sustain value in the short, medium and long- term. A continuous dialogue enables alignment of their concerns and aspirations to corporate strategy and mutually beneficial partnerships. We identify stakeholders based on their ability to influence our value creation process and who are influenced by our value creation process and the list of stakeholders thus recognised, is reviewed periodically by the Management to identify and include new additions

Key Stakeholder Needs and Expectations	What We Delivered	How We Engage With Our Stakeholders
 <p>Stability</p>	<ul style="list-style-type: none"> ▶ Sustainable financial returns with ROE of 16% ▶ 16% Growth in profitability ▶ Strong balance sheet and stable CAR ratios 	 <p>Shareholders</p> <ul style="list-style-type: none"> ▶ Annual report ▶ Annual General Meeting ▶ Quarterly financial reports ▶ Website and frequent press releases
 <p>Excellence</p>	<ul style="list-style-type: none"> ▶ Launched 3 new products ▶ Enhanced digital platforms ▶ Improved operational efficiencies and cost savings ▶ Skill development 	 <p>Customers</p> <ul style="list-style-type: none"> ▶ 24*7 Life and General call centres ▶ Island-wide branch network ▶ Customer service centres ▶ Satisfaction surveys ▶ 337 Bancassurance officers and 2,473 Advisors
 <p>Growth and Profitability</p>	<ul style="list-style-type: none"> ▶ Economic value added of Rs. 7.1 Bn ▶ Premium growth in challenging times ▶ Effective claims management ▶ 16% growth in Profit After Tax. 	 <p>Employees</p> <ul style="list-style-type: none"> ▶ Impartial appraisals ▶ Regular meetings ▶ Intranet and emails ▶ Training programmes ▶ Recognition through awards
 <p>Compliance</p>	<ul style="list-style-type: none"> ▶ Value driven culture ▶ Compliance with applicable laws and regulations ▶ Strong governance framework 	 <p>Business Partners</p> <ul style="list-style-type: none"> ▶ Sales clinics ▶ Annual conference for Advisors ▶ Timely meetings ▶ e-buddy portal and e-mail communications
 <p>Diversity and Inclusivity</p>	<ul style="list-style-type: none"> ▶ 39% female representation in the workforce ▶ 39% of the work force and 66% of Advisors outside Western Province 	 <p>Regulator</p> <ul style="list-style-type: none"> ▶ Timely reporting ▶ Meetings ▶ Responses to proposals
 <p>ESG Commitments</p>	<ul style="list-style-type: none"> ▶ Community development projects ▶ 2,473 indirect employment opportunities ▶ Environmental protection initiatives 	 <p>Communities</p> <ul style="list-style-type: none"> ▶ CSR events ▶ Website ▶ Press releases ▶ Branch level brand activations

How We Create Value



GWP -	RI -	UEP +	(Investment Income + Other Income) -	
Rs. 10,399 Mn	Rs. 1,308 Mn	Rs. 164 Mn	Rs. 2,565 Mn	Rs. 156 Mn
↑ 5%	↓ (0.4%)	↑ 5%	↑ 10%	↑ 13%

Output Generated

Value Delivered



GWP
Rs. 10.4 Bn



Claims and Benefits
Rs. 3.6 Bn



Policies in force
316,511



Investment Income
Rs. 2.6 Bn



Funds Under Management
Rs. 27 Bn



Total Assets
Rs. 31.7 Bn



New Products
3



Shareholders

- ▶ 16% ROE
- ▶ 27% share price appreciation
- ▶ 22% net assets appreciation
- ▶ 5% dividend yield



Policyholders

- ▶ Rs. 3.6 Bn claims and benefits
- ▶ Rs. 88 Mn bonuses and 7.25% Policyholder dividend rate



Employees

- ▶ Rs. 1.4 Bn employee benefits
- ▶ Rs. 3.9 Mn investment in training and development
- ▶ Great Place to Work accreditation



Business Partners

- ▶ Rs. 1.1 Bn commission paid
- ▶ Rs. 1.3 Bn premium ceded to reinsurers



Regulator

- ▶ Compliance with all regulatory requirements



Community

- ▶ Rs. 3 Mn investment in CSR
- ▶ 66 water projects to date
- ▶ Recycle of 3,666 Kg of paper waste

Our value creation process presents how we convert the inputs into output through primary value creating activities with the support of the secondary business activities.

The value creation process of the Group is driven by our strategic focus areas of achieving business growth, maintaining business stability and creating sustainable value to our stakeholders. Our strategy and resource allocation process can be read in detail on page 17

Further information on the elements that contributed towards our value creation process can be read on the following pages

- **Stewardship**
- Pages 33 to 99
- **Technology**
- Pages 144 to 145
- **Service**
- Pages 149 to 157
- **Operating efficiencies**
- Pages 149 to 157

(Claims Paid + Contract Liabilities + Acquisition Expenses + Admin Expenses) =

Rs. 3,559 Mn Rs. 2,576 Mn Rs. 1,235 Mn Rs. 2,646 Mn Rs. 1,630 Mn Rs. 455 Mn Rs. 1,175 Mn

⬇️ (2%) ⬆️ 19% ⬇️ (4%) ⬆️ 8% ⬆️ 16% ⬆️ 15% ⬆️ 16%

Socio-Economic Impact

“ A thriving economy and a healthy environment are key to operating a successful business model. HNBA contributes towards sustainable development by enabling individuals and entities to seize opportunities for growth with appropriate mitigation of risks through a range of insurance products. Our comprehensive range of products facilitate trade, transport, access to healthcare and housing and a range of other key economic activities. ”



GRI >401-2

Ensure a healthy workforce

- ▶ Comprehensive health insurance benefits to all employees
- ▶ Health and safety standards in line with the Government regulations on pandemic
- ▶ New telecommuting policy and Recreational activities promoting work-life balance



GRI >201, 203

Improve lifestyles and foster economic growth

- ▶ Direct economic value generated - Rs 7.1 Bn
- ▶ We serve the insurance needs of individuals, businesses, and societies
 - Sold 89,076 new insurance policies.
 - Sold 1,874 policies to micro insurance entrepreneurs
 - Claim settlement of Rs. 3.4 Bn
- ▶ Create employment opportunities
 - 1,145 direct and 2,473 indirect employment opportunities



GRI >402, 404, 406

Climate Action and Life on Land

- ▶ Reduced energy consumption by 18%
- ▶ Reduce water consumption by 4%
- ▶ Recycled 3,666 kg of paper consumed



GRI > 401

Gender Equality

- ▶ 39% female representation in the workforce
- ▶ 33% female representation in new recruits



GRI > 201, 203

We support local community developments

- ▶ 6 Water projects supporting more than 2,100 beneficiaries
- ▶ Network with Reinsurance partners, Brokers, Assessors, and Advisors
- ▶ Contributing to development of agriculture through Crop Insurance Levy



GRI > 404-1

Contribute to skill development

- ▶ Rs. 3.9 Mn training spend
- ▶ 113 MDRT winners
- ▶ Study leave, educational Policy, honorarium payments promoting professional and academic development



GRI > 201, 203

Set best practices in the industry through

- ▶ ISO certified processes
- ▶ Investment on technology and digitisation
- ▶ Innovation



The commendable efforts of our vibrant and agile team was our greatest strength.



CHAIRPERSON'S MESSAGE

GRI 102-14

Dear Stakeholder,

It is my pleasure to report that HNB Assurance PLC recorded a Profit After Tax of Rs.1,175 Million, a 16% increase over 2019 and present to you the Annual Report of the Company for the financial year ended 31st December 2020. As I welcome you to the 19th Annual General Meeting of HNB Assurance PLC, I am reminded of the swiftness and scope of change and how some fundamentals remain constant even during seemingly seismic change. Aspects that changed were mainly around our lifestyles, how we live, earn and learn which disrupted global supply chains and caused economic upheaval on an unprecedented scale. Those that remained constant include value of human life, an innate need for interaction, trust, credibility, and our ability to adapt and innovate. These are essentially the building blocks for an organisation that is solid and enduring, reflected in the theme of this year's Annual Report.

A New Norm

Even when I wrote "Uncertainty is the norm" in my previous message, it would have been hard to imagine the scale of transformation that took place in 2020. Issues that dominated the headlines such as US China relations and Brexit have been relegated to inside pages as the potential humanitarian and economic crises stemming from the COVID-19 pandemic caused widespread concern. The global recovery anticipated in early 2020 collapsed as global growth contracted by an estimated 3.5% (IMF) and International Labour Organisation (ILO) estimates that around 114 Million jobs were lost in 2020 compared to 2019 pre-crisis employment levels. World trade contracted by 9.2% as global supply chains were disrupted due to changing demand and supply dynamics as well as logistics. Governments around the world have adopted an accommodative stance and stepped up to provide unprecedented policy support which have undoubtedly prevented potentially worse outcomes. Interest rates are at an all-time low due to this and are expected to remain at present levels in 2021. Innovation for vaccines and therapies has been the strongest positive factor in 2020 and the roll out globally in 2021 is widely expected to support the ascent to recovery and a new norm.

“ Our performance during the current year, given the unprecedented uncertainty, bears testimony to how we overcame converging challenges. ”

The Sri Lankan economy too, impacted by the COVID-19 pandemic ended up with a negative growth of 3.9% in 2020. Stringent import control measures and foreign exchange restrictions together with the growth in worker remittances supported narrowing the trade deficit by around US\$ 2 Billion. However, the rupee remained volatile reaching a high of Rs. 200.47 in April 2020 and closing the year at Rs. 189.18. Although there was lack of space in the budgetary area for assistance, the monetary stimulus package introduced by the Central Bank to support businesses with over Rs. 178 Billion at 4% interest enabled adversely impacted businesses stay afloat during the year. Debt moratoriums were provided for affected businesses on capital and interest payments and extended until 31st March 2021.

Sovereign downgrades added to the woes citing and indicating an urgent need for structural reforms. Forecasted payments of interest, capital and budget deficits at a period of unprecedented economic and humanitarian stresses locally and globally combine to dampen the outlook for 2021.

Converging Challenges

Our performance during the current year, given the unprecedented uncertainty, bears testimony to how we overcame converging challenges. With the inclusion of insurance among the essential services category, our first priority was to ensure the safety and health of our staff to remain connected to our customers in providing

an uninterrupted service. As interactions posed a threat, we introduced several administrative measures and adapted quickly to using digital platforms for as many applications as possible to facilitate this process. Our first virtual annual general meeting was one example of how we found solutions, enabling all investors to participate and vote virtually.

With a view to enhancing efficiencies against the developing challenges a further initiative taken by the Company was to implement a closely monitored organisation-wide cost rationalisation project. I am happy to state that we, under this project, have gained Rs. 21 Million in the current year while a further saving of Rs. 43 Million is expected in 2021.

The Board of Directors, with the objective of ensuring financial stability of the institution, intensified its oversight role and worked more closely with the team. Board Sub-Committees, especially the Risk Management and Strategy Review Committees played an important role in closely monitoring and recommending remedial measures to address the challenges and risks associated with the emerging business environment while closely monitoring the implementation of business plans.

Other issues faced by the Company stemmed mainly from economic factors and related policy measures. These included a significant drop in interest rates which impacted our investment income and Life insurance profitability in 2020.

Market Capitalisation

Rs.8.7 Bn

(2019: Rs. 6.9 Bn)

↑ 27%

Dividend to Shareholders

Rs.420 Mn

(2019: Rs. 400 Mn)

↑ 5%

CHAIRPERSON'S MESSAGE

GRI 102-14

“ The most attractive benefit our shareholders received during the current year was the ability to unlock value of their investment in the Company by our decision announced in November to divide one ordinary share to three ordinary shares. ”

The other notable challenge was the significant drop in the number of motor vehicle registrations and noticeably increased prices in motor spare parts, due to import restrictions in place. Societal factors such as social distancing measures created barriers for our advisor force to have in person interactions with potential customers creating further pressure to our top line.

Upholding Covenants

During the first wave of COVID-19, giving an assurance to our staff that remuneration and benefits would not be compromised provided much-needed stability to achieve the corporate goals. Upholding what we saw as an important covenant, our employees received increments, bonuses and other benefits in line with established schemes, and this report sets out their encouraging performance.

HNBA Group was among the top 40 companies who obtained the Great Place to Work® certification during the year. This serves as testimony to the reciprocal

commitment between our Group and its employees which has underpinned our progress.

Both HNBA and HNBGI provided relief to our Policyholders' in the form of an extended grace period to pay their premiums during the first lock-down. Our unwavering commitment to our Policyholders is testament to the fact that we honoured all claims and benefits during the relief period.

Unlocking Value

Against the background of a disrupted business environment with the lockdown as well as having to close down branches from time to time thereafter, our top line grew by 5% over the previous year. Our team rallied round and worked tirelessly to maximise every opportunity available to deliver growth. Product innovation supported our growth as well with the addition of SupremeHealthMax and Super Critical Illness at HNBA and 'Pay As You Claim' policies of HNBGI catering to long felt needs of the market. This enabled balance sheet growth as our Total Assets and Net Assets grew by 19% and 22% respectively to Rs. 31.7 Billion and Rs. 8.2 Billion.

The pressure exerted by declined interest rates on earnings was managed in an optimal manner with deep insights into risk factors affecting our performance. However, despite this fact as well as our growth in the top line by 6%, HNBA earnings were notably impacted as the valuation of the Life Fund factored in the lower interest rates, moderating our earnings in 2020. Overall, HNBA Group earnings improved by 16% to Rs. 1,175 Million reflecting productivity enhancements, innovation, and sound risk management.

In addition to keeping up with our continuously increased growth in performance and benefits to our Shareholders registered over the years, the most attractive benefit our shareholders received during the current year was the ability to unlock value of their investment in the Company by our decision announced in November to divide one ordinary share to three ordinary shares. With this announcement, the performance

Financial Strength Ratings
- Fitch Ratings Lanka Ltd.

A (Ika)

HNBA / HNBGI

and liquidity of our share increased considerably. The market capitalisation of the HNBA Group reached Rs. 8.7 Billion at the end of 2020 from Rs. 6.9 Billion at end 2019, a 27% growth over the previous year. The total turnover of the share also increased by 56% while 'HASU' traded 97.6% of market days. Further, the Board recommended a first and final dividend of Rs. 2.80 per share for your approval as given in the Notice of Meeting which would entail a total dividend of Rs. 420 Million.

Maintaining financial stability was a key priority and we are pleased to note the improvement in Capital Adequacy Ratios for both HNBA and HNBGI from 322% and 226% in 2019 to 338% and 256% in 2020. Liquidity was closely monitored to identify and address potential concerns.

Although the outlook was changed from Positive to Stable to reflect the dramatic changes in the operating environment HNBA and HNBGI retained their Insurer Financial Strength Ratings at A (Ika) by Fitch Ratings Lanka Ltd. Additionally, the strength of our parent, Hatton National Bank PLC is a key factor in ensuring financial stability and supporting growth and productivity.

I commend the team at HNBA for accomplishing the community projects planned. We carried out 6 projects lined up to provide water in remote village schools and continued our sponsorship of the Sri Lanka Deaf Cricket Team. HNBA also sponsored the College of Community Physicians for medical journals and health related symposiums.

Outlook

We start the year on an optimistic note with the roll out of the vaccines as well at the time of writing with frontline workers vaccinated. Admittedly, there is cause for concern with the emergence of new variants and new waves happening across the world pointing to a prolonged

recovery, but a recovery nevertheless. The IMF January 2021 update reflects this optimism with a 0.3% upward revision of the October 2020 forecast to global growth of 5.5% for 2021, albeit on a lower base. The update also cautions about divergent recovery paths depending on access to medical interventions, effectiveness of policy support, exposure to cross-country spillovers, and structural characteristics entering the crisis and it is worthwhile considering Sri Lanka's positioning on these to assess the prospects for 2021. Structural issues will be the key determinant as monetary policy has been largely accommodative and contagion measures fairly effective at present. We will be monitoring developments in this regard as the year progresses to realign strategy where necessary.

HNBA Group has formulated plans for targeted and cautious growth leveraging technology as we adjust to the next norm. The diversified new product pipeline is encouraging and we also expect 'Pay as You Claim' to drive growth in 2021 supporting conversion of the 3rd party insurance market, strengthening much needed safety nets for this market segment.

We will continue to strengthen our processes and systems to support growth and performance, building on the momentum gathered in 2021. HNBGI is implementing a new system in 2021 which will support growth and productivity. Preparations for the adoption of SLFRS 17 for Insurance Contracts which becomes effective on 1st January 2023 also will be an area of focus as this is expected to have a significant impact on the industry. Although the operations have stabilised, the Board remains on alert for early warning signs given the potential downside risks on the road to recovery in 2021.

Appreciations

The Board joins me to thank the commendable efforts of our relatively young and agile team who went beyond the call of duty to accomplish the results presented in this report. We are aware that on many days, turning up at work was a daily challenge and that there were anxious moments when the health and

safety of families caused grave concern. We are extremely appreciative that the HNBA and HNBGI team continues to dream beyond boundaries and execute their vision.

We commend the leadership provided by Mr. Prasantha Fernando who stepped up to his role at the tail end of the first wave and rallied the troops to catch up on lost time. We thank Mr. Deepthi Lokuarachchi who was at the helm for the past 4 years for his services and wish him all success in the future.

HNBA Group weathered a stormy year due to the efforts not only of the staff and the Board but also due to the efforts of our Advisors, Brokers, Business Partners and the communities we operate in. We are deeply appreciative of your patronage and the confidence placed in us and look forward to deepening our relationships as we move forward with confidence to thrive in a new norm.

I must also express my appreciation for the assistance and guidance provided by the regulator, the Insurance Regulatory Commission of Sri Lanka. In closing, I thank my fellow Board members for their unstinted support in a difficult year as we worked together to safeguard the interests of HNBA stakeholders, carefully maintaining an equilibrium that supported performance and growth.

Yours sincerely,



Rose Cooray
Chairperson

Colombo, Sri Lanka
19th February 2021



Our committed team navigated through the challenges and opportunities of an adverse year.

CHIEF EXECUTIVE OFFICER'S REVIEW

Dear Stakeholder,

In my first message at the helm of HNB Assurance, I am pleased to report that we have successfully traversed the obstacle course that was Year 2020 to deliver a profit of Rs. 1.18 Billion, having gained new perspectives and learned to adapt to multiple converging challenges along the way. Agile mindsets, prompt execution and digitalisation were key to progress while our compass was the overriding concern for people as they were at risk. Being part of the team was a clear advantage in the transition as we already had strong bonds that enabled us to perform from day one.

Putting People First

It is always inspiring when we rise above challenges to achieve the seemingly impossible such as delivering Gross Written Premium growth despite lockdowns and social distancing measures. Enabling employees was our first priority as we were declared an essential service and we needed to keep our offices open for business despite curfews and elevated risks associated with just coming in to work or getting supplies. Early reassurance regarding remuneration, benefits and jobs eliminated anxiety while devices, digital platforms and training for remote working enabled and empowered performance. We continue to work in two teams even now as we formalised telecommuting policies ensuring that expectations were clearly articulated. Additionally, our workplaces were adapted to new health and safety measures with regular reinforcement of good hygiene practices through visual means and optimally timed broadcasts.

Ensuring that our customers could continue to engage with us safely was another priority and every staff member prioritised this. Early measures to ensure that our call centres operated as normal were supported by digital and mobile solutions offering a broad range of solutions including payments. Customers were also provided a 90-day moratorium until June 2020 to make their payments in view of the lockdown. Customer-centric innovation in products and processes were key to driving growth as we addressed their concerns through holistic measures. Accordingly, the introduction of market of the SupremeHealthMax and Super Critical Illness covers for Life and the

“ It is always inspiring when we rise above challenges to achieve the seemingly impossible. ”

'Pay as You Claim' for General Insurance were our responses to potential customer needs, enabling increased penetration into identified market segments. Additionally, ex-gratia payments were made for COVID-19 related claims although pandemics were not included in health insurance schemes in operation at the onset of the pandemic.

Advisors form a vital part of our distribution chain and HNBA supported them with advances on commissions to tide over the lockdown periods when they could not generate new business. They also received additional training during this period on shifting to digital platforms and have now successfully made the transition to generating business through these channels. Outsourced partners on our premises were also given reassurance about their contracts in the clear understanding that remuneration and benefits of their employees at our premises would be preserved. Additionally, they were included in our workplace health and safety programmes to ensure that health and safety standards were maintained. We also remained invested in our community, completing the scheduled projects, as these were not compromises, we were willing to accept.

Adapting and Evolving

Adapting to higher levels of uncertainty and a paradigm change in lifestyles was a sine qua non for winning in a new norm. Digitalisation was accelerated and our staff were trained to perform optimally in a virtually connected workplace. Changes at the workplace were also visible as concepts such as hot desks, roster based telecommuting and virtual meetings

became the norm overnight, easing day to day strife. Employee engagement remained a key concern in a remote working environment and the leadership provided by our Human Resources team in ensuring that our team remained motivated and inspired throughout is commendable.

Leadership was another key aspect as we carefully balanced business and people priorities to deliver performance. Daily focused meetings of the Executive Committee and the setting up of a COVID-19 Taskforce with high level decision makers enabled us to steer clear of potential pitfalls and identify opportunities that were aligned to our long-term vision. Driving innovation from concept to market was delivered on shorter timelines as uncertainty increased the urgency, spurring action. Collaboration although often virtual or hybrid continued to improve as we worked seamlessly to reach our collective goals. Enhanced oversight by the Board and Board Sub-Committees also sharpened focus as they were able to constructively challenge, provide rapid feedback and clear potential bottlenecks with the increased frequency of meetings.

Embracing Technology

Survival and growth depended on technology and we were fortunate that we had commenced our journey few years ago with plans in place for future projects. Implementation of key projects necessary to drive growth were accelerated as customers were eager to onboard onto digital platforms.

Gross Written Premium

Rs. 10.4 Bn

(2019: Rs. 9.9 Bn)

↑ 5%

Profit After Tax

Rs. 1.18 Bn

(2019: Rs. 1.01 Bn)

↑ 16%

CHIEF EXECUTIVE OFFICER'S REVIEW

Accordingly, we focused on digitalisation of our front-end processes enabling Advisors to issue proposals through tab-based applications and customers to receive their contracts through electronic means, enhancing turnaround times of customer onboarding processes and moving towards a paperless office.

We also enhanced the operation of our call centres to provide a seamless service, adapting to challenges posed by the necessity for telecommuting and enforcing security protocols to safeguard information assets while providing sufficient information to empower resolution of customer concerns or initiating necessary actions.

Considerable investments were undertaken to equip our employees and Advisors to transition to a virtual workplace. Employees using desktops received laptops, mobile Wi-Fi routers to make telecommuting a reality. Investments were also made to enhance cybersecurity to mitigate emerging threats and safeguard the Group's information assets. These investments have created a new ecosystem for collaboration and the benefits are expected to increase in the coming years.

Performance Amidst Uncertainty

HNB Assurance Group recorded a milestone in 2020 recording a Gross Written Premium of Rs.10.4 Billion with a growth of 5% amidst a challenging business landscape. Interest income also increased during the year by 11% to Rs. 2.5 Billion although rates declined, due to portfolio growth and locking in Life funds at attractive rates for long tenors. Net income was Rs.11.6 Billion reflecting growth of 6% after Premium Ceded to Reinsurers and change in Reserves for Unearned Premium. Profitability was dampened by a 19% increase in changes in contract liabilities of the Life Fund due to declining interest rates and a 9% increase in Other Operating and Administration Expenses.

Total Assets increased by 19% to Rs. 31.7 Billion as Financial Investments increased by 24% to Rs. 26.4 Billion driven by business growth. Liabilities increased by 18% to Rs. 23.5 Billion as Life and General

Insurance Contract Liabilities increased by 18% and 15% respectively to Rs. 17.1 Billion and Rs. 3.3 Billion at the close of the year. Prudent management resulted in the improvement of Capital Adequacy Ratios from 322% in 2019 to 338% for Life and 226% in 2019 to 256% for General Insurance at the close of the year as we carefully balanced growth and stability. We are also pleased to hold on to the ratings of A(Ika) in a year which saw the downgrading of many institutions, albeit with an outlook revised to stable.

Value to Shareholders

I am particularly pleased to note the increase of 27% in the market capitalisation of HNB Assurance PLC which was Rs. 8.7 Billion at the close of 2020, creating Rs. 1.8 Billion in value to Shareholders. The share has outperformed the growth of the benchmark ASPI which increased by 10.5% in 2020 as the declining interest rates renewed interest in equity markets. The share split of 1:3 effected in December 2020 is a clear contributing factor as it created the necessary liquidity for the share. The price to earnings and price to book of 7.43 and 1.1 reflect further potential to unlock value. The Board has declared a first and final dividend of Rs. 2.80 per share which is to be approved by the Shareholders at the forthcoming AGM.

Shaping Our Future

The eagerly-awaited vaccines are reaching all parts of the world although new strains and waves continue to erode confidence in a strong and speedy recovery. However, the rapid evolution in 2020 has prepared us for contingencies that we were not prepared for at the beginning. Our mindsets have also shifted to operating in the new norm and our customers and business partners have been onboard throughout our journey. We will continue to monitor risks and extend the scope of stress testing to assess our ability to manage emerging threats in our business landscape. As with every crisis, there will be opportunities. The domestic network and presence of our parent has been a key strength underpinning our growth and we have worked closely to drive group synergies through Bancassurance. Moving forward, this will continue to be a key area of focus as well.

“ Enabling employees was our first priority as we were declared an essential service and we needed to keep our offices open for business despite curfews and elevated risks associated with just coming in to work or getting supplies. ”

The past year has sharpened our sight and wits to respond to changes with innovation and drive. A strong innovation pipeline supports this conviction as we look to peer through the haze to navigate the future. Digitalisation features as a key enabler while our trusty compass, concern for people, will continue to guide the aspirations of this ambitious insurance Group that is solid and enduring.

Total Assets
Rs. 31.7 Bn
(2019: Rs. 26.6 Bn)
↑ 19%

Financial Investments
Rs. 26.4 Bn
(2019: Rs. 21.2 Bn)
↑ 24%

Acknowledgements

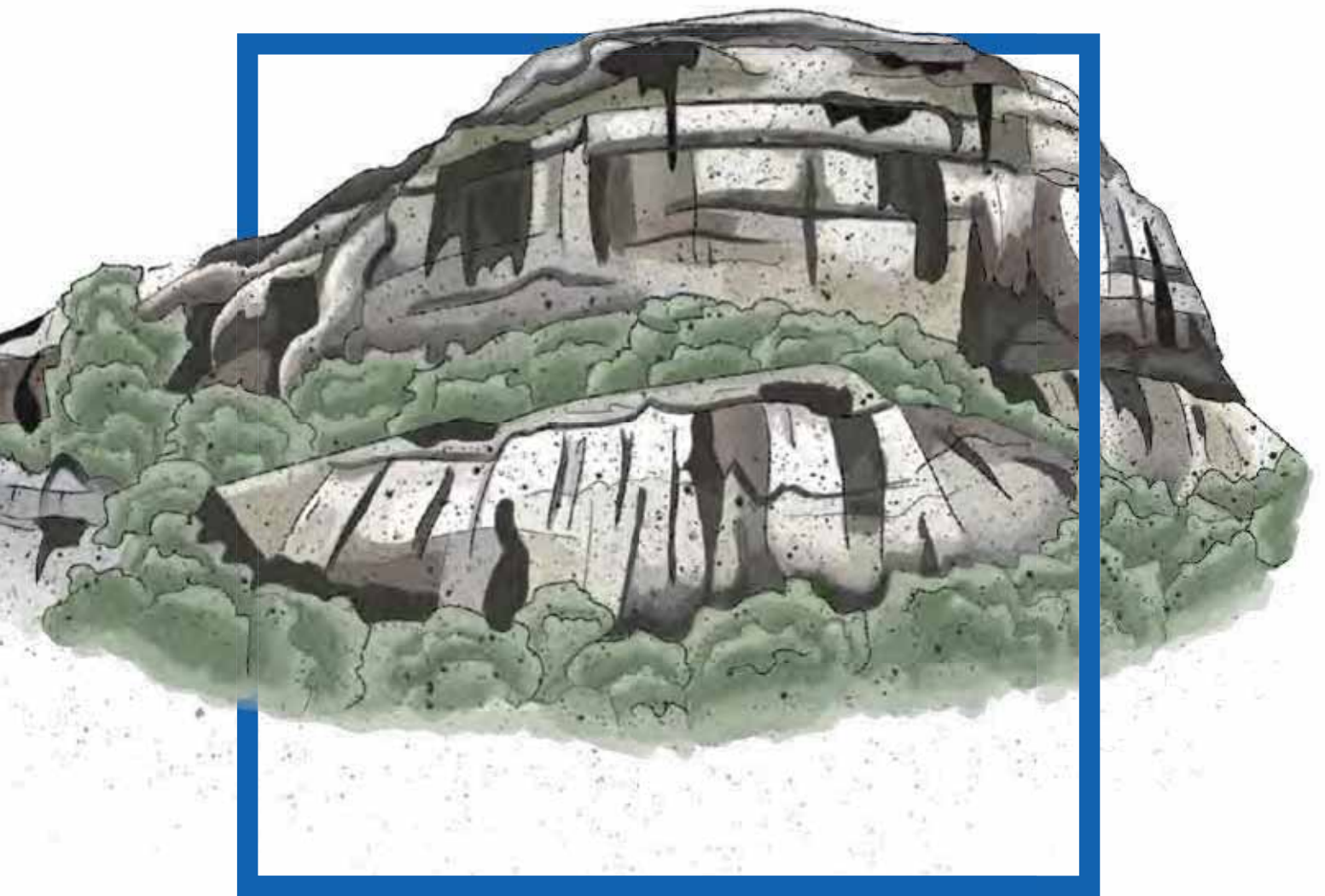
I am privileged to lead a young team filled with positivity and vitality which combines well with the stable structures in place for Governance and control to create a vibrant workplace focused on execution. I am extremely appreciative of their efforts and ideas which underpin the performance set out in this report. The increased access to Board members who are all non-executives and their increased watch over the affairs of the HNBA Group has been equally important as decision making was prompt and optimised resource allocation. Their guidance has been invaluable in my initial year as the Chief Executive Officer of this prestigious Group.

I also thank our customers who continue to place their trust in us to manage their risks and look forward to providing a wider spectrum of solutions for deeper engagement. I extend my appreciation to our business partners who support our growth as our journey is not possible without your collective efforts to power the wheels. I thank our parent Hatton National Bank and our Shareholders for their confidence in HNB Assurance and look forward to their continued trust to create value for all our stakeholders.



Prasantha Fernando
Chief Executive Officer

Colombo, Sri Lanka
19th February 2021



Nuwaragala, Ampara.

Nuwaragala in Ampara once served as an ancient fortress for King Saddatissa. Centuries later, it continues to protect and sustain a veddah community who have made it their home.

GOVERNANCE

A S E C U R E E N V I R O N M E N T



Managing risk, uncertainty and external threats is never easy - but at HNB Assurance we have long perfected the mechanisms that guarantee protection, and instil a sense of security in the face of adversity.

The pages that follow discuss these mechanisms and strategies in greater detail - exploring exactly how HNB Assurance is equipped to fortify and secure your wealth while safeguarding the people's future.

BOARD OF DIRECTORS

GRI 102-22





BOARD OF DIRECTORS

GRI 102-23

01

Rose Cooray

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

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

Appointed as the Chairperson on 06th July 2015. Mrs. Rose Cooray, having served the Central Bank of Sri Lanka for over 35 years, retired as the Deputy Governor and counts over 47 years of experience in the financial sector. She is the Chairperson of Ceylon Guardian Investment Trust PLC, Ceylon Investment PLC and HNB General Insurance Limited and a Director of Guardian Capital Partners PLC. She functioned as Director of Hatton National Bank PLC for nine years and retired in 2019. Whilst being a Director of HNB, she also functioned as a Director of HNB Finance Limited and as the Chairperson of Sithma Development (Pvt) Limited.

On release from the Central Bank, she had served the Ministry of Finance and Planning as Director General Fiscal Policy and Economic Affairs for nearly 6 years and represented, the Government on the Boards of DFCC Bank, Sri Lanka Institute of Information Technology, Sri Lanka Telecom, Ceylon Electricity Board, De La Rue Currency and Security Print (Pvt) Ltd, Export Development Board, National Housing and Development Authority. She has represented the Monetary Board on the Board of West Coast Power (Pvt) Ltd. Mrs. Cooray has been extensively involved in policy making in the financial sector and implementing development projects. She has wide experience in negotiating financial facilities with multilateral donors/bilateral trade agreements. She has contributed papers to professional journals.

02

Mahendra Jayasekera

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

- ➔ FCA, FCMA, BSc Special Hons - University of Sri Jayewardenepura

Managing Director of Lanka Tiles PLC, Lanka Walltiles PLC, Lanka Ceramic PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium Limited. Past President of Sri Lanka Ceramics & Glass Council.

Director of Uni Dil Packaging Limited and Uni Dil Packaging Solutions Limited.

03

Dilshan Rodrigo

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

- ➔ MBA (Cranfield University, UK) FCMA (UK), CGMA, FCCA (UK)

Executive Director/Chief Operating Officer of Hatton National Bank PLC and Director of HNB General Insurance Ltd, Sithma Development (Pvt) Ltd, Guardian Acuity Asset Management Ltd and Credit Information Bureau of Sri Lanka. A Senior Banker with extensive experience in Retail Banking, Finance, Institutional Banking and Risk Management in leading local and foreign commercial banks operating in Sri Lanka. Elected Chairman for a two-year period of the Asian Banker's Policy Advocacy Committee, a forum for advancing the cause of banking and finance in the region and promoting regional co-operation. Served as Lecturer and Examiner for Strategic Management for the University of Wales affiliated MBA Program in Sri Lanka, Guest Lecturer at Postgraduate Institute of Management and Director Certification Programmes at Sri Lanka Institute of Directors. Has presented technical papers in various forums locally and overseas on Strategy, Business Transformation and Risk Management. A former President of ACCA Sri Lanka Division.

04

Siromi Wickramasinghe

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

- ➔ Attorney-at-Law

Presently is a Director of Agstar PLC. Also functions as the Head of Credit Counselling Centre. A fellow of the Chartered Management Institute, UK. Counts over 35 years of multi- functional and progressive experience in the Sri Lankan Banking Sector including 13 years in the Corporate Management level of Hatton National Bank PLC. Previously held the position of Chairperson of HDFC Bank, General Manager/CEO of Lankaputhra Development Bank, Chairperson of Ceybank Asset Management Company, (a subsidiary of Bank Ceylon), Director of Commercial Bank of Ceylon PLC, Commission Member of SEC and a Director of Sri Lanka Banks' Association.

05

Dr. Sivakumar Selliah

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

- ➔ (MBBS, M.Phil)

Was appointed to the Board in 2014, Dr. Selliah holds a MBBS degree and a Master's Degree (M.Phil.). He has over two decades of diverse experience in varied fields.

Currently is the Deputy Chairman of Asiri Hospitals Holdings PLC and the Deputy Chairman of Asiri Surgical Hospital PLC. He is a Director of the following companies; Lanka Tiles PLC, ACL Cables PLC, Softlogic Holdings PLC, ODEL PLC, Lanka Walltiles PLC, Lanka Ceramic PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium Pvt Ltd.

Dr. Selliah is also the Chairman of JAT Holdings (Pvt) Ltd, Cleanco Lanka (Pvt) Ltd, and Vydexa (Lanka) Power Corporation (Pvt) Ltd. He is also the Deputy Chairman of Central Hospital (Pvt) Ltd.

He has also served as a Senior Lecturer in the Medical faculty for many years in the past. He serves as a Council Member of the University of Colombo.

He also serves on the following Board sub committees of some of the companies listed above as a member or Chairman: Human Resource and Remuneration Committee, Related Party Transaction Committee, Audit Committee, Investment Committee and Strategic Planning Committee.

06

Ravi Abeysuriya

Independent/Non-Executive Director
- HNB Assurance PLC

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

Ravi Abeysuriya is the Group Director of Candor Group, Director of Seylan Bank PLC, and Bio Foods (Pvt) Limited. He is also the Advocacy Chair and Board Director of CFA Society Sri Lanka and The Sri Lanka Institute of Directors. Formerly, he was the Head of Strategic Business Development at Hayleys Group, Managing Director of Amba Research Lanka and Managing Director of Fitch Ratings Lanka. He functioned as a permanent member of the Financial Sector Reforms Committee (FSRC) and was twice appointed as a commission member of the Securities and Exchange Commission of Sri Lanka and was a Director of Sri Lanka Insurance (SLIC). He is a Member of Disciplinary Review Committee (DRC) of the CFA Institute, USA. Further, he is the President of the Association of Alternative Financial Institutions, Sri Lanka, Co-Chair of the National Agenda Committee-Finance and Capital Markets of the Ceylon Chamber of Commerce, and a member of the Code of Conduct Review Committee (CoCRC) of the Central Bank of Sri Lanka (CBSL) appointed by the Monetary Board of

CBSL. Mr. Abeysuriya has also functioned as a member of Board Risk Oversight Committee and Financial System Stability Consultative Committee of CBSL and President of several finance and IT associations. He was named as "Lifetime Achievement" award laureate by CFA Institute, USA in 2017 for his outstanding work and dedication to the investment management profession.

07

Damien Fernando

Non-Independent/Non-Executive Director
- HNB Assurance PLC and HNB General Insurance Limited.

➔ MBA (University of Sri Jayewardenepura) FCMA (UK)

Mr. Fernando is a Fellow member of Chartered Institute of Management Accountants of United Kingdom. He has been awarded a Master's Degree in Business Administration from the Postgraduate Institute of Management, University of Sri Jayewardenepura in 1992.

He holds Directorship in Addison (Pvt) Ltd and HealthCey (Pvt) Ltd. Also serving as a non-executive Director of Hatton National Bank PLC and Consultant -Strategy of Melstacorp PLC.

He served as the Executive Director of Sri Lanka Insurance Corporation Limited from 2003 to 2009 and held Board positions in companies in sectors of Food & beverage, Manufacturing, Healthcare, Telecommunications, Finance, Asset management, and in Unit Trusts.

08

Stuart Chapman

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

➔ MBA (University of Colombo), Dip in Marketing (CIM-UK), Dip in Life Insurance (USA), Dip in Business Management (NIBM), CIM (UK), CMA (Australia).

Mr. Chapman holds an MBA from the University of Colombo, a Diploma in Marketing from the Chartered Institute of Marketing UK. Mr. Chapman also holds

a Diploma in Life Insurance Sales and Marketing from the Life Underwriters Training Council USA and a Diploma in Business Management from the National Institute of Business Management Sri Lanka. He is a Fellow Member of the Chartered Institute of Marketing, UK and the Institute of Management UK. He is also a Member of the Institute of Certified Management Accountants, Australia.

Mr. Chapman's management experience, spanning over 30 years include Sales, Marketing and general management functions. His Industrial exposure spans Healthcare, FMCG, Consumer Durables, Insurance, Banking and Telecommunications.

Mr. Chapman is also an Independent Non-Executive Director of Hemas Pharmaceuticals (Pvt) Limited and United Motors PLC.

Mr. Chapman was the former Managing Director GlaxoSmithKline (GSK) Pharmaceuticals and served on the Boards of Glaxo Wellcome Ceylon Limited and SmithKline Beecham Pvt. Ltd. Some of his previous appointments include Managing Director-Hemas Healthcare Sector, Marketing Director-Reckitt Benckiser, Senior Brand Manager Unilever, Managing Director/CEO-Lanka Orix Leasing Company and Director Life- Ceylinco Insurance.

Mr. Chapman was also a former Director/ CEO of Janashakthi Insurance PLC.

Mr. Chapman held several industry positions including Honorary President and a Founder Member of the Chartered Institute of Marketing Sri Lanka, President of the Sri Lanka Chamber of the Pharmaceutical Industry – the apex body for the pharmaceutical industry in Sri Lanka and Co-Chairman of the Pharmaceutical & Cosmetics Steering Committee of the Ceylon Chamber of Commerce.

BOARD OF DIRECTORS

09

Faizal Salieh

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

➔ BA (Econ) Hons. MBA, FCPM

Has long and extensive experience in commercial and development banking both in Sri Lanka and overseas and has held top management positions in global and local banks such as Grindlays Bank, ANZ Bank, NDB and Amana Bank; experienced Board Director of several companies in the business of Banking, Finance, Insurance, Fund Management, Stockbroking, Manufacturing, Trading and Education; has served on State University Boards, The Ceylon Chamber of Commerce Board and several Government and Non-Governmental Committees in the fields of Finance, Economic Affairs, Housing, Construction and Tertiary Education. He is presently the Senior Vice Chairman of The Sri Lanka Institute of Directors and serves on the Board of Directors of Cargills Bank, The Sri Lanka Institute of Directors and is a Council Member and Financial Sector Consultant at Gerson Lehrman Group, USA.

10

Marina Tharmaratnam

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

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

She has held senior positions in the insurance and banking sector initially training as an accountant at Ernst & Young. She has been CEO/Director Union Assurance, Executive Vice President Operations, DFCC Bank, Finance Director/ Company Secretary, Eagle Insurance, Finance Director, United Tractor & Equipment Ltd and a Tax consultant at KPMG Ford Rhodes, Pannell Kerr Forster, British Virgin Islands. She has held Board positions at Singer Finance PLC, DFCC Vardhana Bank PLC, United Tractor & Equipment Limited, Eagle Insurance Company Limited, Eagle NDB Fund

Management Co. Ltd. She was also the Chairperson of World Vision Lanka. She was the President of the Sri Lanka Institute of Directors and a Member of the National Council for Economic Development (NCED) for Capital Markets from 2004 to 2007, has served on various committees of the Institute of Chartered Accountants of Sri Lanka, was a Director of Employers Federation and served on the main committee of the Ceylon Chamber of Commerce.

11

Sanjay Wijemanne

*Non-Independent/Non-Executive Director
- HNB General Insurance Ltd.*

➔ B.Sc in Business and Finance (Mount Saint Mary's University-USA)

Mr. Sanjaya Wijemanne is the Deputy General Manager – Retail & SME Banking at Hatton National Bank PLC and manage the areas of Personal Financial Services (Leasing, Pawning, Personal & Housing Loans), SME/Microfinance, Credit Cards, Sales & Business Development, Network Management, Deposit Mobilisation, Marketing Communications, Customer Service, Club & Priority Banking, Inward Remittances & Exchange House Relationships and Bancassurance. He has a B.Sc in Business & Finance from Mount Saint Mary's University, USA.

He is also a Director at Acuity Stockbrokers (Pvt) Ltd.

He commenced his career with Ceylinco Securities & Financial Services and then joined HNB as a Management Trainee/ Executive. Thereafter, he joined HSBC where he held different positions such as Vice President-Custody & Clearing, Head of Sales, Head of Branches including Premier Banking, Branch Manager- Kollupitiya Branch/Manager Premier Centre.

He then joined Standard Chartered Bank & held position of Head of Retail Banking, General Manager- Premium Banking Branch Sales & Services and General Manager- Wealth Management Value Centre.

12

Arjuna Abeygunasekara

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

➔ M.B.A. (University of Colombo), B.Sc. (University of Colombo), ACMA (UK), CGMA, ACI

Mr. Arjuna Abeygunasekara counts over 20 years of experience in the Banking Sector including branch banking and treasury management in four leading commercial banks in the country. He currently holds the position of Deputy General Manager – Treasury and Markets of Hatton National Bank PLC. He is also a Non-Executive Director of the Board of Acuity Securities Ltd.

Mr. Abeygunasekara holds a Bachelor of Science Degree from the University of Colombo and a Master of Business Administration Degree from the University of Colombo. He has obtained the status of ACI and the status of Chartered Global Management Accountant and is an Associate Member of Chartered Management Accountants UK. In addition, he serves the Centre for Banking Studies of the Central Bank of Sri Lanka as a resource person.

13

Dr. Prasad Samarasinghe

Alternate Director-Non-Independent/Non-Executive Director-HNB Assurance PLC & HNB General Insurance Limited

➔ PhD (Australian National University, Australia), B.Sc. (Eng.)-University of Moratuwa, M.Sc. (Eng.)-University of Moratuwa

Dr. Prasad Samarasinghe is the Managing Director of Lanka Bell Ltd, Bell Active (Pvt) Ltd and Bell Solutions (Pvt) Ltd. He holds Directorship in DCSL Brewery (Pvt) Ltd and Hayleys Fiber PLC and serving as Alternate Director for Hatton National Bank PLC. Also he holds the Directorship of three non-profit organizations TRACE, Information and Communication Technology Industry Skills Council (ICTISC) and Federation of Information Technology Sri Lanka (FITIS)

and serving as Council Member of BCS -The Chartered Institute for IT Sri Lanka Section and Computer Society of Sri Lanka (CSSL).

He obtained his Doctorate in Telecommunications from the world ranked research university, the Australian National University, Canberra, Australia. Dr. Samarasinghe holds a B.Sc. (Eng.) Degree in Electronics and Telecommunications with First Class Honours and a M.Sc. in Engineering, both from the University of Moratuwa, Sri Lanka. A member of the IEEE (Institute of Electrical and Electronic Engineers) and the IET (Institute of Engineering and Technology), he also has a Licentiate (Parts I and II) from the Institute of Chartered Accountants of Sri Lanka with the island's best results in Financial Accounting, Business Mathematics, Statistics and Data Processing. In the past, Dr. Samarasinghe held the posts of Chief Operating Officer at Sri Lanka Insurance Corporation Ltd, Head of Information Technology at Commercial Bank PLC and Director of e-Channelling PLC.

Institute of Chartered Secretaries of Sri Lanka (ICCSLK). She is the Immediate Past Chairperson of the Legal Advisory Forum (LAF) of Insurance Association of Sri Lanka (IASL).

Prior to joining HNB Assurance PLC, Sitari served as Director-Business Mate (Pvt) Limited, the Corporate Secretarial arm of Baker Tilly Edirisinghe & Company, Chartered Accountants and Legal Officer & Company Secretary of Delmege Group of Companies.

14

Sitari Jayasundara

Chief Legal Officer, Board Secretary & Compliance Officer

HNB Assurance PLC and HNB General Insurance Limited

- Attorney-at-Law & Notary Public, MBA (PIM- University of Sri Jayewardenepura) Pg. Adv. Dip (Finance, Banking & Insurance Laws)

Having joined HNB Assurance PLC as the Manager Legal in year 2009, Sitari Jayasundara currently heads the overall legal, corporate secretarial and compliance operation of HNB Assurance PLC and HNB General Insurance Limited in the capacity of Chief Legal Officer, Board Secretary & Compliance Officer. She counts over a two decade long legal career in the fields of corporate law, Intellectual property, Corporate Governance and Compliance and heading the Legal and Company Secretarial Division of HNB Assurance PLC for over 10 years. Sitari is the Chairperson of Board Secretaries Forum under the aegis of Sri Lanka Institute of Directors (SLID) and

GROUP EXECUTIVE COMMITTEE



01

Prasantha Fernando

Chief Executive Officer - HNB Assurance PLC and HNB General Insurance Limited.

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

Prasantha is a career insurance professional who counts over 27 years of experience in the Life Insurance industry. He holds a BSc. Hons in Mathematics and Statistics from the University of Colombo and is a Chartered Insurer and an Associate of the Chartered Insurance Institute of the United Kingdom. Prasantha joined HNB Assurance in 2012 and he served as General Manager - Life Insurance and Chief Operating Officer of HNB Assurance PLC prior to being promoted as Chief Executive Officer.

Prior to joining HNB Assurance, he held the position of Assistant General Manager, Life Operations at Aviva NDB Insurance PLC. Prasantha is also a founder council member of Association of Chartered Insurance Professionals (ACIP) and served as the treasurer. He is a past Chairman of the Life Insurance Forum (LIF) of the Insurance Association of Sri Lanka (IASL) and was a lecturer at the Sri Lanka Insurance Institute (SLII).

02

Lasitha Wimalaratne

Chief Operating Officer - HNB Assurance PLC

- ➔ BA(Hons), MBA, FCII, ANZIIF (Fellow), ACIM, Chartered Insurer

Lasitha's professional career spans over 23 years, with 20 years in Life Insurance Operations & Sales including 07 years at AIA Insurance Sri Lanka and 03 years of Marketing and Sales exposure in London. Prior to joining HNB Assurance he was functioning as the General Manager – Life Operations and Specified Officer of Softlogic Life Insurance PLC.

Lasitha holds a Master of Business Administration Degree (MBA) from the University of Wales, UK and a B. A. (Hons) Degree in Business Studies from the

University of Sunderland, UK. He is a Chartered Insurer and a Fellow Member of the Charter Insurance Institute (FCII). Lasitha is also a Fellow of the Australian and New Zealand Institute of Insurance and Finance and an Associate Member of the Chartered Institute of Marketing, UK (ACIM).

He is the current President of the Sri Lanka Insurance Institute (SLII) and has been serving as a Council member since 2011. He is also a Council Member of the Association of Chartered Insurance Professionals (ACIP) of Sri Lanka and was the Founder Secretary General of ACIP.

He also serves as the Principal Officer and Specified Officer of HNB Assurance PLC.

03

Sithumina Jayasundara

Chief Operating Officer - HNB General Insurance Limited

- ➔ MBA (UK), ACII (UK), ANZIF (Snr Assoc), Chartered Insurer

Sithumina joined HNB General Insurance in July 2014. He served as Head of Operations and Chief Technical Officer of HNB General Insurance prior to being promoted as the Chief Operating Officer in January 2020.

He counts over 25 years' experience in different capacities in several companies in the Insurance Industry and was appointed as the Specified Officer in December 2017, subsequently appointed as the Principal Officer during the year 2018. He has also obtained foreign exposure through different training programmes in General Insurance and specialised in the Reinsurance field. Currently holds the position of Vice President of the Sri Lanka Insurance Institute which is affiliated with the Chartered Insurance Institute of the UK. A member of the Ceylon Chamber of Commerce "Young Members Forum" and is a founder Council Member of The Association of Chartered Insurance Professionals (ACIP) in Sri Lanka.

04

Nilesh Amarasinghe

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

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

Nilesh counts more than 15 years of extensive experience in Capital Markets specialising in fund management, macroeconomic strategy, investment strategy etc. Having joined HNBA as a Management Trainee, Nilesh served HNBA as Assistant Manager – Investments, Manager – Investments and Head of Investment & Strategy prior to assuming the role as the Chief Investment & Strategy Officer. As the CIO, he is responsible for the performance of more than Rs.25 Billion funds of the HNB Assurance Group. Nilesh, who has been a member of the Executive Committee of the HNBA Group for more than 7 years, also serves as the Secretary to the Strategy Review Committee of the Company.

05

Jude Benjamin

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

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

GROUP EXECUTIVE COMMITTEE

06

Dinesh Udawatta

Chief Technical Officer
- HNB Assurance PLC

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

Dinesh joined HNB Assurance in 2003. Currently he is serving as the Chief Technical Officer for Life Insurance. Having joined in 2003 as an Actuarial Executive and Dinesh developed his Technical competencies in Life Insurance.

He acquired professional qualifications from three well known Insurance Institutes and developed his career as a life technical person. He served as Head of Operations-Life Insurance for two years prior to being promoted as CTO. He counts over 18 years of experience in the Life Insurance Industry. He has undergone extensive training both locally and overseas including at Munich Re, Munich, Germany, FALIA and OLIS Japan.

07

Dinuka Pattikiriarachchi

Chief Human Resources Officer
- HNB Assurance PLC and HNB General Insurance Limited

- ➔ MBA Special HR(Colombo), MBA (Preston, USA), National Diploma in HRM(IPM, SL), Asian Personal Manager (NICC, Japan)

An old boy of De Mazenod College, Dinuka holds a Master of Business Administration Degree specialising in Human Resources from the University of Colombo and a Master of Business Administration Degree from the University of Preston, USA and a National Diploma in Human Resources Management from the Institute of Personnel Management, Sri Lanka. He has obtained the Asian Personnel Manager Certification from NICC, Japan.

Dinuka has held many key positions in both local and international entities and counts over 26 years of professional experience. Beginning his career journey at Habib Bank AG Zurich, he then joined MAS Linea Aqua Private Limited and Ceylon Pencils Private Limited subsequently. Prior to his current appointment, he held the position of Senior Manager Human Resources at Nestlé Lanka PLC.

08

Sitari Jayasundara

Refer page 39

09

Punsirini Perera

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

- ➔ MBA (PIM-USJ), BBA (Colombo), ACMA (UK), CGMA

Punsirini joined HNB Assurance PLC as a Management Trainee in 2009 and advanced progressively in responsible positions where she has played a key role in the Finance Division. She was promoted as Senior Manager – Finance in 2017 and functioned as the Head of Finance prior to being promoted as Chief Financial Officer in 2020. She counts over 14 years of experience in the Finance field.

10

Suneth Jayamanne

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

- ➔ B. Sc. (Eng.)

Suneth holds a B. Sc. (Eng.) Computer Science & Engineering Degree from the University of Moratuwa. He is a CIMA passed finalist and completed CIM Advance Certificate level. Suneth is also an ISO 27001 Lead Auditor and Certified in ITIL. Suneth is currently reading for a MBA at University of West London.

Suneth counts over 19 years of experience in the IT industry working at many organisations. He started his professional career at Zillione Systems Solutions (Pvt) Ltd and then continued at Earnest & Young where he was functioning as an IT consultant at the capacity of Senior Manager level. During Ernst & Young Carrier he got involved in many IT projects covering different business practices such as Banking and Finance, Telecom, Stock Exchange, Airlines, Textile, Healthcare, and number of e-Governance projects. Prior to joining HNBA in 2020 he was functioning as the Head of IT at LOLC Technologies covering Insurance, Leisure and Healthcare sectors.

11

Lasantha De Alwis

Chief Technical Officer
- HNB General Insurance Limited

- ➔ BSc- Special (Hons) University of Sri Jayewardenepura, ACII (UK)

Lasantha joined HNBGI on 1st December 2020. Before joining HNBGI, he held the position as the Chief Executive Officer of Sanasa General Insurance Co. Ltd where he counts over 20 years of experience in the General Insurance industry. He has rendered his service to HNB Assurance PLC as a Senior Executive Officer in 2002 and was later promoted to the post of Assistant Manager. He is an active member of the General Insurance Forum and Working Committee of SRCC & TC fund and he is a member of The Association of Chartered Insurance Professionals (ACIP) in Sri Lanka. Further, he is functioning as a lecturer in conducting lectures for study courses relating to insurance organised by Sri Lanka Insurance Institute.

MANAGEMENT TEAM

HNB Assurance PLC



Hiran Fernandopulle
Head - Life Distribution



Geethani Saram
Head of Support Services



Dinesh Yogratnam
Head of Marketing and
Customer Experience



Harindra Ramasinghe
Head of Distribution -
Advisor Channel



Sanesh Fernando
Head - Partnership



Nadaraja Sugunan
Zonal Head - North & East



Padma Dahanayake
Senior Manager - Life
Claims



Salinda Perera
Senior Manager -
Administration



Shiran Fernando
Senior Manager - Sales
Training and Development



Sanjeevani Pitadeniya
Senior Manager - Customer
Experience & Investigations



Ravindra Rathnayake
Senior Manager - IT



Jagath Gaspe
Senior Zonal Manager -
Central



Kamini Gunawardene
Senior Manager -
Marketing



Waruna Peiris
Senior Manager Actuarial



Tharuka Jayasekera
Senior Manager - Finance



Prasad Thambawila
Manager - New Business



Sameera Gamage
Project Manager - IT



Anuradha Ranasinghe
Manager - Life Servicing



Ayanthi Wettasinghe
Manager - Human Resources



Harshana Aponsu
Manager - Finance



Kulunu Herath
Manager - Finance
Operations



Yoga Gunadasa
Manager - Legal



Isuru Wickramaratne
Manager - MIS



Ranesh Silva
Manager - Finance



H P Asanka
Manager - Risk and
Compliance



P Kugesan
Manager - Risk & Control



Nishadini Perera
Manager - Customer
Service



Ranjeewa Gunawardena
Manager - Sales Support



Vanora Vanniasinkam
Manager -
Human Resources



**Priyankara
Siyambalangamuwa**
Manager - Sales
Training & Development



Maduranga Lakmal
Manager - Actuarial



Krishanthi Navaratne
Manager -
Life Underwriting



Nadeera Udawatta
Manager - Finance



Mahesh Rodrigo
Manager - Alternate
Channels



Rukshan Wijesinghe
Manager - Alternate Sales
Channel Operations



Hemantha Liyanage
Zonal Manager - Metro



R M K G Harischandra
Zonal Manager - Southern



Michael Joseph
Zonal Manager - East



W A Priyantha
Acting Zonal Manager



Chaminda De Zoysa
Regional Manager



Kapila Jayarathne
Regional Manager



Saman Kumara
Regional Manager

MANAGEMENT TEAM



Pathum Fernando
Regional Manager



Chandana Munasinghe
Regional Manager



M Sasikaran
Regional Manager



Lakmal De Silva
Regional Manager



Ranjith Ruhunage
Regional Manager



Samantha Hemakumara
Regional Manager



Chameera Dushmantha
Regional Manager



Sapumal Tennakoon
Regional Manager

HNB General Insurance Limited



Chitparan Vivekanandan
Head of Finance & Support Services



A R Bazlin Salih
Zonal Head - Southern



Sajeewa Chandrasena
Zonal Head - Central



Sampath Wickramarachchi
Head of Corporate and Alternate Channels



Hifly Huzair
Head of Takaful



T Rizepan
Zonal Head - North & East



Nalaka Madhurange
Zonal Head - Metro Zone



Gayan Ranasinghe
Zonal Head - North & Western



Asanka Seneviratne
Head - Broker Management



Prasanna Wijesinghe
Head of Partnerships



Hazana Caffoor
Senior Manager - Motor



Thameera Walpita
Senior Manager - Motor Claims



Sanath Ranaweera
Chief Engineer



Poornima Nazeem
Senior Manager - Bancassurance



Ayodhya Perera
Senior Manager - Non Motor Claims



Devaka Jayasinghe
Senior Manager - Broker Development



Dharshana Maldeniya
Senior Manager - Agency Channel



Samantha Liyanage
Manager - Non Motor Underwriting



Anushika Wickramasinghe
Manager - Motor Processing



Dilum Medahinna
Manager - Title Insurance



Kalhara Kariyawasam
Manager - Motor Claims Assessment



Subashini Duraiswamy
Manager - Re-Insurance



Rukmal Ravindra
Manager - Broker Business Development



Roshan Kularathne
Manager - Finance



Nadeesha Wickramaarachchi
Manager - Customer Relations



Harith Perera
Manager - Non Motor



Mohamed Hassan
Manager - Takaful



Anuruddha Wickremasinghe
Assistant Zonal Manager



Mahesh Athukorala
Assistant Zonal Manager



Damayanthi Nelumdeniya
Cluster Manager



Vishnu Vishnuvarthan
Cluster Manager



Samudra Jayawardena
Cluster Manager



Shiraj Nadarajah
Cluster Manager



Suranga Rosa
Cluster Manager



Udayanga Karunarathna
Cluster Manager



Yogesh Yogesswaran
Cluster Manager

CORPORATE GOVERNANCE



Chairperson's Message

Dear Shareholder,

The year under review highlighted the importance of leadership at both national and corporate levels as seismic changes in the way we live, work, and behave took place overnight. Headlines that dominated the year included the Australian bush fires, the COVID-19 pandemic and country responses, the Black Lives Matter movement, and the ongoing anti-trust claims against the tech giants. These underscore the need for integrating Environmental, Social and Governance factors into a leadership agenda that is both responsible and responsive to stakeholder concerns in the short, medium and long-term.

The culture nurtured over the years at HNBA supported sensitivity to stakeholder concerns and I am pleased to report that we upheld our covenants with internal and external stakeholders beyond mere regulatory

requirements. As the world witnessed job losses and salary cuts, we worked to inspire, motivate, and empower our staff which enabled us to protect their jobs and remuneration. We went beyond our employees to protect those of our outsourced workers as well and extended financial assistance to our Advisor network to support them through a difficult time. Responding to emerging requirements and concerns of customers we introduced new healthcare products, enabled virtual interaction through multiple channels and new payment portals. Health and safety protocols implemented and telecommuting arrangements all reflect a concern for people that I believe is one of the greatest attributes of our unique culture at HNBA as evident at all levels of the organisation. It is indeed the foundation for responsible and responsive leadership.

A Different Lens

The year also shed light on the power and impact of every individual's actions. Simple actions such as wearing a mask and washing hands had the power to protect a community from disease and averting economic, health, and humanitarian crises if everyone did it consistently. And we witnessed leaders who highlighted this, amassing support for and normalising responsible behaviours to minimise the threats to their countries. Similarly, sound Corporate Governance also requires each individual to play their part, upholding corporate values, and reinforcing positive behaviours. This will be the pivot for recovery and positive outcomes as we move into 2021 with the promise of the vaccines which are being rolled out around the world.

Declaration

On behalf of the HNB Assurance PLC Board of Directors, I declare that the principles of good Corporate Governance are applied consistently across the Group and that the Corporate Governance Report themed Responsive and Responsible Leadership provides a fair account of Corporate Governance practices

within the Group. I am also pleased to report that the Group complies with the relevant provisions of the Code of Best Practice of Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka. In accordance with requirements of the same, I affirm that HNBA has a Code of Conduct and Ethics, applicable for all employees of HNBA and its subsidiary HNBGI, which is communicated during orientation of all new employees and available on the intranet and accessible by all employees. Employees' performance appraisal mechanism includes pre-determined objectives which include upholding corporate values and abiding by the Code of Conduct and Ethics which are addressed by the line manager when conducting the appraisal. There are no violations of the provisions of the Code of Business Conduct and Ethics to the best of my knowledge.

Conclusion

The year witnessed a massive injection of resources to keep the wheels of the economy turning while ensuring the health and wellbeing of the people. Businesses moved in a new direction, innovating and adapting at an unprecedented pace to a new norm – The Great Reset. As we move forward, it is imperative that we retain the best practices that were adopted out of necessity, shedding legacies that shackled us to suboptimal performance. In closing, I echo the wish of Kristalina Georgieva, Managing Director, IMF that we emerge as a "greener, smarter, fairer world in the future" – the ultimate goal of good Corporate Governance.

Rose Cooray
Chairperson

Colombo, Sri Lanka
19th February 2021

CORPORATE GOVERNANCE

Responsive & Responsible Leadership

A year of challenges highlighted the need for responsive and responsible leadership, carefully balancing the interests of stakeholders and conflicting issues as we steered in the direction of our long-term vision. The Board worked together with the Senior Leadership of the Group to reassess and align strategy to a dramatically different business landscape. A prudent risk appetite combined as a reliable compass to navigate the long-term business to steer towards our long-term vision, upholding the trust placed in us by our stakeholders.

Our Compliance Framework

HNBA combines both legal, regulatory and voluntary frameworks to create a fit for purpose framework that is benchmarked to international best practice.

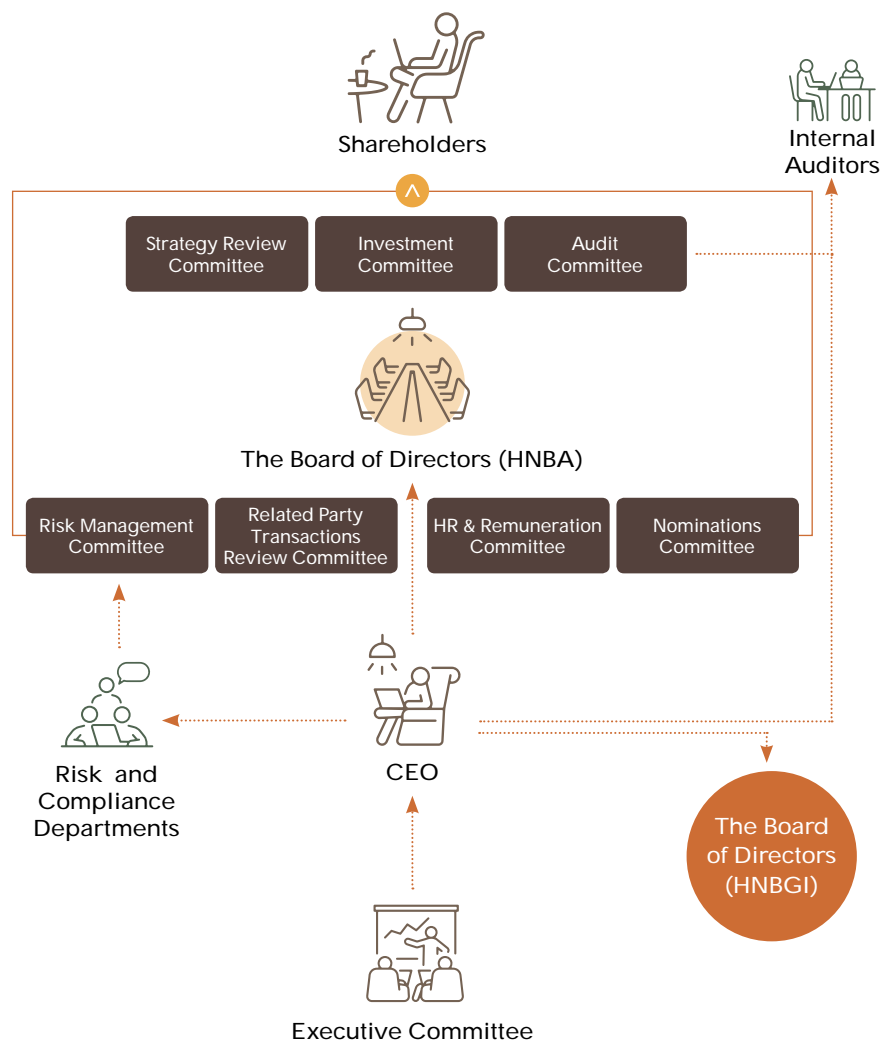
Mandatory

- Companies Act No.7 of 2007
- Regulation of Insurance Industry Act No.43 of 2000 and subsequent amendments thereto
- Sri Lanka Financial Reporting Standards
- Articles of Association
- Rules, regulations, determinations, directives and circulars issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL)
- Motor Traffic Act No.14 of 1951 and subsequent amendments thereto
- Listing Rules of the Colombo Stock Exchange
- Central Depository System Rules
- Securities & Exchange Commission Rules
- Inland Revenue Act No.24 of 2017

Voluntary

- Code of Best Practice on Corporate Governance issued by CA Sri Lanka
- Code of Ethics
- GRI Standards
- Integrated Reporting Framework

Our Governance Structure



Administration of the Board

The Administration of the Board is the responsibility of the Company Secretary who is an Attorney-at-Law with over 20 years of experience.

This report has been structured along the following governance priorities.



Composition HNBA

Chairperson	●
Independent Non-Executive Directors	● ● ●
Non-Independent, Non-Executive Directors	● ● ● ●

Composition HNBGI

Chairperson	●
Independent Non-Executive Directors	● ●
Non-Independent, Non-Executive Directors	● ● ● ●

HNB General Insurance

HNB GI has its own Board which has 3 Directors from HNBA's Board including the Chairperson. HNBGI's Board has 2 Independent Non-Executive Directors facilitating Board balance.

HNBA Board subcommittees have oversight of the relevant functions of HNBGI.

The CEO serves as the CEO of both institutions. Dedicated KMP are responsible for matters specific to HNBGI. Supporting functions such as Finance, Marketing, Actuarial, HR, Legal, Investment, Risk and Compliance and Internal Audit are common to both entities.

Statement of Compliance

HNB Assurance PLC complies fully with the Corporate Governance requirements of Rule No.7.10 of the Listing Rules of the Colombo Stock Exchange (CSE), refer pages 65 and 66.

Further, the Company is substantially compliant with the Code of Best Practice on Corporate Governance issued by CA Sri Lanka, refer pages 55 to 64, and compliant with the Corporate Governance Framework for Insurers requirements of Direction No.17 issued by IRC SL refer pages 67 and 68.

CORPORATE GOVERNANCE

A Competent Board

Directors are appointed by the Shareholders at the Annual General Meeting and bear ultimate responsibility for the affairs of HNBA. They provide leadership to create long-term sustainable value to stakeholders in compliance with the legal and regulatory requirements and the Group's own policy framework. Their responsibilities encompass determining the strategic direction, goals, policy frameworks, internal controls and reporting mechanisms enabling effective oversight of the affairs of the HNBA Group.

The collective skills and experience of the directors is a key strength, supporting effective discharge of their duties. A balance of power is facilitated by the presence of 8 Non-Executive Directors of whom 3 are independent. The Nominations Committee is responsible for ensuring that the Board has the skills, experience, and attributes required to competently manage the affairs of the HNBA Group. Accordingly, they make recommendations to the Board on candidates who meet the agreed criteria, ensuring that the collective skills of the Board enable responsible leadership to realise corporate goals.

Changes to Board Composition

The Board made the following appointments considering the business needs of the Group:

Dr. Prasad Samarasinghe was appointed as an alternate director to Mr. Damien Fernando on 24th January 2020.

During the year Mr. Deepthi Lokuarachchi resigned from the position of Managing Director/CEO due to retirement.

Mr. Kalum Wijesooriya resigned from the position of Alternate Director to Mr. Dilshan Rodrigo during the year.

A new CEO Mr. Prasantha Fernando has been appointed as Mr. Deepthi Lokuarachchi's successor from within the Company, serving as testimony to succession planning within the Group.

Skills	
Insurance	● ●
Accounting & Finance	● ● ● ●
Banking	● ● ●
Legal	●
Economics/Investment	● ● ●
Information Technology	●

Inclusive of Alternate Director

Experience (Years)	
15 - 20	
20 - 25	
25 - 30	● ● ● ●
> 30	● ● ● ●

Gender	
Male (75%)	● ● ● ● ● ● ● ●
Female (25%)	● ●

Tenure (Year)	
< 1	
1 - 4	● ● ●
4 - 8	● ● ● ● ● ●

Age	
< 40	
40-50	
50-60	● ● ●
60-70	● ● ● ●
>70	●

Role of the Board

The functions and main responsibilities of the Board are set out in the Board Charter, as summarised below.

Summary of the Board Charter	
The Board	Role of the Board Board composition and Board proceedings Diversity of the Board Appointment of new Directors Contribution to the corporate strategy Performance monitoring Self-evaluation Orientation for new Directors Obligations towards its Shareholders, employees, and other stakeholders Compliance with laws, rules, directions, and regulations
The Directors	Duties of Directors Dealings with shares of HNB Assurance PLC Information to Directors Confidentiality of non-public information Independent advice at the expense of the Company Other Board appointments
Duties and responsibilities of the Chairperson.	
Duties and responsibilities of the Managing Director/Chief Executive Officer & Senior Management	
Committees of the Board.	
Role of the Secretary to the Board.	
Code of Ethics for the Board of Directors	

Role of the Chairperson, CEO & Board Secretary

Roles of Chairperson and Chief Executive Officer are separated to ensure a clear distinction between the Chairperson's responsibility to manage the Board and the CEO's responsibility to manage the Company's business establishing a balance of power and authority. The appointment of the CEO to the Board is not automatic further supporting a balance of power. Mr. Prasantha Fernando was appointed as CEO during the year and his resume is given on page 41. Key aspects of their roles are summarised below.



Role of Chairperson

- Chairing the Board and the Shareholders' meetings.
- Ensuring that the operations of the Board are managed effectively.
- Ensuring that all key and relevant issues are discussed by the Board in a timely and constructive manner.
- Taking appropriate steps to provide effective communication with Shareholders and to ensure that Shareholders' views are communicated to the Board as a whole.
- Ensuring that good corporate practices are followed.



Role of CEO

- Developing, recommending, and implementing the Company's policies and strategies that reflect the long-term objectives and priorities approved by the Board.
- Assuming full accountability to the Board for all aspects of the Company's operations and performance.
- Maintaining a continuous dialogue with the Chairperson and other Directors.
- Representing the Company and managing the Company's day-to-day business.
- Monitoring operational and financial results closely following plans and budgets.
- Establishing adequate operational, planning, and financial control systems.

CORPORATE GOVERNANCE

Role of the Board Secretary

The Board Secretary also plays a key role in ensuring the Board functions effectively.



Role of Company Secretary

- Support the Chairperson, the Board, and the Sub-Committees by ensuring a proper flow of information
- Ensure that policies and procedures are followed.
- Provide necessary advice and assistance to the Board and Directors in respect of their duties
- Facilitate the effective operation of the Board and Board Sub-Committees
- Maintain relationships between the Company, its shareholders, and regulators, including assisting the Board in discharging its obligations to Shareholders.

Board Sub Committees

The Board has entrusted specific areas of oversight to 7 subcommittees of the Board with clearly defined Charters for each subcommittee. Minutes of the subcommittee meetings are tabled at the Board meeting immediately following the subcommittee meeting. Chairpersons of the subcommittees ensure that the Board is updated on relevant matters at the Board meetings.

Changes to the Board extended to the Board subcommittees ensuring effective channelling of expertise to support strategic goals of the Group. The Board Audit Committee, Related Party Transactions Review Committee, and the Risk Management Committee carried our self-evaluations of their performance during the year. The composition of the Board subcommittees, meetings, and their roles and activities are given in the respective committee reports.

Mandatory	Nominations Committee	Page 169
	Audit Committee	Page 161
	Human Resources & Remuneration Committee	Page 165
	Related Party Transactions Review Committee	Page 167
Voluntary	Investments Committee	Page 171
	Risk Management Committee	Page 173
	Strategy Review Committee	Page 175

Appointment, Re-election, and Resignation

The Nominations Committee assesses the collective skills and expertise of the Board and its committees to determine a suitable candidate profile. Potential candidates are then reviewed through a formal and transparent process. Recommendations are made to the Board for the appointment of Directors who consider the recommendations in making new appointments to the Board. All new appointments require approval by the Insurance Regulatory Commission of Sri Lanka as per the Regulation of Insurance Industry Act and the Board confirms the appointment only on receipt of such approval.

Shareholders appoint Directors at the Annual General Meeting and separate resolutions for the election/re-election for each Director are included in the Notice of meeting included in the Annual Report. According to Section 27 of the Articles of Association of the Company, the Board possesses the power to appoint any person, at any time, as a Director to fill a casual vacancy arising from the resignation of a director or to increase the size of the Board. Any Director so appointed can hold office until the next Annual General Meeting where he/she is eligible for re-election.

Directors other than the Chairperson are required to retire by rotation and seek re-election at least once every three years. Accordingly, Dr. Sivakumar Selliah retires by rotation at the Annual General Meeting to be held on the 31st March 2021 as set out in the Notice of Meeting on page 353. Directors who wish to resign prior expiry of their period of appointment are required to give notice in writing for acceptance by the Board together with the reasons for doing so.

The Board Secretary promptly informs the Colombo Stock Exchange of appointments and resignations for dissemination to the investing public.

Induction & Training

All newly-appointed Directors are formally inducted with a one-day programme which includes a discussion with the Chairperson, an introduction to the Senior Management of the Group, an overview of the industry regulations and strategy. They are also given an induction pack which comprises the Articles of Association, the Code of Ethics for the Board, Board charter, Board Sub Committee Charters, Share Dealing Policy and Code and the Regulation of Insurance Industry Act and other regulations.

Directors are updated on changes to regulations and industry trends by the Senior Management regularly. Opportunities are provided to all directors for gaining knowledge and insights on Corporate Governance and matters relating to directorship for which the cost is borne by the Company.

Code of Conduct for Directors

All directors are required to comply with the Code of Conduct and Ethics for Directors which is summarised below.

A Summary of the Company's Code of Conduct and Ethics for Directors	
Conflict of Interest	Directors should avoid conflicts of interest. Examples of conflicts of interest are given in the Code.
Corporate Opportunities	Directors are prohibited from taking for themselves or their own company or other companies which with they have a fiduciary relationship, any opportunities arising as a result of the director holding a directorship in the Company, unless such opportunities are fully disclosed by the interested Director and approved by the disinterested Directors.
Confidentiality	Directors must maintain the confidentiality of non-public proprietary information entrusted to them by the Company or its customers or other parties with whom the Company does business, except when such disclosure is authorised or legally required. This principle applies to all communications, whether oral, written, or electronic.
Dealings with Third Parties	Only the persons named in the Code are authorised to deal with third parties on behalf of the Company.
Compliance with laws and regulations and fair dealing	Directors are expected to carry out their responsibilities in compliance with all laws, rules, and regulations applicable to the Company and with the highest standards of business ethics.
Encouraging the Reporting of Any Illegal or Unethical behaviour	Directors are expected to promote ethical behaviour and create a culture of compliance with all applicable laws, rules, and regulations.
Protection and Proper Use of Company Assets	All Directors must protect the Company's assets and ensure their efficient use.
Enforcement	The Board (or the members of the Board who are not conflicted) will review and investigate any allegation of a breach of this policy by a Director, with or without the participation of any Director who may be the subject of such report.

They are also required to comply with the Share Dealing Policy and Code applicable to all Directors, Senior Management, and other specified persons who may have access to price-sensitive information.

Board Meetings & Information

The Board meets monthly while subcommittees meet according to agreed schedules. The Audit Committee and the Risk Management Committee meet quarterly with other Sub-Committees meeting less frequently.

The Board Secretary prepares the agenda in consultation with the Chairperson for Board meetings while secretaries of Sub-Committees do the same with their respective Chairpersons. Directors are provided with the agenda and information relating to the agenda at least one week before the meeting to enable familiarisation with items scheduled for discussion. They also have access to Senior Management for clarification before or during the meeting. Key Management Personnel also make presentations on important issues that impact the business of HNBA.

Attendance of Board members at Board and Sub-Committee Meetings are given on page 180 of the Annual Report of the Board of Directors.

Board Evaluation

The Board conducts an annual self-evaluation of its performance using a checklist with wide-ranging criteria including, but not limited to, the composition of the Board, skills, and experience of the members, adequacy of Sub-Committees, proceedings of meetings, and quality of reports and materials submitted. Responses were compiled by the Board Secretary for discussion by the Board to improve the effectiveness of the Board. Audit, Related Party Transactions Review and Risk Management Committees also conducted self-evaluations in a similar manner which were reviewed by the respective Committees and the Board.

- > Board meetings were held online as scheduled using secure platforms with increased oversight on HNBA Group response to the COVID-19 pandemic.
- > The Risk Management Committee increased the frequency of meetings from quarterly meetings to monthly meeting following the COVID-19 pandemic increasing the rigour of oversight and deliberation of risk management strategies.
- > Other committee meetings also continued as scheduled on virtual platforms.

CORPORATE GOVERNANCE

GRI 102-28, 102-35, 102-36

Remuneration

The Remuneration Policy plays a key role in shaping the right behaviours and alignment of remuneration, rewards, and strategy is key to realising our goals. HNBA has a formal and transparent mechanism for developing remuneration policies in line with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants (CA) of Sri Lanka. The Chairperson of the Board is also a member of the Human Resources and Remuneration Committee. The CEO attends meetings by invitation. The Charter of the Human Resources and Remuneration Committee has provisions to obtain professional advice from within and outside the Company as may be required by the Committee.

The Human Resources and Remuneration Committee and the Board ensure that the CEO is provided with an appropriate remuneration package. The Remuneration Committee compares the remuneration levels of the Company with such packages of comparable companies from time to time. It also reviews reports of salary surveys periodically to get an indication of comparable industry standards. Remuneration levels of the Group are considered as well when determining remuneration packages.

The performance-related elements of the remuneration package of the CEO and other Executive employees are linked to corporate and individual performance. Objectives for the CEO, are set at the beginning of the year to align his interests with those of the Company. Accordingly, his remuneration including the performance bonus is decided based upon the degree of achievement of such pre-set targets. Performance-related remuneration schemes are not applied retrospectively.

The Company does not have any long-term incentive schemes, including share option schemes.

Remuneration of Non-Executive Directors is also determined by the HR and Remuneration Committee and are not eligible for performance-based remuneration schemes. Non-Executive Directors are paid only on their attendance at meetings. The remuneration takes

account of the need to attract people of talent, integrity, and ability in line with market practices. 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.

Please refer to page 311 for the details on Directors' remuneration.

Performance Evaluation of CEO

The Board sets reasonable Financial and Non-Financial targets in line with the short, medium, and long-term objectives of the Company in consultation with the CEO which are the targets for the CEO. The performance of the CEO is evaluated by the Board at the end of each year, based on these agreed objectives and the variable component of the CEO's remuneration is determined based on the achievement of these set targets.

Policy Framework

The policy framework of the Group guides the routine operations of the Group articulating the expected conduct, processes, and procedures and provide thresholds and boundaries where deemed necessary. The policy framework is graphically set out below.

Governance & Conduct	Specific Matters	Performance & Talent Management
<ul style="list-style-type: none"> Articles of Association Board Charters Board Sub-Committee Charters Code of Ethics for Directors Code of Business Conduct Integrity Reporting Policy Anti-Bribery & Corruption Policy Procedure Manuals Guidelines Circulars 	<ul style="list-style-type: none"> Shareholders' Communication Policy Share Dealing Policy Risk Management Policy Compliance Policy Investment Policy Financial Authority Manual Procurement Policy IT Security Policy Anti-Money Laundering Policy Credit Policy 	<ul style="list-style-type: none"> Total Reward Policy Performance Management Procedure Remuneration & Benefit Guideline Talent Calibration Guideline Education Reimbursement Procedure Overseas Training Procedure

Effective Controls

Overview

Effective internal controls support the transmission of reliable information, regulatory compliance, and safeguarding assets and reputation of the Group. The Board is responsible for the implementation of an effective system of internal controls and is assisted in this important task by the Audit and Risk Management Committees. Accordingly, the Group has adopted the Three Lines of Defence model to manage risk and control with clear segregation of roles in the three pillars which is discussed

in more detail in the Risk Management Review. The third pillar which comprises Internal and External Audit assures the Audit Committee of the effective operation of the first and second pillars which are the key business functions and the risk management function respectively.

The Board received financial and operational compliance statements monthly from the CEO and relevant Key Management Personnel which serves as a checklist for regulatory and prudential matters.

Internal Audit

Internal Audit plays a key role in assuring compliance with the regulatory and policy frameworks and the effective functioning of internal controls set in place by the Board. Internal Audit is outsourced to Messrs Ernst & Young Chartered Accountants and the Audit Committee reviews the scope of the internal audit to ensure that it is sufficient to provide the assurance required by the Board. The Committee also reviews audit plans, findings, and progress reports at the quarterly meetings. The Audit Committee meets the Internal Auditors if necessary without the presence of the Executives/ Senior Management at least once a year to provide an opportunity for the Internal Auditors to air any concerns they may have without reservation.

External Audit

The External Auditors are appointed by the shareholders on the recommendation of the Board. The Audit Committee makes recommendations to the Board on the appointment of the external auditors following the processes agreed with the Board for evaluating the effectiveness of the audit and the independence of the auditors. External Auditors are not employed for non-audit work unless such work has been pre-approved by the Audit Committee. Care is taken to ensure that tasks undertaken by the External Auditors have no adverse effect on the independence of their audit work or the perception of such independence. Details regarding fees paid to External Auditors appear on page 311. The Audit Committee holds an "in camera" meeting with the External Auditors at least once each year.

Organisation Culture

The organisation culture is key to Corporate Governance as it shapes the behaviours of the employees. Several factors combine to shape a positive culture including corporate values, tone at the top, pressure for performance, structures of remuneration schemes, Integrity Reporting policies, and disciplinary action. The Board is conscious of this and strives at all times to set high standards of conduct while continuously strengthening written codes, controls, and policies. Grievance mechanisms, strong communication

lines, prudent risk appetites, and a positive compliance culture reinforces the culture as actions are initiated from these mechanisms send clear signals to employees on expected standards of conduct.

Accountability

The Board is accountable to shareholders for the performance of the Company and upholding their rights. Accordingly, the Board seeks to ensure the following:

- Provide a reasonable return to shareholders by maintaining a satisfactory Return on Equity.
- Provide a satisfactory distribution of dividends out of the profits earned
- Timely communication with shareholders regarding affairs of the Company.

The 'Shareholders' Communication Policy' ensures that shareholders have ready, equal, and timely access to reliable information about the financial performance, strategic goals and plans, material developments, governance, and risk profile of the Company enabling them to make informed decisions regarding their investment strategy. Multiple channels are used to communicate with shareholders including our website, press releases, quarterly and annual reports, and other printed and electronic media. Price sensitive information is promptly notified to the CSE for dissemination to the investing public through their website as well.

We strive to uphold high standards of accountability to deliver performance, strengthen our culture and governance mechanisms and significant efforts are taken to ensure that our communications provide a balanced review of the subject matter.

The Annual Report

The Annual Report is a key communication to shareholders and we go well beyond mere legal requirements to ensure that it provides a comprehensive review of our performance during the reporting year. We benchmark international best practices in corporate reporting and have been at the forefront of the ESG (Environment, Social & Governance)

Reporting evolution as early adopters of the Integrated Reporting Framework and the GRI Standards. Accordingly, we have embraced a more extensive reporting agenda to communicate a plethora of variables that impact our delivery of value to stakeholders in a structured manner.

Submission of quarterly returns

Quarterly returns were submitted to CSE as given below:

Quarter Ending	Date of Submission to CSE
31st December 2019	14th February 2020
31st March 2020	15th May 2020
30th June 2020	11th August 2020
30th September 2020	6th November 2020

Annual General Meeting

The Annual General Meeting is the most important shareholder engagement event on the calendar and extensive preparations are made in this regard to encourage high levels of shareholder participation and interaction. Notice of the Meetings is circulated 15 days in line with the statutory requirements while the date is notified through the CSE 19 weeks prior to the date of the meeting. The Chairperson ensures the availability of all Chairpersons of Board Sub Committees at the meeting to provide clarification of any matters that come within their purview. Additionally, the external auditors are also present to provide any additional information that may be required.

In response to social distancing measures implemented to curtail the COVID-19 pandemic, the HNBA Annual General Meeting was held using electronic platforms which also enabled electronic voting. We are encouraged by the higher levels of participation and voting at this meeting as it also enabled the participation of foreign fund managers. Minutes of the AGM are summarised below.

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Summarised Minutes of the 18th AGM
23rd June 2020

Matters Discussed at the AGM

During the AGM, Chairperson replied the queries raised by the shareholders. The questions/concerns so raised and the comprehensive answers for the same are given below for the benefit of all shareholders and particularly for those shareholders who were unable to participate the AGM.

One of the shareholders expressed his concern on reduction of profit for the year as Profit After Tax for the previous year was Rs. 2.7 Billion and this year it has reduced to Rs. 1.01 Billion.

Response

Responding to the concern raised by the Member, Chairperson stated that Profit After Tax for 2018 included two items. Firstly, there was one off surplus on account of life fund valuation method as per regulations which was Rs. 381mn. Secondly, it included an amount of Rs. 1.1. Billion as deferred tax adjustments. Furthermore, in 2018 life surplus was taxed in a different manner for the 1st Quarter. She went on to state that only three (03) quarters in 2018 was taxed on the same basis as of 2019. Moreover, she stated that the most comparable figure in 2018 and 2019 will be profit before taxes. Further, she stated that when one of the items are excluded, Profit Before Taxes have recorded a growth of 17%.

One of the Shareholders raised the questions on Corporate Social Responsibility aspect and inquired on CSR activities done in 2019 and the plans for 2020.

Response

Responding to the queries made, Mr. Deepthi Lokuarachchi mentioned the respective CSR activities done in the year 2019, namely healthy living symposiums, sponsorship for Pibedena Kekulu, 25 scholarships to university students, water projects for the needy schools, renovation of the play area of Siyabalanduwa Primary school, felicitation of artists and final donations for places of worship. Mr. Deepthi also went on to state that many more activities are being planned for 2020

and the Company is intending to renovate a ward in Mulleriyawa Hospital once the required approvals are received. Whilst responding to the queries made in respect of the outlook for the insurance industry, he went on to state that year 2019 was a challenging year due to Easter Sunday bombings and the Company was able to record a remarkable growth amidst the said challenges. Further, he also stated that year 2020 was an unprecedented year with health-related disasters. He went on to elaborate that many industries in the world are affected by the said issue and Life Insurance would have challenges in managing mortality and health claims. He also went on to state that rating agencies have reversed the outlook and most of the western based reinsurance companies have tighten their terms on medical and mortality insurance. Mr. Deepthi also explicated his 'focused approach' on 'identified segments' and assured to the Shareholders that the Management and the Board of Directors will continue to be pursued with the business operations whilst concentrating the identified segments to achieve positive results in year 2020 amidst the issues being faced due to current crisis

Safeguarding Information Assets: IT Governance Report

IT Governance Policies

The Board adopted an Information Security Policy to provide the direction to the Management in handling the risks relating to information and cybersecurity in line with the HNB Group information security policy. The HNBA Group also developed policies on Super user access management, usage of Internet and Work From Home further strengthening the information security environment.

IT Governance Structure

The Company has established an IT steering Committee headed by the Chief Executive Officer and comprising officers from different functional areas to monitor the implementation of IT activities.

The Company has appointed an IT Security Administrator who reports to the Chief Information Officer to identify any non-compliances or risks from within the IT Department.

Further, an Officer qualified in Information Technology has been appointed from the Risk and Compliance Department to review the IT security activities independently from the Operations Management.

IT Governance Monitoring

The Company has identified the risks relating to information and cybersecurity and has included these in the Company's risk register with the existing and proposed actions to mitigate them. The implementation of relevant control measures is monitored by the Risk and Compliance Department.


During the year, the Information Security and System Compliance Officer monitored compliance with the Information Security policy and submitted compliance reports to the Board Risk Management Committee meetings.

The Board also carried out a review of the Company's information security environment through an external firm specialised in IT security audits.

The Board and the Board Sub-Committees have reviewed the reports relating to information security during the year, and has discussed the IT road map to address IT security matters.

Compliance with the Code of Best Practice on Corporate Governance

The table below summarises HNBA Group's compliance with the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
 Section 1 - The Company			
A. Directors			
A1. The Board			
A. 1.1	Board Meetings	The Board meets monthly to discharge its responsibilities as described on page 49. Attendance at Board meetings and Board Committee meetings are given on page 180 of the Annual Report of the Board of Directors, Board Meetings & Information	<input checked="" type="checkbox"/>
A1.2	Role of the Board	Refer A Competent Board on page 48	<input checked="" type="checkbox"/>
A. 1.3	Compliance with laws and access to independent professional advice	The Board has set in place a sound organisation structure, policy framework, and internal controls to facilitate regulatory compliance and also ensure that decisions taken by the Board are compliant with regulatory requirements. The Board Charter provides for directors to seek independent professional advice from external parties when necessary at the Company's expense.	<input checked="" type="checkbox"/>
A 1.4	Access to advice from the Company Secretary Indemnifying the Board, Directors, and key management personnel	The directors have access to the advice and services of the Company Secretary who plays a key role in facilitating the conduct of Board and General Meetings and ensuring that requirements of the Companies Act No.7 of 2007 and the Listing Rules of the CSE are complied with. The appointment and removal of the Company Secretary is a matter for the whole Board. As a subsidiary of HNB Group, HNBA and HNBGI Board Directors and Key Management Personnel are covered under Directors and Officers Liability Cover obtained by HNB.	<input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
A 1.5	Independent judgment of the Directors	Directors of HNBA exercise independent judgement on all matters set before the Board without bias.	<input checked="" type="checkbox"/>
A 1.6	Dedicating adequate time and effort	Directors devote sufficient time to the affairs of the Company to discharge their duties effectively. Board papers are circulated at least one week before the meeting providing sufficient time for familiarisation with matters included in the agenda and to call for any further information.	<input checked="" type="checkbox"/>
A.1.7	Calls for resolutions	One-third of the Directors may call for a resolution to be presented to the Board in the best interests of the Company.	<input checked="" type="checkbox"/>
A 1.8	Training of Directors	On appointment, Directors receive a Letter of Appointment outlining the terms of appointment, duties, and responsibilities, and expected time commitments. Additionally, a formal induction programme is arranged for newly-appointed Directors as soon as practicable which is co-ordinated by the Chairperson, CEO and the Company Secretary.	<input checked="" type="checkbox"/>
A.2 Chairman & the Chief Executive Officer			
A. 2.1	The decision to combine the posts of Chairman and CEO	There is a clear division of responsibilities at HNBA with separation of the roles of the Chairman and CEO. See Role of the Chairperson and CEO on page 49.	<input checked="" type="checkbox"/>
A. 3	Chairman's Role	Please refer to the Role of Chairperson on page 49 in the Corporate Governance Report.	<input checked="" type="checkbox"/>

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Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
A. 4	Financial Acumen	As HNBA is a financial services company, financial acumen is a prerequisite for all directors. All Directors have a sound knowledge of finance ensuring sufficiency of financial acumen as given in their Board profiles while five are members of professional finance or accounting organisations.	<input checked="" type="checkbox"/>
A.5 Board Balance			
A.5.1	Include Non-Executive Directors of sufficient calibre and number	All Directors are Non-Executive. The composition is given on page 47.	<input checked="" type="checkbox"/>
A.5.2	Three or two-third of Non-Executive Directors appointed to the Board, whichever is higher should be 'Independent Non-Executive Directors'	The Company has three Independent Non-Executive directors, which constitute one-third of the total Non-Executive Directors of the Company. The Company maintains the composition of Directors in accordance with Section 7.10 of the Listing rules and the requirements of the Company's Articles of Association.	<input type="checkbox"/>
A.5.3	Independence criteria	All three Independent directors are independent of management and free of any business or other relationship which could or be perceived to materially interfere with the exercise of their unfettered and independent judgement.	<input checked="" type="checkbox"/>
A.5.4	Annual Declaration by Non-Executive Directors	Each Non-Executive Director submits a signed declaration annually concerning his independence/non-independence against specified criteria which is in line with Schedule K of the Code.	<input checked="" type="checkbox"/>
A.5.5	Annual determination of independence of directors by the Board	The Board has reviewed the declarations referred to in A.5.4 above and ascertained that three Directors are independent following the criteria set out in section 5.5 of the Code.	<input checked="" type="checkbox"/>
A.5.6	Alternate Director to a Non-Executive Director	Mr. Kalum Wijesooriya who was an alternate director to Mr. Dilshan Rodrigo resigned from the position of Alternate Director due to his retirement from HNB during the year. Mr. Dilshan Rodrigo continues to serve as a Non-Independent Non-executive Director while Mr. Kalum Wijesuriya also served in a similar capacity. Dr. Prasad Samarasinghe was appointed as an Alternate Director to Mr. Damien Fernando who is a Non-Independent Non-Executive Director. Dr. Prasad Samarasinghe is also a Non-Independent Non-Executive Director.	<input checked="" type="checkbox"/>
A.5.7	Appoint a Senior Independent Director if Chairman and CEO are the same or the Chairman is not an independent Director or the Chairman is the immediately preceding CEO	As the Chairperson of the Board is a Non-Independent Non-Executive Director the Company has not appointed a Senior Independent Director. Additionally, roles of Chairperson and the CEO are segregated and Chairperson is not the immediately preceding CEO.	<input type="checkbox"/>
A.5.8	Senior Independent Director to be available for confidential discussions with directors	The Company has not appointed a Senior Independent Director	N/A
A.5.9	Chairman meeting with the Non-Executive Directors	The Chairperson holds a meeting with only Non-Executive Directors present without the CEO present at least once a year.	<input checked="" type="checkbox"/>
A.5.10	Recording concerns	Where applicable, any conflict/concerns that cannot be unanimously resolved are recorded in the Board Minutes.	<input checked="" type="checkbox"/>

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
A.6. Supply of Information			
A.6.1	The obligation of the Management to provide appropriate and timely information	All Board members receive information regarding the operations and performance of the Group monthly basis.	<input checked="" type="checkbox"/>
A.6.2	Board papers to be provided 7 days before Board Meeting and minutes provided after the meeting.	Board papers are provided one week before the Board meeting.	<input checked="" type="checkbox"/>
A.7 Appointments to the Board			
A.7.1	Establish a Nomination Committee	The Board has established a Nomination Committee and their report is given on page 169.	<input checked="" type="checkbox"/>
A.7.2	Nominations Committee to assess the composition of Board annually	The Nomination Committee assesses the composition of the Board annually and makes recommendations to the Board on necessary changes. The Board was expanded in line with the same as set out on Changes to Board Composition on page 48.	<input checked="" type="checkbox"/>
A.7.3	Disclosure of Appointment of a New Director	Upon the appointment of a new Director to the Board, the Company informs the Colombo Stock Exchange with a brief resume of the Director.	<input checked="" type="checkbox"/>
A.8 Re-Election			
A.8.1	Non-Executive Directors should be appointed for a specified term and subject to re-election and their appointment is not automatic.	Directors other than the Chairperson and the Nominee Directors , are required to retire by rotation and seek re-election at least once every three years. Accordingly, Dr. Sivakumar Selliah retire by rotation at the Annual General Meeting to be held on the 31st March 2021 as set out in the Notice of Meeting on page 353. Additionally, appointments of Directors appointed after the AGM are valid only until the next AGM at which they can offer themselves for re-election.	<input checked="" type="checkbox"/>
A.8.2	Re-election	All Directors who are retiring by rotation in terms of the Articles of Association of the Company submit themselves for re-election /re-appointment by the shareholders of the Company at the forthcoming Annual General Meeting of the Company. Only one director retires this year and his resume is given on page 36	<input checked="" type="checkbox"/>
A.8.3	Resignation	Director resigning from his or her position as a Director is expected to provide a written communication to the Board formally along with reasons for such resignation. Upon acceptance of the resignation by the Board, the CSE is informed promptly of the resignation and the reason. This procedure was followed during the year for the resignations of Mr. Deepthi Lokuarachchi and Mr. Kalum Wijesooriya.	<input checked="" type="checkbox"/>
A.9 Appraisal of Board Performance			
A.9.1	Have in place a formal process for reviewing the performance of the Board and its Sub-Committees	The Board conducted a self-evaluation of its performance, using a checklist which covered a range of areas including, but not limited to the composition of the Board, skills, and experience of the members, adequacy of Sub-Committees, proceedings of meetings, and quality of reports and materials submitted. Responses were compiled by the Board Secretary for discussion by the Board. The objective of this evaluation is to improve the performance of the Board to enable the achievement of the Company's objectives.	<input checked="" type="checkbox"/>
A.9.2	Appraisals of the Board and the Sub-Committees		<input checked="" type="checkbox"/>

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Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
A.9.3	Have a process to review the participation, contribution, and engagement of each director	The Nominations Committee reviews the participation, contribution, and engagement of each director before recommending for re-election.	<input checked="" type="checkbox"/>
A.9.4	State the evaluation process in the Annual Report	Complied with above disclosures and information on page 51	<input checked="" type="checkbox"/>
A.10 Disclosure of information in respect of Directors			
A.10.1	Profiles of the Board of Directors and other related information	The names of the Directors of the Board and their profiles are given on pages 36 to 39	<input checked="" type="checkbox"/>
A.11 Appraisal of CEO			
A.11.1	The setting of the annual targets and the appraisal of the CEO	The performance evaluation of the Chief Executive Officer carried out by the Chairperson, in line with the financial and non-financial objectives set out in consultation with the Board at the commencement of each financial year.	<input checked="" type="checkbox"/>
A.11.2	The performance of the CEO should be evaluated by the Board.		<input checked="" type="checkbox"/>
B. Directors' Remuneration			
B.1 Remuneration Procedure			
B.1.1	Establishment of the Remuneration Committee	The Board has established an HR & Remuneration Committee with an agreed Terms of Reference which includes matters covered in Schedule C of the Code including remuneration of executive directors.	<input checked="" type="checkbox"/>
B.1.2	Composition of Remuneration Committee	The HR & Remuneration Committee comprises Non-Executive Directors of whom the majority are independent. The Chairman is Dr. Sivakumar Selliah who is an Independent Director.	<input checked="" type="checkbox"/>
B.1.3	Names of Directors to be given in the Annual Report	Names of the members of the HR & Remuneration Committee are given in the Report of the HR & Remuneration Committee on page 165.	<input checked="" type="checkbox"/>
B.1.4	Determination of the remuneration of the Non-Executive Directors	The Board determines the fees and expenses payable to Non-Executive Directors as per the Articles of Association of the Company. Directors' fees comprise a fixed fee and exclude any variable component.	<input checked="" type="checkbox"/>
B.1.5	Consultation with the Chairman and the CEO	The HR & Remuneration Committee determines the CEO's remuneration. The Committee consults the CEO on proposals regarding executive remuneration. No Director is involved in determining his/her own remuneration.	<input checked="" type="checkbox"/>
B.2 The Level & Makeup of Remuneration			
B.2.1	The level and makeup of the remuneration should be sufficient to attract, motivate and retain Executive Directors of the required quality	The HR & Remuneration Committee is responsible for determining remuneration policy including that of the CEO and the Key Management Personnel. Remuneration packages are structured to attract, retain, and motivate them taking into consideration their roles and responsibilities, skills, experience, attributes.	<input checked="" type="checkbox"/>
B.2.2	Executive Directors' compensation should be designed in the long-term success of the Company	Currently there are no Executive Directors on the Board.	<input checked="" type="checkbox"/>

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
B.2.3	Remuneration Committee to judge where to position remuneration relative to other companies	The HR & Remuneration Committee compares the remuneration levels of the company with those of comparable companies in the industry and is sensitive to changes in the remuneration levels. It reviews reports of salary surveys periodically to get an indication of comparable industry standards.	<input checked="" type="checkbox"/>
B.2.4	Remuneration Committee to be sensitive to employment and remuneration conditions within the Group	The HR & Remuneration Committee considers the remuneration levels of the HNB Group when deciding on remuneration levels for the HNBA Group.	<input checked="" type="checkbox"/>
B.2.5	Performance based remuneration	Performance based remuneration of employees, including the CEO, is directly linked to the achievement of agreed targets and goals by the Company and the individual	<input checked="" type="checkbox"/>
B.2.6	Executive share options	The Company has no share option available to its Directors.	N/A
B.2.7	Designing schemes of performance-based remuneration	Refer to the Report of the HR and Remuneration Committee on page 165.	<input checked="" type="checkbox"/>
B.2.8 & B.2.9	Early Termination of Directors	As the Board comprises solely of Non-Executive Directors, there are no provisions for compensation for early termination of contracts. The Remuneration Committee will determine the remuneration of the CEO in the event of early termination regarding the contract of employment.	<input checked="" type="checkbox"/>
B.2.10	Levels of remuneration for Non-Executive Directors	All Non- Executive Directors other than Nominee Directors who are employees of HNB are remunerated in line with market practices. HNB employed nominee Directors are paid a nominal fee only on their attendance at meetings.	<input checked="" type="checkbox"/>
B.3. Disclosure of Remuneration			
B.3.1	Disclosure of Remuneration	<ul style="list-style-type: none"> • Report of the HR and Remuneration Committee on page 165 • Notes 42 in the Financial Statements on page 311 provide information on the remuneration of the Board as a whole. 	<input checked="" type="checkbox"/>
C. Relations with Shareholders			
C.1 Constructive use of the AGM and Conduct of General Meetings			
C.1.1	Dispatch of Notice of AGM and related papers to shareholders	Notice of Meeting, the Agenda for the Annual General Meeting, and the Annual Report are circulated to shareholders within the stipulated time in the Articles of Association and the Code.	<input checked="" type="checkbox"/>
C.1.2	Separate resolution for substantially separate issues.	Separate resolutions are proposed for substantially separate issues to provide shareholders the opportunity to deal with each significant matter separately. The proxy form reflects this.	<input checked="" type="checkbox"/>
C.1.3	Accurate recording and counting valid proxy appointments received for a General Meeting	All proxy appointments received are duly recorded and counted in respect of each resolution, where a vote has been taken by a show of hands. In the event the appropriate number of shareholders give their intimation in writing and request for a poll, the procedure involved in voting would be circulated. In the absence of such intimation, all issues at the AGM will be passed by a show of hands.	<input checked="" type="checkbox"/>
C.1.4	Availability of Chairman of Board Committees at the Annual General Meeting	The Chairmen of the Board Committees are present to answer any queries of the shareholders directed to them by the Chairperson of the Company.	<input checked="" type="checkbox"/>
C.1.5	Summary of Notice of General Meetings and procedures governing voting at General Meetings	The procedures involved in voting will be circulated if the appropriate number of shareholders give their intimation in writing and request for a poll. In the absence of such intimation, all issues at the General Meeting will be passed by a show of hands.	<input checked="" type="checkbox"/>

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
C.2 Communication with Shareholders			
C.2.1	Channel to reach all shareholders for timely dissemination of information	HNBA has multiple channels of communication to shareholders which include the following: <ul style="list-style-type: none"> • Notifying CSE promptly for price-sensitive information which is disseminated to the investing public including shareholders • Press releases • Website 	<input checked="" type="checkbox"/>
C.2.2	Disclose policy and methodology for communication with shareholders	A 'Shareholders' Communication Policy' is adopted by the Company with the determination of ensuring that ready, equal, and timely access to balanced and understandable information about the Company's financial performance, strategic goals and plans, material developments, governance, and risk profile, etc., are Company's shareholders and the investment community at large. The objective is to enable shareholders to exercise their rights in an informed manner and to allow shareholders and the investment community to engage actively with the Company.	<input checked="" type="checkbox"/>
C.2.3	Disclose how the policy is implemented	The CEO is responsible for administering the policy and obtains the support of the Company Secretary in the implementation of the same. Accordingly, 25 notices were sent to the CSE for prompt disclosure of relevant matters which included appointment and resignation of Directors, dividends, quarterly Financial Statements, etc., were also submitted promptly to the CSE.	<input checked="" type="checkbox"/>
C.2.4 & C.2.6	Contact person for Shareholder communications	The Company Secretary is the designated person for shareholder communication and the contact information is provided on page 5.	<input checked="" type="checkbox"/>
C.2.5	The process to make directors aware of shareholder concerns	Matters raised by shareholders at the Annual General Meeting are minuted and The Company Secretary communicates shareholders concerns raised during the year to the Board.	<input checked="" type="checkbox"/>
C.2.7	Formulate and disclose the process for responding to shareholder matters	The Company encourages effective communication with the shareholders and answers queries and concerns of shareholders through the Company Secretary who will handle them, escalating concerns to the Board as may be deemed necessary.	<input checked="" type="checkbox"/>
C.3 Major & Material Transactions			
C.3.1 & C.3.2	Disclosure of Major Transactions	During the financial year, there were no major transactions, which materially altered the Company's net asset base or the consolidated Group's net assets base. In the unlikely event that the net assets of the Company fall below half of the shareholders' funds, the shareholders of the Company would be notified and an Extraordinary General Meeting would be called to propose the way forward in terms of the necessary statutory and regulatory requirements.	<input checked="" type="checkbox"/>
D. Accountability & Audit			
D.1 Financial & Business Reporting			
D.1.1	Present a fair and balanced annual report prepared following the laws and regulations with an explanation of deviations.	HNBA continues to strive for high standards of corporate reporting, going beyond compliance with regulatory requirements to adopt international best practices in reporting.	<input checked="" type="checkbox"/>

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
D.1.2	Board responsibility for fair reporting extends to interim and price-sensitive report, regulatory reporting, and statutory information	The Board is assisted in the discharge of this duty by the Audit Committee who reviews the interim financial statements and routine regulatory reporting. The Board reviews other price-sensitive communications before release to ensure it presents a balanced view of the relevant matter.	<input checked="" type="checkbox"/>
D.1.3	Board to obtain declarations from CEO and CFO regarding financial statements, records, effective operation of systems of internal controls, and risk management.	The Audit Committee and Board obtain declarations from the CEO and CFO on the proper maintenance of financial records, the true and fair view of the financial statements, and the effective operation of systems of internal control and risk management.	<input checked="" type="checkbox"/>
D.1.4	Declarations by Directors	The following information has been declared in the Annual Report of the Board of Directors from pages 178 to 184. <ul style="list-style-type: none"> • Declaration that the Company has not engaged in any activity which contravenes laws and regulations is given on page 182. • Declaration that the Directors have declared all material interests in contracts involving the Company is given on page 181. • Declaration that the Company has made all endeavours to ensure the equitable treatment of Shareholders is given on page 182. • Directors have complied with the best practices of Corporate Governance is given on page 183. • Property, Plant & Equipment are reflected at fair value and, where they differ from fair value, adequate disclosures are made as given on page 180. • Declaration that the Directors have conducted a review of the internal controls covering financial, operational, and compliance controls and risk management is given on page 182. • Declaration that the business is a going concern is given on page 178. 	<input checked="" type="checkbox"/>
D.1.5	Statements by Directors and Auditors	Pages 186 and 187 contains the statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements The Auditor's Report is provided on pages 191 to 193.	<input checked="" type="checkbox"/>
D.1.6	Annual Report should include Management Discussion & Analysis	The Management Discussion & Analysis is given on pages 101 to 157 of this Annual Report covering the Disclosure requirements under this code. <ul style="list-style-type: none"> • Business Model – pages 20 and 21 • Industry Structure and Developments – pages 149 to 157 • Opportunities and Threats – page 17 • Risk Management – pages 76 to 90 • Internal Control Systems and their Adequacy – pages 176 and 177 • Governance – pages 45 to 75 • Stakeholder Relationships - pages 102 to 159 • Social and Environmental Protection Activities Carried Out by the Company – pages 132 to 148 • Financial Performance – pages 112 to 122 • Investment in Physical and Intellectual Capital - pages 143 to 145 • Human Resource/Industrial Relations Activities Carried Out by the Company – pages 123 to 131 • Prospects for the Future – pages 139 to 142 	<input checked="" type="checkbox"/>

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
D.1.7	Summon EGM if net assets value fall below 50% of shareholders' funds	As capital adequacy is well above the regulatory requirements, the issue does not arise. Provision to call for an EGM in the event net assets fall below 50% is embedded in the Articles of Association.	<input checked="" type="checkbox"/>
D.1.8	Adequate and accurate disclosure of related party transactions	HNBA has in place the following mechanisms to facilitate disclosures of related party transactions: <ul style="list-style-type: none"> • A Related Party Transactions Committee to review the related party transactions every quarter • Each related party submits a signed and dated declaration quarterly to provide information on related party transactions • The Company Secretary maintains a record of related party transactions which is summarised and presented to the Related Party Transactions Review Committee each quarter. • Note 48 of the Financial Statements on page 321 sets out the information on Related Party Transactions. 	<input checked="" type="checkbox"/>
D.2 Risk Management & Internal Control			
D.2.1	The Board should monitor risk management and internal control systems and carry out a review of their effectiveness and report on the same in the Annual Report	The Board is assisted in this duty by the Audit Committee and the Risk Management Committee whose reports are given on pages 161 and 173. They are supported by the Internal Auditors and the Risk and Compliance Department respectively who carry out their functions under the guidance of these two committees, reporting directly to them. The Committee are provided regular reports on related matters to facilitate the assessment of the effectiveness of the internal controls and risk management systems. The Board Statement of Internal Control on pages 176 and 177 provides further information in this regard.	<input checked="" type="checkbox"/>
D.2.2	Directors to confirm the assessment of principal risks and provide information on the same	This is provided in the Risk Management Committee Report. (Refer to pages 173 and 174 for further details)	<input checked="" type="checkbox"/>
D.2.3	Internal Audit function	The Company's internal audit function is outsourced to Messrs Ernst & Young. Further, Risk and Compliance Department carry out periodic verifications. (Refer to Board Statement of Internal Control on pages 176 and 177 for further details)	<input checked="" type="checkbox"/>
D.2.4	Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls	The Audit Committee is responsible for ensuring that the Company has an effective internal control system. It reviews the effectiveness of the internal control system through the Internal Auditors and the Risk and Compliance Department. The minutes of the Risk Management Committee meetings are tabled at the Audit Committee meetings for review since the Audit Committee carries the responsibility for the Company's Risk Management practices. Minutes of both the Audit Committee and the Risk Management Committee meetings are tabled at Board meetings for review. Extended Disclosure on the Internal Control Process of the Company Internal Controls at HNBA (Refer Report of the Audit Committee on pages 161 to 164 for further details)	<input checked="" type="checkbox"/>
D.2.5	Statement of internal control	The Board's Statement on Internal Control is given on pages 176 and 177.	<input checked="" type="checkbox"/>

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
D.3 Audit Committee			
D.3.1	Establish an Audit Committee of at least three Non-Executive Directors	The Audit Committee comprises three Non-Executive Directors of whom two are independent. Two members of the Audit Committee are professional accountants with recent and relevant experience in financial reporting and control.	<input checked="" type="checkbox"/>
D.3.2	Terms of Reference for Audit Committee	The Board has approved the Terms of Reference for the Audit Committee which is in line with that specimen set out in Schedule F of the Code. The Audit Committee Report on pages 161 to 164 provides further information regarding the same.	<input checked="" type="checkbox"/>
D.3.3	Disclosures	The Audit Committee Report on pages 161 to 164 provides the information required.	<input checked="" type="checkbox"/>
D.4 Related Party Transactions Review Committee			
D.4.1	Definition	Related party transactions are defined in accordance with LKAS 24	<input checked="" type="checkbox"/>
D.4.2	Establish a Related Party Transactions Review Committee	The Board has established a Related Party Transactions Review Committee comprising three Non-Executive Directors of whom two are Independent. The Chairman, Mr. Mahendra Jayasekera, is a Non-Executive Independent Director.	<input checked="" type="checkbox"/>
D.4.3	Terms of Reference	The Related Party Transactions Review Committee Terms of Reference has been approved by the Board and addresses the matters set out in the Code. Refer to the Annual Report of the Board of Directors on page 178 and the Report of the Related Party Transactions Review Committee on page 167 and 168 for further information.	<input checked="" type="checkbox"/>
D.5 Code of Business Conduct & Ethics			
D.5.1	Board declaration for compliance with Code	HNB Assurance employs a Code of Business Conduct and Ethics for Directors to provide guidance in maintaining an ethical business practice and conduct at all times. Further, the Company has adopted a Code of Business Conduct and Ethics for all its employees and has mandated that it should be followed without exception. The Code of Business Conduct and Ethics is intended to encourage accountability and openness and is in line with Schedule J of the Code	<input checked="" type="checkbox"/>
D.5.2	Price sensitive information	Material and price-sensitive information is promptly disclosed to the CSE by the Company Secretaries.	<input checked="" type="checkbox"/>
D.5.3	Monitor Share purchase by Directors/KMPs	Refer to the Related Party Transactions Committee Report on page 167.	<input checked="" type="checkbox"/>
D.5.4	Chairman's statement	Refer to the Chairperson's Message on Corporate Governance on page 45 and The Annual Report of the Board of Directors on the affairs of Company on pages 178 to 184.	<input checked="" type="checkbox"/>
D.6 Corporate Governance disclosures			
D.6.1	Corporate Governance disclosures	The Corporate Governance Report on pages 46 and 64 comply with this requirement.	<input checked="" type="checkbox"/>
Section 2 - Shareholders			
E. Institutional Investors			
E.1.1	Shareholder voting	HNBA conducts regular discussions with Institutional Investors. The annual report provides a balanced review of the Group's performance supporting analysis and objective decision making. Shareholders are provided an opportunity to comment, discuss, and seek clarifications on any relevant issue with the Chairperson and Board at the AGM, on conclusion on formal proceedings or by prior appointment.	<input checked="" type="checkbox"/>

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How We Comply	Compliance Status
E.2	Evaluation of Governance Disclosures	Institutional investors are provided sufficient information to deliberate on matters related to the structure and composition of the Board, facilitating the evaluation of the same.	<input checked="" type="checkbox"/>
F. Other Investors			
F1	Investing and divesting decision	HNBA provides sufficient relevant and material financial and non-financial material in its annual report to facilitate meaningful analysis and obtaining independent annual advice regarding their investment.	<input checked="" type="checkbox"/>
F.2.	Encouraging shareholder participation and exercise their voting right	Refer Annual General Meeting section on page 54	<input checked="" type="checkbox"/>
G. Internet of things and cybersecurity			
G.1	Internet of things and cybersecurity	Refer IT Governance on page 54	<input checked="" type="checkbox"/>
G.2	Appoint a Chief Information Security Officer	A qualified Information Technology professional within the Risk and Compliance Department carries out the functions of the Chief Information Security Officer as envisaged by the Code. He is responsible for the implementation of the Cybersecurity Policy and the Data Classification Policy of the Group which have been adopted by the Board and are in line with that of the requirements of the parent company. Additionally, the IT Department has a dedicated IT Security Administrator who reports to the Head of IT on matters related to the security of the Group's information assets.	<input checked="" type="checkbox"/>
G.3	Cyber risk management to be a regular item on the Board agenda	The Board reviews cyber risk regularly and they are assisted in this by the Board Risk Management Committee.	<input checked="" type="checkbox"/>
G.4	Independent periodic review and assurance	The Board also reviewed the Company's information security environment through an external firm specialising in IT security audits. During the year, the Board and the Board Sub-Committees have reviewed the reports relating to information security and has discussed the IT road map to address the IT security matters.	<input checked="" type="checkbox"/>
G.5	The process to identify and manage cybersecurity risks	Refer IT Governance on page 54	<input checked="" type="checkbox"/>
H. Environment, Society & Governance (ESG)			
H.1	Environment, Society and Governance (ESG) Reporting	This report has been prepared following the GRI Standards, the IR Framework, and the Code of Best Practice on Corporate Governance which facilitates voluntary reporting of ESG matters. The following reports provide further information: <ul style="list-style-type: none"> • Environmental Reporting <ul style="list-style-type: none"> - Natural Capital Report on page 146 • Social Reporting <ul style="list-style-type: none"> - Human Capital Report on page 123 - Social & Relationship Capital Report on page 132 • Governance <ul style="list-style-type: none"> - Corporate Governance Report on page 46 - Annual Report of the Board of Directors on page 178 	<input checked="" type="checkbox"/>

Complied Not Complied N/A Not Applicable

COMPLIANCE WITH LISTING RULES SECTION 7.10

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

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

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10 (a) (b) (c)	Statement of Compliance	Publish a statement of compliance with Corporate Governance Rules (Section 7.10 of the Listing Rules) in the Annual Report	Compliant	Please refer page 47 for the statement of compliance
7.10.1	Non-Executive Directors	Two or one-third of the total number of Directors, whichever is higher, shall be Non-Executive Directors	Compliant	All Directors are Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors appointed to the Board, whichever is higher, shall be independent	Compliant	Three out of eight Non- Executive Directors are independent
7.10.2 (b)		Each Non-Executive Director shall submit a declaration of independence or non- independence in the prescribed format	Compliant	Non-Executive Directors have submitted declarations during 2020
7.10.3 (a)	Disclosures Relating to Directors	The Board shall disclose the names of the Independent Directors in the Annual Report.	Compliant	Please refer page 180 of the Annual Report of the Board of Directors for the names of Independent Directors
7.10.3 (b)		In the event a Director does not qualify as independent as per the Rules on Corporate Governance, but if the Board is of the opinion that the Director is nevertheless independent, the Board shall specify the basis for that determination in the Annual Report.	Not Applicable	No such situation has arisen During the year.
7.10.3 (c)		The Board shall publish a brief resume of Directors in the Annual Report, including their experience in relevant areas.	Compliant	Please refer the profiles of Directors on pages 34 to 39.
7.10.3 (d)		The Board shall provide a brief resume of newly appointed Directors to the Colombo Stock Exchange (CSE) for dissemination to the public.	Compliant	Appointments of Dr. Prasad Samarasinghe as an alternate director to Mr. Damien Fernando were informed to the CSE on 27th January 2020, including his brief resume.
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee.	Compliant	Details of the Human Resources and Remuneration Committee is given on pages 165 and 166
7.10.5 (a)		The Remuneration Committee shall comprise of Non-Executive Directors, a majority of whom shall be independent.	Compliant	The Human Resources and Remuneration Committee comprises three Non- Executive Directors, of whom two are Independent Non- Executive Directors.
		One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors.	Compliant	Dr. S Selliah (Independent Non-Executive Director) functions as the Chairman of the Human Resources and Remuneration Committee.

CORPORATE GOVERNANCE

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.5 (b)		The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer.	Compliant	Please refer the functions of the Human Resources and Remuneration Committee on page 165.
7.10.5 (c)		The Annual Report should set out names of the Directors serving in the Remuneration Committee	Compliant	Please refer pages 165 and 166 for the composition of the Human Resources and Remuneration Committee.
		Statement of Remuneration Policy	Compliant	Please refer the Human Resources and Remuneration Committee Report on pages 165 and 166.
		Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer Note 42 on page 311.
7.10.6	Audit Committee	A listed entity shall have an Audit Committee.	Compliant	Details of the Audit Committee are given on pages 161 to 164.
7.10.6 (a)		The Audit Committee shall comprise Non-Executive Directors, a majority of whom shall be independent.	Compliant	The Audit Committee comprises three Non- Executive Directors, two of whom are independent.
		One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors.	Compliant	Mr. J A P M Jayasekera (Independent Non-Executive Director) functions as the Chairman of the Committee.
		Chief Executive Officer (CEO) and Chief Financial Officer (CFO) shall attend Audit Committee meetings.	Compliant	Both the CEO and the CFO attend the meetings by invitation.
		Chairman or one member of the Committee should be a member of a recognised professional accounting body.	Compliant	Please refer page 36 for qualifications of the members of the Audit Committee. The Chairman is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (ICASL).
7.10.6 (b)		The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules.	Compliant	Please refer page 161 for the Report of the Audit Committee.
7.10.6(c)		The Annual Report should set out: - Names of the Directors serving in the Audit Committee	Compliant	Please refer page 161 for the composition of the Audit Committee.
	The Committee's determination of the independence of the Auditors and the basis for such determination	Compliant	Please refer page 161 for the Report of the Audit Committee.	
	A Report by the Audit Committee setting out the manner of compliance with the requirements set out in Section 7.10 of the Listing Rules	Compliant	Please refer pages 161 for the Report of the Audit Committee	

COMPLIANCE WITH THE CORPORATE GOVERNANCE FRAMEWORK FOR INSURERS

In year 2018, Insurance Regulatory Commission of Sri Lanka issued the Direction number 17 introducing a Corporate Governance framework for insurers. These rules came into effect (extended effective date) from 01st July 2019 and IRCSL amended the Direction number 17 during the year 2020 and said amendments came into effect from 1st June 2020 onwards. Compliance of HNB Assurance PLC with these regulations is given in the table below:

Compliance status of HNB Assurance PLC with Corporate Governance Framework for Insurers.

Section	Requirement	Compliance Status	How we Comply
A	Insurers are recommended to adhere to the Code of Best Practice on Corporate Governance issued in 2017.	Compliant	The Company's status of compliance with the relevant Corporate Governance Code is given from pages 55 to 64.
B	Insurers are required to comply with the following:		
(1)	The Board of an insurer must be comprised of a minimum of two Directors who are citizens and residents of Sri Lanka.	Compliant	All Directors of the Company are citizens and residents of Sri Lanka.
(2) (a)	The total period of service of a Director of an insurer, other than Executive Directors, shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director up to 01st July 2019	Compliant	As at the date of this report no Director has served on the Board for more than nine years.
(2)(a) (i)	Above 9 year rule shall not be applicable to major Shareholder Director representing a major corporate shareholder and /or Corporate groups with majority shareholding i.e. more than 50% shares of the insurer directly or an individual Shareholder Director holding more than 50% could hold the directorship of the insurer for more than 9 years and upon reaching 70 years she/he could nominate his/her representation to the Board.	Not Applicable	No such situation has arisen during the year
(2)(a) (ii)	Above 9 year rule shall not be applicable to Technical Director, such Director be allowed to remain in office till the age of 75 provided such person is an Associate or above the Chartered Insurance Institute and having 10 years' experience in an insurance company at senior managerial level.	Not Applicable	No such situation has arisen during the year
(2) (b)	In this context, the following transitional provision shall apply: A director who has completed nine years as at July 1, 2019, or who completes such term at any time prior to June 30, 2021, may continue for a further maximum period of 2 years commencing July 1, 2019.	Not Applicable	No such situation has arisen during the year

CORPORATE GOVERNANCE

Section	Requirement	Compliance Status	How we Comply
(3) (a)	The age of a person who serves as a Director shall not exceed 70 years.	Compliant	No Directors have exceeded the age of 70 years except Chairperson.
(3)(b)(ii)	In this context following transitional exemption apply. A Director who is between 71 to 75 years of age on or after July 1, 2019, such Director may continue to serve as a Director till 30th June 2022.		Accordingly, Chairperson serves as a Director.
4	The Board of an insurer must adhere to Section 7.10 of the Listing Rules of the CSE	Compliant	The Company's compliance status with rule number 7.10 is given on pages 65 and 66.
5	A person shall not hold offices as a Director of more than 20 companies/entities/institutions including of subsidiaries or associate companies of the insurer, in not more than 10 specified business entities in terms of the Sri Lanka Accounting Standards Act, No.15 of 1995	Compliant	As at the date of this report, no Director holds directorship in more than 20 companies/entities/institutions and not more than 10 specified business entities
6	The Company is required to demonstrate compliance with this Direction by way of disclosure in the Annual Report, including the disclosure requirements stated in 7.10 of the Listing Rules of the Colombo stock exchange. If the Company is unable to confirm compliance, disclose the reasons for its non-compliance and the action that will be taken rectifying the said non-compliance within the period. The Annual Report of the Company should be accessible to the IRCSL and the general public via the website of the Company within five months after the Balance Sheet date of the Company.	Compliant	The Company has disclosed the Compliance status with Section 7.10 of the Listing Rules on Page 65 and 66 of the Annual Report and It is published on the Company and CSE websites within the given time period.
7	The Insurer shall rectify its non-compliance in respect of B 1 to 6 above within three months from the date of Non-Compliance of same and inform the IRCSL immediately after three months.	Not Applicable	No such situation has arisen during the year

GROUP PERFORMANCE GOVERNANCE

The Company considers the governance of its performance with utmost importance and hence has established multiple mechanisms to ensure that there is close monitoring and achievement of its performance objectives. The primary responsibility with regard to performance governance lies with the Board of Directors, which pays keen attention on the performance of the Company from a variety of perspectives. To further strengthen their degree of supervision, the Board has established a Strategy Review Committee.

Strategy Review Committee

The 'Strategy Review Committee' reviews and monitors the implementation of the three-year strategic plan of the Group and keeps the Board informed of the progress of implementation and makes any recommendations that are deemed necessary for further development of the activities of the Group. The Committee is having an oversight on all planned activities as stated in its strategic plan and monitoring the performance including recommending any further actions if it feels necessary. During the year, the Strategy Review Committee had seven (07) meetings.

Corporate Planning and Budgeting Process of HNB Assurance Group

The development of the corporate plan of the Group/Company, which is carried out annually aiming the performance in the three immediately following years, is the activity on which performance governance is based. The corporate planning team, which includes leading personnel across all crucial functions of the Group/Company, forms the long-term goals and objectives of the Group/Company for the planning period and develops strategies to accomplish the same. Next, the Management prepares the annual budget for the Group/Company, referring to the goals stated in the corporate plan. The corporate plan, coupled with the budget, is then presented before the Board of Directors for comments and approval, and amendments are made to the plan based on the feedback from the Board. Once the overall business strategy is approved by the Board, the corporate objectives formed are transmitted to the Management Team, including the Managing Director/CEO, as performance objectives. These

performance objectives are then handed down to the lower Management levels and become the key criteria for performance measures which determine remuneration levels and bonus entitlements of the Managing Director/CEO and other members of the Management Team.

Monitoring Progress as per the Corporate Plan

Performance objectives, budgets, relevant policies and procedures are regularly monitored and all managers are held responsible for the accomplishment of the objectives and component/s of the budget assigned to him and his team. They are required to scrutinise the progress and report on the same to their superiors. The Executive Committee examines the corporate plan at regular intervals to ensure that the objectives are fulfilled. In addition, the progress of the business is routinely reviewed by the Board Strategy Review Committee as well. The Management prepares a front burner document containing materially significant short-term activities, change of processes, etc. This document is monitored monthly by the Board Strategy Review Committee and the Board.

Key Performance Indicators

Key Performance Indicators (KPIs) are devised to facilitate performance review and the process is evaluated monthly by the Board Strategy Review Committee and the Board of Directors. These KPIs are more frequently reviewed by the Executive Committee, the Management Team and the Operational Committees. A list of the Group's Key Performance Indicators appears on pages 14 to 15.

GROUP PERFORMANCE GOVERNANCE

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

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Formulation and Execution of Corporate Plan and Budgets	<ul style="list-style-type: none"> • Vision and Mission • Strategic Plan 	<ul style="list-style-type: none"> • Corporate Planning Team consisting of EXCO Members and Key Operational Managers • Board Strategy Review Committee • Board of Directors 	<ul style="list-style-type: none"> • Review of the Corporate Plan by the Board Strategy Review Committee • Performance review by EXCO on a monthly basis • Independent follow up by the Risk and Compliance Department • Review of actual results against the budget by the Board on a monthly basis • Budget review meetings with operational departments
Underwriting and Reinsurance	<ul style="list-style-type: none"> • Risk Appetite Statement • Underwriting Procedure Manuals • Guidelines • Credit Policy • Anti-Money Laundering Policy 	<ul style="list-style-type: none"> • Operations Committee – Life (HNBA) • Operations Committee – General (HNBGI) • Risk and Compliance Department 	<ul style="list-style-type: none"> • Implementation of system controls in line with procedure manuals, wherever possible • Updating of procedure manuals and guidelines based on changes in the environment • Regular Operational Committee meetings (OPCOs)
Claims Management	<ul style="list-style-type: none"> • Procedure Manuals • Guidelines • Claims Reserving Policy • Manual of Financial Authority • Customer Service Standards 	<ul style="list-style-type: none"> • Operations Committee – Life (HNBA) • Operations Committee – General (HNBGI) • Claims Panel • Claims Sub-Panel • Risk and Compliance Department 	<ul style="list-style-type: none"> • Monitoring of customer service standards by OPCOs and EXCO • Closed Files Review (CFR) process to identify any claims leakages • Maintenance of healthy relationships with service providers such as garages, spare parts dealers, medical laboratories, etc., to provide a speedy service to customers and achieve cost advantages • Paying due concern to customer claim appeals via Claims Panels and Claims Sub-Panels • Periodic meetings with MD/CEO and CFO
Investment Management	<ul style="list-style-type: none"> • Investment Policy • Financial Authority Manual 	<ul style="list-style-type: none"> • Segregation of Investment Front Office and Back Office to ensure compliance with set policies • Board Investment Committee • Risk and Compliance Department 	<ul style="list-style-type: none"> • Providing frequent updates of investment related KPIs and KRIs • Independent monitoring by the Risk and Compliance Department • Quarterly review by Board Investment Committee

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Sales and Distribution	<ul style="list-style-type: none"> Company Budget Annual Targets Individual Objectives 	<ul style="list-style-type: none"> Operations Committee – Life Sales (HNBA) Operations Committee – General Sales (HNBGI) Management Team EXCO Risk and Compliance Department 	<ul style="list-style-type: none"> Distribution Managers Meetings Renewal Review Meetings Performance Reviews by OPCOs, EXCO and the Board Sales convention and various competitions and rewards, including foreign tours Visit to Zonal offices by the EXCO members to address issues faced by distribution staff
Product Development	<ul style="list-style-type: none"> Product Development Policy 	<ul style="list-style-type: none"> Operations Committee – Life (HNBA) Operations Committee – General (HNBGI) Product Development Committees Risk and Compliance Department 	<ul style="list-style-type: none"> Appointment of product owners for each new product Conducting post-launch evaluations by a multidisciplinary team Conducting market research on products Product development checklists
Finance-Related Functions	<ul style="list-style-type: none"> Financial Authority Manual Procedure Manuals Guidelines Procurement Policy and Procedures Annual Budget 	<ul style="list-style-type: none"> Operations Committee – Finance and Administration Procurement Committees Procurement Unit Risk and Compliance Department 	<ul style="list-style-type: none"> Budget Review meetings Forecasting results to check possibility of achieving the budgeted targets Monthly checklists on compliance with procedures and guidelines Independent monitoring of adherence to the Procurement Policy and Procedures, by the Risk and Compliance Department
Use of Information Technology and IT Governance	<ul style="list-style-type: none"> IT Security Policy Disaster Recovery Plan 	<ul style="list-style-type: none"> Operations Committee – IT Segregation of IT Operations and IT System Developments IT Security Administrator Risk and Compliance Department 	<ul style="list-style-type: none"> Regular meetings with other departments to obtain user feedback IT Help Desk to solve technical issues faced by employees Employment of separate personnel to ensure IT security Independent review of operations of the IT Division by the Assistant Manager – IT Governance and Compliance
Corporate Social Responsibility	<ul style="list-style-type: none"> Corporate Plan 	<ul style="list-style-type: none"> Executive Committee (EXCO) 	<ul style="list-style-type: none"> A detailed review of the Company's actions towards Corporate Social Responsibility is given on pages 132 to 138.

GROUP PERFORMANCE GOVERNANCE

Area of Operation	Governance Policies and Procedures	Governance Structures	Performance Governance Mechanisms
Human Resources	<ul style="list-style-type: none"> • Remuneration Policy • Code of Ethics • Share Dealing Policy • Integrity Reporting Policy • Grievance Handling Policy • Performance Appraisal Process 	<ul style="list-style-type: none"> • Human Resources and Remuneration Committee • Risk and Compliance Department 	<ul style="list-style-type: none"> • Communication of the Company's objectives and plans at the Annual Staff Conference • Performance measurement via mid-year and year-end appraisals • Periodic employee surveys • Salary surveys • Provision of a special e-mail address for employee feedback • Conducting employee exit interviews • Frequent dissemination of information on HR policies and practices through 'HR Notices' • Review of annual staff increments and promotions by the Human Resources and Remuneration Committee
Risk Management	<ul style="list-style-type: none"> • Risk Management Policy • Business Continuity Plan 	<ul style="list-style-type: none"> • Business Continuity Plan (BCP) Committee • Board Risk Management Committee • Audit Committee • Risk and Compliance Department • External assistance as needed 	<ul style="list-style-type: none"> • Preparation of Risk Registers identifying key risks faced by the Company • Preparation of Key Risk Indicators (KRIs) based on the main risks faced by the Company and its risk appetite • Frequent monitoring of the KRIs and the implementation of risk mitigating actions agreed on by the Management • Review of KRIs by the Board Risk Management Committee • Conducting BCP drills to identify gaps in the BCP
Legal and Compliance	<ul style="list-style-type: none"> • Compliance Policy • Document Retention Policy 	<ul style="list-style-type: none"> • Operations Committees • Audit Committee • Board Risk Management Committee • Risk and Compliance Department 	<ul style="list-style-type: none"> • Tabling a monthly Compliance Report to the Board on the Company's compliance with applicable laws and regulations by Compliance Officer • Tabling a Compliance Report at the Audit Committee and Board Risk Management Committee meetings by Compliance Officer • Preparation of a monthly Compliance Checklist on all applicable regulations • Checking of all Compliance Reports by the Risk and Compliance Department and review of such reports by the Audit Committee, prior to submission to the regulator

CORPORATE GOVERNANCE AT HNB GENERAL INSURANCE LIMITED

HNBGI uses best practices as given in the Corporate Governance Codes issue by the CA Sri Lanka as guidance to its Corporate Governance framework. Corporate governance Rules as per the Listing Rules of CSE also shape its Corporate Governance Framework. Further details regarding the governance framework of the Company is included below.

Corporate Governance at HNB General Insurance Limited

HNB General Insurance Limited (HNBGI) is a fully owned subsidiary of HNB Assurance PLC. HNBGI was formed in 2015, by transferring the General Insurance business which was under HNB Assurance PLC. IRCSL has issued Corporate Governance framework applicable to all Insurers with effect from 1st July 2019 and the HNB General Insurance Limited shall comply with the said Direction and relevant disclosure regarding same stated in the table given on Page 74.

Further, HNBGI followed the Corporate Governance rules applicable, as per Listing Rules and the best practices, as given in the Corporate Governance Codes issued by the CA Sri Lanka to shape its Corporate Governance Framework. The Corporate Governance environment of HNB General Insurance Limited is discussed below:

The Board and the Directors of HNB General Insurance Limited

As at 31st December 2020, HNBGI comprises of Seven Non-Executive Directors, two of whom are Independent. Details on the Board of Directors appear in the section 5 of Annual Report of the Board of Directors on the affairs of HNB Assurance PLC for the year ended 31st December 2020 on page 180.

Compliance with corporate governance codes

Non-Executive Directors

As at 31st December 2020, all Directors of HNBGI were Non-executive. Therefore, the requirement on the minimum number of Non-executive Directors as per Corporate Governance Codes is satisfied.

Independent Non-Executive Directors

Out of seven Non-Executive Directors HNBGI had two independent Directors during the year 2020.

Roles of the Chairperson and the CEO of HNBGI

The functions of the Chairperson and the CEO are separated, to ensure balance of power and authority. Mrs. Rose Cooray and Mr. Prasantha Fernando held the positions of Chairperson and the CEO, respectively.

Board Functions

The Charter of the Board of Directors of HNB Assurance PLC also applies to the Board of Directors of HNBGI as well.

Board Meetings

Twelve (12) Board meetings were held during the 2020 and the attendance of each director at such Board meetings is given on Page 180 of the HNBA Annual Report 2020.

Board Sub-Committees of HNBGI

Board Sub-Committees of HNB Assurance PLC review the operations of HNBGI which fall under their purview.

Accordingly, the following Board Sub-Committees of HNB Assurance PLC review the operations of HNBGI as well.

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

All the above Committees have representatives of the Board of HNBGI to ensure that the interests of HNBGI also considered during the meetings,

External Audit

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

Internal Audit

Messrs. Ernst & Young, the internal Auditors of the parent company, also function as the Internal Auditors of HNBGI.

Skills	
Insurance	● ●
Accounting & Finance	● ● ● ●
Banking	● ● ● ● ●
Economics/Investment	● ● ●
Information Technology	●

Inclusive of Alternate Director

Experience (Years)	
15 - 20	
20 - 25	
25 - 30	● ● ● ●
> 30	● ● ●

Gender	
Male (75%)	● ● ● ● ●
Female (25%)	● ●

Tenure (Year)	
<1	
1 - 4	● ● ●
4 - 8	● ● ● ●

Age	
< 40	
40-50	● ●
50-60	● ●
60-70	●
>70	● ●

CORPORATE GOVERNANCE AT HNB GENERAL INSURANCE LIMITED

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

Risk Management and Compliance of HNBGI

The Risk Management function of HNBGI is handled by the Risk and Compliance Department of HNB Assurance PLC. Considering the nature of the business, a separate Risk Register, Risk Appetite statement and Key Risk Indicators, are being maintained for HNBGI.

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

Please refer the Risk Management Report of HNBA Group on page 76.

Codes and Policies

All policies applicable for HNB Assurance PLC are also applicable for HNBGI as well, Therefore, the Board Sub-Committees and the internal auditors monitors whether HNBGI also comply with the applicable policies, when carrying out its operations.

Compliance with the Corporate Governance Framework for Insurers

In year 2018, Insurance Regulatory Commission of Sri Lanka issued the Direction number 17 introducing a Corporate Governance framework for insurers. These rules came into effect (extended effective date) from 01st July 2019 and IRCSL amended the Direction number 17 during the year 2020 and said amendments came into effect from 1st June 2020 onwards. Compliance of HNB General Insurance Limited with these regulations is given in the table below:

Compliance status of HNB General Insurance Limited with Corporate Governance Framework for Insurers.

Section	Requirement	Compliance Status	How we Comply
A	Insurers are recommended to adhere to the Code of Best Practice on Corporate Governance issued in 2017.	Compliant	HNBGI is not a listed entity, However its Parent Company's (HNBA) status of compliance with the relevant Corporate Governance Code is given from pages 55 to 64.
B	Insurers are required to comply with the following:		
(1)	The Board of an insurer must be comprised of a minimum of two Directors who are citizens and residents of Sri Lanka.	Compliant	All Directors of the Company are citizens and residents of Sri Lanka.
(2) (a)	The total period of service of a Director of an insurer, other than Executive Directors, shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director up to 01st July 2019	Compliant	As at the date of this report no Director has served on the Board for more than nine years.
(2)(a) (i)	Above 9 year rule shall not be applicable to major Shareholder Director representing a major corporate shareholder and /or Corporate groups with majority shareholding i.e. more than 50% shares of the insurer directly or an individual Shareholder Director holding more than 50% could hold the directorship of the insurer for more than 9 years and upon reaching 70 years she/ he could nominate his/her representation to the Board.	Not Applicable	No such situation has arisen during the year

Section	Requirement	Compliance Status	How we Comply
(2)(a) (ii)	Above 9 year rule shall not be applicable to Technical Director, such Director be allowed to remain in office till the age of 75 provided such person is an Associate or above the Chartered Insurance Institute and having 10 years' experience in an insurance company at senior managerial level.	Not Applicable	No such situation has arisen during the year
(2) (b)	In this context, the following transitional provision shall apply: A director who has completed nine years as at July 1, 2019, or who completes such term at any time prior to June 30, 2021, may continue for a further maximum period of 2 years commencing July 1, 2019.	Not Applicable	No such situation has arisen during the year
(3) (a)	The age of a person who serves as a Director shall not exceed 70 years.	Compliant	No Directors have exceeded the age of 70 years except Chairperson and Mrs. M. Tharmaratnam (Independent Non-Executive Director)
(3)(b) (ii)	In this context following transitional exemption apply. A Director who is between 71 to 75 years of age on or after July 1, 2019, such Director may continue to serve as a Director till 30th June 2022.		Accordingly, Chairperson and Mrs. M. Tharmaratnam serves as a Director.
4	The Board of an insurer must adhere to Section 7.10 of the Listing Rules of the CSE	Compliant	The Company's Parent Company (HNBA) compliance status with rule number 7.10 is given on pages 65 and 66.
5	A person shall not hold offices as a Director of more than 20 companies/entities/institutions including of subsidiaries or associate companies of the insurer, in not more than 10 specified business entities in terms of the Sri Lanka Accounting Standards Act, No.15 of 1995	Compliant	As at the date of this report, no Director holds directorship in more than 20 companies/entities/institutions and not more than 10 specified business entities
6	The Company is required to demonstrate compliance with this Direction by way of disclosure in the Annual Report, including the disclosure requirements stated in 7.10 of the Listing Rules of the Colombo stock exchange. If the Company is unable to confirm compliance, disclose the reasons for its non-compliance and the action that will be taken rectifying the said non-compliance within the period. The Annual Report of the Company should be accessible to the IRCSL and the general public via the website of the Company within five months after the Balance Sheet date of the Company.	Compliant	The Company's Parent Company (HNBA) has disclosed the Compliance status with Section 7.10 of the Listing Rules on Page 65 and 66 of the Annual Report and It is published on the Company and CSE websites within the given time period.
7	The Insurer shall rectify its non-compliance in respect of B 1 to 6 above within three months from the date of Non-Compliance of same and inform the IRCSL immediately after three months.	Not Applicable	No such situation has arisen during the year

RISK MANAGEMENT

Risk Management Review

Risk management in Insurance business is key to financial stability and the ability to create value for our stakeholders. Accordingly, establishing strong risk management structures and robust processes to clearly define, measure, monitor and manage risks is a sine qua non to sustainable growth.

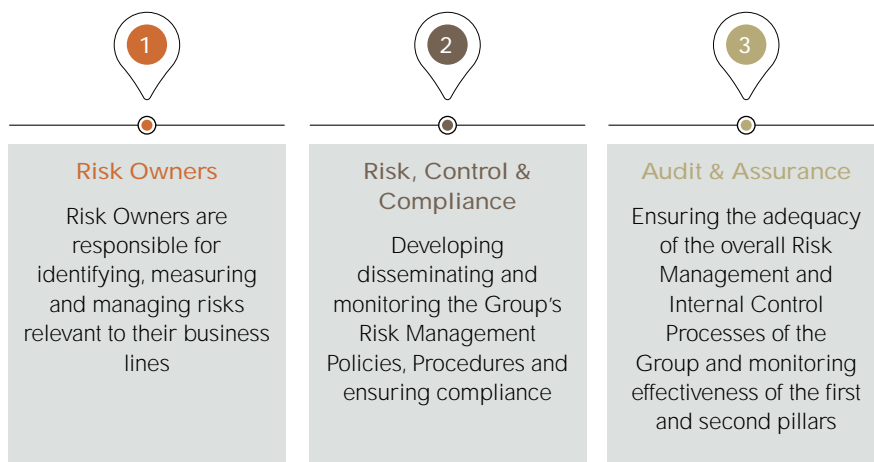
Risk Culture

The Group Risk Management Framework (RMF) acknowledges the importance of risk culture in the effective management of risks. Risk Culture defines set of encouraged and agreeable behaviours, discussions, decisions, and attitudes toward taking and managing risk within a Group.

Risk management at HNBA continues to be evolving, keeping pace with industry developments and changes in the operating environment to build resilience, compete effectively and manage stakeholder concerns. It is also a key strategic differentiator as a strong balance sheet and stable risk profile are key to building trust, particularly during times of heightened uncertainty.

Risk Governance

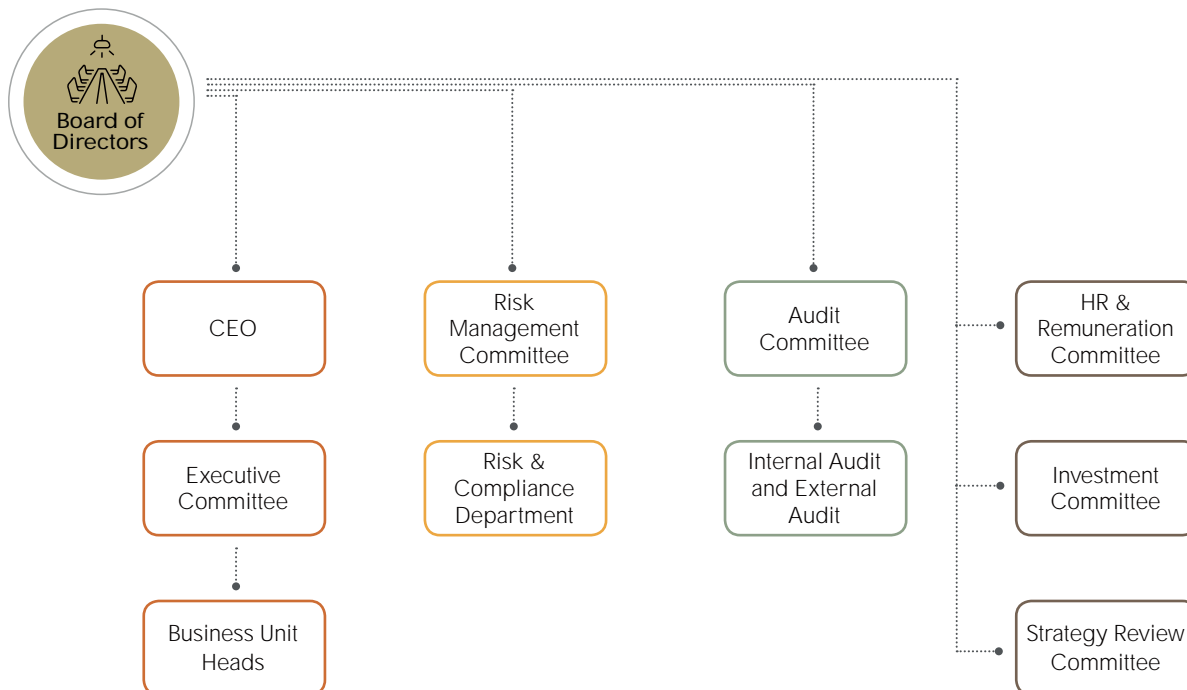
HNBA Group's risk governance structure is based on the three lines of defence model as set out below.



Risk Management Objectives

- Establish a culture of "No Surprises" to minimise potential unforeseen losses
- Provide a common framework, language and system to foster a consistent approach to managing risks;
- Develop and disseminate tools to enable line managers to foresee, evaluate and measure risks in a manner which facilitates improved decision making;
- Enhance returns, growth in sustainable earnings and Shareholder value via more effective use of risk mitigation; and
- Create a differentiating reputation for HNBA Group in Risk Management.

HNBA Group Risk Governance Structure



1st Line of Defence	2nd Line of Defence	3rd Line of Defence
Executive Management	Risk Oversight	Independent Assurance
<ul style="list-style-type: none"> • Design a suitable Risk Management Framework • Identify and analyse risks in terms of the above framework. • Decide on the risk appetite of the Company, analysing controls in place and designing new controls required. • Implement actions/additional controls required to mitigate risks above the Group/Company acceptable level. • Monitor Performance of Risk Management Actions 	<ul style="list-style-type: none"> • Follows up continuously on effective implementation of Risk Management strategies. • Coordinates with the Audit Committee, Risk Management Committee, Investment Committee and Internal and External Auditors and follows up on their recommendations to improve the effectiveness of the Risk Management Process • Makes continuous improvements to the Risk Management Framework where necessary, with the assistance of the Management and other relevant parties 	<ul style="list-style-type: none"> • Reviews effectiveness of controls in place to manage/mitigate risks and reports any deviations • Recommends improvements and corrective actions where necessary • Follows up continuously on effective implementation of Risk Management Strategies

RISK MANAGEMENT

The Board of Directors - The Board bears ultimate responsibility for establishing a robust risk management structure, policy framework and processes. Accordingly, the Board approves the Risk Management Framework and determine the risk appetite of the Group, providing guidance to management. The Board also monitors the risk profile of the Group as a regular item of the Board agenda through risk dashboards and top 5 risks. Oversight of risk management is delegated to the Risk Management Committee of the Board.

Risk Management Committee - This key committee recommends changes to policy, structures, thresholds and procedures with regards to risk management for approval by the Board. The Committee also monitors the risk profile of each company and the Group and provides feedback to the Board on the same. The Committee comprises solely of non-executive directors of whom two are independent. The CEO, COO and CFO are regular invitees as well as the Chief Risk Officer of the parent company. The Manager Risk & Controls serves as the Secretary to the Committee who meet bi-monthly on a regular basis with additional meetings scheduled as needed.

Audit Committee - The Audit Committee plays a key role in management of risk by monitoring the effectiveness and adequacy of the internal controls to ensure reliability of information and the financial reporting processes, safeguarding of assets and compliance with regulatory requirements. Effectively, the committee has oversight over all three lines of defence.

Investment Committee - The Investments Committee manages the investment portfolio of the Group and makes asset allocation, investments and divestments decisions based on market risk factors to facilitate stable sources of fund based income for the Group.

HR & Remuneration Committee - The HR & Remuneration Committee plays a key role in shaping the risk behaviours and culture through appropriate remuneration and incentive structures, balancing the need to retain people of ability with attractive remuneration schemes to enable creation of long-term value.

Strategy Review Committee - The Group and Company risk profiles and outlook of the risk drivers are key inputs into the strategic planning process as Risk Management is a strategic pillar.

Developments in 2020

- Frequency of Risk Management Committee meetings increased to monthly basis in view of heightened risks associated with the pandemic
- The Executive Committee comprising the direct reports of the CEO has a Disease Outbreak Response Team which meets six days in a week to discuss recent Pandemic developments, analyse threats and formulate necessary responses
- Increased focus on cybersecurity due to increased digitalisation and onboarding of customers
- Introduced Risk dashboards enhancing the quality of information presented to Top Management and Board
- Chief Risk Officer of HNB PLC is a permanent invitee to the meetings of the Risk Management Committee from 2020

Risk Environment 2020



Macroeconomic Stress

Sri Lanka's looming debt repayments, devaluation of the rupee and downgrade of the sovereign rating are major concerns. Interest rate targeted policy measures have reduced interest rates to relatively low levels to stimulate investment which has been at a low ebb due to the pandemic.



COVID-19 Pandemic

The pandemic continues to keep the world on the brink of potential humanitarian and economic crisis, impacting production and service capabilities. Relief measures continue strain Government coffers while vaccines offer hope of a return to normalcy.



Societal Changes

Dramatic changes to lifestyles and high levels of uncertainty have increased demand for life insurance in some segments while reduced mobility has led to lower claims ratios. Adapting to remote working and managing health and safety at the workplace added a new layer of complexity mitigated to a large extent through technology adoption.



Technology

The pandemic triggered widespread adoption of technology to overcome constraints related to social distancing enabling onboarding of stakeholders to digital platforms. At the same time concerns over data privacy and cybersecurity have also escalated.



Climate Change

While Sri Lanka was blessed with fair weather during the year, natural disasters and climate change continue to remain key concerns which offer both opportunities for product innovation and threats from related losses.



Regulation

The pace of regulation moderated during the year, changing direction to providing relief to customers. Implementation of IFRS 17 was deferred to January 2023 in recognition of the increased stress on people and institutions during the present crisis.

Managing Risk

The Risk Management Framework is the authoritative document for managing risk and its components are summarized alongside. It sets out the processes and responsibilities for identifying, measuring, managing, monitoring and reporting risk.

Risk Register - The Risk Department maintains a Risk Register which is submitted to the Executive Committee, the Board Risk Management Committee and the Board as a regular agenda item. It identifies the material risks faced by the Group/Company with regard to both core and supporting activities of the business. The Risk Register plays a critical role in our Risk Management Strategy, enabling conduct of qualitative and quantitative risk analysis, design of appropriate risk responses to monitor and manage the risks.

Risk Assessment - All risks are assessed for the potential impact and the likelihood of occurrence by risk owners through the Risk/Control Self-Assessment processes using the matrix given below. This is reviewed by the Risk & Compliance Department to ensure that ratings are consistently applied throughout the Group.

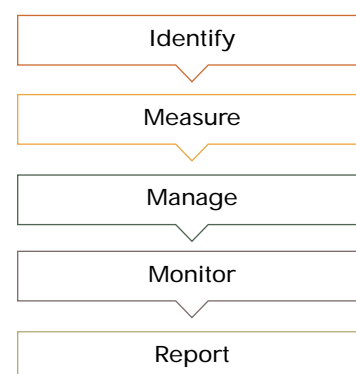
	Rating	Description
Impact		
Catastrophic	9-10	Impact more than 50% of the PBT
Critical	7-8	Impact between 33% to 50% of the PBT
Moderate	5-6	Impact between 5% to 33% of the PBT
Minor	3-4	Impact between 1% to 5% of the PBT
Negligible	1-2	Impact less than 1% of the PBT
Probability		
Frequent	9-10	Event likely to occur
Probable	7-8	Event could be experienced
Occasional	5-6	Some part of the event is likely to occur
Remote	3-4	Event is possible, but unlikely to occur during the year
Improbable	1-2	Very Unlikely

Risk Appetite - Risk appetite is a key component of the Risk Management Framework as it defines the tolerance levels for types of risk. The Board takes into account the strategic business goals, the operating environment, stakeholder expectations, regulatory requirements and the risk profile of the Group in determining the risk thresholds.

The Board and the Risk Management Committee monitor compliance with the risk tolerance limits to ensure that the risk profile of the Group is maintained at an acceptable level. Additionally, quarterly risk reports are submitted to the parent company Hatton National Bank PLC along with the Financial Statements for monitoring purposes. Quarterly returns are also made to the industry regulator IRCSL on specified matters which include a Risk Assessment Summary which have been made within the stipulated time despite the disruptions to work.

Risk Management Framework

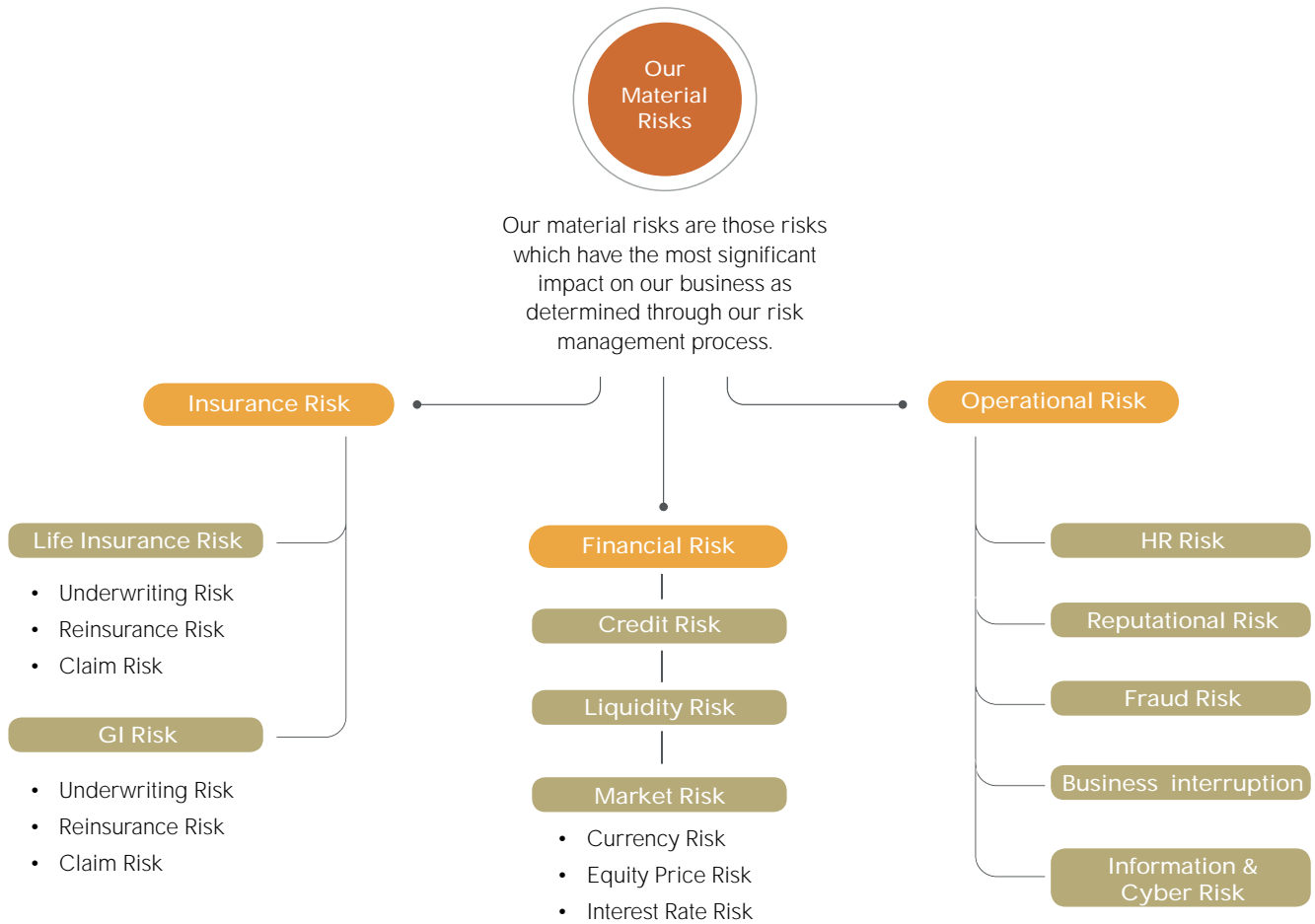
- Risk Management Objectives
- Risk Management and Internal Control
 - General Control Environment
 - Specific Internal Control Environment
- Risk Assessment
- Risk Management at HNBA Group
 - Risk/Control Self-Assessment
 - Risk Grading
 - Monitoring the Risk
 - Management and Internal Control Programme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



RISK MANAGEMENT

Our Material Risks


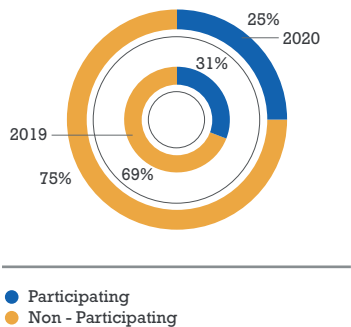
Our material risks are those risks which have the most significant impact on our business as determined through our risk management process.



Insurance Risks - Life

Insurance risk is the risk arising from changes in claims experience as well more general exposure relating to the acquisition and persistency of insurance business. Key risk drivers of Life insurance business are mortality rates, longevity, lapse rates, discount rates, distribution expenses and management expenses

Underwriting Risk

<p>Definition</p>	<p>The risk of the premiums received from policyholders being insufficient to cover claims if the event or contingency insured against takes place. It can include underestimated liabilities arising from unpaid business written in previous years and under-priced policies in current use.</p>									
<p>Developments in 2020</p>	<p>Business interruptions and the pandemic changed the demand dynamics and claims patterns during the year necessitating changes in marketing strategies and reviews of product portfolios to assess gaps and heightened risks.</p>									
<p>Mitigation</p>	<ul style="list-style-type: none"> • Diversification across a large portfolio of insurance contracts and geographical areas • Segregation of duties between underwriting and sales with underwriting centralized at Head Office. • Underwriting limits are clearly defined in the Manual of Financial Authority • Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are priced in line with risks covered. • Medical reports are obtained from registered laboratories which are regularly reviewed by the Management to monitor the quality of service. • Carrying out underwriting as per the guidelines set by the reinsurers. • Focused training is provided on proper selling in Sinhala, Tamil and English to Insurance Advisors. • A 'Customer Needs Analysis' Form is used to identify customer requirements and sell the most appropriate policy. • E-Policy document developed and sent to customers who have opted and to maintain agreed service standard. <p> Further details on Underwriting Risk Management are given in Note 4.3.2.1.2 on page 219.</p>									
<p>Key Risk Indicator(s)</p>	<p>Participating and Non Participating</p>  <table border="1"> <caption>Participating and Non Participating Data</caption> <thead> <tr> <th>Year</th> <th>Participating (%)</th> <th>Non-Participating (%)</th> </tr> </thead> <tbody> <tr> <td>2019</td> <td>25%</td> <td>75%</td> </tr> <tr> <td>2020</td> <td>31%</td> <td>69%</td> </tr> </tbody> </table> <p>● Participating ● Non - Participating</p>	Year	Participating (%)	Non-Participating (%)	2019	25%	75%	2020	31%	69%
Year	Participating (%)	Non-Participating (%)								
2019	25%	75%								
2020	31%	69%								

RISK MANAGEMENT

Reinsurance Risk

Definition	Refers to retention of risks beyond the Company's net retention capacity without having adequate reinsurance and the inability of reinsurers to meet their commitments due to insufficient financial strength.																		
Developments in 2020	Despite the wide-ranging impacts of COVID-19 on economies, reinsurer ratings remain largely unchanged although there maybe lags in this regard.																		
Mitigation	<ul style="list-style-type: none"> Restructuring of reinsurance agreements with reinsurers regularly A very close and professional relationship is maintained with all reinsurers. Only reinsurers with ratings above the regulatory requirements are used as reinsurers. Frequent review of the outstanding Reinsurance receivables. Changes to the ratings of reinsurance companies are continuously monitored. <p><i>Further details on Reinsurance Risk Management are given in Note 4.3.2.1.3 on page 220.</i></p>																		
Key Risk Indicator(s)	<p>HNBA RI Receivables Based on Credit Rates (on Settled Claims)</p> <p>(Rs. '000)</p> <table border="1"> <thead> <tr> <th>Credit Rating</th> <th>2019 (Rs. '000)</th> <th>2020 (Rs. '000)</th> </tr> </thead> <tbody> <tr> <td>Rs:000 AAA</td> <td>75,000</td> <td>0</td> </tr> <tr> <td>Rs:000 AA+, to AA-</td> <td>0</td> <td>140,000</td> </tr> <tr> <td>Rs:000 A+ to A-</td> <td>10,000</td> <td>10,000</td> </tr> <tr> <td>Rs:000 B+ to B-</td> <td>0</td> <td>0</td> </tr> <tr> <td>Rs:000 Not rated</td> <td>0</td> <td>0</td> </tr> </tbody> </table>	Credit Rating	2019 (Rs. '000)	2020 (Rs. '000)	Rs:000 AAA	75,000	0	Rs:000 AA+, to AA-	0	140,000	Rs:000 A+ to A-	10,000	10,000	Rs:000 B+ to B-	0	0	Rs:000 Not rated	0	0
Credit Rating	2019 (Rs. '000)	2020 (Rs. '000)																	
Rs:000 AAA	75,000	0																	
Rs:000 AA+, to AA-	0	140,000																	
Rs:000 A+ to A-	10,000	10,000																	
Rs:000 B+ to B-	0	0																	
Rs:000 Not rated	0	0																	

Claims Risk


Definition	Claim Risk refers to the risk of over or under payment of claims, risk of not meeting the service standards set for claims payment process and claims cost exceeding the budgeted levels.
Mitigation	<p>An Independent Actuary is engaged to carry out a valuation of the Life Fund twice a year.</p> <p>An in-house Actuarial Department headed by a qualified actuary monitors the Life Insurance business more closely and guide the Management to make more informed decisions.</p> <p>Claims are reserved immediately at the intimation or on the availability of information on death, injury, or illness of an insured.</p> <p>Service standards have been set on the time taken to process claims and these are monitored by the Management as well as by the Board Risk Management Committee.</p> <p>Independent investigators are used to investigate claims to ensure fraudulent claims are identified</p> <p>Financial authority limits are set based on the claim limits where the maximum limit is with the claims panel which is involved in making decisions regarding significant/problematic claims and appeals made in respect of claims.</p> <p><i>Further details on Claims Risk Management is given in Note 4.3.2.1.4 on page 220.</i></p>

Key Risk Indicator(s)	<p style="text-align: center;">Claims Ratio without Maturities (Year)</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Claims Ratio without Maturities (%)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>~8.2</td> </tr> <tr> <td>2019</td> <td>~9.2</td> </tr> <tr> <td>2020</td> <td>~10.2</td> </tr> </tbody> </table>	Year	Claims Ratio without Maturities (%)	2018	~8.2	2019	~9.2	2020	~10.2	Life Insurance has managed well with claims without maturities within the limit of company Risk appetite. Claims ratio is average 9% comparing with the last 3 years.
Year	Claims Ratio without Maturities (%)									
2018	~8.2									
2019	~9.2									
2020	~10.2									

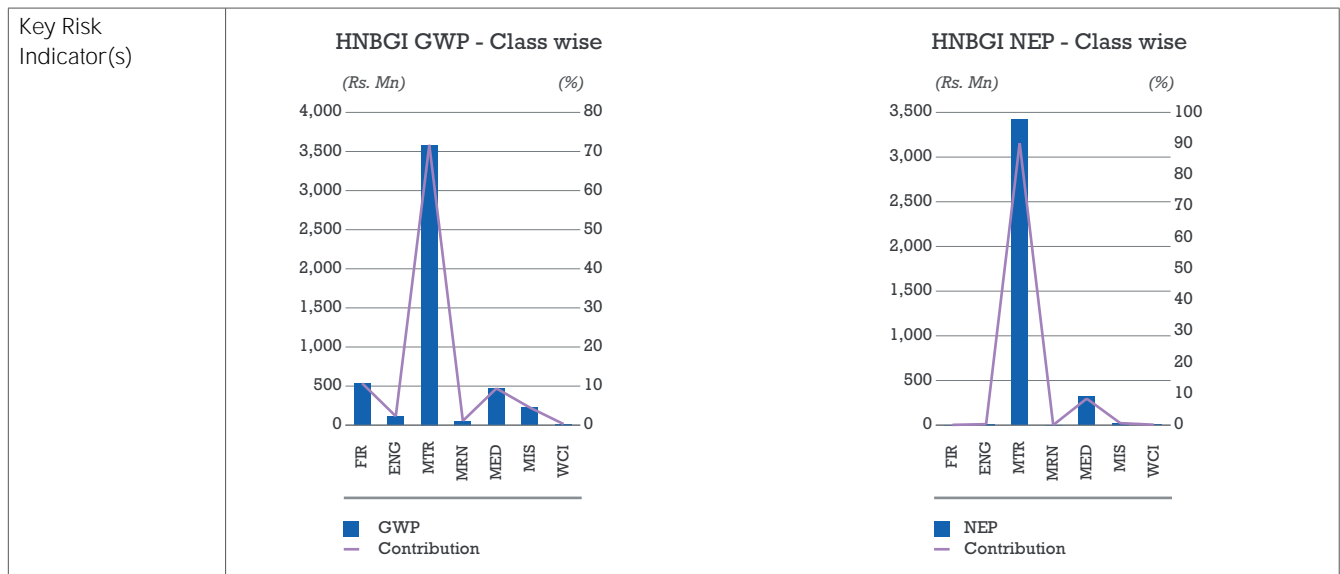
Insurance Risks - General

Key risk drivers for General Insurance include increasing number of road accidents, natural disasters, terrorist activities, behavioral trends of people due to changing lifestyles, epidemics and medical science and technology advancement, steady escalation of costs related to automotive spares and healthcare.

Underwriting Risk

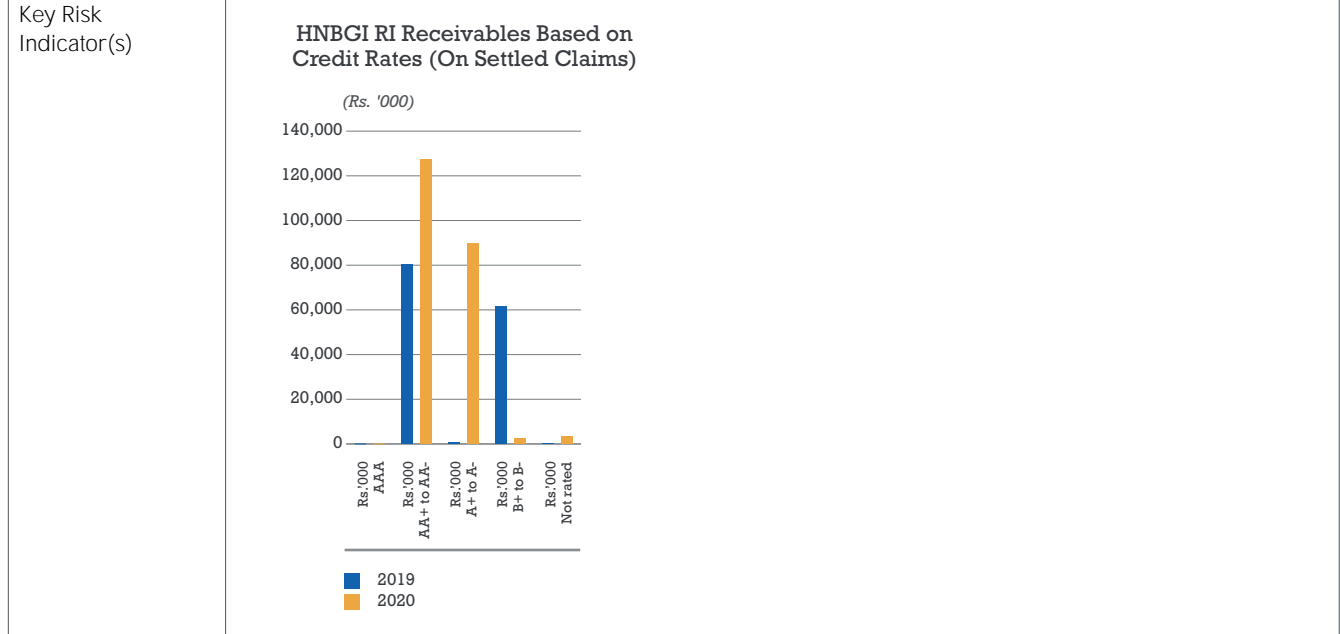
Definition	The risk of the premiums received from policyholders being insufficient to cover claims if the event or contingency insured against takes place. Underwriting risk could also arise due to a lack of understanding regarding changes in the environment such as the effect of climate change
Developments in 2020	Decline in vehicle imports and trade flows resulted in subdued demand for general insurance. Although there was increased interest in medical insurance, this was insufficient to counter the decline in demand from other products.
Mitigation	<ul style="list-style-type: none"> • Diversification across large portfolio of insurance contracts and geographical areas • Segregation of duties between sales and underwriting and the underwriting function is centralized at Head Office for both Motor and Non-Motor. • Training and development of underwriting staff and distribution network team to improve the technical knowledge of these key teams. • Careful selection and implementation of underwriting strategies to diversify risk by type and level of insured benefits. • Maintenance of statistical databases on all customer profiles and regular review of loss-making customers • Strict control over issuance of cover notes and limiting these to the 60-day validity period. • Manual of Financial Authority is available to give guidance on underwriting limits. • Carrying out risk surveys and portfolio reviews. • A risk-based pricing mechanism has been introduced for motor underwriting. • Minimum premium levels have been set for certain vehicle categories. • Motor underwriting is carried out considering the limits set in the Risk Appetite Statement. Motor insurance performance against the Risk Appetite Statement is monitored at the Board Risk Management Committee meetings. • Staff incentive schemes consider both turnover and profitability • Average premium prices with that of the average claims cost and the claims frequency is monitored daily to identify any changes in the business on an ongoing basis. <p> Further details on Underwriting Risk Management are given in Note 4.3.2.2.2 on page 222.</p>


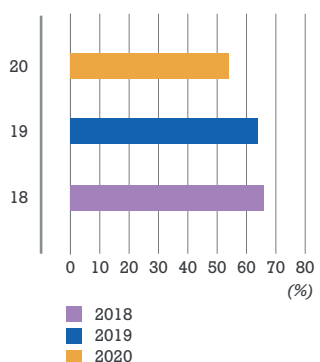
RISK MANAGEMENT



Reinsurance Risk

Definition	Refers to retention of risks beyond the Company's net retention capacity without having adequate reinsurance and the inability of reinsurers to meet their commitments due to insufficient financial strength.
Developments in 2020	The depreciation of the rupee is likely to impact reinsurance costs necessitating a revision of reinsurance strategies to remain competitive and relevant in an intensely competitive market
Mitigation	<ul style="list-style-type: none"> • Frequent review of the outstanding Reinsurance receivables • A very close and professional relationship is maintained with all reinsurers and reinsurance brokers. • Confirmed reinsurance is in place prior to issue of cover except in the case of some selected classes which are written on a net basis. • Only a globally trusted and stable portfolio of reinsurance companies is used. • Changes to the ratings of reinsurance companies are continuously monitored. <p>📄 Further details on Reinsurance Risk Management are given in Note 4.3.2.2.3 on page 222.</p>

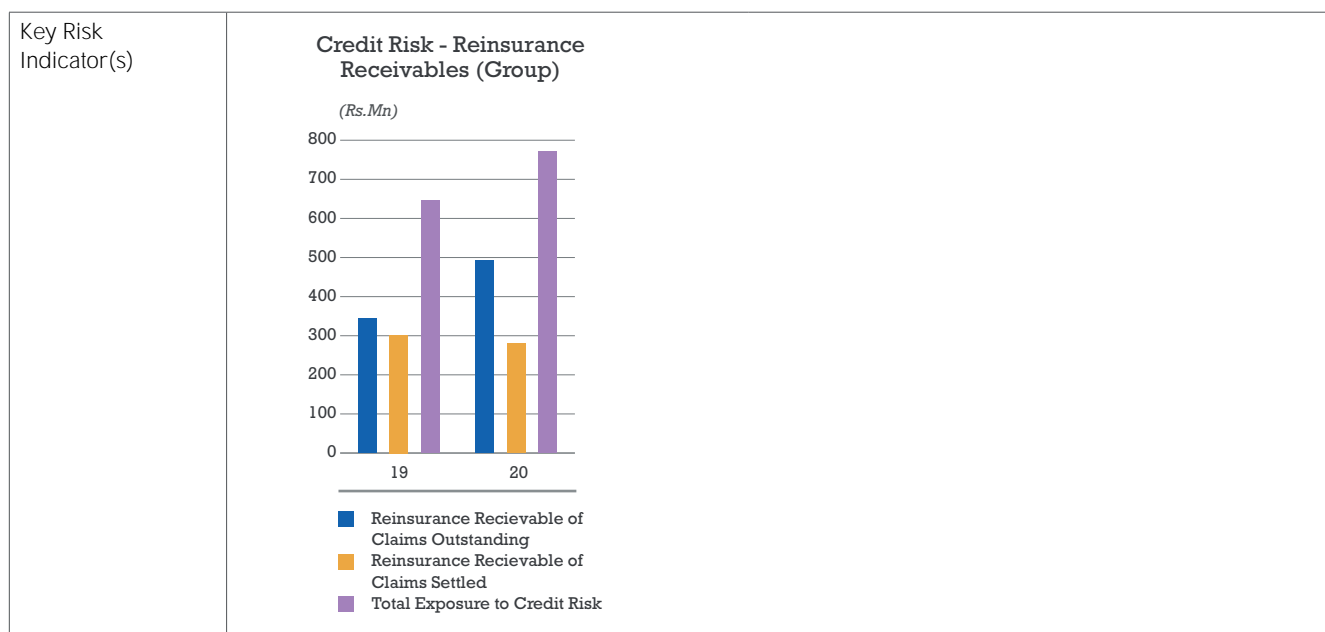


Claims Risk									
Definition	Claim risk refers to the risk of over or under payment of claims, risk of not meeting the service standards set for claims payment process and claims cost exceeding the budgeted levels.								
Developments in 2020	There was a noticeable decline in motor and medical claims due to decreased mobility during the year. This are expected to be temporary phenomena, and likely to reverse with a return to normalcy over time.								
Mitigation	<ul style="list-style-type: none"> Motor claims engineering and motor claims processing functions have been segregated to ensure proper segregation of duties. Average size of the claims outstanding and a trend analysis on the claims outstanding amount is carried out to check any unusual movements in claims reserving. The services of a qualified independent actuary is obtained quarterly to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims. All third-party claims are separately reviewed with the support of the Legal Department. Closed file reviews are carried out periodically to identify any control lapses Independent investigators are used to investigate claims to ensure fraudulent claims are identified Increase the number of on-site offers for low value motor claims to provide a better service and reduce the administration cost of the claims process. Financial authority limits are set based on the claim limits where the maximum limit is with the claims panel which is involved in making decisions with regard to significant/problematic claims and appeals made in respect of claims. <p> Further details on Claims Risk Management is given in Note 4.3.2.2.4 on page 223</p>								
Key Risk Indicator(s)	<p>HNBTGI Overall Claims Ratio</p>  <table border="1"> <caption>HNBTGI Overall Claims Ratio Data</caption> <thead> <tr> <th>Year</th> <th>Claims Ratio (%)</th> </tr> </thead> <tbody> <tr> <td>2018</td> <td>~65</td> </tr> <tr> <td>2019</td> <td>~62</td> </tr> <tr> <td>2020</td> <td>~55</td> </tr> </tbody> </table> <p>HNBTGI claims ratio has improved compared from last 2 years and the Company managing the Claims ratio within the risk appetite level.</p>	Year	Claims Ratio (%)	2018	~65	2019	~62	2020	~55
Year	Claims Ratio (%)								
2018	~65								
2019	~62								
2020	~55								

Credit Risk (Insurance Receivables and RI receivables)	
Definition	Uncertainty of the debtors' ability to meet obligations due to the Company.
Developments in 2020	Stressed economic conditions increased credit risks. IRCSL introduced a moratorium of 90 days from April to September to provide relief to customers. Post moratorium collections have normalized due to introducing online platforms and follow up measures implemented at an accelerated pace.
Mitigation	<ul style="list-style-type: none"> Regular and rigorous follow ups for premium outstanding. Periodic review policy cancellation and check the status of outstanding premium before settling claims. Periodic review of the premium receivables (RI) to provide adequate impairment provisions. Assessment of credit worthiness of reinsurers in selection and periodic review of their ratings. Review of outstanding balances monthly and ensure that all dues are collected or set-off against payables

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Financial Risks

HNBA's financial risk stems from its portfolio of investments in financial instruments which are subject to credit risk, market risk and liquidity risk. Appropriate policies and procedures have been set in place to manage these financial risks. Key drivers of these risks include the stability of economy, fiscal and monetary policy, stability of the financial system, and vibrancy of capital markets.

Credit Risk (Financial Instrument)

Definition	Credit risk is most simply defined as the potential that the counterparty will fail to meet its obligations in accordance with agreed terms. Credit risks includes concentration risk and institutional risk.
Developments in 2020	Stressed economic conditions increased credit risks such as downgrading of sovereign rating of the country and down grading on credit ratings of financial institutions.
Mitigation	<ul style="list-style-type: none"> • Investments are only made with entities approved by the Investment Committee which, in the opinion of the Committee, carry minimal credit risk. Creditworthiness of potential investment entities is checked mainly through ratings assigned to the issuing institution or the ratings assigned to the issue. • Any investments in any other entity are carried out only with the explicit approval of the Investment Committee. • All investments in Corporate Debt Instruments, whether rated or not, are done after a detailed evaluation carried out by the Investment Management Team, who will recommend investments for approval by the Chief Investment and Strategy Officer, CEO, or the Investment Committee according to the Limits of Authority pertaining to investments. • Single party exposure limits are decided based on the credit ratings and regulatory requirements and are monitored closely at different levels. • Master Repo Agreements are signed with all primary dealers working with the Company to ensure zero level of default risk in respect of Government Securities bought through such parties in the event of their bankruptcy. • Maintaining a custodian arrangement for Government Securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd., (a joint venture of HNB and DFCC Bank) provides additional comfort. <p>📖 Please refer pages 224 to 230 (Financial Risk section) for further information.</p>

<p>Key Risk Indicator(s)</p>	<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;"> <p>Concentrations of Credit Risk - Financial Instruments</p> <p>2020</p> <ul style="list-style-type: none"> ● Government Securities ● Corporate Debt Securities ● Term Deposit </div> <div style="text-align: center;"> <p>Concentrations of Credit Risk - Financial Instruments</p> <p>(Rs. Mn)</p> <table border="1"> <caption>Concentrations of Credit Risk - Financial Instruments (Rs. Mn)</caption> <thead> <tr> <th>Year</th> <th>Value (Rs. Mn)</th> </tr> </thead> <tbody> <tr> <td>18</td> <td>17</td> </tr> <tr> <td>19</td> <td>21</td> </tr> <tr> <td>20</td> <td>25</td> </tr> </tbody> </table> </div> </div>	Year	Value (Rs. Mn)	18	17	19	21	20	25
Year	Value (Rs. Mn)								
18	17								
19	21								
20	25								

Liquidity Risk

<p>Definition</p>	<p>The inability of the Company to meet contractual obligations such as claim settlements and payments to reinsurers and other creditors due to the insufficient availability of cash and other liquid investments.</p>															
<p>Developments in 2020</p>	<p>The Group has remained liquid throughout the year with CAR well above regulatory requirements. However, we have strengthened stress testing in the wake of the pandemic to review liquidity and capital management strategies.</p>															
<p>Mitigation</p>	<ul style="list-style-type: none"> • The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy which is reviewed by the Investment Committee regularly. • Guidelines are set for asset allocations, portfolio limit structures and maturity profiles of assets in order to ensure sufficient funding is available to meet insurance and investment contract obligations. • Reviewing the maturity mix of the investment portfolio by the Management and the Investment Committee on a regular basis. 															
<p>Key Risk Indicator(s)</p>	<div style="text-align: center;"> <p>Maturity Profile of Assets and Liabilities - Group</p> <p>(Rs. Mn)</p> <table border="1"> <caption>Maturity Profile of Assets and Liabilities - Group (Rs. Mn)</caption> <thead> <tr> <th>Maturity Category</th> <th>Liabilities (Rs. Mn)</th> <th>Assets (Rs. Mn)</th> </tr> </thead> <tbody> <tr> <td>More than Five Years</td> <td>~100</td> <td>~6,000</td> </tr> <tr> <td>Three to Five Years</td> <td>~100</td> <td>~6,000</td> </tr> <tr> <td>One year to Three years</td> <td>~100</td> <td>~6,000</td> </tr> <tr> <td>Less than One year</td> <td>~1,000</td> <td>~12,000</td> </tr> </tbody> </table> <ul style="list-style-type: none"> ■ Liabilities ■ Assets </div>	Maturity Category	Liabilities (Rs. Mn)	Assets (Rs. Mn)	More than Five Years	~100	~6,000	Three to Five Years	~100	~6,000	One year to Three years	~100	~6,000	Less than One year	~1,000	~12,000
Maturity Category	Liabilities (Rs. Mn)	Assets (Rs. Mn)														
More than Five Years	~100	~6,000														
Three to Five Years	~100	~6,000														
One year to Three years	~100	~6,000														
Less than One year	~1,000	~12,000														

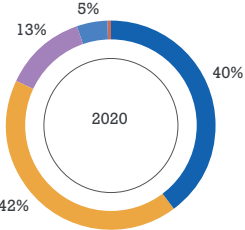
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Market Risk								
Definition	The risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of Interest rate risk, equity price risk and currency risk. As exposure to currency risk is minimal, this has not been elaborated further, except for the sensitivity disclosed below.							
	Rs. Mn's	Interest Rate Risk		Equity Price Risk		Currency Risk		
	Exposure	2020	2019	2020	2019	2020	2019	
	Assets	27,861	22,770	151	126	317	254	
	Liabilities	327	334	-	-	-	-	
	Sensitivity	2020						
		Yield Curve		ASPI		Exchange Rate		Total
		100% bps		10%		5%		
		PBT	Equity	PBT	Equity	PBT	Equity	PBT
	Increase/ Strengthening	-	(285)	10	7	(15)	(11)	(5)
	Decrease/Weakening	-	309	(10)	(7)	15	11	5
Developments in 2020	Declining interest rates are expected to impact earnings although this has been well managed during 2020. Additionally, the depreciation of currency is expected to impact dollar denominated investments although the impact is minimal. Conversely, the improvement in the performance of the Colombo Stock Exchange will also have little impact on earnings due to minimal exposure to equity price risk.							

Interest Rate Risk				
Definition	The risk of fluctuations in the fair value or future cashflows of investments due to a change in market interest rates. This may result in under achievement of investment income, fall in fund value and inability to meet solvency standards as a result of a fall in bond prices due to a rise in interest rates.			
Mitigation	<ul style="list-style-type: none"> The Group follows the Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy. The ALM guidelines are reviewed by the Investment Committee regularly. Macro-economic indicators and their impact on the Group's Investment Portfolio are monitored closely by the Management, Investment Committee and Risk Management Committee regularly. Necessary changes are made to the asset allocation and the maturity mix of investments on a periodic basis. Investments are classified in to different as required by Standards (SLFRS/LKAS) considering both the intention and the ability of the Company to hold such investments. 			
Key Risk Indicators	Exposure - Year 2020			Rs.Mn
	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
	Assets	-	26,157	1,705
	Liabilities	202	124	-
	Sensitivity - Year 2020			
				Impact on PBT
	100 bps Parallel Increase in All Yield Curves			(286)
	100 bps Parallel Decrease in All Yield Curves			310

Equity Price Risk

Definition	The risk of fluctuations in equity investments due to change in equity market prices												
Mitigation	<ul style="list-style-type: none"> Total exposure to equity investments is made strictly within the agreed target asset allocation and sectorial equity limits. Investments are mostly made in fundamentally sound stocks which are identified after an in-depth research and evaluation process by the internal investment management team. Equity portfolios are reviewed quarterly by the Investment Committee on a quarterly basis. Impact from market movement is monitored on a daily basis and warnings sent to CEO and CFO of high impact volatilities. 												
Key Risk Indicators	<p style="text-align: center;">Equity Portfolio Diversification Group</p>  <p style="text-align: center;">2020</p> <ul style="list-style-type: none"> ● Banks, Finance and Insurance ● Manufacturing ● Diversified Holdings ● Land and Property ● Beverage, Food and Tobacco <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">% Change in Benchmark Index (ASPI)</th> <th colspan="2" style="text-align: right;">(Rs. Mn's)</th> </tr> <tr> <th></th> <th style="text-align: center;">Impact on PBT</th> <th style="text-align: center;">Impact on OCI</th> </tr> </thead> <tbody> <tr> <td>10% increase in equity prices</td> <td style="text-align: center;">10</td> <td style="text-align: center;">5</td> </tr> <tr> <td>10% decrease in equity prices</td> <td style="text-align: center;">(10)</td> <td style="text-align: center;">(5)</td> </tr> </tbody> </table>	% Change in Benchmark Index (ASPI)	(Rs. Mn's)			Impact on PBT	Impact on OCI	10% increase in equity prices	10	5	10% decrease in equity prices	(10)	(5)
% Change in Benchmark Index (ASPI)	(Rs. Mn's)												
	Impact on PBT	Impact on OCI											
10% increase in equity prices	10	5											
10% decrease in equity prices	(10)	(5)											

Operational Risk

Definition	Operational risk is the possibility of incurring losses resulting from inadequate or failed internal processes, incidents caused by the actions of personnel or system malfunctions, or external events. This includes fraud, business interruptions, inaccurate processing of transactions, non-compliance regulations etc.
Developments in 2020	Business interruptions, additional health and safety risks, telecommuting arrangements and overall financial stress increased operational risks exponentially in 2020. While overall HR risks became more complex, HNBA was able to strengthen talent pipelines as talented persons from adversely affected sectors joined available talent pools.

Business Interruption Risk

Definition	Interruptions to continuous operations due to unprecedented outbreak such as COVID-19 or damages to infrastructure such as fire or flood, or IT outage, which can occur through malicious or accidental means or because of failure to fulfil contractual obligations by a company to the suppliers, customers or service providers.
Mitigants	<ul style="list-style-type: none"> Implementing healthy and safety protocols in consultation with health authorities and building management to minimise risks at the workplace Changing office layout to facilitate social distancing Enabling employees to telecommute to minimise exposure Working in two Teams to shift basis minimise exposure Reinforcing health and hygiene practices through multiple channels including daily broadcasts of reminders at regular intervals All employees were given BCP training with the assistance of a third party consultant to mitigate potential operational risks Clear communications with third party providers and their staff on premises to mandate compliance with safety measures implemented by HNBA Group

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Information and Cyber Risk	
Definition	Risk of financial loss, disruption or damage to the reputation of the Company from some form of compromise of information to unintended parties and unauthorised access to our core systems or data/information. It also arises from failure of the Company's information technology systems
Mitigation	<ul style="list-style-type: none"> • Continuous monitoring of cyber risks and information system risk by a specially dedicated system administrator and an officer from the Risk and Compliance Department. • Documented processes in place such as Information Technology Policy and the policy has clearly defined roles, responsibilities and procedures. • KRI related to the IT risks are presented to the Board Risk Committee on a continuous basis. • The Group has a business continuity plan and annual tests are carried out • Special IT training for employees prior to signing of WFH agreements which were put in place to manage information and cyber risks.
HR Risk	
Definition	HR risk is any people, culture or governance factor that causes uncertainty in the business environment that could adversely affect the Company's operations
Mitigation	<ul style="list-style-type: none"> • Motivating employees through rewarding schemes and trainings. • Counselling employees as and when they need counselling. • Conduct exit interviews and periodically carrying out induction programs. • Analysis of staff turnover is reviewed by the Management and the Board. • Employee surveys are carried out on a periodic basis. • Regular Management meetings and Distribution Management meetings are conducted to convey the key decisions taken at the top Management level and to communicate what is happening in the Company to all members of the Management Team. • Salary surveys are conducted periodically to ensure competitive salaries are given to the staff.
Reputation Risk	
Definition	Reputation risk is a top strategic business risk, being a key business challenge. A reputation risk that is not properly managed can quickly escalate into a major strategic crisis
Mitigation	<ul style="list-style-type: none"> • Internal audit reviews the internal controls of the Group through audits carried out and shares the findings with the Audit Committee. Corrective actions/implementation of recommendations are also monitored. • Employee Code of Business Conduct, Integrity Reporting Policy, Whistleblowing Policy and Share Dealing Policy and Code are in place for the guidance of staff and streamline controls. • Reputational risk management process included in the Risk Management Policy to strengthen the controls.
Fraud Risk	
Definition	Fraud risk commonly includes activities such as theft, corruption, conspiracy, embezzlement, money laundering, bribery and extortion.
Mitigation	<ul style="list-style-type: none"> • Internal audits are regularly carried out in the areas which are susceptible to fraud. • Risk and Compliance Department continuously monitoring the areas which are more vulnerable to the business. • Fraud Risk Register included in the Risk Management Policy to strengthen continuous monitoring. • Employee Code of Business Conduct, Integrity Reporting Policy, Whistleblowing Policy and Share Dealing Policy and Code are in place for the guidance of staff and streamline controls.

INVESTOR INFORMATION

Existing and potential investors are considered to be a vital part of our value creation process and the relationship we maintain with them is fundamental to the sustained growth and success of the Company. We as an organisation always commits ourselves to enhancing shareholder wealth and consider it our duty to provide accurate and timely information to our investors at all times. Investor relations sections outlines all information relevant for the performance of listed equity of the Company during the year that our investors would require to take informed decisions.

Stock Exchange Listing

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

Performance of the Stock Market for the year Ended 31st December 2020

Though the global economy is struggling to recover from the pandemic, we have seen a significant recovery and a continuous growth in stock market performance, led by excess liquidity level and low interest rates. The benchmark All Share Price Index (ASPI) of Colombo Stock Exchange (CSE) closed FY20 recording a growth of 10.5%, the highest annual increase the index has seen since 2014 and only the 12th occasion the index has seen a double-digit percentage growth in CSE's 35-year history. The ASPI ended 2020 on 6,774.22 points. Meanwhile, the S&P SL20 index, which features the CSE's 20 largest and most liquid stocks has declined by 10.1% in 2020, closing at 2,638.10 points as of 31 December 2020.

The overall value of the stock market, which is represented by the Market capitalisation, has improved adding Rs. 109 Billion during 2020 and more substantially by Rs. 983 Billion since 12th May 2020. As of 31st December 2020, overall Market capitalisation was recorded as Rs. 2,960 Billion. The market recorded a daily average turnover of Rs. 1.9 Billion. This daily average turnover is the highest recorded for a year since 2011. The total turnover for the year was Rs. 397 Billion which was also the highest since 2011. A significant net foreign outflow from

Colombo Stock Market of Rs. 51 Billion was recorded during 2020 against to the Rs 11.7 Billion outflow recorded in 2019, largely in line with the foreign fund outflow trend recorded in emerging and frontier markets.

Most of the retailers were active during 2020 and local investors have contributed to approximately 79% of the total market turnover in 2020 which is higher when compared to approximately 63% in 2019. With continuous performance of CSE, significant increase in CDS account openings was observed in 2020 with 17,600 new investors entering the market which is 70% higher than the number of new investors in 2019.

Stated Capital

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

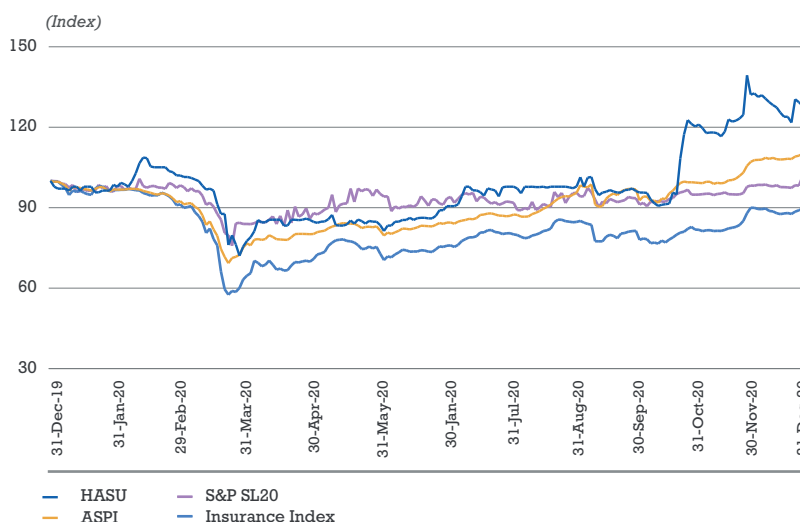
Stated Capital	- Rs. 1,171,875,000
Number of Shares	- 150,000,000
Class of Shares	- Ordinary Shares
Voting Rights	- One vote per Ordinary share

The Company made a subdivision of its ordinary shares based on the shareholding as at end of trading on 01st December 2020, whereby one (1) existing ordinary share was sub divided to three (3) ordinary shares. This increased the ordinary shares in issue from 50,000,000 to 150,000,000 with no increase in the stated capital of the Company. All shares carry the same voting and distribution rights.

Movement in Share Capital

Year	Issue	Basis	No. of Shares (000')	Share Capital (Rs.000')
2002	Prior to Public Issue	-	25,000	250,000
2003	Public Issue	-	-	-
2007	Bonus Issue	1:2	12,500	125,000
2011	Capitalisation of Reserves	1:6	6,250	406,250
2011	Rights Issue	1:7	6,250	390,625
2020	Subdivision	1:3	100,000	-
	Total		150,000	1,171,875

HASU Performance vs Market



INVESTOR INFORMATION

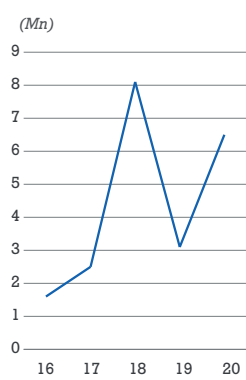
Share Performance

	2020	2019	2018	2017	2016
Market Capitalisation (Rs. Mn.)					
HNB Assurance PLC	8,730	6,900	6,600	3,625	2,940
CSE	2,960,650	2,851,310	2,839,450	2,899,291	2,745,406
Market Price per share (Rs.) - Company					
Highest	178.00*	143.90	135.00	74.40	72.90
Lowest	55.10	98.60	72.60	52.00	53.00
Year end (VWA)	58.20	138.00	132.00	72.50	58.80

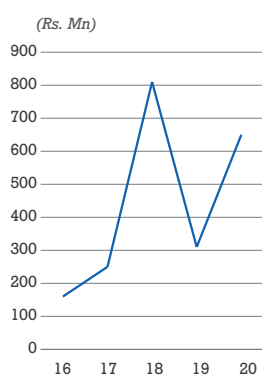
* The highest share price recorded is prior to the subdivision of shares

The subdivision of shares carried out during the year helped to boost the liquidity of the HASU share which in turn increased the activity level and the performance of the share in the equity market. Number of shares traded during the year improved to 6.5 Million from 3.1 Million with the growth of 110%. The total turnover of traded shares was Rs. 628 Million in 2020 which was Rs. 402 Million in 2019, which is a 56% growth compared to 2019. Market capitalisation grew by 27% to Rs. 8.7 Billion at the year ending 31st December 2020 compared to Rs. 6.9 Billion at the end of 2019. HASU was able to maintain a high market activity by trading 98% of the market days by trading on 204 market days out of a total of 209 market days.

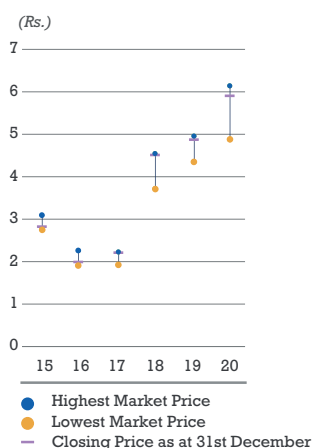
Number of Shares Traded



Value of Shares Traded



Share Price Movement



Share Trading

	2020	2019	2018	2017	2016
Number of Transactions	7,660	3,535	6,024	2,433	1,288
Number of Shares Traded	6,502,845	3,100,694	8,076,234	2,507,543	1,587,252
Value of Shares Traded (Rs.)	627,625,766	401,941,061	786,616,771	167,015,024	98,598,782

Share Performance Related Ratios

	2020	2019	2018	2017	2016
Number of Shares	150,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Dividend per Share (Rs.)	2.80	8.00	7.00	6.00	5.00
Dividend payment (Rs. Mn.)	420	400	350	300	250
Dividend Pay-out (%)	58	48	14	41.38	41.67
Basic Earnings per Share (Rs.)- Group	7.83	6.73*	54.11	18.20	12.95
Basic Earnings per Share (Rs.)- Company	4.83	5.51*	49.50	14.50	12.00
Net Asset Value per Share (Rs.)- Group	54.63	134.29	114.89	75.93	53.94
P/E Ratio (Times)	7.43	6.83	2.67	3.98	4.54

* Restated based on the post subdivision weighted average number of ordinary shares as at 31st December 2020.

Basic Earnings per Share

Healthy profit growth allowed HASU to improve our Earnings Per Share (EPS), which elaborate the amount of profit portion own by each ordinary share. Basic earnings per share of Rs. 7.83 increased by 16% (2019: Rs. 6.73 adjusted) compared to previous year with the improved profitability of the Group.

Price Earnings Ratio

Price earnings ratio has increased to 7.43 times in 2020 compared with 6.83 times recorded in 2019. There is a 9% increase in Price Earnings Ratio in 2020 against the previous year.

Shareholding

There were 4,075 registered shareholders as at 31st December 2020 (2019-3,397).

a) Distribution and Composition of Shareholding

Distribution and composition of shareholders as at 31st December 2020

Shareholding	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	% on Total No. of shares	No. of Shareholders	No. of shares	% on Total No. of shares	No. of Shareholders	No. of shares	% on Total No. of shares
1 – 1,000 Shares	1,789	619,035	0.41	8	2,892	0.00	1,797	621,927	0.41
1,001 – 10,000 Shares	1,653	5,958,605	3.97	11	41,698	0.03	1,664	6,000,303	4.00
10,001 –100,000 Shares	538	13,531,411	9.02	8	241,648	0.16	546	13,773,059	9.18
100,001 –1,000,000 Shares	53	15,847,725	10.57	5	1,279,710	0.85	58	17,127,435	11.42
Over – 1,000,000 Shares	10	112,477,276	74.98	0	0	0.00	10	112,477,276	74.98
Total	4,043	148,434,052	98.96	32	1,565,948	1.04	4,075	150,000,000	100.00

b) Analysis of Shareholders

i. Resident/Non-Resident

	31st December 2020			31st December 2019		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	4,043	148,434,052	98.96	3,367	49,318,831	98.64
Non-Resident	32	1,565,948	1.04	30	681,169	1.36
Total	4,075	150,000,000	100.00	3,397	50,000,000	100.00

ii. Individual /Institutional

	31st December 2020			31st December 2019		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,928	37,653,773	25.10	3,276	12,323,760	24.65
Institutional	147	112,346,227	74.90	121	37,676,240	75.35
Total	4,075	150,000,000	100.00	3,397	50,000,000	100.00

Public Shareholding

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

	2020		2019	
	Shareholders	% on Total No. of Shareholders	Shareholders	% on Total No. of Shareholders
Number of Shareholders	4,062	99.68	3,389	99.76

INVESTOR INFORMATION

	2020		2019	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Public Shareholding	52,834,357	35.22	19,152,242	38.30
Float Adjusted Market Capitalisation* (Rs.)	3,074,959,577		2,643,009,396	

The Company complies the minimum public Shareholding requirement under option 4 of section 7.13.1 (a) of the Listing Rules.

*Float Adjusted Market Capitalisation = Market Capitalisation x Public Holding Percentage

Top 20 Shareholders

The 20 largest shareholders as at 31st December 2020 together with their shareholding as at 31st December 2019 are given below.

Name of the Shareholder	2020		2019	
	Shareholding	% on Issued Shares	Shareholding	% on Issued Shares
1. Hatton National Bank PLC A/C No.1	89,979,000	59.99	29,993,000	59.99
2. Mr. S.N.P. Palihena	6,000,000	4.00	1,500,000	3.00
3. The Ceylon Guardian Investment Trust PLC A/C No.2	5,678,400	3.79	1,892,800	3.79
4. People's Leasing & Finance PLC/HI Line Trading (Pvt) Ltd	2,239,876	1.49	800,000	1.60
5. Mr. Mohamed Faizer Hashim	1,530,000	1.02	510,000	1.02
6. Mrs. Abiramipillai Kailasapillai	1,500,000	1.00	500,000	1.00
7. Mrs. Arunthathi Selliah	1,500,000	1.00	500,000	1.00
8. Arunodhaya Investments (Pvt.) Ltd	1,350,000	0.90	450,000	0.90
9. Arunodhaya Industries (Pvt.) Ltd	1,350,000	0.90	450,000	0.90
10. Arunodhaya (Pvt.) Ltd	1,350,000	0.90	450,000	0.90
11. Employees Trust Fund Board	905,649	0.60	*	-
12. Andysel Private Limited	750,000	0.50	250,000	0.50
13. Corporate Holdings (Pvt.) Ltd A/C No.01	735,309	0.49	245,103	0.49
14. Commercial Bank of Ceylon PLC/Janashakthi PLC	637,002	0.42	212,334	0.42
15. Mr. Vikas Sharda	609,000	0.41	203,000	0.41
16. Dr. Sivakumar Selliah	600,000	0.40	200,000	0.40
17. Mr. K. Aravinthan	600,000	0.40	200,000	0.40
18. Corporate Holdings (Pvt.) Ltd A/C No.02	573,969	0.38	*	-
19. Mrs. M.R.P Balendra	554,196	0.37	*	-
20. Suktam Holdings (Pvt) Ltd.	508,302	0.34	279,434	0.56
	118,950,703	79.30		

Note: The Company made a subdivision of its ordinary shares based on the shareholding as at end of trading on 01 December 2020, whereby one (1) existing ordinary share was sub divided to three (3) ordinary shares.

* Note: Not included in the top 20 shareholder list in year 2019

Directors' and Chief Executive Officer's Shareholding

The details of the Directors' and Chief Executive Officer's shareholding at the beginning and at the end of the year are given below.

Name of the Director	No. of Shares as at 31st December 2020	No. of Shares as at 31st December 2019
Mrs. M A R C Cooray - Chairperson	69,105	18,035
Mr. J A P M Jayasekera	174,000	83,057
Mr. D P N Rodrigo	540	180
Mrs. S N Wickramasinghe	37,500	52,500
Dr. S Selliah	600,000	200,000
Mr. D R Abey Suriya	5,000	1,000
Mr. L U D Fernando	498	166
Mr. S A Chapman	Nil	Nil
Dr. T K D A P Samarasinghe Alternate Director to Mr. L U D Fernando w.e.f. 24th January 2020)	Nil	N/A
Mr P Fernando (Chief Executive Officer w.e.f. 20th July 2020)	Nil	N/A
Mr. D P Lokuarachchi - Managing Director/Chief Executive Officer (Retired w.e.f 20th July 2020)	N/A	Nil
Mr K L Wijesooriya (Alternate Director to Mr. D P N Rodrigo resigned w.e.f. 17th October 2020)	N/A	Nil

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

Submission of Financial Statements to the CSE

As required by the Listing Rules, the audited Financial Statements for the year ended 31st December 2019 were submitted to the CSE on 4th March 2020. The Interim Financial Statements of the 4th Quarter, for the year/quarter ended 31st December 2020, will be submitted within two months from the end of the fourth quarter to the CSE. The Audited Financial Statements for the year ended 31st December 2020 will be submitted to the CSE within three months of the Reporting Date in line with the requirements of the CSE.

Disclosures in the Annual Report as per Section 7.6 to the Listing Rules of the Colombo Stock Exchange

Rule Number	Requirement	Details	Status
7.6 (i)	Names of persons who held the position of Directors during the financial year.	The names of persons who held the position of Directors during the financial year are given in the Annual Report of the Board of Directors on page 180	Complied
7.6 (ii)	Principal activities of the Entity and its subsidiaries during the year and any changes therein.	The principal activities of the Company and its subsidiary during the year are given in the Annual Report of the Board of Directors and Note 1.3 in Accounting Policies on page 199 respectively.	Complied
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	The 20 largest shareholders as at 31st December 2020 together with their Shareholding as at 31st December 2019 is given on page 94	Complied
7.6 (iv)	The float adjusted market capitalisation, public holding percentage (%), number of public shareholders and under which option the Listed Entity complies with the Minimum Public Holding requirement.	The details of the public shareholding and float adjusted market capitalisation as at 31st December 2020 are given on pages 93 and 94.	Complied
7.6 (v)	A statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of each financial year.	Shareholding of Directors and Chief Executive Officer is given on page 95.	Complied

INVESTOR INFORMATION

Rule Number	Requirement	Details	Status
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Information pertaining to material foreseeable risk factors is given on the Risk Management Report from pages 76 to 90.	Complied
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity.	The Company did not encounter any material issues pertaining to employees and industrial relations during the year.	Complied
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	The Company does not hold any land or investment properties as of the Reporting Date.	Complied
7.6 (ix)	Number of shares representing the Entity's stated capital.	Details on company shares and stated capital are given on page 91	Complied
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings in the given categories	Distribution schedule of the number of holders and percentage holding is given of page 93	Complied
7.6 (xi)	Ratios and market price information	Given on page 92	Complied
7.6 (xii)	Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value	The Company uses the cost method as the accounting policy for maintaining records of Property, Plant and Equipment and the market value of such assets is considered not materially different to the book value. Details relating to the changes in the Company's fixed assets are given on Note 7 to the Financial Statements on pages 252 to 256.	Complied
7.6 (xiii)	If during the financial year the Entity has raised funds through an Initial Public Offering and/or a further issue of Securities	The Company did not raise funds to increase its Stated Capital during the year.	Complied
7.6 (xiv)	Employee Share Option Schemes and Employee Share Purchase Schemes	There are no 'Employee Share Option Schemes' or 'Employee Share Purchase Schemes' in the Company.	Complied
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Rules.	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c, and 7.10.6 c of Section 7 of the rules are given in the Corporate Governance Report on pages 65 to 66.	Complied
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower. Details of investments in a Related Party and/or amounts due from a Related Party to be set out separately.	There were no individual transactions exceeding the limit of 10% of the Equity or 5% of the total assets during the year with any related party of the Company. However, all related party transactions at aggregate level have been disclosed under Note 48 to the Financial Statements on pages 321 to 326.	Complied

Disclosures in the Annual Report as per Section 9.3.2 to the Listing Rules of the Colombo Stock Exchange

Rule Number	Requirement	Details	Status
9.3.2 (a)	In the case of Non-recurrent Related Party Transactions, if aggregate value of the non-recurrent Related Party Transactions exceeds 10% of the Equity or 5% of the Total Assets, whichever is lower, of the Listed Entity as per the latest Audited Financial Statements	<p>There were no non-recurrent related party transactions exceeding the aggregate limit of 10% of the Equity or 5% of the Total Assets.</p> <p>All related party transactions at aggregate level have been disclosed under Note 48 to the Financial Statements on pages 321 to 326</p>	Complied
9.3.2.(b)	In the case of Recurrent Related Party Transactions, if the aggregate value of the recurrent Related Party Transactions exceeds 10% of the gross revenue/income (or equivalent term in the Income Statement and in the case of group entity consolidated revenue) as per the latest Audited Financial Statements, the Listed Entity must disclose the aggregate value of recurrent Related Party Transactions entered into during the financial year	<p>There were no recurrent related party transactions exceeding the aggregate limit of 10% of the Gross Written Premium.</p> <p>The Company carried out transactions with the Government of Sri Lanka and its related entities, where the aggregate amount of transactions have exceeded 10% of the Company's Gross Written Premium. Government of Sri Lanka has considered as a related entity of the Company considering the significant influence it has on the ultimate parent company, Hatton National Bank PLC. The terms and conditions of transactions carried out with the Government of Sri Lanka and its related entities were similar to those applicable to the general public. Details of transactions with the Government of Sri Lanka and its related entities are given on page 326 under Note 48 to the Financial Statements.</p>	Complied
9.3.2 (c)	Contain a report by the Related Party Transactions Review Committee	Please refer the Related Party Transactions Review Committee report on pages 167 and 168 .	Complied
9.3.2 (d)	A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these Rules pertaining to Related Party Transactions or a negative statement in the event the Entity has not entered into any Related Party Transaction/s	Please refer page 181 for the confirmation by the Directors on compliance with the rules pertaining to Related Party Transactions.	Complied

COMPLIANCE SUMMARY

Annual Report Disclosure Requirements as per the Companies Act, No. 07 of 2007

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Page Reference
Nature of the business of the Company and its subsidiary	Section 168 (1) (a)	Page 178
Signed Consolidated Financial Statements of the Group for the accounting period completed	Section 168 (1) (b)	Page 194
Auditors' Report on Consolidated Financial Statements of the Group	Section 168 (1) (c)	Pages 191 to 193
Changes in Accounting Policies made during the accounting period - Group and the Company	Section 168 (1) (d)	Page 178
Particulars of entries in the Interests Register of the Company during the accounting Period	Section 168 (1) (e)	Page 181
Remuneration and other Benefits paid to the Directors of the Company and its subsidiary during the accounting period	Section 168 (1) (f)	Page 181
Total amount of Donations made by the Company	Section 168 (1) (g)	Page 183
Information on the Directorate of the Company during and at the end of the accounting period	Section 168 (1) (h)	Page 180
Amounts payable to the Auditor as audit fees and fees for other services rendered to the Company and its subsidiary during the accounting period as a separate Disclosure	Section 168 (1) (i)	Page 182
Auditors' relationship or any interest with the Company and its subsidiary	Section 168 (1) (j)	Page 182
Annual Report of the Board signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Page 184

Disclosure Requirements as per Schedule - I of the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka

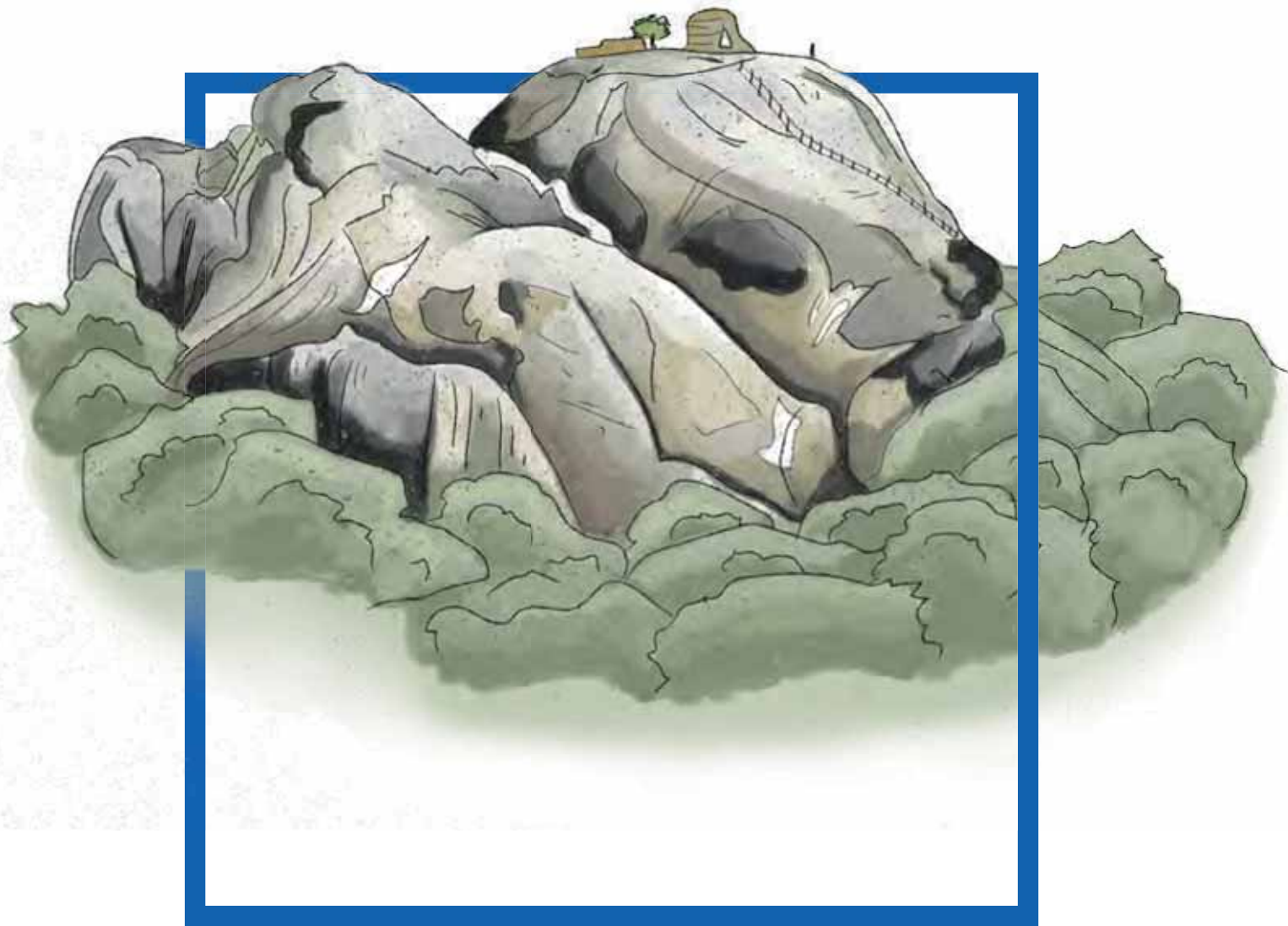
Subject	Reference	Page Reference	
A. Annual Report	Chairman and CEO	A.2.1 and A.5.7	Pages 55 and 56
	Board Balance	A.5.5	Page 56
	Nomination Committee	A.7.1	Page 57
	Appointment of New Directors	A.7.3	Page 57
	Appraisal of Board Performance	A.9.4	Page 58
	Board Related Disclosures	A.10.1	Page 58
	Disclosure of Remuneration	B.3 and B.3.1	Page 59
	Major and Material Transactions	C.3 and C.3.1	Page 60
	Audit Committee	D.3.3	Page 63
	Code of Business Conduct and Ethics	D.5.1 and D.5.4	Page 63
	Communication with shareholders	C.2.2, C.2.3, C.2.4, C.2.5, C.2.6, C.2.7	Page 60
B. Remuneration Committee Report	Members of Remuneration Committee	B.1.3	Page 58
C. Directors' Report	Directors' Report	D.1.4	Page 61
D. Financial Statements	Financial Statements	D.1.5	Page 61
	Related Party Transactions	D.1.8	Page 62
E. Management Report	Management Report	D.1.6	Page 61
F. Corporate Governance Report	Corporate Governance Report	D.6.1	Page 63
G. Audit Committee Report	Audit Committee Report	D.3.2	Page 63
H. Related Party Transactions Review Committee Report	Related Party Transactions Review Committee Report	D.4.3	Page 63
I. Statement on Internal Control	Statement on Internal Control	D.1.5 and D.2.4	Pages 61 and 62
J. Internet of Things and Cybersecurity	Disclose the process to identify and manage cybersecurity risks	G.5	Page 64
K. Sustainability Reporting	Sustainability Reporting	H.1.1 to H.1.4	Page 64

Regulatory Reports submitted to IRCSL during 2020 are given below

Submissions to IRCSL	Date of Submission		Deadline set by IRCSL
	HNBA	HNBTI	
Annual Audited Financial Statement for the year ended 31st December 2019	06th March 2020	29th May 2020	29th May 2020
Annual Statutory Returns for the year ended 31st December 2019	29th May 2020	29th May 2020	29th May 2020
Circular 29 Auditor's Compliance Certificate	29th May 2020	29th May 2020	29th May 2020
Risk Assessment Report	29th May 2020	29th May 2020	29th May 2020
Quarterly Returns and Compliance Certifications 31st December 2019 (4th Quarter) 31st March 2020 (1st Quarter) 30th June 2020 (2nd Quarter) 30th September 2020 (3rd Quarter)	11th February 2020 15th May 2020 14th August 2020 13th November 2020	14th February 2020 15th May 2020 14th August 2020 15th November 2020	15th February 2020 15th May 2020 15th August 2020 15th November 2020
Statement of Reinsurance Arrangements	31st January 2020	31st January 2020	31st January 2020
Certified Copies of all Cover Notes in respect of Reinsurance Treaties	31st January 2020	17th February 2020	15th March 2020
Actuarial Report and Abstracts	29th May 2020	29th May 2020	29th May 2020
Management Letter issued by the External Auditors for year ended 31st December 2019	29th May 2020	29th May 2020	29th May 2020
Information on Complaints handling and related performance (bi-annual basis submission)	30th January 2020 30th July 2020	27th January 2020 29th July 2020	30th January 2020 30th July 2020

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

Information	Frequency of Submission	Compliance Status
Insurance Regulatory Commission of Sri Lanka (IRCSL)		
Annual Fee	Annually	Complied
CESS Payment	Quarterly	Complied
Colombo Stock Exchange (CSE)		
Listing Fee	Annually	Complied
Department of Inland Revenue		
Income Tax Payment	Quarterly	Complied
Income Tax Return	Annually	Complied
PAYE Tax Payment	Monthly	Complied
PAYE Tax Return	Annually	Complied
Value Added Tax (VAT) Payment	Monthly	Complied
Value Added Tax (VAT) Return	Quarterly	Complied
Stamp Duty Payment and Return	Quarterly	Complied
With Holding Tax (WHT) Payment	Monthly	Complied
Central Bank of Sri Lanka (CBSL)		
EPF Payment and Return	Monthly	Complied
Employees' Trust Fund Board		
ETF Payment and Return	Monthly	Complied
Registrar General of Companies		
Annual Accounts	Annually	Complied
Annual Returns	Annually	Complied
Change of Directors and Company Secretary (Form 20)	As required	Complied
National Council for Road Safety		
Contribution to Road Safety Fund Payment	Monthly	Complied
Commissioner of Motor Traffic		
Luxury and Semi Luxury Tax Payment	Monthly	Complied
National Insurance Trust Fund (NITF)		
Crop Insurance Levy	Quarterly	Complied




Kudumbigala, Panama.

Overlooking the vast forests of Ruhuna National Park, Kudumbigala has served as a sanctuary and safe haven for over 2,000 years; devised to protect those seeking refuge and shelter from harsh external conditions.

MANAGEMENT DISCUSSION & ANALYSIS

A PLACE OF REFUGE



Through raging storms and turbulent environments, HNB Assurance stands tall as a symbol of shelter and security; established to weather periods of intense challenges and change. The passing years have seen us maintain our stance as a source of support and protection to the people – preserving valuable resources and safeguarding lives since our establishment in 2001.

This section describes how we have positioned ourselves to deliver value to our many stakeholders, as an entity structured to shield and secure countless generations for the foreseeable future.

OUR OPERATING ENVIRONMENT

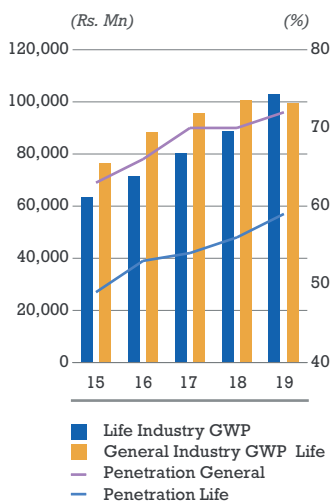
Global Insurance Industry

The global insurance industry grew by 3% in real terms during 2019 which was driven by the growth in the Life Insurance segment. The Life Insurance segment grew by around 4.4% compared to 2018 as the temporary regulatory set-back of China was overcome. Also the growth in premium was mainly supported by the growth in the emerging markets. According to a report issued by Swiss Re, the growth in the General Insurance market was driven by the increased demand for health, liability and agriculture insurance policies. The profitability of the industry in 2019 was affected by the low interest environments that prevailed around the world.

2020 was a challenging year for the Insurance markets around the world with the impact of COVID-19 pandemic, profitability and the solvency positions being the primarily affected areas. It is expected that the global premium income will contract by 3.9% in 2020, a dip worse than the period of the global financial crisis. As per Global Risk report by S&P, profitability in Life Insurance is expected to be impacted by the ultralow interest rates.

Local Insurance Industry

Premium Income and Insurance Penetration



Insurance Penetration

Insurance penetration of Sri Lanka still remains at very low level compared to many countries in the South Asian Region. The penetration stood at 1.31% in 2019 which reflects a marginal growth from 1.26% recorded in 2018.

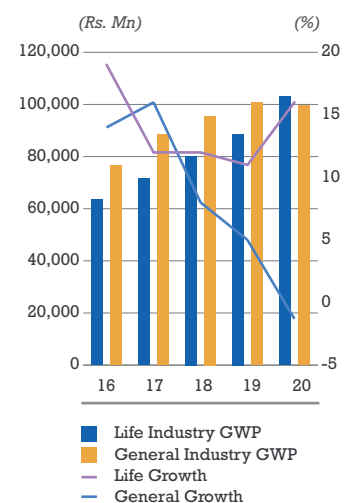
In 2019, Life and General insurance penetration slightly improved to 0.59% (2018 - 0.56%) and 0.72% (2018 - 0.70%) respectively.

Gross Written Premium

Life - Gross Written Premiums increased by 16% reaching Rs. 103 Billion in 2020 (2019 - Rs. 89 Billion) despite a challenging operating context.

General - Gross Written Premium contracted by 1.3% to Rs. 100 Billion in 2020 (2019 - Rs. 101 Billion) with the setback in the vehicle sector.

Gross Written Premium



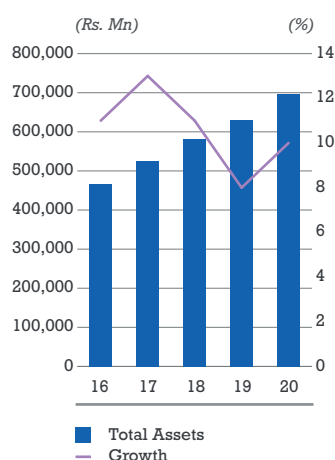
Life Insurance Business Mix

	2020 Rs. Mn	2019 Rs. Mn	Growth	Contribution
Endowment New Business	21,733	20,826	4%	21%
Endowment Renewal Business	58,849	54,616	8%	57%
Group Life	11,157	5,822	92%	11%
Single Premium	11,256	7,445	51%	11%
Total	102,995	88,709	16%	100%

General Insurance Business Mix

	2020 Rs. Mn	2019 Rs. Mn	Growth	Contribution
Motor	62,176	64,555	(4%)	62%
Fire and Engineering	14,537	13,913	4%	15%
Marine	2,325	2,402	(3%)	2%
Medical	13,197	11,910	11%	13%
Miscellaneous	7,272	8,043	(10%)	7%
Total	99,507	100,823	(1%)	100%

Industry Assets



Total Assets

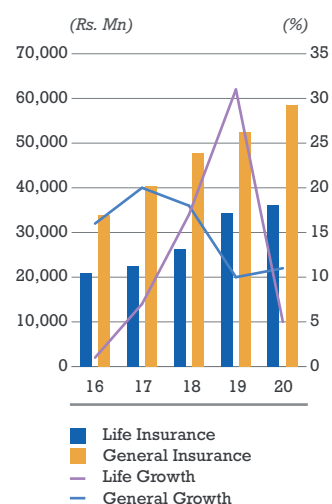
The Total Assets of the industry grew by 11% in 2019 to Rs. 696 Billion and this growth was mainly driven by a 13% increase in the Total Assets of the Life Insurance segment. Investment in Corporate Debt and Government Securities accounted for a major portion of the asset base.

Claims and Benefits

Life – Claims and Benefits paid increased by 5% in 2019 reaching Rs. 36 Billion. (2018 - Rs. 34 Billion). The highest contributor of claims was Maturity claims paid which accounted for Rs. 19 Billion of the total claims.

General – An 11% growth was seen in 2019 recording a value of Rs. 58 Billion compared to Rs. 53 Billion in 2018. Claims cost was mainly driven by the Motor insurance claims which stood at Rs. 35 Billion in 2019.

Claims and Benefits



OUR OPERATING ENVIRONMENT

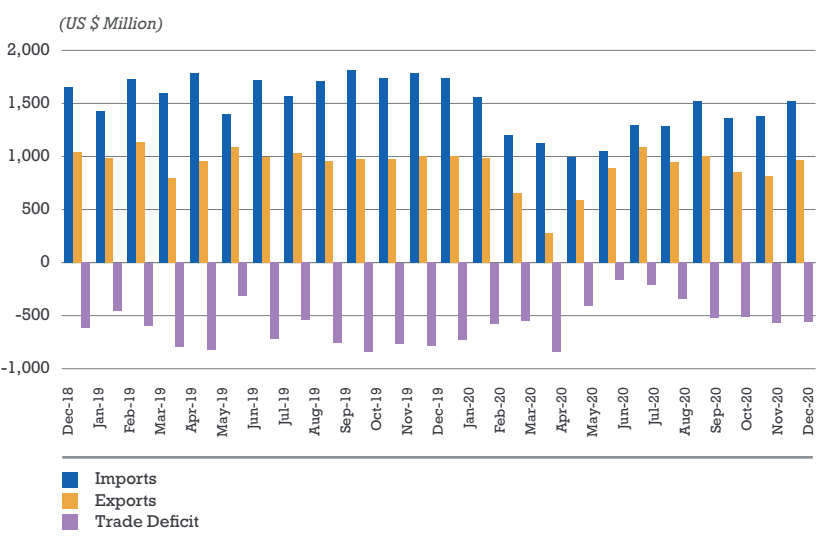
Trends Shaping the Insurance Industry

(R) - Risk (O) - Opportunity

Analysis		Our Response																																																																														
Political and Economic Trends																																																																																
<p style="text-align: center;">GDP Growth</p> <table border="1"> <caption>GDP Growth (%)</caption> <thead> <tr> <th>Year</th> <th>GDP Growth (%)</th> </tr> </thead> <tbody> <tr><td>15</td><td>4.5</td></tr> <tr><td>16</td><td>4.2</td></tr> <tr><td>17</td><td>3.2</td></tr> <tr><td>18</td><td>3.1</td></tr> <tr><td>19</td><td>2.3</td></tr> <tr><td>20E</td><td>-1.6</td></tr> <tr><td>21F</td><td>1.5</td></tr> </tbody> </table>	Year	GDP Growth (%)	15	4.5	16	4.2	17	3.2	18	3.1	19	2.3	20E	-1.6	21F	1.5	<p>Economic Performance (R) Economic growth dropped by 1.6% and 16.3% during the first and second quarters of 2020 and rebounded by growing at 1.5% during the third quarter of 2020. However, with the growing development in most of the sectors during the fourth quarter, we expect the economy to record an annual contraction of around 3.9% for the year 2020.</p> <p>Weak performance of several business sectors resulted primarily with the backdrop of the COVID-19 health crisis, which led to lockdown periods and closure of the airports severely affecting economic and trade activities in addition to limiting tourist arrivals. As a counter strategy, Government reduced the policy rates by about 225bps to support the GDP growth by increasing economic activities. Accordingly, we witnessed a gradual increase in private sector credit growth towards the latter part of the year.</p>	<p>Align our business strategies in line with the performance of the economy to increase the returns made to our Shareholders and Policyholders.</p>																																																														
Year	GDP Growth (%)																																																																															
15	4.5																																																																															
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20E	-1.6																																																																															
21F	1.5																																																																															
<p>Inflation (R) Headline inflation measured by the YoY change, both NCPI and CCPI remained low throughout the year hovering within the range of 4% -6% and ended the year at 4.6% and 4.2% respectively as demand subdued with weakening domestic and global economic conditions.</p>	<p style="text-align: center;">Inflation - YoY</p> <table border="1"> <caption>Inflation - YoY (%)</caption> <thead> <tr> <th>Month</th> <th>NCPI (%)</th> <th>CCPI (%)</th> </tr> </thead> <tbody> <tr><td>Dec-18</td><td>0.5</td><td>2.8</td></tr> <tr><td>Jan-19</td><td>1.5</td><td>4.0</td></tr> <tr><td>Feb-19</td><td>2.5</td><td>4.0</td></tr> <tr><td>Mar-19</td><td>3.5</td><td>4.0</td></tr> <tr><td>Apr-19</td><td>4.0</td><td>5.0</td></tr> <tr><td>May-19</td><td>4.0</td><td>5.0</td></tr> <tr><td>Jun-19</td><td>2.0</td><td>3.0</td></tr> <tr><td>Jul-19</td><td>2.0</td><td>3.0</td></tr> <tr><td>Aug-19</td><td>3.0</td><td>3.0</td></tr> <tr><td>Sep-19</td><td>5.0</td><td>5.0</td></tr> <tr><td>Oct-19</td><td>6.0</td><td>4.0</td></tr> <tr><td>Nov-19</td><td>4.0</td><td>4.0</td></tr> <tr><td>Dec-19</td><td>5.0</td><td>5.0</td></tr> <tr><td>Jan-20</td><td>8.0</td><td>6.0</td></tr> <tr><td>Feb-20</td><td>8.0</td><td>6.0</td></tr> <tr><td>Mar-20</td><td>6.0</td><td>5.0</td></tr> <tr><td>Apr-20</td><td>5.0</td><td>4.0</td></tr> <tr><td>May-20</td><td>5.0</td><td>4.0</td></tr> <tr><td>Jun-20</td><td>6.0</td><td>4.0</td></tr> <tr><td>Jul-20</td><td>6.0</td><td>4.0</td></tr> <tr><td>Aug-20</td><td>6.0</td><td>4.0</td></tr> <tr><td>Sep-20</td><td>6.0</td><td>4.0</td></tr> <tr><td>Oct-20</td><td>6.0</td><td>4.0</td></tr> <tr><td>Nov-20</td><td>5.0</td><td>4.0</td></tr> <tr><td>Dec-20</td><td>5.0</td><td>4.0</td></tr> </tbody> </table>	Month	NCPI (%)	CCPI (%)	Dec-18	0.5	2.8	Jan-19	1.5	4.0	Feb-19	2.5	4.0	Mar-19	3.5	4.0	Apr-19	4.0	5.0	May-19	4.0	5.0	Jun-19	2.0	3.0	Jul-19	2.0	3.0	Aug-19	3.0	3.0	Sep-19	5.0	5.0	Oct-19	6.0	4.0	Nov-19	4.0	4.0	Dec-19	5.0	5.0	Jan-20	8.0	6.0	Feb-20	8.0	6.0	Mar-20	6.0	5.0	Apr-20	5.0	4.0	May-20	5.0	4.0	Jun-20	6.0	4.0	Jul-20	6.0	4.0	Aug-20	6.0	4.0	Sep-20	6.0	4.0	Oct-20	6.0	4.0	Nov-20	5.0	4.0	Dec-20	5.0	4.0	<p>Strategic pricing of products and introduction of products such as Pay as You Claim to increase affordability.</p>
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Analysis		Our Response
<p>Yield curve</p>	<p>Yield Curve (R) Easing monetary policy measures to support the revival of the economy led to a downward trend in market interest rates with both lending and deposit rates falling sharply during the year.</p> <p>Average Weighted Lending Rate (AWLR) was 10.29% in December 2020 compared to 13.6% in December 2019. Average Weighted Deposit Rate (AWDR) dropped to 5.8% by December 2020 compared to 8.2% in December 2019. By the end of the year Weighted Average Prime Lending Rate (AWPR) dropped to 5.8% compared to 10.0% recorded at the end of the previous year.</p> <p>In accordance with policy rate easing to support GDP growth, yields on Government Securities trended downward. For the FY2020, overall market decreased by about 300bps on average.</p>	<p>Adopting sound investment management strategies to mitigate investment related risks.</p> <p>Strategic management of Asset and Liability to reduce the impact made by yield curve movements.</p>
<p>Domestic Credit and Credit Growth (O) The expansion in the money supply particularly towards the latter part of the year was mainly attributable to the increase in domestic credit supported by the decline in interest rates and policy easing measures implemented by the Central Bank. With these policy changes, despite the impact of the COVID-19 pandemic, public sector credit growth showed a slight recovery over the twelve months of the years and increased by 13.9% with credit to the private sector increasing by 6.2% and credit to public sector by 22.5% compared to the corresponding period last year.</p>		<p>Introduce new products to capitalise on the increased access to funds.</p> <p>Focus on growing GWP from MRP Business</p>

OUR OPERATING ENVIRONMENT

Analysis		Our Response
<p>Exchange Rate (R) The Government took prompt actions to control the movements in exchange rate, by introducing new mechanisms to attract foreign exchange into the country and to impose import controls on non-essential items to minimise the outflow of foreign exchange. The sharp movements in exchange rates during mid first half of the year smoothed from May 2020. As at the year end, the USD/LKR exchange rate depreciated by 2.76% during 2020 compared to the appreciation of 0.67% during the FY2019.</p>	<p style="text-align: center;">USD / LKR Movement</p> 	<p>Maintain investments in foreign currencies to match the dollar denominated policy obligations and reduce the impact made by exchange rate volatilities.</p> <p>Take measures to managed claim cost to address the increase in spare parts cost arising through exchange rate movements.</p>
<p>External Sector (R)/(O) With some notable changes like import restrictions, which eventually brought down the import levels, trade deficits narrowed during the year and reached US\$ 5,978 Million by December 2020 compared to US\$ 7,997 Million during December 2019. Worker remittances rebounded and reached a historical high by December 2020 recording US\$ 7,104 Million. These factors cushioned the impact of the COVID-19 pandemic leading to an improvement in the Balance of Payments during the year.</p>	<p style="text-align: center;">External Sector</p> 	<p>Shift the business mix toward Non-Motor insurance to address the reduction in motor vehicle and spare parts importation and reduce the impact on the top-line and bottom-line of General Insurance</p> <p>Introducing new products to capture the increase in worker remittances in Life Insurance.</p>

Analysis		Our Response
Social Trends		
<ul style="list-style-type: none"> Increased awareness on the importance of insurance has created opportunities to increase market penetration (O) Gradual increase in ageing population creates opportunities for health, pension and retirement products (O) Increase in tendency and time spent on social media platforms by people creates opportunities for social media marketing and awareness building (O) Urbanisation increase the demand for insurance products with changing demand patterns (O) Rise in Non-Communicable Diseases in the population increased the demand for health and life insurance products (O) 		<ul style="list-style-type: none"> Increase awareness on insurance and our products through propaganda activities Introduce new products such as Supreme Health Max, Super CI Rider, Pay as You Claim to our portfolio Carryout advertising campaigns on social media
Technological Trends		
<ul style="list-style-type: none"> The rapid evolution and diffusion of technology creates opportunities for new developments in the industry, especially in terms of new systems and customer touchpoints (O) Growth of mobile communication platforms have created different expectations in customers of the service commitments (R) The ever-increasing access to the internet through the various devices and greater data penetration has provided customers access to information to compare various offerings in the market (R) Increased use of online platforms for consumer and intermediary interaction and transactions (O) Increase in cybersecurity threats (R) 		<ul style="list-style-type: none"> Invest in digitalisation of our processes to increase efficiencies Promoting online platforms to make premium payments and policy underwriting Increase investments to address cybersecurity threats Invest in developing innovative products that helps us to achieve competitive advantage in the market
Environmental Trends		
<ul style="list-style-type: none"> Adverse and unpredictable weather conditions will have an impact on agriculture and industry as well as on a community's assets which will ultimately result in adverse claim experiences to the industry and reduced purchasing power in society (R) Society seems to be more conscious of the natural environment and the contribution of businesses towards sustainability (R) 		<ul style="list-style-type: none"> Reduce the impact made on the Mother Nature by adopting sustainable business practices across our value chain
Legal and Regulatory Trends		
Regulations Issued by Insurance Regulatory Commission of Sri Lanka		
<p>Amended Direction # 02 – Delivery of Policy Documents (R) Insurers are required to deliver policy documents to Policyholders and obtain an acknowledgement in writing from the Policyholders within fourteen days (14) from the date of issue of the policy documents and instruct to keep various proof of delivery documents. Where the Policyholder or insured is a Company, delivery of acknowledgement to be obtained from a director or the company secretary of the company or any person authorised by the Company to accept policy documents on behalf of the Company.</p>		<ul style="list-style-type: none"> Group has taken necessary steps to adhere with the requirements of this amended direction.

OUR OPERATING ENVIRONMENT

GRI 102-15







Analysis		Our Response
<p>Circular # 42 - Obtaining Loss Adjusting Services from Unlicensed Loss Adjusters (R) Insurers are to refrain from obtaining loss adjusting services from unlicensed loss adjusters.</p>		<ul style="list-style-type: none"> HNBA Group adheres with the same and obtains all loss adjusting services only from registered loss adjusters.
<p>Formats to be Submitted in Accordance with Reinsurance Terms and Conditions- Reinsurance Arrangements in Electronic Version (R) Insurers are required to furnish the duly certified documents relating to Reinsurance Arrangements to IRCSL in electronic version.</p>		<ul style="list-style-type: none"> The Group has filed the Reinsurance details as per the instructions given by the Regulator.
<p>Circular # 43 - Issuing Insurance Policies in Three Languages (R) All insurance Companies are required to have insurance Policies in three languages (Sinhala, Tamil and English) to ensure comprehension of policy terms and conditions by Policyholders</p>		<ul style="list-style-type: none"> HNBA Group has taken steps to adhere to the said requirement.
<p>Amended Direction # 17 - Corporate Governance Framework for Insurers (R) Key features of the amendment are listed below,</p> <ul style="list-style-type: none"> Exceptions were introduced to total period of service of a Director of an Insurer, accordingly 9 year service period of the Director rule shall not be applicable to Major Shareholder Director/Director representing Major Shareholder and Technical Director subject to terms and conditions specified by the Regulator through this amendment. Required to demonstrate compliance with this Direction by way of disclosure in Annual Reports, including the disclosure requirements stated in 7.10 of the Listing Rules of CSE. Enforcement procedure on Non-Compliance with Corporate Governance requirements which stipulates the period allowed for rectification and informing the same to the IRCSL. 		<ul style="list-style-type: none"> Our compliance status of same stated on pages 67 to 68 and pages 74 to 75 of the Annual Report.
<p>Direction # 21 – Alleged Unfair practices of Banks, Finance and Leasing Companies (BFLs) towards Insurance Agents and Brokers by Forcefully Changing Existing Agents’ Code (R) Through this Direction the Regulator directs insurance companies to refrain from changing existing agency codes, unless there is written consent of the agent who initiated the sale.</p>		<ul style="list-style-type: none"> The Group has taken appropriate steps to adhere with said requirements.
<p>Direction # 22 – Procedure to be Followed when Conducting Inquiries in Relation to Insurance Agents (R) The Direction requires Insurers to follow the procedure given by the Regulator when conducting inquiries on Insurance Agents.</p>		<ul style="list-style-type: none"> Group has taken necessary steps to further strengthen the existing Agents inquiry procedure to adhere with these requirements.
<p>Relief to Policyholders and Support Needed from the IRCSL due to COVID-19 Pandemic (R)</p> <ul style="list-style-type: none"> An extension period was granted to Policyholders to pay outstanding premiums. Mandated insurance companies to honour all benefits applicable during the said extension period Dividend distributions other than dividends declared for financial year 2019 and interim cash dividends for 2020 were suspended. Requirement was given to report Capital Adequacy Ratio (CAR), Risk based Capital Required (RCR), Total Available Capital (TAC) and compliance with Determination 1 on a monthly basis. 		<ul style="list-style-type: none"> Group extended the grace period of policies as per the request and honoured all benefits applicable during the period. CAR, RCR, TAC and Determination 1 were reported as prescribed by stipulated deadlines. Further, no interim Dividends were paid by both companies.

Analysis	Our Response
Accounting Standards Issued by Sri Lanka Institute of Chartered Accountants	
SLFRS 9 – “Financial Instruments” (R) SLFRS 09 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Standard was effective from 01st January 2018 but SLFRS 17 provides a temporary exemption that permits, but does not require, an insurer to apply LKAS 39 - “Financial Instruments: Recognition and Measurement” until implementation of SLFRS 17 – “Insurance Contracts”	<ul style="list-style-type: none"> The Group has used the temporary exemption provided and will implement the Standard along with SLFRS 17.
SLFRS 17 – “Insurance Contracts” (R) The Standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The objective of SLFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives basis for users of Financial Statements to assess the effect that insurance contracts have on the entity’s financial position, financial performance and cash flows.	<ul style="list-style-type: none"> The Group completed the gap analysis on the Standard during the year and implementation phase is to commence in 2021.
Inland Revenue Department of Sri Lanka	
Proposed Changes to Corporate Tax rate - Notice (PN/IT/2020-03) (R) The existing Income Tax Rate of 28% is proposed to be reduced to 24%. However, these amendments are yet to be formalised as an amendment to the original Inland Revenue Act, No 24 of 2017.	<ul style="list-style-type: none"> Group continued to use the application of 28% for Income Tax Liability and Deferred Tax Asset until the formal enactment is made.

Outlook for 2021

Sri Lanka (Monetary Policy Review dated January 2021)	Global (IMF World Bank Report)
Economic Growth- Positive Outlook for 2021 <ul style="list-style-type: none"> The domestic economy is expected to have contracted by 3.9% in 2020. Although the economy rebounded in the third quarter of the year, emergence of the second wave of COVID-19, negatively impacted the fourth quarter resulting in an overall economic contraction during 2020. However, the Central Bank expects a rebound during 2021 along with the policy stimulus measures introduced by the Government and improved demand conditions in both domestic and global markets. CBSL is aiming for a growth of 4-6% for the FY2021. Accommodative Monetary Policies to Continue. <ul style="list-style-type: none"> Market interest rates to remain low to drive economic growth, induce demand and ease excess levels of market liquidity in the domestic money market. Inflation Expected to Remain Low and within the Target Range of 4% To 6%. <ul style="list-style-type: none"> Weak global and domestic demand conditions will keep inflation within the desired level of 4% - 6%. 	Global economic growth is expected to contract by 4.9% during 2021 due to the severe impact of the COVID-19 pandemic across the world. The pandemic rapidly spread across many regions requiring the Governments to implement strict measures including lockdowns, closure of airports and encourage voluntary distancing between people.
	The impacts were severe and dampened economic activity in key economies leading to an overall contraction in global growth.
	The key challenges in the global market are:
	<ul style="list-style-type: none"> Surging demand for health care including testing requirements. Declining consumption due to weak consumer confidence and limited mobility of people due to lockdown and social distancing measures. Reduced investment spending due to the supply chain disruptions and uncertainties about the future. According to the World Bank report, Global trade expected to contract by (9.5)% during 2020.

TRADE-OFF BETWEEN OUR CAPITALS

Impact To Impact From	Financial Capital	Human Capital	Social and Relationship Capital
 Page 112	-	Rs. 3.9 Mn invested in Training and Development ↑ (page 129)	Rs. 1,293 Mn payments made to intermediaries ↑ (page 136) Rs. 3 Mn invested in community ↑ (page 138)
 Page 123	Invested Rs. 1,380 Mn on employees with a 19% growth ↓ (page 312) Rs. 3.9 Mn invested in Training and Development ↓ (page 129)	-	Enhanced customer service and satisfaction levels adhering to health standards ↑ (page 135)
 Page 132	Increased revenue through increased number of customer and new business ↑ (page 148) Rs. 1,293 Mn payments made to intermediaries ↓ (page 136) Rs. 3 Mn invested in community ↓ (page 138)	-	-
 Page 139	Rs. 67.6 Mn invested in marketing campaigns ↓ (page 142) Increased revenue from new products introduced ↑ (pages 148 to 154) Cost efficiencies through process efficiencies and digitalisation ↑ (pages 141 and 142) Rs. 3.9 Mn invested in Training and development ↓ (page 129)	Increased employee skills and knowledge leading to enhanced organisational tacit knowledge ↑ (page 129)	Enhanced Group synergies ↑ (page 136)
 Page 143	Increased revenue from enhanced customer access ↑ (page 113) Invested in branch network expansion and refurbishment ↓ (page 144) Efficient use of PPE ↑ (page 144) Rs. 83 Mn Invested in new PPE ↓ (page 254)	Increased employee satisfaction and productivity created from good working environments ↑ (page 127)	Enhanced customer relationships and satisfaction levels through expanded access to services ↑ (page 134)
 Page 146	Cost efficiencies with resources saving initiatives ↑ (page 115)	-	Enhanced relationships with customers and business partners by being a socially responsible insurance provider ↑ (pages 133 to 137)

Intellectual Capital	Manufactured Capital	Natural Capital
Rs. 36.7 Mn invested in Software ↑ (page 141)	Invested in branch network expansion and refurbishment ↑ (page 144)	-
Staff attrition rate reduced to 12% leading to enhanced of tacit knowledge ↑ (page 140)	-	-
Business partners and customers contributed to process efficiencies ↑ (page 141) Increased brand value ↑ (page 142)	-	Sustainable sourcing of resources ↑ (page 147)
-	-	Efficient usage of resources such as energy, paper, etc. with digitalisation of processes ↑ (page 148)
Enhanced brand image and value ↑ (page 142)	-	Sustainable branch models ↑ (page 147)
Enhanced brand image and value ↑ (page 142)	-	-



Financial Capital

Managing financial resources effectively is imperative to improve growth, profitability and efficiencies within the Group. During the year, HNBA focused on a strategy of innovation, digitisation and cost management enabling the Group to deliver long-term value to our stakeholders. Our financial position remained strong while our performance was resilient despite external market adversities.



Goals for 2020

As Planned

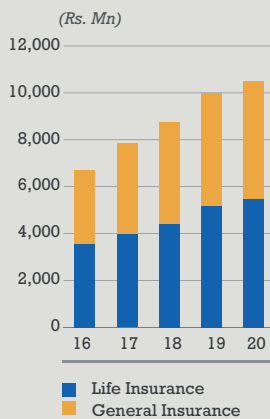
- ▶ GWP of Rs. 12 Bn
- ▶ PAT growth of 20%
- ▶ Investment Income over Rs. 2 Bn
- ▶ Maintaining CAR above 200%

Recalibrated

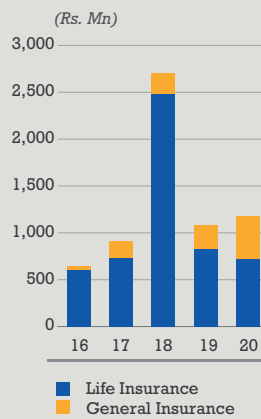
- ▶ Manage expense ratios through cost optimisation
- ▶ Maintain liquidity levels
- ▶ Achieve profitability targets and Shareholder returns

KPI's

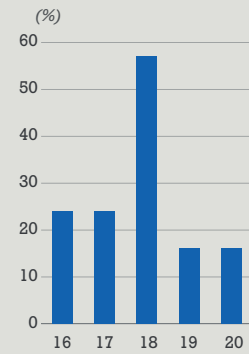
Gross Written Premium



Profit After Tax - Group



Return on Equity- Group



Capital Trade-Off



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Page 139



Page 143



Page 146

Way Forward

Goals for 2021

- ▶ Above industry GWP growth
- ▶ Investment Income over Rs. 2 Bn
- ▶ Return on Equity in excess of 15%

Medium and Long-Term Goals

- ▶ Become the market leader by growing the top-line and managing profitability effectively

Performance During the Year



Net Income Recorded a 6% Growth (NI)

Slow revenue growth impacted by the macroeconomic environment

Slow growth in GWP and decelerated performance in Investment Income, limited the growth in Net Income to 6%. However, we consider our performance to be commendable considering the external environmental factors such as decreased purchase power of people and restrictions imposed due to COVID-19 and decreased interest rates.

Gross Written Premium (GWP)

Life - 52%

GI - 48%

The Group recorded a GWP of Rs. 10,399 Million compared to Rs. 9,943 Million in 2019. This was a 5% growth, opposed to the 14% growth shown in 2019. The Group was pursuing a greater growth in 2020, however the developments in macroeconomic environmental factors compelled the Group to revise the targets for the year. The predicted drop in GWP growth was compensated through changes to strategy and short-term plans to sustain the value created to our Shareholders.



Impact to NI 89%

Life Insurance

Life Insurance GWP grew by 6% reaching a value of Rs. 5,487 Million (2019 - Rs. 5,175 Million). The growth in premium was mainly driven by the increase in Renewal Premium and the growth in the Bancassurance channel. Refer page 149 for further details.

Renewal Business Premium growth is impressive compared to the industry proving sustainability of our business. Yet, GWP in Group Life and Single Premium categories have performed lower than the industry standards. Negative growth in New Business Premiums is directly attributable to the adverse market conditions with customers reducing their spending on non-essential needs. Please refer table below for more information.

General Insurance

General Insurance GWP grew by 4% recording a value of Rs. 4,998 Million compared to Rs. 4,819 Million achieved in 2019. The growth was driven by the 18% increase in GWP from the Non-Motor segment during the year while Motor segment declined by 1%. Please refer table below for more information.

	Industry				Company			
	2020 Rs. Mn	2019 Rs. Mn	Growth	Contribution	2020 Rs. Mn	2019 Rs. Mn	Growth	Contribution
Life Insurance Business Vs Industry								
Endowment New Business	21,733	20,826	4%	21%	1,386	1,444	(4%)	25%
Endowment Renewal Business	58,849	54,616	8%	57%	3,537	3,201	10%	65%
Group Life	11,157	5,822	92%	11%	65	55	19%	1%
Single Premium	11,256	7,445	51%	11%	499	476	5%	9%
Total	102,995	88,709	16%	100%	5,487	5,175	6%	100%
General Insurance Business Vs Industry								
Motor	62,176	64,555	(4%)	62%	3583	3622	(1%)	72%
Fire and Engineering	14,537	13,913	4%	15%	648	678	(4%)	13%
Marine	2,325	2,402	(3%)	2%	55	58	(5%)	1%
Medical	13,197	11,910	11%	13%	472	188	151%	9%
Miscellaneous	7,272	8,043	(10%)	7%	240	273	(12%)	5%
Total	99,507	100,823	(1%)	100%	4,998	4,819	4%	100%

Source: Insurance Association of Sri Lanka

FINANCIAL CAPITAL

Premium Ceded to Reinsurers (RI)

Life - 20%

GI - 80%

The Premium Ceded to Reinsurers by the Group declined by 0.4% during the year to Rs. 1,308 Million compared to Rs. 1,313 Million in 2019. The decline in RI was mainly driven by the General Insurance segment.



Impact to NI -11%

Life Insurance

Rs. 265 Million was Ceded to Reinsurers in Life Insurance which was an increase of 10% compared to Rs. 241 Million ceded in 2019. However, Reinsurance Expense/GWP ratio remained at 5%. The growth in RI was driven by the increase in RI related to health covers in which RI grew by 23%.

General Insurance

Premium ceded to Reinsurers in General Insurance declined by 3% recording a value of Rs. 1,043 Million compared to Rs. 1,072 Million in 2019. The Reinsurance Expense/GWP ratio came to 21% (2019: 22%). Though the Non-Motor GWP grew by 18% during the year, the growth was mainly driven by the concentration on Medical class increasing to 151% which is not reinsured.

Other Revenue

Life - 81%

GI - 19%

Other revenue which comprises Investment and Other Income of the Group grew by 10% to Rs. 2,720 Million compared to Rs. 2,471 Million in 2019. Investment Income increased by 10% and Other Income increased by 13%. Though the market interest rates dropped by 300 basis points during the year, we were able to increase interest income due to a 23% growth in funds under management and locking the funds at attractive rates for long tenors.



Impact to NI 23%

Life Insurance

Investment and Other Income of Life Insurance increased by 8% reaching a value of Rs. 2,224 Million (2019: Rs. 2,059 Million). This was driven by an Interest and Dividend Income achievement of Rs. 2,125 Million, which marked a 9% increase over 2019, and compensated for the drop in dividend income as no dividends were paid by the subsidiary HNBGI on account of the regulatory restrictions on interim dividends as noted on page 108. Net Realised Gains from disposal of Treasury Bonds generated Rs. 45 Million during the year compared to Rs. 70 Million in 2019. Fee and Commission Income declined by 18% due to lower profit commissions received from reinsurers.

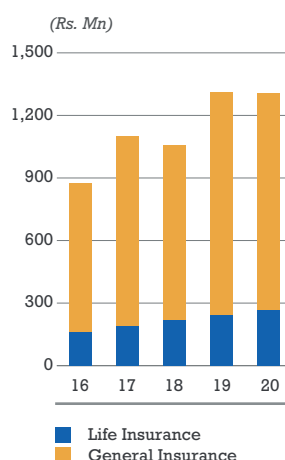
General Insurance

Investment and Other Income of General Insurance grew by 8% recording a value of Rs. 528 Million compared to Rs. 491 Million recorded the previous year. Interest and Dividend Income of General Insurance grew only by a marginal 3% to record Rs. 368 Million, as the low interest rate environment heavily impacted since funds are invested in a more short-term tenor to match the liabilities. Fee and commission income grew by 35% mainly contributed by Policy Fees.

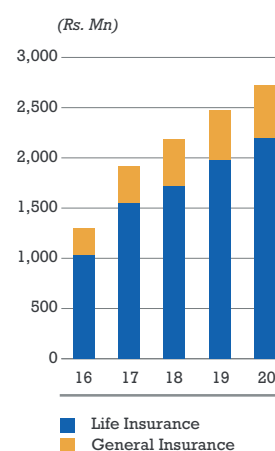
Gross Written Premium - Group



Premium Ceded to Reinsurers



Investment and Other Income - Group



Net Benefits, Claims and Expenses Indicated a 5% Growth (NCE)

Affected by the volatility in the external environment

Continuous monitoring, forecasting and implementation of corrective action enabled the Group to maintain NCE growth lower than the growth of Net Income. Yet again macroeconomic factors had a significant impact on this category.

Net Claims and Benefits Life - 42% GI - 58%

During 2020, the Net Claims and Benefits incurred by the Group declined by 2% to a value of Rs. 3,559 Million against the Rs. 3,621 Million reported the previous year. The decline was mainly driven by the reduction in the Claims Expense in the General Insurance segment.



Impact to NCE 36%

Life Insurance General Insurance

Net Claims and Benefits of Life Insurance increased by 12% during the year. The increase was driven by increase in Maturity and Surrender Claims, which increased by 17% and 8% respectively. Increase in Surrender Claims was due to the challenging economic conditions faced by customers during the year while Maturity Claims have increased with the ageing of the Company and policies in force.

	2020 Rs. Mn	2019 Rs. Mn	Growth %
Death and Other Claims	89	108	(17%)
Hospitalisation Claims	57	54	6%
Maturity Claims	1,044	892	17%
Surrender Claims	290	270	8%
Annuity Claims	14	14	(3%)
Total	1,494	1,338	12%

Net Claims and Benefits of General Insurance reduced by a significant 10% during the year recording a value of Rs. 2,065 Million. This reduction was mainly driven by the 15% decrease in the claims cost of the Motor insurance class, the largest contributor of Claims. HNBGI continued to maintain internal pricing guidelines to manage claims at a desirable level. In addition, restrictions imposed by the Government on movements and nation-wide lock-downs reduced road accidents, which influenced the decrease of total claims.

	2020	2019
Motor Claims Ratio	51%	62%
Non-Motor Claims Ratio	86%	86%
HNBGI Claims Ratio	55%	64%

Total Expenses Life - 61% GI - 39%

Total Expenses of the Group represented by Other Operating and Administration Cost, Net Acquisition Costs, Finance and Other Insurance Related Costs increased marginally by 4% during the year recording Rs. 3,882 Million compared to Rs. 3,745 Million in 2019. The increase was mainly driven by the General Insurance segment.



Impact to NCE 39%

Operating Expenses that are incurred to service the business such as maintenance expenses and utility expenses indicated a reduction compared to 2019. Initiatives such as curtailing administration expenses, concentrating more on telecommuting and working less than full capacity during lock-down are the key reasons for the decrease. Fixed Administration Expenses including Staff Expenses increased by 9%. One reason being the Group's stand on honouring commitments to staff as we believe in investing in people.

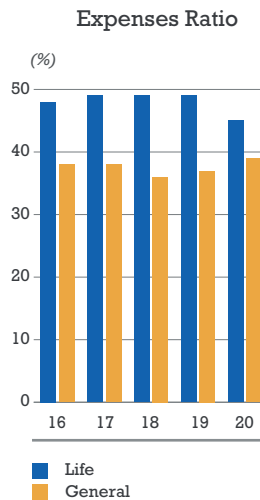
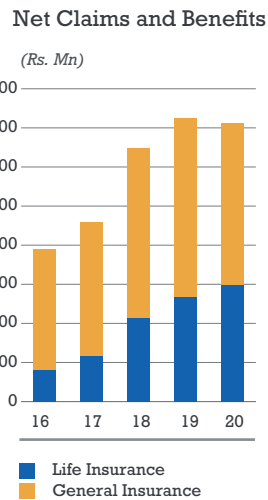
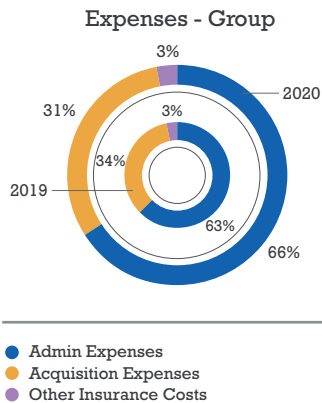
Life Insurance General Insurance

Total Expenses of Life segment was managed at Rs. 2,376 Million with no growth over 2019. Underwriting and Net Acquisition Costs declined by 7% due to the de-growth in New Business Premiums which attract higher acquisition costs. Direct Expenses of the business also reduced in line with the lower growth in GWP. Administration and Other Expenses recorded a 7% growth over 2019.

Expense Ratio of the Company was recorded as 45% which was the lowest Expense Ratio in the last 5 years. Further, the Expense Ratio was significantly lower than the budget for the year resulting from the widespread expense management strategies.

The General segment recorded Rs. 1,623 Million as Total Expenses marking a 12% increase over 2019. Underwriting and Net Acquisition Costs increased by 6%, a higher rate than GWP growth, due to the reduction in the Reinsurance Commission Income with the shift of the business mix towards Medical insurance. Increase in profitability related incentives stemming from the 81% growth in profitability also contributed to this increase. Administration and Other Expenses increased by 15%. Expense Ratio of HNBGI increased to 39% marking a 2% increase from the previous year, derived mainly due to decrease in the growth rate of Net Earned Premium achieved in 2020 of 6% compared to 9% in 2019.

FINANCIAL CAPITAL



Profit for the Period Indicated a Growth of 16%

Achievement of profit targets regardless of adversity

Amidst all challenges, the Group managed to achieve the target profit for the year 2020 by recording a Profit Before Tax (PBT) of Rs. 1,630 Million compared to Rs. 1,405 Million recorded in 2019. The Company recorded a 10% decline in PBT recording Rs. 999 Million, while the subsidiary recorded Rs. 631 Million as PBT, crossing the Rs. 500 Million mark for the first time in its history and marking a growth of 78% over 2019.

Profit After Tax

The Group recorded an impressive growth of 16% in Profit After Tax recording Rs. 1,175 Million compared to Rs. 1,010 Million in 2019. The increase was mainly driven by the improved profitability of General Insurance.

Life - 62%

GI - 38%



Group PAT Growth 16%

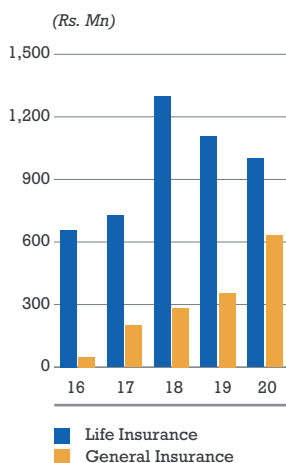
Life Insurance

The Company recorded a Profit After Tax of Rs. 724 Million compared to Rs. 827 Million in 2019 marking a dip of 12%. Low interest rates that prevailed in the market resulted in an increase in the Life Fund liability and lower surplus transfer from the Life Fund, which is the primary reason for drop in profitability. Surplus transfer from the Life Fund decreased to Rs. 612 Million in 2020 compared to Rs. 687 Million in 2019.

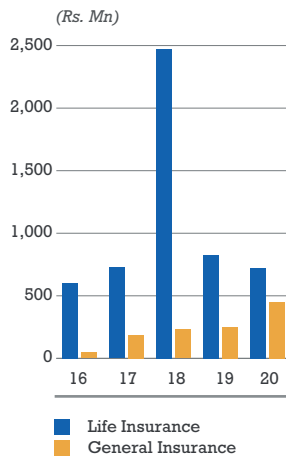
General Insurance

In 2020, the General Insurance segment improved its profitability by a significant 81% recording Rs. 451 Million compared to Rs. 250 Million in 2019. The increase in profits was mainly driven by the reduction in the Claims Ratio which declined to 55% compared to 64% in 2019.

Profit Before Tax

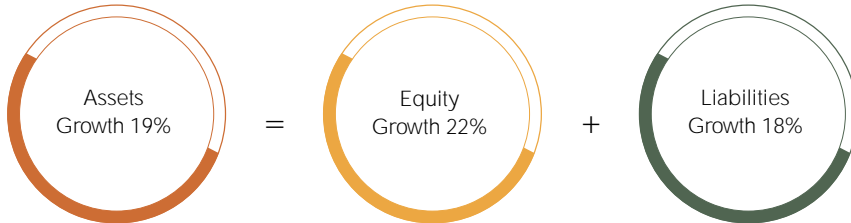


Profit After Tax



“ Amidst all challenges, the Group managed to achieve the target profit for the year 2020 by recording a Profit Before Tax of Rs. 1,630 Million compared to Rs. 1,405 Million recorded in 2019. ”

Financial Position of the Group



Financial Position – Assets

Strong assets base demonstrates stability

Total Assets of the Group increased by 19% during the year reaching a value of Rs. 31,741 Million compared to Rs. 26,625 Million in 2019. Financial Investments accounted to 83% of the Total Asset base of the Group and amounted to Rs. 26,367 Million. The asset base of the Company and the Subsidiary grew by 18% and 21% respectively during the year and the Group managed to increase the share of Financial assets in 2020 compared to 2019 showcasing high levels of stability.

Financial Investments

Life - 84%

GI - 16%

Financial Investments of the Group comprising Loans and Receivables, Available for Sale and Fair Value Through Profit and Loss instruments increased by a remarkable 24% in 2020 recording a value of Rs. 26,367 Million compared to Rs. 21,202 Million in 2019. The growth in Financial Assets was driven by the increase in investment income as well as premium income of the Company. Low claims experience was another contributory factor that led to the increase in funds available for investment in HNBGI.



Impact to Total Assets 83%

Loans and Receivables

Loans and Receivables of the Group increased by 23% to Rs. 18,252 Million from Rs. 14,830 Million in 2019. Investments made in Repos, Term Deposits and Debentures were increased during the year due to the lower interest rates on Government Securities. We also invested in Sri Lankan Development Bonds in 2020.

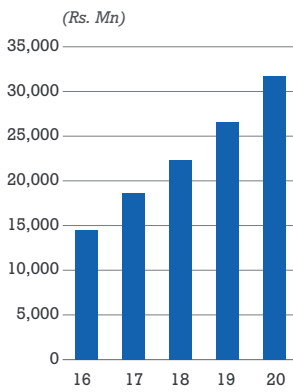
Available for Sale Instruments

Available for Sale Instruments increased by 14% during the year recording a value of Rs. 7,171 Million compared to Rs. 6,294 Million in 2019. Investments made in Treasury Bonds accounts for 99% of AFS instruments.

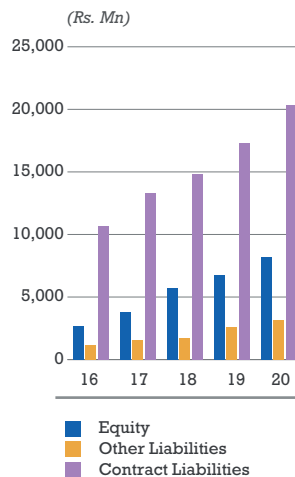
Fair Value Through Profit and Loss

Investments made in this category grew by 1,112% during the year reaching Rs. 944 Million compared to Rs. 78 Million in 2019. Investments made in Unit Trust instruments for a value of Rs. 843 Million was the key factor driving the high growth and such investments were undertaken to mitigate the downside risk of low interest rates that prevailed in the market.

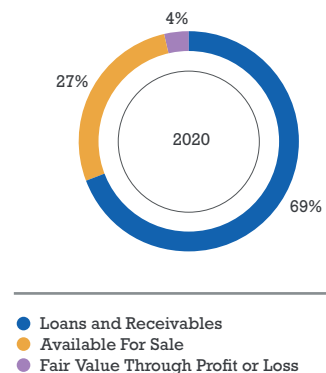
Total Assets - Group



Capital Structure - Group



Composition of Financial Investments



FINANCIAL CAPITAL

Funds Under Management (FUM)

Life - 83%

GI - 17%

Operating in the insurance industry, management of investment portfolios plays a critical role for an insurer in giving attractive returns to Shareholders and Policyholders. Our strategy to maintain a balanced investment portfolio enabled us navigate market volatilities and optimise financial returns from the Funds Under Management. FUM comprising Financial Investments and Cash & Cash Equivalents net of Bank Overdraft, of the Group recorded a significant growth of 23% in 2020 reaching a value of Rs. 26,953 Million compared to Rs. 21,937 Million in 2019. The growth was primarily driven by the increase in AFS reserves due to the drop in interest rates and the low claims outflow experienced by General Insurance segment. FUM of Life Insurance grew by 22% reaching a value of Rs. 22,415 Million and the FUM of General Insurance grew by 28% reaching a value of Rs. 4,539 Million in 2020.



Impact to Total Assets 85%

We ensured diversity by covering various investment products of different maturities while maintaining the quality of our investment portfolio with investments rated within a range of AAA and BBB+. Despite the decline in market interest rates, the Group investment income increased by 10% to Rs. 2,565 Million. Average yield of Funds Under Management was 11.1% compared to 12.3% last year.

Asset Allocation

Strategic allocation of investment assets between different instruments plays a vital role in maximising investment returns. During the year we were able to increase our investment income despite low interest rate environment with the strategic mix of asset allocation.

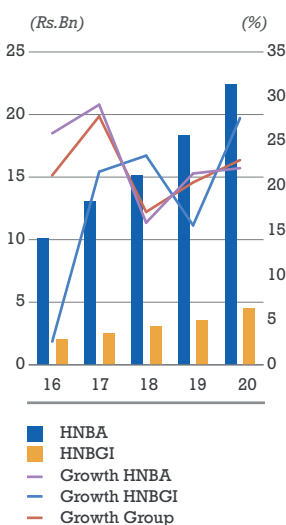
Maturity Mix

Asset and liability management (ALM) is imperative to sustain the financial stability of the Group. We maintained a healthy maturity mix of assets and liabilities with 64% of the Life Fund invested on long-term investment products due to the long-term nature of Life Insurance policies and 60% of the General fund invested in short-term investment products.

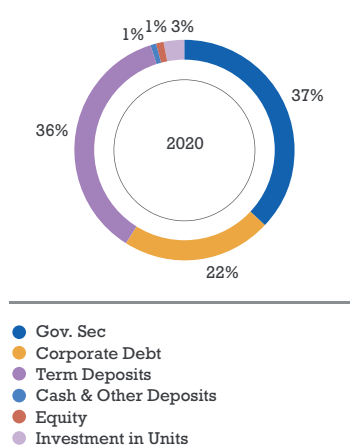
Risk Profile

Maintaining a healthy mix of risk and return also plays a critical role in our portfolio management. We strictly adhere to the risk management framework of the Group while increasing our investment returns. The exposure limits of the investment portfolio are determined based on the credit ratings and the regulatory requirements applicable to the respective fund.

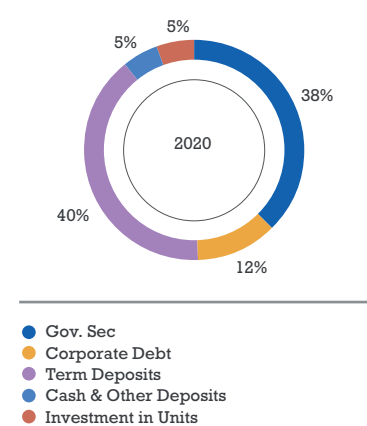
Funds Under Management



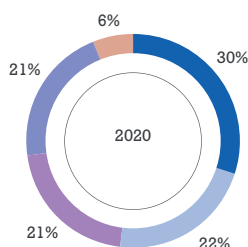
Asset Allocation - HNBA



Asset Allocation - HNBGI

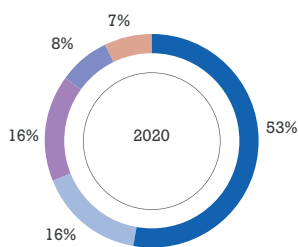


Maturity Mix - HNBA



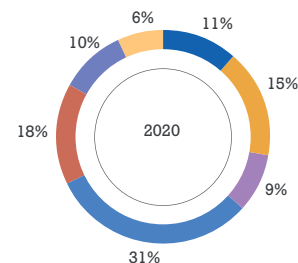
- 1-180 days
- 181-365 days
- 1-3 years
- 3-5 years
- > 5 years

Maturity Mix - HNBTGI



- 1-180 days
- 181-365 days
- 1-3 years
- 3-5 years
- > 5 years

Corporate Debt & Term Deposit Rating- Group



- AAA
- AA+
- AA-
- A+
- A
- BBB+

Other Assets

Premium Receivables, Reinsurance Receivables, Deferred Tax Asset and Loans to Policyholders are the key contributors to our asset base other than Financial Instruments. Group Premium Receivables increased by 17% to Rs. 1,112 Million while Reinsurance Receivables grew by 20% to Rs. 772 Million. Group Deferred Tax asset decreased by 27% as the Group utilised tax losses against profit made during the year.

Life - 52%

GI - 48%



Impact to Total Assets 15%

Life Insurance

Deferred Tax Asset of the Company reduced to Rs. 725 Million with the utilization of tax losses and Loans to Policyholders increased by 17% to Rs. Rs. 380 Million reflecting adverse economic situation due to the pandemic.

General Insurance

The Company witnessed a 20% increase in Reinsurance Receivable and an 18% increase in Premium Receivable compared to 2019.

Financial Position – Equity and Liabilities (E&L)

Equity Attributable to Shareholders

Group Shareholder Equity grew by 22% reaching Rs. 8,194 Million against Rs. 6,714 Million recorded previous year. Demonstrating sustainable utilisation of Shareholder Equity to generate return, Group's Return on Equity was maintained at 16%, the previous year's levels despite the unprecedented market conditions.

Life - 89%

GI - 11%



Impact to E&L 26%

Life Insurance

Shareholder Equity of the Company grew by 16% to reach Rs. 7,261 Million. This was supported by profitability and growth in Life Policyholders' Available for Sale Reserve Fund which increased by 328% mainly through Fair Value Gains recorded from Treasury Bonds resulting from the low interest rates. The Restricted Regulatory Reserve, which arose from change in the policy liability valuations as per the guidelines of IRC SL in 2016, remained at Rs. 381 Million.

General Insurance

Equity of the Subsidiary improved by 31% driven by a 107% growth in Retained Earnings. PAT recorded by HNBTGI of Rs. 451 Million was the key to this achievement. Increase in Available for Sale Reserve with the Fair Value Gains from Treasury Bonds also helped. As a result of not declaring an interim dividend for 2020 due to regulatory restrictions, no outflow was made from Equity of HNBTGI during the year.

FINANCIAL CAPITAL

Liabilities

Life - 80%

GI - 20%

Total Liabilities of the Group increased by 18% reaching a value of Rs. 23,546 Million in 2020 compared to Rs. 19,911 Million recorded previous year. The increase was mainly driven by the 18% growth in Insurance Contract Liabilities.



Impact to E&L 74%

Life Insurance

Life Insurance Contract Liabilities grew by 18% reaching a value of Rs. 17,064 Million compared to Rs. 14,465 Million recorded in 2019. The Life Fund accounts for 99% of Contract liabilities. Growth in the business and investment income enabled a transfer of Rs. 2,576 Million to the Life Fund during the year while the drop in risk-free rates made a significant impact increasing the Life Fund liability. A strong Life Fund reflects the stability of the business indicating that we have maintained sufficient funds to meet Policyholder obligations.

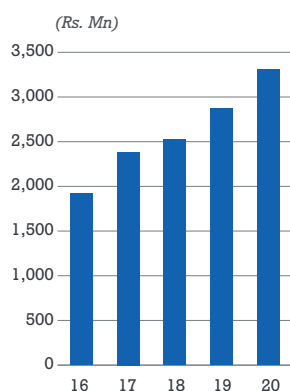
The Life Fund was valued by Consultant Actuary Mr. Hassan Scott Odeirno of Actuarial Partners Consulting Bnd as at 31st December 2020 and the valuation report can be read on page 189. On the recommendation of the Consultant Actuary Rs. 612 Million was transferred to Shareholder's Fund in 2020 compared to Rs. 687 Million in 2019.

The Company maintained a proper segregation of assets and liabilities for all three sub funds of the Life Fund; Participating, Non-Participating and Universal Life Funds as per the Direction 15 issued by the Insurance Regulatory Commission of Sri Lanka.

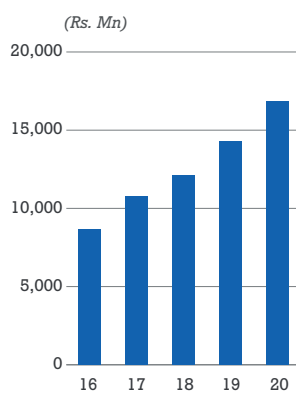
General Insurance

Contract Liabilities comprise Claims Outstanding Reserve, Unearned Premium (UEP), Incurred But Not Reported Reserve (IBNR) and Incurred But Not Enough Reported Reserve (IBNER). An increase of 15% in Contract Liabilities was witnessed in 2020 which recorded a value of Rs. 3,309 Million compared to Rs. 2,871 Million in previous year. Our ability to meet Policyholder obligations are yet again proven with the sufficiency in maintaining reserves. The valuation report of the consultant actuary Mr. Mathew Tiong of NMG Consulting can be read on page 190.

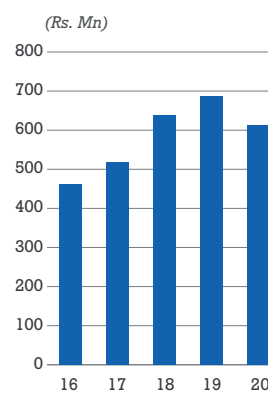
Insurance Contract Liabilities
HNBTI



Life Fund



Surplus Transfer to Shareholders



Liquidity Position

The unprecedented effects of COVID-19 reiterated that cash is king. Cash and liquidity position was trust in to spotlight with the sudden restriction on generating business during the nation-wide lock-down.

The inflows of the Group experienced pressure as corporate and individual customers sought to reduce their expenditure, cutting down on all but the essential costs, and relief given to Policyholders as per regulatory direction resulted in pressure on Renewal Premiums of both segments. Fixed cash outflows such as payroll costs, rent and utilities, etc. and claims and benefits for customers needed to be incurred and immediate attention was given to scrutinise our cash management strategies. Cashflow forecasting, cost optimisation, expense management strategies and the lower claims experience in the Subsidiary aided the Group in a smooth to tide over. With the guidance of the Board of Directors, the Group successfully honoured all commitments to customers, employees and suppliers on time and continued to meet Group profitability targets for the year.

Cashflow Position

Life - 58%

GI - 42%

The Group generated Rs. 2,359 Million as net operating cashflows, a 42% increase compared to 2019. The net cash position stood at Rs. 587 Million for the Group as at 31st December 2020 marking our strong cash and liquidity position despite the trying times.



Cashflow Position
Decreased by 20%

Life Insurance

Insurance premiums which are accepted for the policy period are invested in a healthy investment portfolio. This practice generates a stable cash and liquidity position for the Life insurance business. Net Cashflow from Operating Activities grew by 20% with Rs. 1,794 Million being generated in 2020, which was mainly directed towards investing activities with Rs. 1,609 Million being invested. The Company paid a dividend of Rs. 300 Million in 2020 resulting in a net cash position of Rs. 340 Million at the year-end.

General Insurance

HNBTGI recorded a Net Cashflow from Operating Activities of Rs. 566 Million marking a 228% increase over 2019. Reduction in claims during the year was a key contributory factor for the increase. The Subsidiary used Rs. 438 Million for investment activities and Rs.14 Million for settlement of lease liabilities. Consequently the net cash position of HNBTGI doubled compared to 2019 with Rs. 247 Million being recorded at end 2020.

Financial Strength

The industry experienced a greater scrutiny by the regulator with the effects of the pandemic starting to impact insurers. In addition to the directions on Policyholder reliefs and other restrictions, all insurance companies were required to report their Solvency positions and Approved Asset positions on a monthly basis. Both HNBA and HNBTGI met the stipulated standards throughout the year.

Solvency Margin & Approved Assets

Both HNBA and HNBTGI comfortably met the requirements of Section 25 of Insurance Regulatory Act, No. 43 of 2000, of maintaining Approved Assets equivalent to 100% of Long-Term Insurance Fund/Technical Reserve. Reported Solvency Margins were well above the Regulatory requirement of 120%. The Solvency and Approved Asset position were reported to according to the Determination 1 issued by the IRCSL.

Life Insurance

The Company was able to maintain a healthy Capital Adequacy Ratio (CAR) and Total Available Capital (TAC) well above the regulatory requirement throughout the year and by end of 2020 the CAR stood at 338% compared to the 322% in 2019. While the downward movement in risk free rates had a positive impact on the CAR due to the nature of our policy portfolio, the growth in business, profitability, prudent investment management strategies and asset liability management also supported our strong solvency position.

	2020	2019
TAC (Rs. Mn)	8,967	7,922
RCR (Rs. Mn)	2,654	2,462
CAR	338%	322%

General Insurance

The CAR of the subsidiary increased in 2020 to 256% compared to 226% in 2019 driven by increased profitability, prudent underwriting and prudent investment management strategies. TAC was also maintained well above required levels.

	2020	2019
TAC (Rs. Mn)	1,846	1,392
RCR (Rs. Mn)	722	617
CAR	256%	226%

FINANCIAL CAPITAL

Value Created to Shareholders

HNBA Group continued to deliver value to shareholders regardless of the challenges thrown its way by numerous and unprecedented external factors during 2020. The adjacent table depicts measures of value thus created.



Share Performance

During the year the Company announced a share split where each ordinary share was subdivided to three ordinary shares increasing the number of shares in issue to 150 Million with no increase in the stated capital. This created remarkable benefits for the Shareholders and the Company. Increase in share trading activity and improvement in liquidity were the benefits targeted by the Company and simultaneously HNB Assurance share became more attractive to investors due to the reduction in share price. For investors, subdivision created greater affordability while improving liquidity.

During the year price of 'HASU' appreciated by 26.5% compared to the 4.5% increase in 2019. Greater activity in the overall equity market, Group performance and the share subdivision made by the Company are key contributory factors towards the achievement. Consequently, market capitalisation increased to Rs. 8.7 Billion as at 31st December 2020 creating great value for our investors.

While Group performance has been extensively discussed throughout this report, performance of our share is discussed in greater detail in the Investor Information Section on pages 91 to 97.

Dividends

The Company strives to maintain a balance between short term returns and long-term value creation to shareholders. Thus, we retain a part of our profits for future expansion of the business while providing attractive dividends in the short-term. HNBA declared a first and final dividend of Rs. 2.80 per share which is subject to the approval of the shareholders at the forthcoming Annual General Meeting. This would entail a total dividend payment of Rs. 420 Million, a 5% increase over 2019 and a pay-out of 58%.

In the low interest rate environment, our dividend yield of 4.8% is an attractive return for investors.

Return on Equity (ROE)

The Group's Return on Equity was maintained at 16% while the ROE of the Subsidiary increased to 25% with the growth in profitability. Net asset growth stood at 22% for the Group and 16% for the Company as at 31st December 2020. This reiterates that the HNBA Group remains solid and enduring even in difficult times providing the safe return to our shareholders.

Price Earnings Ratio (P/E Ratio)

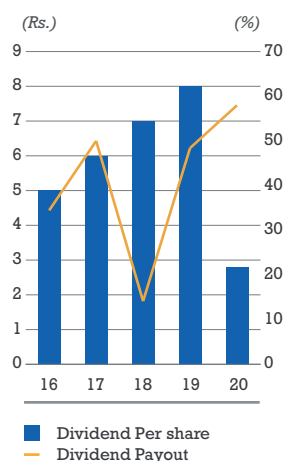
Price Earnings Ratio has increased to 7.43 times in 2020 compared with 6.83 times recorded in 2019. There is a 9% increase in Price Earnings Ratio in 2020 against the previous year.

	2020	2019
Earnings Per Share (Rs.)	7.83	6.73*
Dividend Per Share (Rs.)	2.80	8.00
Net Assets Per Share (Rs.)	54.63	44.76*
Return on Equity (%)	16%	16%
Closing Share Price (Rs.)	58.20	138.00**
Market Capitalization (Rs. Mn)	8,730	6,900
P/E Ratio (Times)	7.43	6.83
Dividend Pay Out Ratio (%)	58%	48%

* Restated

** Post subdivision

DPS vs Payout





Human Capital

Employees are the value creators who power our growth, enabling us to consistently outpace industry through service and operational excellence. A holistic employee value proposition enables us to attract, retain and develop talent.



Goals for 2020

As Planned

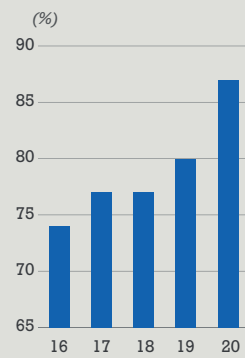
- ▶ Facilitating a performance-driven culture
- ▶ Enhancing employee engagement
- ▶ Simplifying and automating HRM processes

Recalibrated

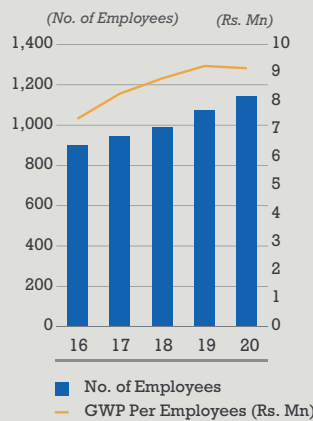
- ▶ Providing a safe working environment
- ▶ Facilitating employee health and safety
- ▶ Implementing Telecommuting Policy

KPI's

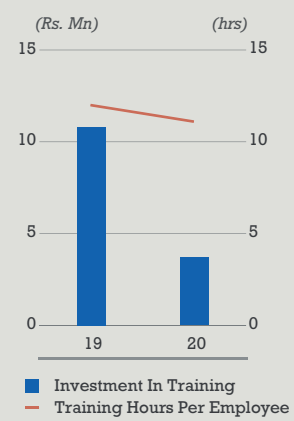
Employee Retention Rate



GWP per Employee



Training Hours per Employee



Capital Trade-Off



Page 112



Page 132



Page 139

Way Forward

Goals for 2021

- ▶ Creating employee engagement and well-being in the new normal
- ▶ Digital transformation of HR processes
- ▶ Foster performance and self-development culture

Medium and Long-Term Goals

- ▶ Be the most preferred employer of the country that fosters the best talent

HUMAN CAPITAL

GRI 102-8, 102-41

Our team

A diverse team comprising 1,145 employees reflects HNBA's inclusive culture and a holistic employee value proposition. HNBA does not have any unions reflecting high levels of engagement and employee satisfaction.

Category	Total			Male			Female		
	No. 2020	2020 %	2019 %	No. 2020	2020 %	2019 %	No. 2020	2020 %	2019 %
By Contract									
Permanent	1,126	98%	99%	694	62%	59%	432	38%	41%
Fixed -term contract	19	2%	1%	9	47%	67%	10	53%	33%
By Staff Category									
Heads and above	27	2%	2%	24	89%	86%	3	11%	14%
Managers and Asst. Managers	204	18%	18%	178	87%	86%	26	13%	14%
Executives	555	48%	45%	335	60%	60%	220	40%	40%
Non - Executives	359	31%	35%	166	46%	44%	193	54%	56%
By Years of Service									
< 2 years	482	42%	46%	313	65%	62%	169	35%	38%
2 – 4 years	205	18%	16%	125	61%	53%	80	39%	47%
4 – 6 Years	117	10%	10%	67	57%	63%	50	43%	37%
6 – 8 Years	86	8%	7%	54	63%	53%	32	37%	47%
Above 8 Years	255	22%	21%	144	56%	59%	111	44%	41%
By Region									
Western Province	693	61%	62%	405	58%	57%	288	42%	43%
Other	452	39%	38%	298	66%	63%	154	34%	37%
Total	1,145	100%	100%	703	61%	59%	442	39%	41%

Governance

The Board approves the HR strategy and policies and monitors compliance with regulatory requirements with the assistance of the Board Human Resources and Remuneration Committee. The Committee makes recommendations to the Board on strategy and policy direction and bears the oversight responsibility for the same. Chief Executive Officer is responsible for the implementation of strategy within the approved policy framework and is assisted by a team of HR professionals led by the Chief Human Resources Officer.

An inspired and motivated team is essential for our success, consequently a set of HR policies and procedures have been developed to provide structure, control, consistency, and fairness in managing our human capital. These policies reflect our culture, values and management philosophies while creating an ethical environment. The policy architecture is given alongside.



Human Resource Management Policies

HNBA developed and implemented a Telecommuting Policy during the year in collaboration with the IT Division to address the challenges in the working environment created by the pandemic. This policy enables working from home and was crucial in ensuring business continuity during the lockdown period giving flexibility to our employees while managing contagion. We have also extended the key elements to include procedures and guidelines to effectively manage work during the periods of lockdown while developing a flexible and crisis ready team. Health and safety plans and pandemic preparedness are also addressed while facilitating the provisions from the Business Continuity Plan.

This policy goes beyond managing the pandemic by giving employees the option to request to work from home under certain circumstances to achieve a reasonable work-life balance. We expect progressive policies such as the Telecommuting policy to reduce talent pipeline leakage particularly with female team members who will be able to achieve a better equilibrium in managing their careers and family commitments.

We also reviewed and revised other existing policies to adapt to risks presented by the work environment, transportation, employee engagement and employee wellbeing to support the new norm, leveraging the Group's accelerated digitalisation across a wide range of applications.

A Great Place to Work

The Assurance Behaviour Framework was introduced last year, to communicate the high standards of conduct and performance expected of our team.

Apart from this and the policy framework which plays a key role in shaping our culture, the HR Division drives a number of initiatives to ensure that the team is engaged, motivated and inspired to perform as described below. Awarding of the Great Place to Work® certification is an acknowledgement of the conducive work environment we have created for our employees.



HNB Assurance PLC and Subsidiary HNB General Insurance Limited obtained the Great Place To Work® certification awarded by the Global people analytics and consulting firm Great Place To Work®, the global authority on assessing and benchmarking employee perception and organisational culture. This certification is testament to our efforts in creating a workplace with shared values, empowering and performance driven culture streamlined by an efficient and effective framework.



Total Rewards Policy

- Performance management
- Talent calibration
- Remuneration and benefits
- Vehicle and emergency loan procedure

Telecommuting Policy

- Pandemic preparedness
- Health and safety
- Procedures and guidelines for working remotely

Training Policy

- Education reimbursement procedure
- Overseas training procedure

Transfer Policy

- Self and management-initiated transfers

Integrity Reporting Policy/ Code of Conduct

- Grievance handling procedure
- Disciplinary procedure
- Recruitment procedure



HNBA Group receiving the Great Place To Work Award

HUMAN CAPITAL

GRI 102-8, 401-1

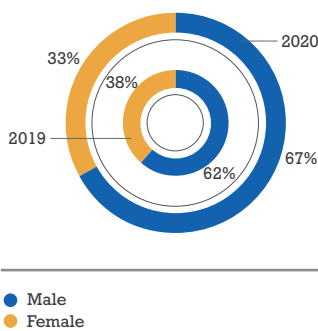


Talent Acquisition

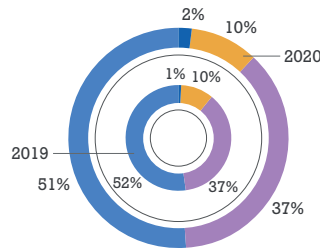
Our recruitment process consists of a series of assessments and interviews designed to ensure the transparency and objectivity of the process. Opportunities are first offered to the internal employees supporting career progression and mobility within our team. External recruitment is done when sufficient skills are not found internally or in instances where fresh perspective is required.

During the year, 191 (2019: 289) new employees were added to the workforce as we took advantage of availability of experienced talent in the market stemming from redundancies triggered by the pandemic.

New Recruits by Gender

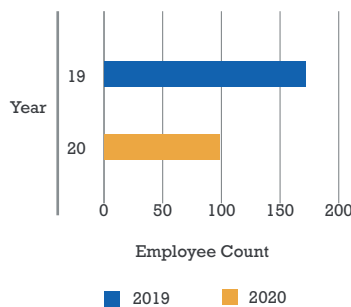


New Recruits by Staff Category



- Heads and Above
- Managers and Assistant Managers
- Executives
- Non-Executives

New Recruits in Western Province



Nfhtp ; -19 nj hwW Vwgl Lss , di wa fhyj j y; tll bylUeJ Nti y nratJ vdgJ kpfTk; c j t p h d t l a k h f c s s J .

NghFFtuj J Neuj i j kJ ggLj J t j h y; mYtyf Nti yfF \$Lj yhd Neuk; gadgLj j KbtJl d> , uz L ggsi sfspd; j hahd vdfF mtufspd; fy;tp el tbfj fffK; c j t \$baj hf c s s J vdgJ kfprrp ahf c s s J .

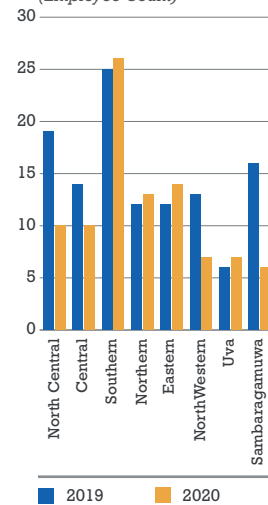
Working from home is a great help in today's world of COVID-19 infections. As a mother of two I am happy to be able to use more time for office work by saving travel time and also be able to help my children with their academic activities as well.

Lakshaini Murugaiya
Senior Executive - Payroll



New Recruits in other Provinces

(Employee Count)



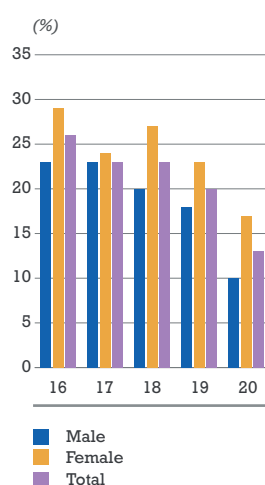
Retention

We strive to build long-standing relationships with our employees by offering them a holistic value proposition. Our retention rates improved to 89% from 79% in the previous year reflecting not only the success of our initiatives implemented to engage our staff but also the uncertainties of the employment landscape.

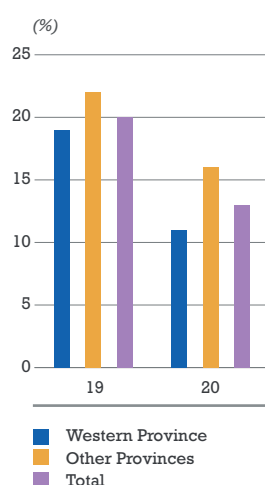
We are pleased that 22% of our employees have completed more than eight years of service at HNB Assurance which enabled us to develop higher levels of performance as skills, productivity and specialisation strengthened our competitive edge in the market.

We maintained an attrition rate of 12% (2019:18%) excluding fixed term contracts and 13% (2019:20%) including fixed term contracts. This improvement was mainly attributable to the employee loyalty earned during the pandemic by providing all employees with job security while safeguarding all remuneration, allowances, and benefits.

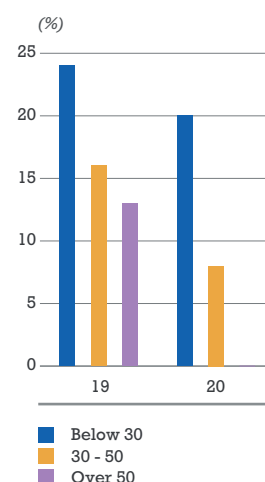
Employee Turnover by Gender



Employee Turnover by Location



Employee Turnover by Age Group



Rate	Male	Female	Western Province	Other Provinces	Below 30	30-50	Over 50
2020	10%	17%	11%	16%	21%	07%	0%
2019	18%	23%	19%	22%	28%	13%	9%

Employee Mobility

An island-wide footprint necessitates transfers of employees periodically to facilitate market penetration, standardisation of processes and culture conformance. All transfers are made either at the request of or with full consent of the employees, based on the job availability or at employee's request. Our Transfer Policy accommodates transfers between departments, branches, or parent (HNB Assurance PLC) and Subsidiary (HNB General Insurance Limited).

Succession

The succession plan is reviewed and revised to adapt to the changes in business needs and the talent pool, supporting upward mobility of our employees. Vacancies are advertised internally, and our employees are encouraged to apply for the same. All promotion requests must be validated by the relevant Department Heads and are thoroughly reviewed by the HR team. Senior level promotions are subjected to a rigorous interview process conducted by the Executive Committee of the Group. During the year 186 (2019:129) employees were promoted to a higher grade based on their performance and business requirements.

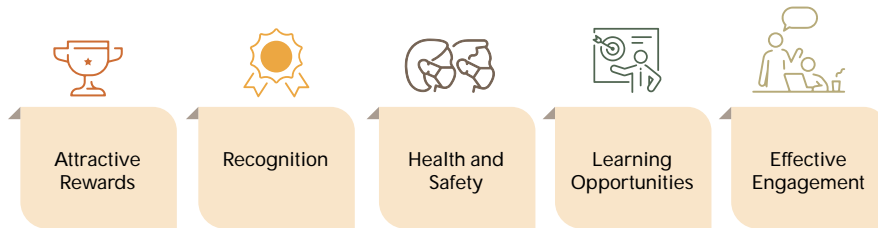
Nurturing Talent

Talent Management is a key driver of organisational success and we strive to align employees career aspirations to our business goals to find win-win solutions in line with our philosophy that happy employees create happy customers. A comprehensive employee value proposition facilitates the creation of a healthy talent pipeline minimising talent leakage which is a significant non-monetised cost to the Group.

HUMAN CAPITAL

GRI 102-8, 102-35, 102-36, 401-2, 405-2

Employee Value Proposition



Attractive Rewards

HNBA's total rewards scheme consists of fixed pay, variable pay, benefits and investment in training and development. Employees also benefit from our investments towards creating a Great Place To Work, a positive organisation culture and recognition of employees' talents and contribution to the organisation. The fixed pay includes basic salary, allowances, and statutory pension contributions while the variable component consists of both monetary and non-monetary benefits which include:

- Production incentives and bonuses
- Recreation facilities
- Loan facilities concessionary rates
- Donations on death of employees and their immediate family members
- Welfare events
- Non-monetary awards such as foreign tours
- Medical benefits
- Life and medical insurance
- Exam leave and exam fee reimbursements
- Accredited training partnerships for CA Sri Lanka

Despite the challenges in 2020 which saw employee redundancies and pay cuts across many corporates, HNBA Group upheld our covenant with our employees maintaining job security and safeguarding remuneration including all benefits, demonstrating our commitment to their well-being in a time of unprecedented uncertainty.

Recognition

Employee recognition schemes create high levels of morale and help align personal career goals to organisational goals. The Group's performance management system integrates a balanced assessment of employee performance clearly setting both financial and values driven objectives, shaping employee behaviour and the organisation culture to uphold the Assurance Behavioural Framework. Achievements are rewarded through variable pay schemes and progression opportunities. Succession planning is a key component in employee recognition, and this is conducted by considering both sustained and potential performance of employees measured using the Nine-Box Matrix and Assurance Behavioural Framework.

Outstanding performers are recognised with Chairman's Excellence Awards and the Best Sales Personnel at the Annual Sales Convention to set new benchmarks for performance and encourage others to vie for the honours.



Chairman's Award Winners of 2020

It's my pleasure to be a part of this talented HNBA team. I joined this institution in 2015 as a school leaver and have progressed to become one of the best achievers among the team. My journey wouldn't be successful without the support and guidance of my team. My team has helped me to develop my skills and empower me with courage. I will never give up to achieve more.

V P Kamalini.
Senior Executive - Bancassurance

Health and Safety

The COVID-19 pandemic highlighted the importance of health and safety practices at the workplace. We created a dedicated team to manage HNBA’s response to the pandemic across all areas of our operations. Daily meetings are held by the Disease Outbreak Response Team, comprising key executives of the Group, to update the effects of the pandemic on its staff and business operations island-wide and make decisions on health and safety of employees as well as customers. Swift action was taken to safeguard our team from the ongoing COVID-19 pandemic by implementing a wide range of preventive measures in consultation with the Government authorities. Listed below are some of the steps taken to minimise any exposure,

- Strict adherence to practices such as hand washing and temperature checking when entering office premises
- Allowing staff to work from home
- Frequent disinfecting of office premises
- Maintaining social distance at all times
- Upgrading infrastructure to facilitate remote working
- Reinforcing good hygiene practices through regular communications

Other health and safety practices and health related benefits include,

- Comprehensive medical insurance scheme covering both in-house medical treatment and reimbursement of outpatient medical costs to permanent employees
- Maintenance of first-aid boxes in each department
- Maintenance of a ‘sick-room’ in head office premises
- Free Weekly medical clinics

Learning Opportunities

Training needs are identified through performance appraisals, customer feedback and skills assessments. Subsequently, training and development programs are designed with both individual and organisational goals in mind.

During 2020, most training programmes were transferred to virtual learning platforms to accommodate remote participation due to the need for social distancing. Lockdown periods were used for online training programs to elevate performance, effectively utilising the time. Several programmes were conducted to support transition to digital offices and to ensure business continuity during the pandemic. Total investment in training and development for the year amounted to Rs.3.9 Million (2019: Rs. 10.8 Million) covering 12,683 training hours. The lower spend is on account of using internal resource persons in light of pandemic, nevertheless total training hours are on par with the previous years.

Training programmes conducted during the year included the following:

- Leadership Development programmes
- Collaboration Mindset Workshops
- Functional Trainings
- IT Security Trainings
- Compliance Trainings
- New Product Trainings
- Customer Service Excellence
- Grooming Programmes
- Money Laundering and Ethical Practices

Type of Training Program	No. of Programs	
	2020	2019
Internal	31	96
External	31	51
Overseas	-	9
Total	62	156

Grade	Total Training Hours	
	2020	2019
Heads and Above	249	823
Managers and Asst. Managers	2,438	3,452
Executives	4,423	2,798
Non-Executives	5,573	5,822
Total	12,683	12,895

Effective Engagement

Input and feedback from our employees are valued and considered when formulating our corporate strategy. We maintain an open-door policy to encourage effective engagement and encourage collaboration and inclusivity.

The Great Place To Work® certification is based on employee surveys and enables us to benchmark employee engagement levels to other corporates.

Several social and welfare programs were hosted during the year to encourage networking while social media also plays an important role in employee engagement. Our official Facebook group “Connect” is used as a platform to connect not only with our employees but also their families. Our engagement mechanisms are graphically summarised alongside.



Social Media

Communication and engagement via our official Facebook page "Connect"



Meetings

Management meetings and branch communication



Email and SMS

Both formal and informal communication



Intranet

For communicating Group policies and procedures



Staff Conference and other Company Events

Staff engagement and recognition



Notices and Banners

Communicate important notices



Welfare Events

Employee and family interaction

HUMAN CAPITAL

GRI 102-8, 401-3, 405-1, 406-1

Grievance Handling

Employees are encouraged to raise any concerns or issues related to their jobs to their line managers, the HR Division or the Chief Human Resources Officer (CHRO) who are responsible for resolving or escalating the same to the Senior Leadership Team and where necessary to the Board. A formal Grievance Policy provides a framework for handling all complaints and is clearly communicated among all employees. Minor grievances raised are addressed and resolved by the Heads of Department while others are considered carefully for appropriate action with necessary approvals.

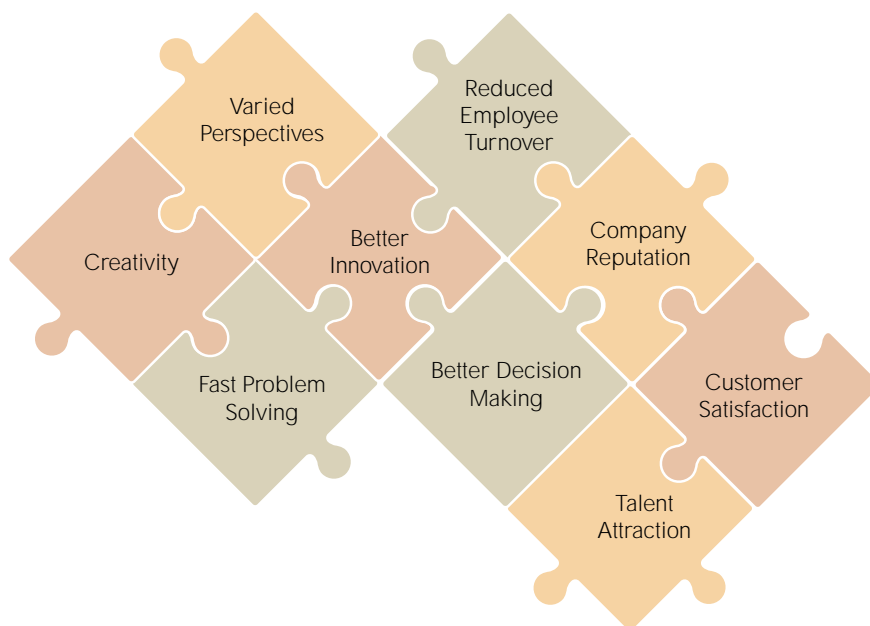
Outsourced Staff

Outsourced staff are contracted through reputed labour agencies and remunerated according to the regulatory requirements of the Country. During the year we worked with 198 (2019:199) outsourced personnel. We worked with our outsourced service providers to ensure that the remuneration and benefits were maintained without loss of pay or jobs and that the health and wellbeing of staff were given due attention.

Diversity and Inclusion

Diversity and inclusivity are embedded into the culture and strategy of our organisation and we see this as a strength that differentiates us in the market. A diverse workforce enables us to understand and cater to a wide variety of customers and become more adaptable to the changes in the business environment.

Benefits of diverse and inclusive workplace include,



Our Human Resource Management Framework ensures equal opportunity and a non-discriminative workplace for all employees. This is reflected in our zero tolerance of racism in the workplace and recruitment, talent development and career progression processes. The Training Policy and the Assurance Behavioural Framework ensures that learning opportunities are allotted based on pre-determined criteria minimising potential bias. Further, grievances, open door and integrity reporting policies encourages employees to report discrimination.

We strive to nurture employees by understanding their unique traits and circumstances. Practices such as working from home and flexible hours are provided based on employee's needs. During the year, 34 employees were on maternal leave. A period of two hours of paid leave per day is also allowed for lactating mothers during the first year.

Maternal Leave	2020
Employees entitled to maternity leave	442
Employees on maternal leave	34
Employees who returned after maternal leave	23
Employees still in employment 12 months after returning on maternal leave	22

Gender Parity

As an equal opportunity employer, we ensure that all employees have access to the same rewards, resources and opportunities regardless of their gender. We safeguard,

- Equal pay and benefits for comparable roles with similar responsibilities
- Equal opportunities for promotions and career progression

Disclosure on gender parity are referred to in the following pages:

Disclosure Requirement	Our Response	Page Reference
Strategies and Goals for Gender Parity	The Company's strategy embraces diversity and inclusiveness	Page 124
Diversity and Inclusion Policies	Our corporate culture promotes diversity and inclusiveness	Page 130
Gender Pay Equity Policy	Total Rewards Policy in place to ensure recognition of talent and contribution	Page 128
Grievance Handling Mechanism for Sexual Harassment	A comprehensive Grievance Policy is in place	Page 130
Workplace Practices to Promote Gender Parity	39% female representation in total workforce 29% female representation in the Board of Directors 13% female representation in middle management 33% female new recruits 42% females employed in the western province 34% females employed in other provinces 17% attrition in female workforce	Page 124
Proportion of Women at Work 12 Months After Maternity Leave	22 employees remain in employment	Page 130
Proportion of Women in IT, Engineering and Production Related Activities	13% female representation in IT 44% female representation in operation divisions 34% female representation in technical and support service divisions 39% female representation in distribution network	Page 124



Social and Relationship Capital

As a service organisation, our success is determined to a large extent by our relationships with external stakeholders who include customers, value chain partners, regulators and the communities we operate in. Structured relationship management with these key groups of stakeholders facilitates long-term value creation for stakeholders and the Group, strengthening relationships which drive mutual growth.



Goals for 2020

As Planned

- ▶ Improve Premium Persistency Ratio to 82%
- ▶ Implementing a systematic model for receiving feedback at every touchpoint to increase customer satisfaction
- ▶ Produce more than 125 MDRT winners

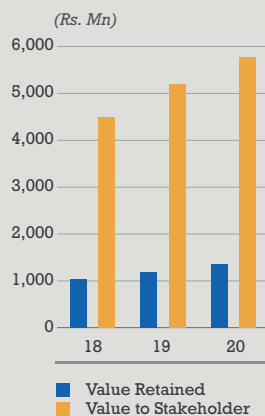
Recalibrated

- ▶ Customer acquisition via remote selling
- ▶ Enhancing digital payment platforms
- ▶ Implementing digital sales platforms for Advisors and Bancassurance

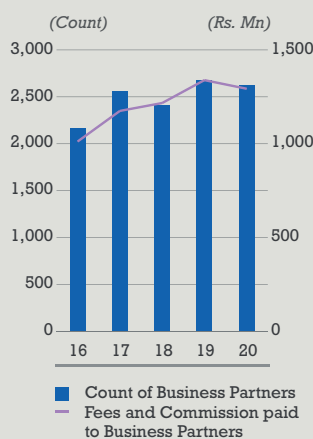


KPI's

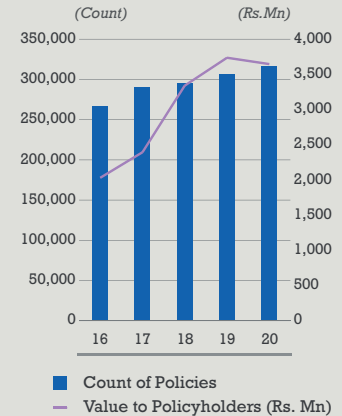
Value Retained in Business vs Value Delivered to Stakeholders



Fees and Commission paid to Business Partners



Value to Policyholders



Capital Trade-Off



Page 112



Page 139



Page 146



Way Forward

Goals for 2021

- ▶ Initiate measures to increase customer retention levels of the Group
- ▶ Aim to produce more than 150 MDRT winners focusing on both Advisor and Bancassurance channels
- ▶ Continue investing in community development activities with an emphasis on water projects

Medium and Long-Term Goals

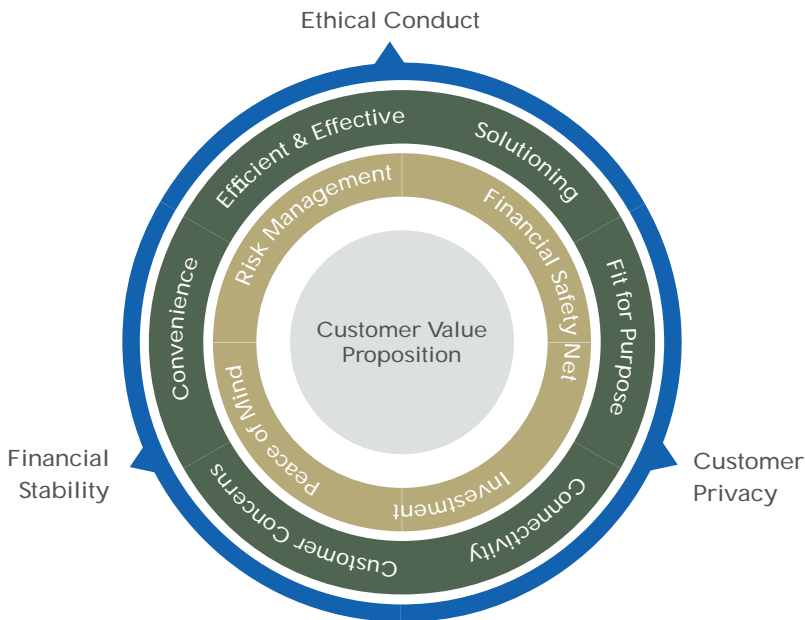
- ▶ Continue to maintain mutually beneficial relationships with our customers, business partners and community ensuring business sustainability



Nurturing Customer Relationships

HNB Assurance focuses on building and deepening long-term relationships with our Policyholders as we take a long-term view of our business. Our value proposition to customers is summarised graphically below. The inner circle represents the intrinsic value of insurance products while the outer circle represents the factors that come together to differentiate HNBA's offering.

Claims paid by the Group and the bonus and dividends for Life Policyholders stand as testimony to the core value proposition to customers financial safety net, investments, risk management and peace of mind as set out in the graphs below.



Solutioning

HNBA adapts a solutioning approach to customers' needs, taking the time to understand the unique circumstances and aspirations of customers. Our customer facing staff and Advisors are trained and are provided tools supporting this process, which is the initial step. This year, we rolled out web-based solutions to support our sales force to enhance assessment of customer requirements as the right solution determines the customers overall experience and level of satisfaction with us. Training of our field force gathered momentum as we used lockdown periods to deliver training using virtual platforms. Our talent acquisition this year also focused on onboarding people with the capability to enhance our customer engagement experience.

Fit for Purpose

Our product portfolio is designed to cater a wider customer base with diverse requirements as set out on page 16. We enable customers to hedge against risks and uncertainties by managing insurable risk portfolios to provide relief in the event these risks or uncertainties materialise while our investment products, pension schemes and Life Insurance solutions support growth in their wealth. Further, we offer tailor-made policies designed based on specific requirements or circumstances of customers.



New products introduced during the year

“ We wish to make note of the service rendered by HNB General Insurance Limited (HNBGI) over the last 3 years as the insurance partner of our company, Gamma Pizzakraft Lanka Pvt Ltd. While being competitive, HNBGI team is friendly and supportive. Dedicated team assigned to us is available at any time to reach. During claim settlements, HNBGI team is much practical and understand the ground reality beyond the terms in the policy. ”

- Gamma Pizzakraft Lanka (Pvt) Ltd

SOCIAL AND RELATIONSHIP CAPITAL

Product innovation is led by an in-house product development team and assisted by extensive studies in customer behavioural patterns, customer feedback and changes in the business environment. During the year, two new health products, SupremeHealthMax and SuperCI (Super Critical Illness) were introduced. SupremeHealthMax includes a worldwide hospitalisation cover up to Rs.50 Million and Cashless Claim settlement while SuperCI, a comprehensive critical illness cover against 32 critical illnesses, predominately focusing on cancer diagnosis and heart conditions. With these additions our comprehensive and well balanced portfolio of products can cater to all segments of the market.

Connectivity

Connectivity is key to providing the support required by insurers and we have invested multiple capitals to set up an Omni channel customer care network to enable customers to voice concerns, report accidents, and clarify matters or to make complaints.



Our Corporate Website plays a vital role in customer engagement and connectivity. Customers can obtain relevant information, make payments and interact with the Company via the website.



Customer Concerns

Our contact points are supported by processes to capture customer inputs and initiate necessary action. The Board reviews reports from these processes to determine responsiveness of the Group and understand the concerns of customers which are key inputs into our strategic planning process. In 2020, we resolved 97% (2019: 98%) of complaints and made Rs.3.6 Billion (2019: Rs. 3.6 Billion) in claims and benefits reflecting our concern and commitment to uphold our core customer value proposition.

97%
Complaints Resolved

Rs. 3,559 Mn
Paid as
Claims and Benefits

Convenience

Customer convenience is a key area of focus as we integrate into their busy lives. Apart from these we accelerated our digitalisation during the year to ensure business continuity during the pandemic. We also launched several initiatives to give customers convenient access to us during the lockdown while encouraging them to maintain the stipulated social distancing.

These initiatives include,

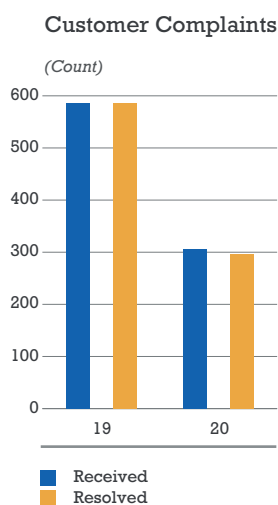
- Launch of e-policy, giving customers remote access to policy documents.
- Enabling and encouraging the use of digital payment platforms
- Expanding online facilities such as eLife, eportal, ePay and eQuote.
- Dedicated WhatsApp and Viber portals to submit claim related documents.
- Uninterrupted services provided through our Life and General call centres
- Use of Social Media to forward any customer queries
- Expanding payments through bank transfers and strengthening premium collection through eZCash, mCash, ePayment Portal and HNB solo.

Efficiency and Effectiveness

Our goal is to increase customer satisfaction by meeting and exceeding customer expectations. Several indicators are tracked to assess our service delivery which include customer satisfaction scores, retention rates, average time to issue a policy and the average time to settle a claim. It is pertinent to note that the 2020 service turnaround times recorded a decrease compared to 2019 due to the effects of the pandemic such as not being able to dispatch policy documents to customers, not being able to reach customers with no access to digital platforms to settle claims and not being able to dispatch printed policy endorsements to customers.

Ethical Conduct

Ethical conduct underpins our entire customer value proposition which is reinforced by the Employee Code of Conduct. Customers are also able to complain about any unethical conduct to our call centres and we received only minor complaints on unethical practices during the year which were addressed and resolved immediately in 2020.



Fair Pricing

We ensure that our customers receive fair value for our insurance products and services. Consequently, all our products and services are priced using fair and transparent pricing practices. This is supported by good underwriting and actuarial practices.

Product Information

We understand our responsibility in providing our customers with the information related to their policies in a timely and comprehensible manner. All information including insured values, premium payments and terms and conditions are clearly communicated on relevant brochures and our website. Additionally, the customer facing distribution partners and employees are required to explain the product clearly to customers which is reinforced during training as well to ensure that customers understand the nature of the product including the terms and conditions.

	2020	2019
Life Insurance		
Policies issued within 5 days	81.6%	99.7%
Claims settled within 5 days	93.4%	96.6%
Retention Rate	76.3%	81.0%
General Insurance		
Policies issued within 2 days (non-motor)	94.2%	90.5%
Motor Claims settled within 2 days	94.0%	89.0%

Customer Privacy

Customer privacy and data protection is of utmost importance to the insurance industry due to the sensitive nature of information gathered. Cyber risk management is a key area of the Group's Risk Management Framework with specific policies addressing the same as set out on page 89. All employees are given training on Cyber Risk Management including Customer Privacy aspects to strengthen our first line of defence.

Financial Stability

For many customers, considerations of financial stability outweigh many other factors due to the long-term nature of the contracts on Life Insurance business. It is also an area monitored by the Regulator who has in place a minimum Capital Adequacy Ratio (CAR) to measure financial stability of the insurance companies in the country. The CARs of the two companies are given on page 121. A long-term view, prudent risk appetite and sound Corporate Governance supports HNBA's financial stability which is well

above the regulatory requirements and industry average. Furthermore, both HNBA and HNBTI have been issued Insurer Financial Strength Ratings of A' Ika with a stable outlook by Fitch Ratings Lanka Ltd.

“

We write to appreciate of your years of insurance services to Trico Group of Companies.

We are writing to thank you on the swift and efficient ways of our recent claims were settled. When our container yard flooded and damaged many of the consignments of our customers with full of memories and sentimental values, you and your staff helped us a lot to pay insurance claims to our valued customers.

We are very much impressed with the professionalism of your company and claim settlements were made possible because of your individual efforts as well as the efforts of your team members.

Your speed of response and the courtesy and professional helpful manner of everyone we have dealt with has been excellent.

Thank you for your hard work and much dedication to our company.

We look forward to your ongoing contributions and outstanding services in near future too.

- Trico Group of Companies

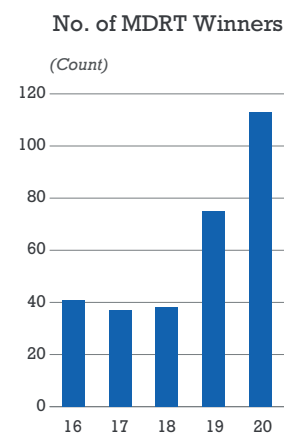
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SOCIAL AND RELATIONSHIP CAPITAL




Relationship with Our Business Partners

We liaise with several intermediaries in our business journey. These relationships are vital for our sustainable growth and we strive to build mutually beneficial relationships with them. Capacity building initiatives and a comprehensive product portfolio provided by HNBA form a key part of the value we provide to them while we benefit from the business introduced and the relationships managed by them. Their feedback is a key input into our strategic planning process as they are key stakeholders in our value creation process as well.

The insurance industry is highly competitive with players struggling to increase their market share amidst the sluggish growth in the market. HNBA continues to reinforce the need for ethical marketing and fair business practices through our training programmes for all business partners in our distribution chain. We aim to compete successfully by establishing a strong market presence, offering an innovative product portfolio to suit the requirements of a diverse customer base and delivering positive customer experiences through innovation and operational efficiency.



Following table depicts the relationships we maintain with our business partners.

	 Advisors	 Brokers	 HNB Group
About Our Key Business Partners	Network of our 2,473 Advisors across the country to cater to a diverse customer base	To maintain our customer credibility, we only engage with Brokers registered with the Insurance Regulatory Commission of Sri Lanka. We have a network of 60 brokers strengthening our General Insurance business	Our parent supports our Bancassurance business segment giving us access to a large customer base. At present we have 241 Life Insurance and 96 General Insurance Bancassurance Officers based at the HNB branches across the country
Value Derived	<ul style="list-style-type: none"> Rs. 4,004 Million GWP (2%) growth Contribution of 38% 	<ul style="list-style-type: none"> Rs. 1,808 Million GWP 17% growth Contribution of 17% 	<ul style="list-style-type: none"> Rs. 3,247 Million GWP 13% growth Contribution of 31%
Value Delivered	<p>Compensation:</p> <ul style="list-style-type: none"> A comprehensive package with performance-based incentives and benefits such as loan facilities and terminal benefit scheme. During the year all performance-based remuneration was paid on time despite the difficulties caused by the pandemic <p>Training and Development:</p> <ul style="list-style-type: none"> Investment of Rs.2.5 Million in upskilling Advisors (2019: Rs.2.9 Million) Special training programme on Digital Selling Online MDRT grooming session with more than 155 participants 	<p>Compensation:</p> <ul style="list-style-type: none"> Attractive and competitive commission rates to strengthen our relationship <p>Training and Development:</p> <ul style="list-style-type: none"> Conducting knowledge sharing sessions to keep them updated on product and process developments 	<p>Compensation:</p> <ul style="list-style-type: none"> Attractive fee income based on the business directed to us <p>Training and Development:</p> <ul style="list-style-type: none"> Insurance awareness training programmes for HNB Regional managers around the Country were conducted
Engagement	<ul style="list-style-type: none"> Payment of a special advance to compensate the loss of income during COVID-19 lockdown period 	<ul style="list-style-type: none"> Fellowship events to encourage engagement 	<ul style="list-style-type: none"> Branch visits Sponsorships for HNB events
Recognition	<ul style="list-style-type: none"> 38 Million Dollar Round Table (MDRT) winners recognised for 2019 achievement Assured the delivery of all other awards amidst the COVID-19 pandemic 		<ul style="list-style-type: none"> Award ceremony to recognise the contribution made by the management of HNB



HNBA Assurance is the most trusted Life Insurance Company in Sri Lanka. I am very happy and interested to work with this company. The management of the Company continuously support me to achieve my goals and enhance my growth. The comprehensive product range offered by the Company is the main reason for my success as the attractive features and riders attached to our products help me to be above the competition in the market. I specially thank the management, the staff members and the field staff for continuously motivating me and helping me to develop my knowledge. HNBA is a great place to work.

Rohana Gamage
Insurance Advisor - HNBA



Reinsurers

We manage our risk exposure and ensure business stability by transferring part of our risks to our reinsurers. Consequently, they play a key role in our risk management structure and ultimately, our customer value proposition. Positive relationships with them enables us to negotiate favourable reinsurance terms and consequently pass on the benefit to our customers. All reinsurers that we have partnered with have sound financial strength and credit ratings and the details of which are given on pages 220 and 223.

Financial Institutions

As an Insurance company, we maintain relationships with many Banks, Finance Companies and Primary Dealers to manage our investment portfolios, execute payments, etc. We comply with all the Regulatory requirements set by the Insurance Regulatory Commission of Sri Lanka (IRCSL) and Group Internal Investment Policy when carrying our business dealings with these institutions.

Other Suppliers

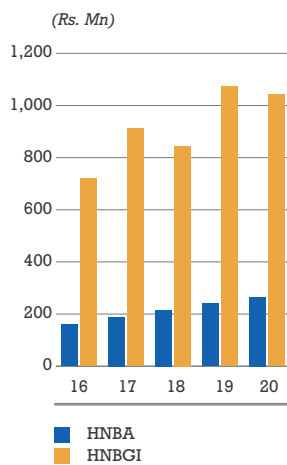
Suppliers play an important role in our business operations and positive relationships with them will result in efficient and effective functioning of our operations. Supplier screening and assessments are carried out prior to registration and all suppliers must comply with the local regulations. Detailed technical and financial reviews are carried out prior to shortlisting potential suppliers and we conduct continuous monitoring of our existing suppliers. Our procurement process is streamlined to ensure fairness and transparency.

Government

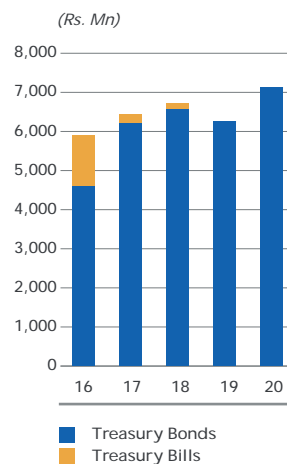
The Government is a key stakeholder as they regulate the insurance industry through IRCSL and derives revenue in the form of direct and indirect taxes which are administered by the Department of Inland Revenue. We also invest in securities issued by Government of Sri Lanka (GOSL).

HNBA complies with all regulatory requirements of IRCSL and works with the regulator to support growth of a stable insurance industry in the country. Taxes paid by HNBA Group and investments in GOSL securities are given below.

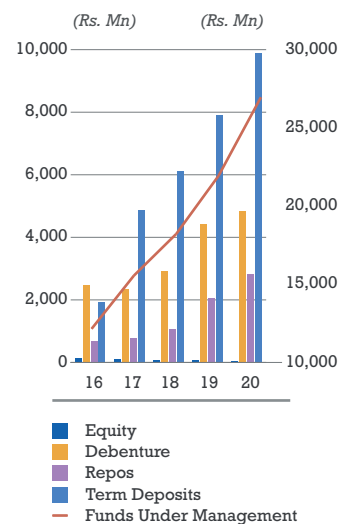
Premium Ceded to Reinsurers



Investments in GOSL Securities



Investments in Financial Sector Institutions



SOCIAL AND RELATIONSHIP CAPITAL

GRI 203-1

Empowering Our Community

We make a conscious effort to give back to our community by being a responsible Corporate Citizen. During the year, we invested Rs. 3 Million in various CSR projects addressing concerns such as water scarcity and environmental pollution. We also foster local talents such as arts, culture and sports. During the year we carried out 6 water projects in the schools of J/Vathiry North M.M.T.M School - Alvai, Mo/Ranjan Wijerathna Maha Vidyalaya, Mo/Dahagoniya Primary School - Bibila, T/TN/Pamburugaswewa Vidyalaya - Gomarankadawala, Skanthapuram No.02 G T M School - Kilinochchi and Mo/Sevanagala Usbim Maha Vidyalaya. Furthermore, we improved infrastructure facilities of Perawella School in Welimada and sponsored the Deaf Cricket Team of Sri Lanka as a part of our CSR initiatives.



Sponsoring the Sri Lankan Deaf Cricket Team



Our water stewardship initiatives carried out around the country

“



Our water stewardship initiatives appreciated by students and teachers of Dahagoniya Primary School - Bibila

Dahagoniya Primary School

”



Intellectual Capital

Our intangible assets encompassing the Governance framework, organisation culture, systems and processes, tacit knowledge of our team, brand and reputation enable seamless value creation. Collectively, they makes us unique and set us apart from other players in the industry.



Goals for 2020

As Planned

- ▶ Disburse 80% of medical claims within one working day ✔
- ▶ Introduce mobile applications for customer convenience ✔
- ▶ Implement a Customer Relationship Management (CRM) model ✔

Recalibrated

- ▶ Upgrade IT and cybersecurity to support new developments ✔
- ▶ Development and implementation of digital platforms to increase mobility ✔
- ▶ Strengthened eBuddy system ✔



KPI's

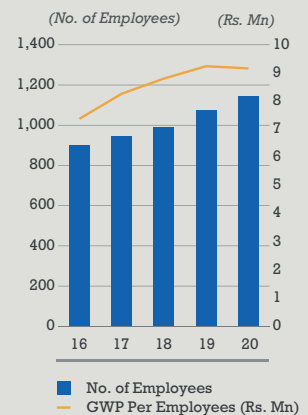
New Products



Digitalisation

- Launch of E-policy
- Digitalisation of processing related to Privileged Life, My Fund and Ran Maga Policies
- Integration of Quotation module and E-proposal with the core application

GWP per Employee



Capital Trade-Off



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Way Forward

Goals for 2021

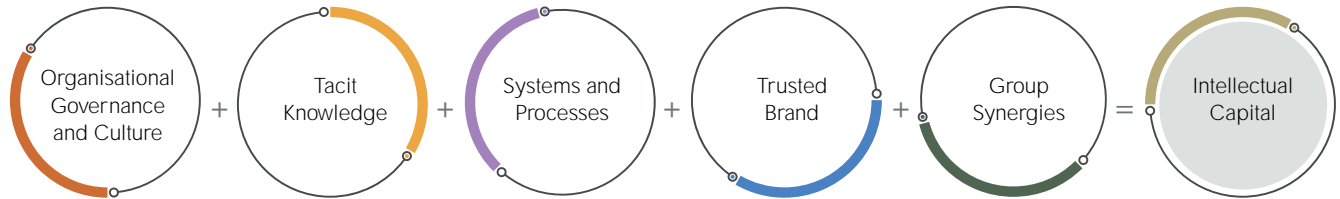
- ▶ Further enhance the digital customer experience
- ▶ Improve turnaround times of business processes to enhance efficiency levels
- ▶ Introduce innovative products

Medium and Long-Term Goals

- ▶ Enhance market intelligence through extensive use of big data and continue to invest on digitalisation

INTELLECTUAL CAPITAL

Our intellectual capital is built on five pillars as depicted below and we continuously work towards improving each pillar on a year on year basis to enhance our intellectual capital.



Governance and Culture

The Board sets the tone at the top and forms a Governance structure, systems and processes that support sustainable growth, performance and accountability. Corporate values and our Code of Ethics explicitly state expected standards of conduct. Further communications on corporate strategy and performance review processes set clear goals and targets for a balanced performance covering financial and Economic, Social and Governance (ESG) factors. Performance management is aligned to both career aspirations and organisational goals, shaping attitudes and behaviours and ultimately enforcing the desired culture. This performance driven culture has enabled the achievement of our set goals and targets even in the unprecedented times as discussed through our Financial Capital report. The open-door policy practiced ensures transparency and inclusivity at all levels, leading to innovation. External benchmarking of our work environment through the Great Place To Work® Survey is key to ensuring that our culture changes in response to societal expectations and dynamics.

Tacit Knowledge

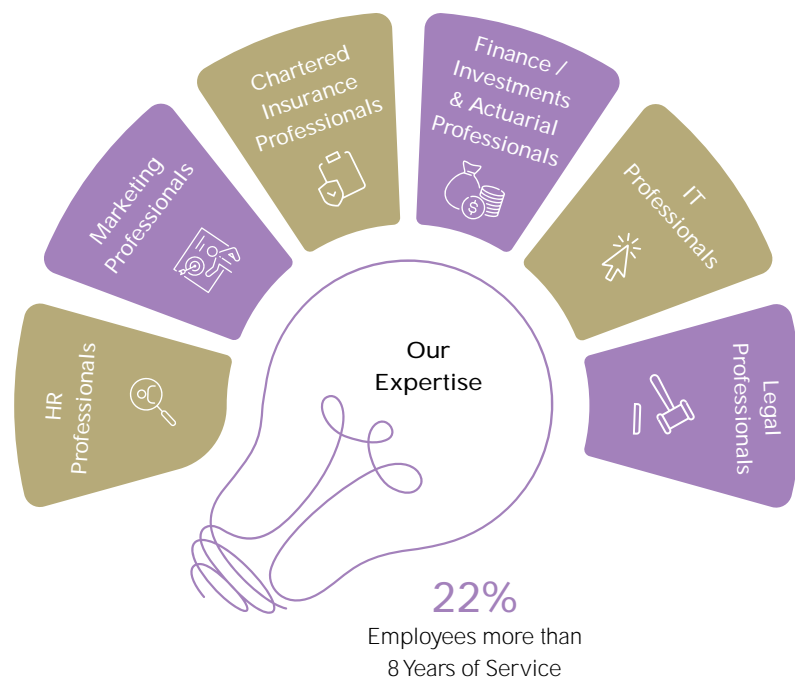
Tacit knowledge of our team is a significant competitive edge in the insurance industry as it is a highly specialised and regulated industry. Professionals with expert skills in insurance and supporting services are in high demand and we are privileged to have a team who are highly respected in the field. Our Board of Directors are highly experienced and skilled professionals and our vibrant team possess extensive industry experience and are well trained.

Further, bearing witness to our pool of tacit knowledge we are pleased to say that being a relatively young organisation

in the industry, 22% of our staff members have more than 8 years of service in the Company. They add value to our business through the years of experience gained and the knowledge gathered.

Our competent product development team represented by senior members of Operations, Actuarial, Finance, IT, Marketing and Distribution teams is another area in which our tacit knowledge built over the years is reflected. During the year we were able to introduce three groundbreaking products to the market with the use the expert knowledge of this team.

Over the years the Group has invested in the development of its team and knowledge sharing with fellow colleagues after completion of training sessions is embedded in our culture. We have gone further in solidifying knowledge thus passed down by developing and having in place process manuals for all key business functions.





Operational Excellence

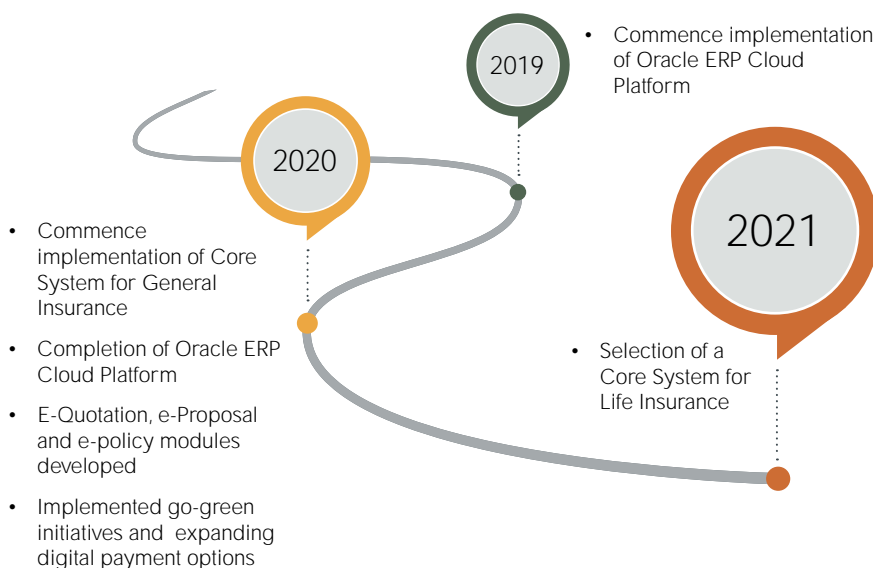
A continuous focus on driving operational efficiency gave rise to further streamlining of processes during the year. Digitalisation of business processes was accelerated due to the pandemic and this had a positive impact on both workflow efficiency and cashflow. Under this initiative, the processing of our three main products, Privileged Life, MyFund and RanMaga were digitalised during the year. Newly developed e-quotation module and e-proposal module was integrated to the core application resulting in lower turnaround time while delivery of policies was expedited by the implementing e-policy application. With these improvements we were able to maintain Gross Written Premium per Employee at Rs. 9.1 Million (2019: Rs. 9.2 Million) despite the effects of the pandemic.

Systems and Processes

During the year, data analytics and digitalisation played a key role in ensuring business continuity. Our plans in digitising business processes were accelerated during the year to address limitations in mobility caused by the need for social distancing. Telecommuting and remote working was enabled and supporting infrastructure was provided to ensure employee safety. We have strengthened IT and cybersecurity, and updated IT policies to support the new developments. System security checks were performed internally and in collaboration with industry experts to detect vulnerabilities and implement proactive measures to bridge gaps and overcome possible threats.

We also invested in and commenced implementation of a new Core System for General Insurance, upgraded Oracle Fusion ERP system to embrace Cloud Technology and improved workflows to facilitate work from home concept during the year.

Below timeline illustrates our continuous investments in enhancing our digital capabilities,



We invested in streamlining our processes to meet international best practice standards. In 2020 we obtained ISO certification for the entire life operation covering new business, claims and policy servicing. Furthermore, during the year we were able to disburse 80% of medical claims within one working day to increase customer convenience.



ISO 9001: 2015 Accreditation

Innovation

Catering to the evolving insurance needs of customers is an essential component in achieving competitive advantage in the marketplace. Identifying such changing customer requirements three new innovative products were launched to strengthen our product portfolio. The addition of new health riders, SupremeHealthMax, Super CI and Pay As You Claim in General Insurance has elevated our product offerings to successfully compete with major players in the market while catering to all customer segments. Favourable responses received from customers serves as a testimony to our innovative product development.

INTELLECTUAL CAPITAL

Further, our organisational culture of encouraging innovation from within is evident by several key digital initiatives launched during the year facilitating increased efficiency in business processes and customer satisfaction. In 2020 we also strengthened the eBuddy system for Advisor communications and performance monitoring and introduced a customer mobile application taking a further step towards digitalisation.

A Trusted Brand

Our brand is built on prime concerns of our key stakeholders, trust and stability. The culture of the Group adds lustre to the brand as we strive to ensure that stakeholders receive positive experiences in a symbiotic relationship.

Promotional campaigns run on traditional media and digital platforms marketing our products enhancing awareness among customers, and increasing our visibility, supporting brand recognition and recall. We also implemented a Customer Relationship Management model to enhance the customer experience and increase brand reputation.

The reputation of our parent Hatton National Bank PLC, a leader in the Sri Lankan banking industry also enriches our brand as it brings over a century of experience and stability in the financial services sector to the HNBA Group.

Reputation is zealously guarded by all at HNBA as we build a culture of risk awareness and nurture the sense of pride and belonging to the organisation. We are deeply conscious of the trust placed in us by our stakeholders and strive to uphold our explicit and implicit covenants in return.

Key Digital Initiatives Launched During the Year			
Digital Cheque Printing Solutions			Migrating to Online Payment Options
Introduction of SOLO	Automated IBT Process	Automated DBR Process	Direct Receipting through mCash



Innovative products introduced during the year

Awards and Accolades

Awards and accolades received by the Company is an integral component of our brand value and during the year we received the following awards and accolades:

- Great Place to Work® - Top 40 Companies in Sri Lanka
- Certificate of Merit - CMA Integrated Annual Report Awards 2020
- Certificate of Merit for Best Presented Accounts - South Asian Federation of Accountants (SAFA) Best Presented Annual Report Awards 2020

Group Synergies

We strive to capitalise on the strength of our parent HNB Bank PLC by leveraging on the Bank's strong brand presence and island wide branch network. Through our network of Bancassurance officers we have access to the diverse customer base of our parent and during the year captive business from the Group amounted to 32% of our GWP. HNB Bank's reputation as one of the largest, stable and most technologically advanced banks not only locally but also globally has won us the loyalty of our customers and other stakeholders.

Investment in Brand

Rs. 67.6 Mn



Brand Value
Rs. 633 Mn



Brand Value
Rs. 562 Mn



Manufactured Capital

Our Manufactured Capital comprises physical and digital infrastructure along with Property, Plant and Equipment and software that enable us to connect with our customers while fostering operational excellence.



Goals for 2020

As planned

- ▶ Upgrade and expand branch network
- ▶ Invest in IT infrastructure to increase efficiency

Recalibrated

- ▶ Limit branch expansion to one and relocations to 3
- ▶ IT infrastructure to facilitate work from home
- ▶ Rationalising our footprint to drive efficiencies

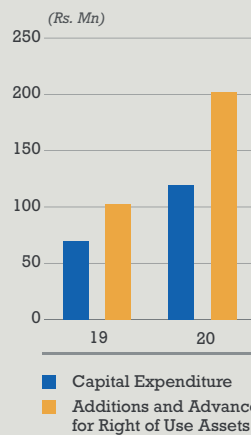


KPI's

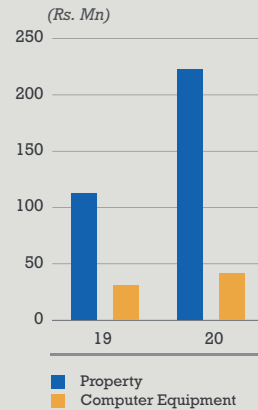
New Branches

- One new branch in Madawachchiya
- 6 new incubator branches
- 3 branch relocations

Capital Expenditure



Investment in Growth



Capital Trade-Off



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Way Forward

Goals for 2021

- ▶ Continue investments in Information Technology to transform business processes
- ▶ Expand our presence island-wide with investments in branch upgradation and expansion
- ▶ Invest in a core life insurance system

Medium and Long-Term Goals

- ▶ Increase investments made on intangible assets to ensure that we are keeping pace with the digitalised world and ensure sustainability of operations

MANUFACTURED CAPITAL

Nurturing Manufactured Capital

Our Manufactured Capital comprises investments in Computer Equipment, Motor Vehicles, Office Equipment, Furniture and Fixtures and Right of Use (ROU) Assets. As of end 2020, manufactured capital of the Group amounted to Rs. 564.2 Million of which 30% (2019: 32%) was owned by the Group while the balance 70% (2019: 68%) was on account of leased assets. The Group invested Rs. 83 Million as capital expenditure in 2020 (2019: Rs. 60 Million) on building Manufactured Capital, nearly half was on investment in computer and related equipment in pursuit of our digital strategy and to ensure business continuity during the pandemic.

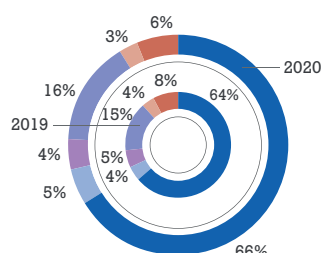


Our branch network and Head Office operate on leased premises which is reflected in our statement of financial position as a Right of Use Assets amounting to Rs. 394 Million at the end of 2020 (2019: Rs. 344 Million). The Group invested in Rs. 8.1 Million in 2020 (2019: Rs. 10.8 Million) in expanding its branch network by one more branch and three relocations in addition to extending the term of its head office premises which resulted in an increase in ROU Assets. Such investments were focused on expanding our branch network, facilitating better customer engagement and brand visibility.

The Group's capital investment decisions are made after careful evaluation of return on investment. Branch network expansion by way of a brick and mortar branch is evaluated considering projected revenue, area potential and performance of incubator branch to justify capital investment.

Composition of our PPE including Right of Use Assets is illustrated by the below graphs along with an analysis of capital expenditure and depreciation.

Composition of PPE and Right of Use Assets



- Property
- Motor Vehicles
- Furniture & Fittings
- Computer Equipment
- Office Equipment
- Fixtures

Our Digital Journey

We accelerated our digital journey in 2018, significantly progressing, enabling us to shift gears and accelerate implementation in response to social distancing measures necessitated by the pandemic in 2020. Key areas of investment in 2020 are summarised below.

The year under review proved to be a Digital Reset for the HNBA Group as employees and distribution partners were empowered and supported with tools and applications to reach higher efficiency levels to drive sales growth in a hardening market. Facilitating remote working whilst maintaining internal controls was

a critical challenge that we responded to effectively as we worked throughout the lockdown periods. Working with the HR Division, a Telecommuting Policy has been introduced, formalising the process and specifying necessary safeguards. We also implemented our cloud strategy starting with Oracle EBS upgrade which is now fully on the Cloud Platform and other systems are work-in-progress at the close of the year. Data security and cybersecurity were strengthened to support remote working, increased digitalisation of customer engagement platforms and the surge in cyber threats witnessed in 2020.

We are currently engaged in implementing a new Core Insurance System for HNBA Group to enhance functionality. This would facilitate process and efficiency improvements in the business, increasing customer satisfaction and retention levels. Also, this would help us to be compliant with new SLFRS 17 requirements with the adoption of the standard in 2023.

Digitalisation in 2020



Enabling remote working and connected workspaces



Moving to cloud strategy



Moving to paperless transactions



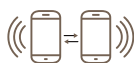
Advanced Microsoft 365 Training for all staff



Strengthening Cybersecurity



Implementation of Oracle Fusion ERP system for both Life and General Insurance



Connecting a mobile sales force through smart devices



Process of Implementing core system for General Insurance



Enhancing data security

An Island-Wide Network

Our island-wide network supports the growth of our customer base and visibility of our brand. The table below depicts the business generated through this network and the ecosystem of distribution partners connected and supported by the same.

Our Distribution Network

Province	HNB Assurance PLC				HNB General Insurance Limited			
	GWP Rs. Mn	Employees	Bancassurance Officers	Advisors	GWP Rs. Mn	Employees	Bancassurance Officers	Advisors
Northern	683	43	20	232	175	25	2	25
North Central	138	16	11	87	193	18	7	53
North Western	437	28	15	190	277	20	6	20
Central	378	33	22	181	548	42	9	41
Eastern	367	37	22	134	198	25	10	28
Uva	262	17	8	106	208	19	5	26
Sabaragamuwa	290	22	12	165	215	18	6	32
Southern	543	44	22	246	493	45	13	67
Western	2,388	350	109	712	2,691	343	38	128
Total	5,487	590	241	2,053	4,998	555	96	420

In 2020, we added one new branch in Madawachchiya, along with 6 new incubator branches, which are branch start-ups operating from within an existing branch. We also rationalised our branch network intending to optimise cost efficiencies in the coming years without any foreseeable loss of revenue. Current year branch rationalisation project undertaken enabled us to reduce 4,000

square feet without compromising our geographical coverage whilst adapting to a modern workplace built around concepts such as telecommuting and hot seating.

Our State-of-the-Art Call Centres located at the Customer Relations Management Centre (CRMC) support connectivity to customers and support customer retention

levels through follow-up on renewals. The call centres operated throughout the year despite the pandemic triggered lockdowns as we successfully provided the necessary resources to the call centre operators to work from home. The centre also houses a modern training facility enabling year-round training to upskill our employees and advisors supporting the development of Human Capital.



Natural Capital

We have created an environmentally conscious culture within our organisation to preserve finite resources while driving towards sustainable growth. Technology plays a vital role in minimising the use of natural resources such as paper while efficient use of systems and processes ensure optimum use of all resources.



Goals for 2020

As Planned

- ▶ Reduce our carbon footprint
- ▶ Reduce energy consumption and move towards renewable energy
- ▶ Encourage recycling

Recalibrated

- ▶ Move to paperless office
- ▶ Web based meetings

KPI's

Reduce Electricity Consumption

↓ by 18%



62 Trees



116,505 Litres of Water

Reduce Water Consumption

↓ by 4%



6,434 Litres of Oil



11 m³ of Land Fill

Minimise Carbon Footprint

↓ by 70%



14,664 kWh of Electricity



3,666 Kg of Green House Emission

Our Savings

Capital Trade-Off



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Way Forward

Goals for 2021

- ▶ Take measures to increase the positive impact made on the Carbon Footprint.
- ▶ Encourage the concept of 3R to manage waste.
- ▶ Reduce energy consumption.

Medium and Long-Term Goals

- ▶ Be actively involved in environmental protection and contribute positively towards Mother Nature.



Our Initiatives

Sustainable Use of Resources

- Efficient use of electricity through energy saving initiatives.
- Educating staff on responsible usage of resources.
- Innovate environmentally responsible products.

Climate Action and Supporting Life on Land

- Engagement in environmental protection programs.
- Adopting responsible waste management mechanisms.

Reducing Emission

- Use of solar generated electricity at Head Office premises.
- Minimising paper consumption through automation and use of technology.

Energy Consumption

HNBA's electricity requirement is sourced mainly through the National Grid supplemented by electricity generated from solar panels installed at the Head Office premises. Additionally, fuel is consumed for business travel and commuting of our sales force and employees. In honouring our commitment towards preserving our environment, we have taken the following measures to minimise the use of electricity and fuel:

- Use of energy efficient appliances in Head Office and across the branch network.
- Monitoring and effective use of air condition operating hours.
- Switching off power by 6.00 pm and using common working areas when working after standard office hours.
- Use of a cost reimbursement system to measure and control fuel usage.
- Introduction of hot-desking for efficient use of space and increasing efficiencies.
- Conducting staff trainings online to reduce commuting energy use and cost.
- Strict monitoring mechanism on usage of electricity and water.

GRI 302-1, 302-3, 302-4, 303-1

	Unit	2020	2019	%
Total Electricity Consumed	kWh	1,502,348	1,835,217	(18%)
Electricity Consumption per Employee	kWh	1,312	1,706	(23%)
Total Fuel Consumption	Litres	572,459	574,095	(0.3%)
Total Water Consumption	Litres	12,406,912	12,881,560	(4%)

During the year, our electricity and fuel consumption reduced by 18% and 0.3% respectively, a save of Rs. 11.5 Million. This reduction was also driven by the restrictions on mobility of the sales force due to the pandemic and the Group's shift towards working from home. Our attempt to provide remote access to customers and the sales force via online and mobile platforms have also resulted in a positive impact on the fuel usage as customers and employees no longer have the need to meet physically. Reducing energy consumption and driving down costs made a contribution in improving Group profitability in the wake of the unprecedented challenges posed by the pandemic.

Water Utilisation

Water used for sanitary purposes and Head Office drinking water is sourced from the National Water Supply and Drainage Board while the drinking water for the branch network is obtained from an outsourced company where water is sourced from tube wells. We continue our efforts in preserving water by collecting and reusing rainwater to meet a part of our water requirement at the Head Office.

Furthermore, during the year a project was rolled out at the Head Office to reduce the cost incurred for the consumption of water by implementing a water filter system in replacement of the purified water purchased previously. This reduced the cost incurred for water consumption by around Rs. 0.9 Million during the year and helped to save costs related to storage and energy consumption and we intend to expand it to our branches in 2021.

NATURAL CAPITAL

GRI 302-1, 305-2, 305-4, 305-5, 306-2, 307-1

Paper Consumption and Waste Management

As paper is the main form of waste for the insurance industry, we drive innovation and automation to create a paperless environment. We rely on technology to not only reduce our paper consumption but also drive efficiency and customer convenience.

During the year under review we moved a step closer to a paperless office as a response to business continuity in the wake of the pandemic. Built on the processes supporting paperless work arrangements such as workflows, core and ancillary systems, we quickly shifted all paper based processes to paperless via emails, mobile technology, e-payments and more workflows to operate seamlessly during the nationwide lock-down periods. This enabled uninterrupted customer service through policy issuance, renewals, servicing and claims payments in both Life and General segments ultimately ensuring returns for Shareholders and all other stakeholders.

Initiatives taken to reduce paper consumption include,

- Introduction of E-policy where customers can access policy documents via their smartphones without having the physical document in hand.
- Dedicated WhatsApp and Viber portals to submit claim related documents.
- Improvements to workflow applications and system.
- Paperless payments with 47% payments being made through electronic means eliminating costs, time and resources associated with cheque printing and delivering for the Company and cheque depositing for customers.
- Availability of web-based payments, eZcash, mCash, HNB Solo and other electronic payment modes.
- Sending payment confirmations and statements to suppliers via SMS and e-mails, reducing printing requirements.
- Sharing all information related to Advisors through the e-buddy system and employee information through the HRIS.

- Conducting staff training online and thereby shifting to e-training material.
- Encouraging employees to use digital communication methods such as email, SMS, etc.
- Promoting the use of e-products such as, e-pay, e-portal, etc. where printing is not required.
- Conducting virtual meetings minimising the need for document printing.

Reducing Our Carbon Footprint

	Unit	2020	2019	%
Reduction in Green House Gas emissions	Kg	3,666	2,154	(70%)

We continue our efforts to reduce emission levels by sourcing a part of the electricity requirement at our Head Office through solar power. In addition to these energy saving initiatives and attempts to create a paperless environment also has a positive impact on reducing our carbon footprint.

Furthermore, we strictly adhere to all environmental laws and regulations. During the year there were no fines or sanctions imposed on the Company for non-compliance with environmental laws and regulations.



Now our services and online solutions are available at your fingertips!

PERFORMANCE OF BUSINESS SEGMENTS

LIFE INSURANCE

“ HNB Assurance PLC (HNBA) offers a comprehensive and innovative suite of insurance solutions to serve the protection, risk management, health and retirement needs of a diverse customer base. Focus on financial inclusion and an island-wide presence ensures that our insurance policies are relevant and serve the needs of a wide segment of the population in the country being a solid and enduring Company. Our goal is to maximise returns to stakeholders by enhancing our products, people, and processes through innovation, digitalisation, and effective pricing strategies to drive sustainable value creation and growth. The COVID-19 pandemic presented several hurdles that were cleared with agility and sensitivity to stakeholder circumstances. ”



Financial Performance

- Rs. 5.5 Bn Revenue
- Rs. 16.8 Bn Life Fund
- Rs. 7.3 Bn Equity Capital



Diverse Product Range

- Protection
- Endowment
- Health
- Saving
- Retirement



Brand Image

- We focus on building our legacy to be the most trusted insurer in the market with a branding message to our customers being 'Winning Your Trust Above All'.



Connectivity

- 61 Branches
- 241 Bancassurance officers
- 2,053 Advisors
- Digital platforms



Talent Pool

- 16% growth in investments made in people
- A Great Place to Work



Sustainable Services

- 24,635 new policies
- 148,809 total policies in force

Key Strategic Priorities of Life Insurance Business

Profitable Growth of Revenue

Focus Areas

- ▶ Capacity and Productivity
- ▶ Business Mix
- ▶ Average Annualised New Business Premium Size
- ▶ Premium Persistency
- ▶ Lapse Ratio
- ▶ MDRT Drive

Improve Profitability of Operations

Focus Areas

- ▶ Rider Take-up
- ▶ Efficiency Enhancements and Cost Optimisation
- ▶ Investment Income
- ▶ Life Fund

Enhanced Customer Experience

Focus Areas

- ▶ Digital Strategy
- ▶ Product Innovation
- ▶ Comprehensive Product Suit
- ▶ Connectivity and Convenience
- ▶ Customer Service Standards

PERFORMANCE OF BUSINESS SEGMENTS

Strategic Priority: Profitable Growth of Revenue



Focus Area 1: Capacity and Productivity

In 2020, we expanded our branch network by adding Medawachchiya branch and creating 6 incubator branches facilitating increased revenue generation. Furthermore, various measures were taken to improve the performance of the business channels and the performance of the channels by the end of the year is as follows.

Improved Capacity

Channel Mix

- Bancassurance channel contributed heavily to premium growth recording a 20% increase in GWP leveraging on HNB group synergies. Total GWP from the channel reached Rs. 2,052 Million against the Rs. 1,717 Million in 2019.
- Although New Business from the channel decreased by 3%, Renewal Premium grew by 33% recording a value of Rs. 1,090 Million compared to Rs. 820 Million in 2019.
- Contribution made by the Bancassurance channel increased to 37% as against 33% recorded in the previous year. By comparison, Bancassurance channel in the industry has contributed 7.14% and 8.18% to industry GWP in the years 2018 and 2019 respectively. The higher contribution by Bancassurance channel at HNBA reflects the success of the efforts taken to increase Group synergies between the Company and the parent HNB PLC.
- Activity Ratio of the Bancassurance channel improved to 4.3 compared 3.6 in 2019.

Improved productivity by leveraging on Group synergies

- Advisor channel brought in a GWP of Rs. 3,435 Million but recorded a degrowth of 1% during the year compared to Rs. 3,458 Million achieved in 2019.
- Lockdowns and strict quarantine measures due to COVID-19 limited potential for canvassing new business resulting in new business from the channel decreasing by 5%. Nevertheless, our Advisors continued to collect renewals thereby growing renewal premiums by 3% achieving Rs. 2,446 Million.
- Contribution made by Advisor channel to Life GWP dropped to 63% compared to 67% in 2019. This is somewhat similar to the trend seen in the industry as contribution made by Advisors has declined to 85.72% in 2019 against the 86.94% recorded in 2018.
- Activity Ratio of Advisors was maintained at 0.70 in 2020 (2019: 0.78) despite the restrictions on mobility created due to lockdowns.
- Average premium per policy from Advisor channel grew by 1% to reach Rs. 6,067 (2019: Rs. 5,979).

Productivity of Advisors remained stagnant



Focus Area 2: Business Mix

- New Business Premiums (NBP) declined by 4% compared to the growth 28% last year. Dampened economic activities, reduced consumer spending and stressed cash flows at all levels caused by COVID-19 pandemic hampered growth in NBP. However, the NBP of the industry has improved by 4%.
- Renewal premiums continued to be the key contributor to GWP and grew by 10% to Rs. 3,536 Million compared to Rs. 3,201 Million in 2019. Measures taken to improve Premium Persistency and Lapse Ratio contributed to

this favourable trend. Our Renewal Premium growth is higher than the industry growth of 8%.

- Single premiums increased by 6% to Rs. 564 Million compared to Rs. 530 Million the previous year. The growth in Single premium was driven by the 19% increase in Group Life Premiums and 10% increase in Super Five Investment Premiums. Both Mortgage Reducing Premiums (MRP) and Micro Insurance Premiums declined compared to last year with the slowdown in the economy. Group Life and Single premium income of the industry has grown by 92% and 51% respectively.

* Refer page 113 for further information on industry performance.

Improved the contribution from Renewal Premium



Focus Area 3: Annual Average New Business Premium Size (AANBP)

During the year, AANBP of the Advisor channel increased to Rs. 72,810 compared to the Rs. 71,150 recorded the previous year. However, the AANBP of the Bancassurance channel decreased to Rs. 152,511 compared to the Rs. 161,541 recorded previous year. The slowdown in New Business Premium generation was the key reason for the reduction in the AANBP recorded. Also, during the year the focus was also given to increase the number of policies and the increase in the number of policies sold also contributed to the reduced AANBP.

Improved AANBP of Advisor channel by 1%.

AANBP of Bancassurance channel declined by 6%

Strategic Priority: Profitable Growth of Revenue



Focus Area 4: Premium Persistency

In 2020 the Premium Persistency Ratio declined to 76.3% against the 81.0% recorded in 2019. The drop was mainly driven by the tough economic conditions that prevailed in the country and the reduction in the spending capacity of customers due to COVID-19 pandemic

Premium Persistency declined by 4.7%



Focus Area 6: MDRT Drive

HNBA continued to upskill the sales force and produced 113 MDRT (Million Dollar Round Table) winners including 75 Bancassurance Officers and 38 Advisors in 2020. This is a 51% increase compared to the 75 MDRT winners produced in 2019. In 2020 we have also produced 2 Top of the Table (TOT) qualifiers and 8 Court of the Table (COT) qualifiers as well. During the year many training programmes such as MDRT Aspiration programmes were carried out enabling this remarkable achievement.

MDRT qualifiers increased by 51%



Focus Area 5: Lapse Ratio

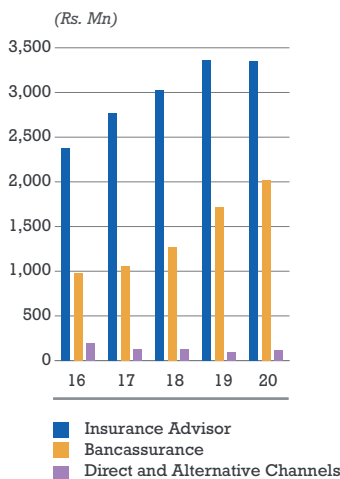
The Company was able to reduce the lapse ratio recorded to 41% in 2020 compared to 44% in 2019. The efforts undertaken by the Policy Conservation Unit to follow-up with customers amidst the tough environmental conditions was contributory for the improvement.

Improved Lapse Ratio by 3%

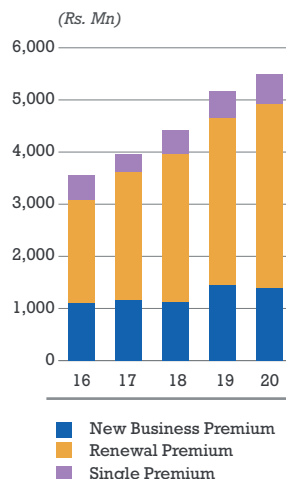
Value Delivered

Increase in capacity by the addition of a new branch and 6 incubators, Improvement in productivity of Bancassurance channel, improvement in AANBP in Advisor channel, improvement in Lapse Ratio and success in MDRT Drive supported the Company to deliver a value of Rs. 5,487 Million as GWP compared to Rs. 5,175 Million delivered in 2019. Deficiency in NBP in business mix, decline in AANBP of Bancassurance channel and the decline in Premium Persistency that were resultants of the adverse macroeconomic factors, dejected the value the Company expected to deliver for 2020.

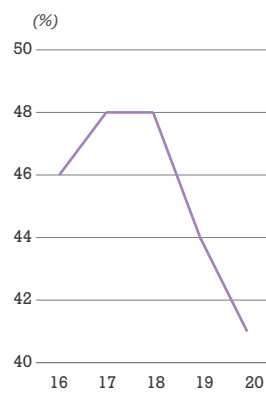
GWP by Channel



GWP Composition



Lapse Ratio



PERFORMANCE OF BUSINESS SEGMENTS

Strategic Priority: Improve Profitability of Operations



Focus Area 1: Rider Take-up

During 2020 we were able to increase the rider premium percentage to 13% (2019: 8%). The increase in the rider premium was driven by the introduction of two new riders, SupremeHealthMax rider and Super CI rider. Aligning the business incentives for the rider premium generated and linking the rider premium percentage to sales force KPIs also contributed to the increase recorded during the year.

Improved Rider percentage by 5%



Focus Area 2: Efficiency Enhancements and Cost Optimisation

The Expense Ratio in 2020 reduced to 45% compared to the 49% recorded the previous year driven by the efficiency enhancements and cost optimisation initiatives carried out. Following are some of the key initiatives undertaken during the year:

- Obtaining ISO certifications for all Life Insurance operations enhancing efficiency
- Implementation of cost optimisation projects by 11 Black Belt and 16 Green Belt holders under the Six Sigma Lean Management program
- Shifting towards e-documentation and digitalisation
- A special project carried out during the year evaluating all areas of cost optimisation

Expense Ratio improved by 4%



Focus Area 3: Investment Income

In Life Insurance business, Investment Income plays a critical role in determining the profitability of the operation. Despite volatility in the equity market, plunge in interest rates and increasing asset-liability management risks, the Company effectively managed its investment portfolio, maximising the opportunities presented in a low interest rate environment. Investment income increased by 8% to Rs. 2,183 Million supported by a 9% growth in Interest and Dividend Income which recorded a value of Rs. 2,125 Million compared to Rs. 1,949 Million in 2019.

Improved Investment Income by 8%



Focus Area 4: Life Fund

The value of the Life Fund increased by 18% to Rs 16,833 Million. During the year, Rs. 2,576 Million was transferred to the Life Policyholders' Fund compared to Rs. 2,173 Million last year showcasing an increase of 19%. This was supported by the increase in net income and increase in Policy liability. The Life Fund was valued by the Consultant Actuary Mr. Hassan Scott Ordierno of Actuarial Partners Consulting Sdn Bhd. as of 31st December 2020 and the report of the actuary is given on page 189.

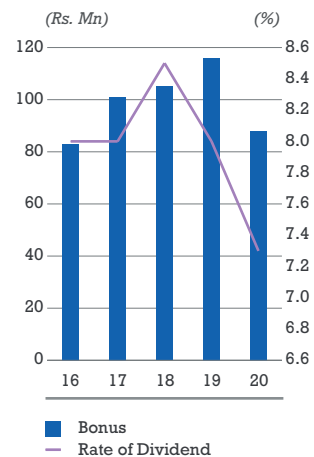
Surplus transfer from the Life Fund, the key indicator of life profitability decreased by 11% with Rs. 612 Million being transferred compared to Rs. 687 in 2019. The primary reason being the decline in risk free interest rates by 300 basis points compared to December 2019.

Surplus Transferred to Shareholders decreased by 11%

Value Delivered

Efforts of the Company to deliver value to our stakeholders by improving profitability of operations by minimising the effects of the external environment yielded positive results. Amidst a pandemic that posed countless challenges, the Company was able to record a Surplus Transfer from Life Fund of Rs. 612 Million due to improvement in Rider take-up, enhancements in efficiency, optimising expenses and increase in investment income. The Surplus Transfer from Life Fund noted a decline of 11% compared to 2019 and this decline was also reflected in reduction in value delivered to Policyholders as Bonus and Dividend. The value delivered to our Participating Policyholders was Rs. 87.90 Million and Dividend rate declared to Universal Life Policyholders was 7.25%.

Bonus and Dividend to Policyholders



Strategic Priority: Enhanced Customer Experience



Focus Area 1: Digital Strategy

Remote selling, digital payment options, and other digital channels enabled our transition towards an automated business model and a paperless office. During the year, we introduced several digital solutions to widen and connect our sales force through programs such as the e-buddy solution and e-learning modules and work is initiated on several other digital projects such as the dynamic call centre system and Customer Relationship Management systems to further enhance the customer experience.

Accelerated the implementation of digital strategy



Focus Area 2: Product Innovation and Comprehensive Product Suite

During the year the Company introduced two new products/riders namely Supreme Health Max and Super Critical Illness to cater to the changing needs of the customers. These were introduced as best in class insurance policies in the industry that caters to medical insurance needs of the customers. Also, we have a portfolio of products catering to all segments including the high-end clientele covering all Life Insurance needs of the customers.

Introduced two new best in class insurance products



Focus Area 3: Connectivity and Convenience

In 2020 we expanded the branch network with 6 incubator branches and 1 physical branch in areas with high growth potential to increase customer connectivity.

Furthermore, many initiatives such as migrating to online payment options, direct receipting through mCash and HNB SOLO, introduction of e-Quotation, e-proposal and e-policy modules were carried out to enhance customer connectivity and convenience.

Enhanced connectivity and convenience through online and digital options



Focus Area 4: Customer Service Standards

In 2020 following initiatives were undertaken by us to improve the service standards,

- Customer on boarding through paperless operations
- 80% of standard Life Insurance proposals converted within one working day
- Introduced one-day claims settlement service to disburse 80% medical claims
- Resolving of 97% of customer complaints
- Introduction of digital payment options

Improved customer service standards.

Value Delivered

During the year we were able to maintain high levels of customer service with the digitalisation initiatives, product innovation, enhanced connectivity and convenience undertaken amidst the challenging economic and environment conditions. Reaping benefits of high customer service standards, during the year we were able to attract 24,635 new Policyholders' to the Company.

PERFORMANCE OF BUSINESS SEGMENTS

GENERAL INSURANCE

“ HNB General Insurance Limited (HNBGI) specialises in Motor, Non-Motor and Takaful Insurance solutions. A relevant product portfolio, collaborative partnerships, an omnichannel presence, investments in technology and product innovation support our growth and positioning as a well-reputed insurance provider. A ‘National Insurer Financial Strength Rating’ of ‘A’ (Ika) by Fitch Ratings Lanka Limited reflects a strong balance sheet, prudent risk management and the strength of our brand. Collectively these factors combine with service excellence to create a strong customer value proposition, enabling us to be a solid and an enduring company. ”



Financial Performance

- Rs. 5 Bn Revenue
- Rs. 3.3 Bn Contract Liabilities
- Rs. 2.1 Bn Equity Capital



Diverse Product Range

- Fire and Engineering
- Motor
- Marine
- Medical
- Miscellaneous



Brand Image

We focus on building our brand image by upholding our vision of being a trusted partner to take on tomorrow's challenges with confidence.



Connectivity

- 55 Branches
- 96 Bancassurance Officers
- 420 Advisors
- 60 Brokers



Talent Pool

- 23% growth in Investments made in people
- A Great Place to Work



Sustainable Services

- 64,441 New Policies
- 167,702 Total Policies in Force

Key Strategic Priorities of General Insurance Business

Profitable Growth of Revenue

Focus Areas

- ▶ Channel Mix
- ▶ Business Mix
- ▶ Conversion Ratio
- ▶ Renewal Retention Ratio

Improve Profitability of Operations

Focus Areas

- ▶ Claims Ratio
- ▶ Motor Insurance Average Premium
- ▶ Efficiency Enhancements and Cost Optimisation
- ▶ Investment Income

Enhanced Customer Experience

Focus Areas

- ▶ Digital Strategy
- ▶ Product Innovation
- ▶ Comprehensive Product Suite
- ▶ Connectivity and Convenience
- ▶ Customer Service Standards

Strategic Priority: Profitable Growth of Revenue



Focus Area 1: Channel Mix

- Broker channel continued this year too with the channel contributing significantly for the improvement of the top line marking a growth of 17% during the year. Brokers channelled Rs. 1,808 Million contributing 36% of the GWP generated compared to the 32% in 2019. A similar trend can be seen in the industry where contribution from Brokers increased to 22.81% in 2019 compared to 20.02% in 2018. The increase in GWP generated from the Broker channel was a result of the Broker segmentation strategy adopted by the Company during the year.

Broker Contribution improved by 17%

- Capitalising on Group synergies we were also able to increase the GWP generated through the HNB channel by 3% reaching Rs. 1,195 Million. The contribution made by the channel to the top line remained at 24%, the same as the previous year. As many players in the industry do not have access to a Bancassurance channel, only 2.79% of the industry GWP was channelled by Bancassurance in 2019.

GWP growth in HNB channel - 3%

- Direct and Advisor channel contribution contracted by 6% falling to Rs. 1,995 Million during the year compared to Rs. 2,117 in 2019 primarily due to the challenging economic conditions faced by the country and limitations imposed on both customer and channel mobility.



Focus Area 2: Business Mix

- Motor Insurance recorded a GWP of Rs. 3,583 Million but the Class contracted by 1%, the decline mainly on account of the Government restrictions on importation of vehicles. However, HNBGI was able to lessen the impact

on our GWP by maintaining a renewal retention of 82% as the Motor insurance industry declined by 4% during the year.

Reduced exposure to Motor business category

- The Non-motor segment grew by an impressive 18% achieving Rs. 1,415 Million as GWP. The growth was primarily driven by medical class, which recorded a tremendous growth of 151% compared to the previous year. The industry also shows a similar trend in medical class. Industry growth of Non-motor class stood at 3% in 2020. Growth in Non-motor segment of insurance contributed positively to the bottom-line performance of HNBGI as well.

Non-motor segment grew by 18%

* Refer page 113 for further information on industry performance.



Focus Area 3: Conversion Ratio

During the year measures were taken to improve the Conversion Ratio to increase new business generation ability of HNBGI. Customer profiled pipeline building, activity monitoring and tight performance management are some measures which resulted in improving our HNB channel conversion ratio by 5% in 2020 compared 2019 and Corporate channel conversion ratio by 1% compared to 2019.

Improved HNB Conversion Ratio by 5%



Focus Area 4: Renewal Retention Ratio

Improving Renewal Retention Ratio is another key factor that contributed to the top line performance during the year as it reduced the strain on the new business

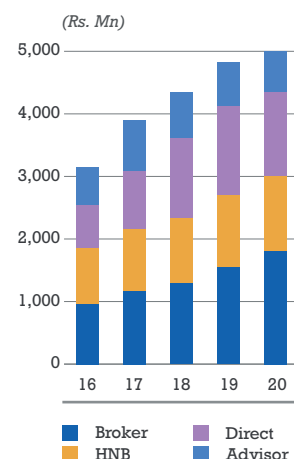
generation. Prompt follow-up on the renewals were done to improve renewal retention and HNBGI was able to increase the Retention Ratio to 82% - Motor and 88% - Non-motor in 2020 from 78% - Motor and 85% - Non-motor recorded in 2019

Improved Renewal Retention Ratio- Motor 4% and Non-motor 3%

Value Delivered

Excellent performance in business channels, improvement in Conversion Ratio and Renewal Retention Ratio helped HNBGI to increase the Gross Written Premium by 4% reaching a value of Rs. 4,998 Million compared to Rs. 4,819 Million generated in 2019. It is noteworthy that HNBGI was also able to improve our market share by 0.24% reaching a total market share of 5.02% against the 4.78% recorded in 2019. Further Takaful Gross Written Premium decreased to Rs. 422 Million due to decline in Motor class.

Channel-wise GWP Performance



PERFORMANCE OF BUSINESS SEGMENTS

Strategic Priority: Improve Profitability of Operations



Focus Area 1: Claims Ratio

In General Insurance business Claims Ratio plays a critical role in managing the profitability of operations. During the year, our Claims Ratio declined to 55% compared to the 64% recorded the previous year and this declining trend contributed mainly to the improved profitability. The reduction in the Claims Ratio was driven by a 11% decrease in Motor Claims Ratio during the year. Low accidents experienced with the restrictions on movement imposed due to the pandemic was a key contributor to lowering accidents and thereby the Claims Ratio.

Decreased Claims Ratio by 10%

Another factor contributing to the enhanced profitability was that the average claims cost per vehicle being managed at Rs. 60,871 which is similar to the average claims cost in 2019. This is notable as external variables such as depreciation of the Sri Lankan Rupee, increased importation cost of spare parts in the markets, etc. which created pressure on increasing cost of claims.

Average Claims was persistent - Rs. 60,871



Focus Area 2: Average Premium Size of Motor Insurance

During the year measures were taken to increase the average premium to increase the profitability. We were able to achieve an average premium of Rs. 31,214 against the expected value of Rs. 27,000 by concentrating on high value policies and this contributed to the improved profitability during the year.

Average Premium size Rs. 31,214



Focus Area 3: Efficiency Enhancements and Cost Optimisation

During the year, several measures were taken to curtail expenses with the intention of improving the bottom line. This helped HNBGI to maintain the Expense Ratio at 39% just 2% over 2019 ratio despite the pressure on earned premiums.

Following initiatives were taken to minimise the costs during the year.

- Manage overtime and travelling costs by implementing Work from Home concept
- Relocation of Customer Relationship Centre and re-arranging Head Office space to reduce rent and other administration costs such as electricity and water
- Implementation of cost optimisation projects by 11 Black Belt and 16 Green Belt holders under the Lean Management programme
- Shifting towards e-documentation and digitalisation

Expense Ratio increased by 2%



Focus Area 4: Investment Income

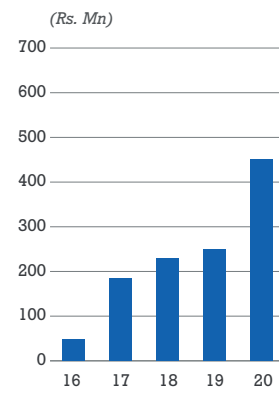
Investment Income earned during the year also contributed to the profitability. HNBGI was able to increase Investment Income earned by 1% despite the declining interest rates in the economy. This was made possible with strategic shifting of asset allocation to high income earning classes over Government securities during the year while maintaining required regulatory limits stipulated by our Investment Policy.

Improved Investment Income by 1%

Value Delivered

The profitability of the business improved significantly by 81% reaching a value of Rs. 451 Million compared to Rs. 250 Million recorded in 2019. The growth of profitability was mainly driven by the reduced claims costs, expense savings from cost optimisation strategies and growth in investment income. The efforts taken by the Company to deliver value to our stakeholders by improving profitability of operations yielded positive results in 2020.

Profit After Tax - HNBGI



Strategic Priority: Enhanced Customer Experience



Focus Area 1: Digital Strategy

In 2020 HNBGI rolled out digital initiatives leading to process efficiencies and enhanced customer experience. The call centre system was strengthened for reporting of claims and customer assistance. Policies were issued as e-policies during the year to avoid any delays arising from social distancing rules and increasing customer satisfaction. Our sales force was also trained to conduct business via smart devices ensuring uninterrupted service, a high level of customer interactions and satisfaction.

Accelerated the implementation of digital strategy



Focus Area 2: Product Innovation and Comprehensive Product Suite

2020 saw HNBGI introducing revolutionary 'Pay As You Claim' product. This innovation was an industry first, designed to address the concern of affordability of comprehensive insurance policies. Customers are given the choice of paying a portion of their premium and enjoying a comprehensive insurance cover.

In addition to the new product introduced, HNBGI has a comprehensive product suite that caters to all Motor and Non-Motor insurance needs of customers including Takaful segment.

Introduced 'Pay as You Claim'



Focus Area 3: Connectivity and Convenience

During the year increasing customer connectivity and convenience by simplifying online payment gateways, 0% instalment scheme etc. were initiatives taken to facilitate our customers to make premiums on time, especially during the pandemic time.

Enhanced connectivity and convenience through online and digital options



Focus Area 4: Customer Service Standards

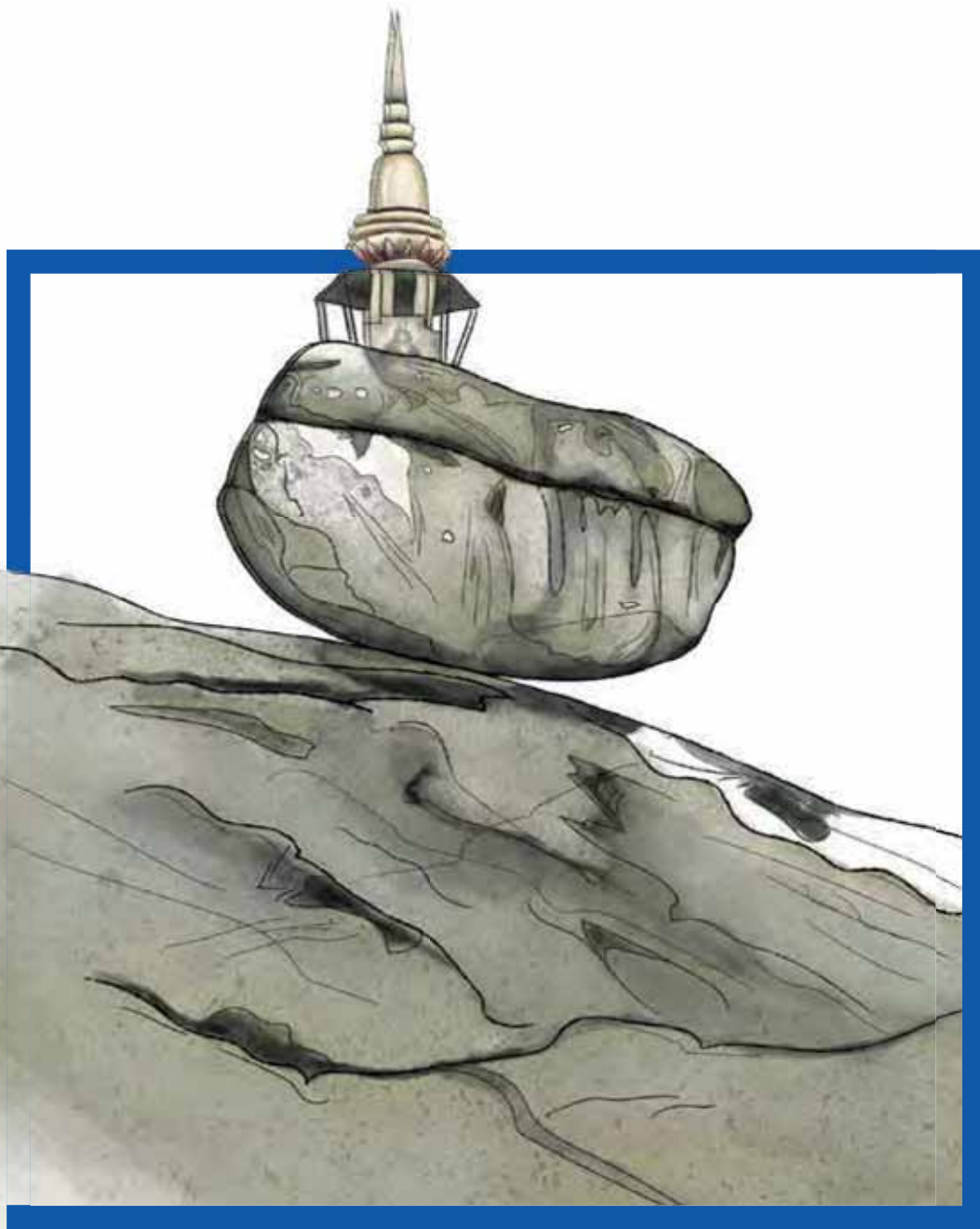
Service standards were improved through the following measures.

- Improved the processes to reduce the time taken to issue a Motor Policy significantly.
- Introduced digital platforms to receive claim documents
- Introduced digital payment options to pay claims real time

Improved customer service standards.

Value Delivered

Amidst the tough economic and social conditions that prevailed in the market, we were able to enhance our customer experience during the year. Bearing witness to improved customer experience we were able to attract 64,441 new customers to the business and retain 120,149 customers with us during the year. Further, customer satisfaction index improved to 73%.




Pettagangala, Kandy.

The Pettagangala rock in Sri Lanka distributes its weight perfectly along the slope on which it stands, achieving a perfect state of balance, while maintaining its position across centuries of change.

STATUTORY DISCLOSURES AND FINANCIAL STATEMENTS

PERFECTLY POSITIONED



Survival for over 19 years in an intensely competitive industry is no coincidence. Rather, it is the result of carefully distributing our talents and resources to provide a flawless balance of forces designed to drive our operations for the foreseeable future.

That's why today, HNB Assurance stands firm on a strong foundation, built on local values and strengthened by an inherent belief and certainty in its ability to withstand formidable external forces; perfectly positioned to grow and deliver value in the years ahead.

FINANCIAL CALENDAR

Dividend

	2020 Achievement on	2021 Target Date
Final dividend for the previous year paid/payable	2nd July 2020	On or before 27th April 2021
Final dividend for the year to be paid	On or before 27th April 2021	In April 2022

Annual Report and Annual General Meeting (AGM)

	2020 Achievement on	2021 Target Date
Annual Report and Accounts for the year signed/to be signed	19th February 2021	In February 2022
Annual General Meeting for the year to be held	31st March 2021	In March 2022

Interim Financial Statements Submission to the Colombo Stock Exchange (CSE)

	2020 Achievement on	2021 Target Date
1st Quarter (ended 31st March)	15th May 2020	On or before 15th May 2021
2nd Quarter (ended 30th June)	11th August 2020	On or before 15th August 2021
3rd Quarter (ended 30th September)	6th November 2020	On or before 15th November 2021
4th Quarter (ended 31st December)	On or before 28th February 2021	On or before 28th February 2022

AUDIT COMMITTEE REPORT

“Amidst the turbulent environment experienced during the year the Committee continued to provide oversight and guidance to the Group’s financial reporting and internal control processes.”

Mahendra Jayasekera

Areas of Focus in 2020



Sound
Corporate
Governance



Financial
Reporting



Internal and
External Audit
Activities

Charter of the Committee

The Charter of the Audit Committee (“the Committee”) approved by the Board, clearly defines the terms of reference of the Committee and is annually reviewed to ensure that new developments relating to the Committee’s functions are addressed. The Charter of the Committee was last reviewed and approved by the Board in December 2020.

The Audit Committee assists the Board of Directors of HNB Assurance PLC (“the Company” or “HNBA”) in discharging its responsibilities by exercising structured, systematic oversight over financial reporting, internal audit, internal controls and external audits of the Company and its fully owned subsidiary HNB General Insurance Limited.

Section 7.10.6 of the ‘Listing Rules’ of the Colombo stock Exchange and other applicable guidelines and Corporate Governance Code regulate the composition, functions and duties and responsibilities of the Committee.

The Committee is empowered to carry out any investigations it deems necessary and has unrestricted access to information, cooperation from the Management and employees to obtain relevant information considered necessary in the discharge of its duties and responsibilities.

The Committee has the authority to seek external professional advice on matters within their purview.

Activities in 2020

Financial Reporting

The Committee reviewed and discussed Interim Financial Statements, Annual Financial Statements of the Company and the Group, and the Annual Financial Statements of the Subsidiary, HNB General Insurance Limited, in consultation with the External Auditors and the Management where necessary and recommended for the approval of the Board.

In reviewing the Financial Statements, special emphasis was given on the following aspects;

- Adequacy and effectiveness of internal control systems, financial reporting systems and processes in place to ensure accuracy and reliability of the information provided in the Financial Statements.
- Quality and acceptability of the accounting principles and reasonableness of significant judgements.
- Significant accounting and reporting issues.
- Impact from new accounting standards.
- Going Concern assumption.

Composition

Mr. Mahendra Jayasekera*
- Chairman

Dr. Sivakumar Selliah*
- Member

Mr. Damien Fernando**
- Member

* Independent Non-Executive
Directors

** Non-Executive Directors

Meetings

The Committee held 7 meetings during the year

Attendance

Mr. Mahendra Jayasekera - 7/7
Dr. Sivakumar Selliah - 7/7
Mr. Damien Fernando - 4/7*

*Includes three (3) meetings attended by Alternate Director, Dr. Prasad Samarasinghe

Attendees by Invitation

Mr. Faizal Salieh Director HNBGI, Chief Executive Officer, Executive Committee members, Chief Financial Officer and Actuarial Consultant attended meetings by invitation regularly.

Secretary to the Committee

Ms. Sitari Jayasundara - Chief Legal Officer, Board Secretary and Compliance Officer

AUDIT COMMITTEE REPORT

Key Responsibilities

- Monitor and review the financial reporting processes in place to provide accurate, appropriate and timely information to the Board, Regulatory Authorities, Shareholders and other stakeholders.
- Review the integrity of the Company/Group's Financial Statements including annual reports and interim financial statements in consultation with the External Auditors where necessary and ensure these are prepared in accordance with Sri Lanka Accounting Standards (LKAS), Sri Lanka Financial Reporting Standards (SLFRS), Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto and other applicable laws and regulations and recommend the same to the Board of Directors.
- Liaise with the Board Risk Management Committee and the Management to evaluate the adequacy, efficiency and effectiveness of Risk Management framework of the Group to mitigate the risks associated with financial reporting.
- Liaise with the Related Party Transactions Review Committee to ensure adherence to the related party transaction requirements given in the Listing Rules and to ensure proper disclosure of related party transactions in the Financial Statements.
- Review the design and implementation of internal control systems and to take steps to strengthen them where necessary.
- Ensure that the Group adopts and adheres to high standards of Corporate Governance practices, conforming to the highest ethical standards and good industry practices in the best interests of all stakeholders.
- Overseeing the conduct of the business to monitor its compliance with applicable laws and regulations of the country and the policies and procedures of the Company.
- Make recommendations to the Board on the appointment, re-appointment/removal of External and Internal Auditors, approve the remuneration and terms of engagement and review their scope and monitor performance.
- Assess the independence of External Auditors.
- Evaluate the Company's ability to continue as a going concern for a foreseeable future.

- Developments in the financial reporting framework (Sri Lanka Accounting Standards – SLFRS/LKAS).
- Consistency of the adopted accounting policies and methods, and their compliance with the accounting standards (SLFRS/LKAS).
- Disclosure requirements and other applicable accounting and financial reporting requirements such as the Companies Act, No. 07 of 2007, Listing rules and Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto, etc.

New Accounting Standards and Amendments to Existing Standards

Amendments to SLFRS 16:

Leases (COVID-19-Related Rent Concessions for Lessees)

The amendment exempts lessees from considering rent concessions on lease contracts received as a direct consequence of the COVID-19 pandemic as a lease modification when determining the lease obligation. Accordingly, it allows lessees to account for such rent concessions as if they were not a lease modification.

During the year, with the effect of COVID-19 the Group was able to negotiate with lessors and obtain temporary rent concessions. Accordingly, the Group has elected to apply the Amendment to SLFRS 16 - COVID-19 Related Rent Concessions issued by the Institute of Chartered Accountants of Sri Lanka and the Group has concluded that all three of the stipulated conditions were met as a direct consequence of the COVID-19 pandemic.

The fact that the Group has applied the practical expedient to all eligible rent concessions and the amount recognised in the profit or loss for the reporting period is disclosed in Note 8 on page 259.

Accounting Standard Effective but deferred due to temporary Exemption

SLFRS 9: Financial Instruments

SLFRS 9: Financial Instruments came into effect with effect from 01st January 2018. However, as the predominant activity of the Company and Subsidiary is issuing insurance contracts within the scope of SLFRS 4: Insurance Contracts, the Group is allowed to apply LKAS 39: Financial Instruments recognition and measurement until 31st December 2022. As such, the Group continued to apply LKAS 39 during the financial year ending 31st December 2020.

Accounting Standard Issued but not Effective for the reporting period

SLFRS 17: Insurance Contracts

Corresponding to the IFRS 17 issued by International Accounting Standard Board, in 2020 CA Sri Lanka issued SLFRS 17 which comes into effect on 01st January 2023. SLFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of this standard is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of Financial Statements to assess the effect Insurance Contracts have on the entity's financial position, performance and cash flows.

Accordingly, the Group initiated a detailed gap analysis of the new standard with the consultation of external consultants Messrs. KPMG and Actuarial Partners Consulting Sdn Bhd. The detailed gap analysis and the findings including the key challenges was presented to the Committee in 2020 and currently the Group is in the process of planning the initiation of the implementation process. The Group expects to initiate the implementation phase with the support of external consultants in 2021.

Risks and Internal Controls

The Committee regularly engages in monitoring and evaluating the effectiveness of the internal control environment of the Company/Group. The evaluation is mainly done through discussions and assessment of reports submitted by the Management and Internal/External Auditors. The Committee also overlooks the remedial actions in respect of the identified risks to maintain the effectiveness of the internal control systems.

The following measures are taken to monitor and evaluate the effectiveness of the internal control environment of the Company/Group;

- The effectiveness of the risk management process is evaluated through the Risk Management Committee. All minutes of the Risk Management Committee were tabled to the Audit Committee who reviewed the same.
- Reports pertaining to internal control and risk management practices of the Company/Group, produced by the Management and Internal and External Auditors are reviewed by the Committee.
- Review of Related Party Transactions through the Related Party Transactions Committee

Compliance with Laws and Regulations

The Audit Committee reviewed the Company/Group compliance with laws and regulations through the following measures.

- Review of checklists signed off by the Management of the Company and its subsidiary on a monthly basis to ensure compliance with all applicable compliance submissions relating to the Department of Inland Revenue, Insurance Regulatory Commission of Sri Lanka (IRC SL) and Labour regulations etc.
- Reviewed Quarterly and Annual Returns submitted to the IRC SL on a timely basis.
- Obtaining reports from the External Auditors on the factual findings on compliance with Circular 29 and specified areas of Determination 14 and filing the same with the regulator.

IT Risk and Control Assessment

Messrs KPMG performed a review on the general and application controls of the IT function during the year, as a part of their external audit process. The Internal Auditors also carried out an assessment of the General IT control aspect as a part of their internal audit work. IT security risk and cybersecurity risk have been considered as high priority considering the challenges brought by COVID-19. The Committee has reviewed the recommended action plan to mitigate the cybersecurity risks table in the Risk Committee minutes.

The Committee reviewed the observations made by the Auditors on IT related areas and monitored the implementation of the actions agreed by the Management.

Fraud Risk

The Committee monitors the necessary measures taken by the Management to mitigate fraud risk of the Company/ Group, hence no major material fraudulent activities were reported during the year.

The Committee ensured exercise of following policies and practices.

- The Procurement Policy, approved by the Board, is applied to all procurement activities,
- The Integrity Reporting Policy which enables employees to raise concerns on fraudulent activities,

- Risk and Compliance Department, Internal Auditors and External Auditors review the processes of the Company/ Group continuously to identify and mitigate the risk of fraud.

Ethics and Good Governance

The Audit Committee continuously emphasises the importance of upholding ethical values by all staff members. In this regard all staff members are encouraged to adhere to a Code of Ethics and resort to the Integrity Reporting Policy in place to raise their concerns in relation to any suspected wrongdoings at work, whether by the management, peers or any other employee. Further, the Integrity Reporting Policy guarantees the maintenance of strict confidentiality of the identity of the whistle blowers. Employees are made aware of the same and are advised to report any suspected wrongdoing directly to the following nominated members of the Group.

- Board Chairperson
- Chairman of the Audit Committee
- Managing Director/Chief Executive Officer
- Group Compliance Division
- Chief Human Resources Officer

All concerns brought forward during the year under this Policy were duly investigated and appropriate actions were taken.

Compliance with the Listing Rules of the CSE

The Company fully adheres to the Corporate Governance Rules set out by Section 7.10 of the Listing Rules of the CSE. (Please refer pages 65 to 66 for further information)

Evaluation of the Committee

The Committee carried out a self-evaluation based on a checklist approved by the Committee. Additionally, the Executive Committee of the Company also performed an appraisal of the Audit Committee and the results of the appraisal were notified to the members of the Audit Committee. The ultimate objective of the evaluation of the Committee is to improve the effectiveness of its activities and

AUDIT COMMITTEE REPORT

enhance its support to the Management and the Board of Directors. Summarised results of both evaluations were tabled to the Board of Directors.

External Audit

The Committee reviewed the external audit plan, scope and the methodology presented by the External Auditors. Discussions were also held between the Committee, the Management and the External Auditors regarding the coordination of the audit effort to ensure that the External Auditors have access to required information.

The Committee also scrutinised the Report of the Auditors and Management Letter in consultation with the External Auditors and the Management and monitored the implementation of the prescribed corrective actions. Key Audit Matters were discussed with the External Auditors with due consideration placed on judgements, assumptions and measures taken by the Company and auditors to ensure reasonability.

The External Auditors were given adequate access to the Audit Committee as well as to all relevant information required. The Audit Committee met the External Auditors without the presence of the Management once during the year.

The Committee also reviewed all fees payable to the statutory auditors for the interim and final audits for the year 2020 and recommended the same for the approval of the Board of Directors.

Re-Appointment of the External Auditors

According to the Auditor Rotation Policy of the Group, Messrs. KPMG Sri Lanka, was appointed as new External Auditors of the Company/Group for the financial year ending 31st December 2020 and their appointment was approved by the Shareholders at the Annual General Meeting on 23rd June 2020.

The Committee reviewed the performance of the External Auditors, Messrs. KPMG Sri Lanka, Chartered Accountants, during the year and recommended to the Board their re-appointment as the External Auditors of the Group for the financial year ending 31st December 2021, subject to the

approval of the shareholders at the Annual General Meeting to be held on 31st March 2021.

Independence of External Auditors

The Audit Committee reviews the independence and objectivity of the External Auditor and the effectiveness of the audit process on an annual basis. Accordingly, as far as the Audit Committee is aware, Auditors do not have any relationship (other than that of Auditors) with the Company.

In this respect, the Committee received a declaration, as required under the Companies Act, No. 07 of 2007, from Messrs. KPMG, confirming the absence of any relationship with the Company/ Group which may have a bearing on their independence.

Provision of Non-Audit Services

Non-audit services provided by the External Auditors are segregated between assignments that require an independent view and other advisory services and such was reviewed by the Audit Committee during the year. The External Auditors were only engaged with assignments that required an independent view to prevent a conflict of interest for External Auditors.

Internal Audit

The Committee monitors the effectiveness of the Internal Audit function and is responsible for approving the appointment or removal of the Internal Auditors. The Committee is also responsible for reviewing and approving the internal audit plan, scope, reporting requirements of the Group annually and ensuring that internal auditors have adequate access to information required to conduct their audits.

The internal audit function of the Group is outsourced to Messrs. Ernst & Young, Chartered Accountants from 2020 onwards. This appointment was reviewed and approved by the Committee. During the year ended 31st December 2020, Internal Auditors presented the issues and audit findings identified during internal audits covering the operations of the Company and Subsidiary which were reviewed by the Committee. Management

responsiveness to recommendations was also monitored and the internal audit reports were made available to the External Auditors.

Reports of the External Actuaries

The external actuaries have provided the Committee with written representations summarising the observations and comments with regard to the work performed.


Financial Implications from COVID-19 Pandemic

The risk and going concern assessment carried out by the Management after considering the existing and potential financial implications of COVID-19 in the revised budget, cash flow projections and funding arrangements was reviewed by the Audit Committee during the year. After such review the Committee was satisfied that the Company and its subsidiaries were able to continue as a going concern. Further, the Committee is also satisfied that the Company has made adequate disclosures in the Financial Statements in relation to the above.

Conclusion

The Committee, along with the Management, reviewed the system of Internal Controls in the Group and actions were taken to improve the same. The Committee is satisfied with the implementation of the Group's internal controls and Risk Management Framework and that the Group's assets are adequately safeguarded. The Group's Internal and External Auditors have been effective and independent throughout the year.

The Committee is also satisfied that the application of appropriate accounting policies provide reasonable assurance that the Financial Statements of the Group are true and fair.



Mahendra Jayasekera
Chairman – Audit Committee

Colombo, Sri Lanka
19th February, 2021

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

“Challenging times bring out the best in people, as organisations we should have systems and processes which could help leverage such outcome.”

Dr. Sivakumar Selliah

Areas of Focus in 2020



Telecommuting Policy



Digitalization



HS&E

Charter of the Committee

The terms of reference of the Committee is defined in the Human Resources and Remuneration Committee Charter, which is reviewed annually. The Charter defines the objectives, duties and responsibilities, composition, etc. of the Committee. The Human Resources and Remuneration Committee Charter outlines the strategic intent of the Company in adopting HR practices which provides the employee quality service while creating a platform that would enable the employee to offer their service with trust and confidence to attain Company goals while fulfilling individual aspirations.

Activities in 2020

Continuing from the progress made through HR Policy formulation in 2019, the Committee had an active year as we introduced the telecommuting policy and related governing structure which was a timely need to facilitate work amid a pandemic and work-life-safety balance.

HR Digitalisation

2020 marked an important landmark in the Company's HR journey, where we embarked on a drive to digitalise HR processes. Following projects are currently underway:

- LMS
- Employee Life Cycle Management
- Performance Management
- Pay and Rewards Management

Infusing agility and improved efficiency to the processes. Full potential of the projects is to yield by Q4 2021.

Employee Health, Safety and Environment

Staying true to “Employment and working conditions” spelt out in HR Policy we ensured that our commitment went beyond our immediate employees and towards our partners and third parties. We were able to ensure the best of safety standards and protocols for the benefit of our employees and beyond. Further, we made sure 100% financial security for all our employees and to our third party associates throughout the year including on periods where the pandemic forced a complete shutdown. Perhaps, being recognized as one of the best places to work in Great Place To Work survey 2019/20 was the verdict for the employee centric Human Resource Policy we adopt.

Composition

Dr. Sivakumar Selliah*
- Chairman

Ms. Rose Cooray**
- Member

Mr. Mahendra Jayasekera*
- Member

* Independent Non-Executive Director

** Non-Executive Director

Meetings

The Committee held 5 meetings during the period

Attendance

Dr. Sivakumar Selliah - 5/5

Ms. Rose Cooray - 5/5

Mr. Mahendra Jayasekera - 4/5

Attendees by Invitation

Mr. Faizal Salieh Director HNBGI,
Ms. Chiranthi Cooray Chief Transformation Officer of HNB PLC,
Chief Executive Officer and Chief Human Resources Officer attended meetings by invitation regularly.

Secretary to the Committee

Ms. Sitari Jayasundara - Chief Legal Officer, Board Secretary and Compliance Officer

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

Key Responsibilities

- Determine and agree with the Board on the board policy for the remuneration of the Board Non-Executive Directors, the Chairman, the CEO and other members of the Senior Management.
- Recommend and monitor the level and structure of remuneration for all Executive Management officers.
- The Committee shall determine increments and bonuses payable based on recommendations submitted by the CEO.
- The Committee shall provide policy direction for the Human Resource Strategy of the Company.
- Direct the human capital strategy of the Company.
- Guide, influence and shape the HR strategies and policies of the Company.



Dr. Sivakumar Selliah
*Chairman – Human Resources and
Remuneration Committee*

Colombo, Sri Lanka
19th February, 2021

RELATED PARTY TRANSACTION REVIEW COMMITTEE REPORT

“The Committee reviewed the adherence to the Related Party Transactions Policy during the year and thereby continued to support the Audit Committee to carry out its statutory responsibilities.”

Mahendra Jayasekera

Areas of Focus in 2020



Charter of the Committee

The Related Party Transactions Review Committee of HNB Assurance PLC (‘the Committee’), is appointed by and is responsible to the Board of Directors of HNB Assurance PLC (HNBA).

The Charter of the Related Party Transactions Review Committee clearly sets out the purpose, membership, authority, duties, and responsibilities of the Committee.

The purpose of the Committee is to conduct an appropriate review of all related party transactions of HNBA and its fully owned subsidiary, HNBGI and to ensure that the Group/Company complies with the rules set out in Section 09 of the Listing Rules. The primary objectives of the said rules are to ensure that the interests of the shareholders as a whole are taken into account when entering into related party transactions and to prevent Directors, Key Management Personnel (KMP) or substantial shareholders from taking advantage of their positions.

In order to execute duties and responsibilities assigned to the Related Party Transactions Review Committee effectively and efficiently, the Committee has been authorised to:

- Receive regular reports from the Management and have access to any information the Committee deems necessary relating to its responsibilities.
- Establish policies and procedures that provide general pre-approvals to certain classes or types of related party transactions.
- Review and evaluate the terms and conditions and to determine the advisability of any related party transaction.
- Determine whether the relevant related party transaction is fair and in the best interest of the Company and its shareholders as a whole.
- Recommend to the Board what action, if any, should be taken by the Board with respect to any related party transaction.
- Obtain advice and assistance from legal, technical, financial and other advisors from within or outside the Company as deemed necessary by the Committee in order to carry out its duties.

Composition

Mr. Mahendra Jayasekera*
- Chairman

Dr. Sivakumar Selliah*
- Member

Mr. Damien Fernando**
- Member

* Independent Non-Executive Director

** Non-Executive Director

Meetings

The Committee held 4 meetings during the year.

Attendance

Mr. Mahendra Jayasekera - 4/4
Dr. Sivakumar Selliah - 4/4
Mr. Damien Fernando - 3/4*

* Includes two (2) meetings attended by Alternate Director, Dr. Prasad Samarasinghe

Attendees by Invitation

Chief Executive Officer, Chief Operating Officers, Chief Financial Officer, Chief Investment and Strategy Officer, Head of Finance and Support Services HNBGI attended meetings by invitation regularly.

Secretary to the Committee

Ms. Sitari Jayasundara - Chief Legal Officer, Board Secretary and Compliance Officer

RELATED PARTY TRANSACTION REVIEW COMMITTEE REPORT

Key Responsibilities

- Developing and formulating guidelines to ensure that the Company complies with the rules listed in Section 9 of the Listing Rules.
 - Review all proposed related party transactions in advance, subject to the exceptions given under Section 9.5 of the Listing Rules.
 - Perform other activities relating to the Charter as requested by the Board.
 - Regularly report to the Board on the Committee's activities.
 - Share information with the Audit Committee as and when necessary and appropriate, to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities with regard to related party transactions.
-
- Form and delegate authority to Sub-Committees consisting of one or more members where appropriate, provided that the decision of such Sub-Committees shall be presented to the main Committee at its next meeting.

Activities in 2020

Review of Related Party Transactions

The Committee reviewed all related party transactions of the Company and Subsidiary for the year 2020. All related party transactions entered into during the year were of a recurrent, trading nature and were necessary for the day-to-day operations of the Company/Subsidiary.

In the opinion of the Committee, the terms of these transactions were not more favourable to the related parties than those generally transacted with the public.

All details of such related party transactions entered into during the year, are given in Note 48 to the Financial Statements on pages 321 to 326 of this Annual Report.

The minutes of the Committee meetings were recorded at Board meetings of HNB Assurance PLC and HNB General Insurance Limited for the review of the Boards of Directors.

Policies and Procedures

Chief Financial Officer is responsible for reporting the information set out under 'Appendix 9 A' of the Listing Rules with regard to each related party transaction proposed to be entered into

by the Company with the exception of information listed in the Section 9.5 of the Listing Rules for the Committee to review and to grant approval or disapproval.

Moreover, on a quarterly basis, the Chief Financial Officer is required to report the approved related party transactions actually entered into by the Company for Committee's consideration.

Conclusion

During the year under review, the Company has complied with the related party transactions rules set out in Section 9 of the Listing rules. An affirmative statement of compliance with the rules pertaining to related party transactions by the Board of Directors is included on page 181 of this Annual Report.



Mahendra Jayasekera
Chairman – Related Party Transaction Review Committee

Colombo, Sri Lanka
19th February, 2021

NOMINATION COMMITTEE REPORT

“Ensuring that the Board has the skills and experience required is critical to the effectiveness of the Board.” **Rose Cooray**

Areas of Focus in 2020



Board
Composition
and Expertise



Board Sub-
Committee
Composition
and Expertise



Corporate
Governance

Charter of the Committee

The Nomination Committee ('the Committee') of HNB Assurance PLC ('the Company') is a committee of the Board of Directors ('Board') appointed by and responsible to the Board.

The terms of reference of the Committee are defined in the Nomination Committee Charter. The purpose of the Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities relating to the selection/appointment of new directors, re-appointment of current Directors, selection and appointment of the CEO.

Activities in 2020

- During the year the Committee re-appointed Directors retiring by rotation
- Recommendation of Ms. Chiranthi Cooray as a Director to the Board of HNB General Insurance Limited
- Update the Committee on the new amendments to Corporate Governance Framework for insurers by IRCSL and impact of the amendments on the Board of Directors

Conclusion

The Committee is satisfied that the combined knowledge and experience of the Board match the demands facing the Company.

Composition

Ms. Rose Cooray**
- Chairperson

Mr. Mahendra Jayasekera*
- Member

Mr. Dilshan Rodrigo**
- Member

* Independent Non-Executive
Director

** Non-Executive Director

Meetings

The Committee held 1 meeting for the period ended 31st December 2020.

Attendance

Ms. Rose Cooray - 1/1

Mr. Mahendra Jayasekera - 1/1

Mr. Dilshan Rodrigo - 1/1

Attendees by Invitation

Chief Executive Officer attended meetings by invitation.

Secretary to the Committee

Ms. Sitari Jayasundara - Chief Legal Officer, Board Secretary and Compliance Officer

NOMINATION COMMITTEE REPORT

Key Responsibilities

- Exercise general oversight with respect to the governance of the Board of Directors.
- To ensure the implementation of the approved procedure in selecting/appointing Directors/CEO.
- Taking into account the performance and contribution made by Directors towards the overall discharge of responsibilities of the Board and to make a recommendation on the re-election of current Directors to the Board of Directors.
- To set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO.
- To ensure Directors, CEO and the Key Management Personnel are fit and proper persons to hold office as required by the Companies Act and other applicable statutes.
- To consider and recommend from time to time the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.
- To provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment; and
- To regularly review the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes.
- Review and recommend to the Board new/additional Corporate Governance Principles of the Board and any changes to such Principles taking in to account the developments in the area of Corporate Governance principles applicable for the Company locally and internationally.
- Periodically appraise the framework for assessment of Board performance and the Board self-evaluation discussion



Rose Cooray

Chairperson – Nomination Committee

Colombo, Sri Lanka
19th February, 2021

INVESTMENT COMMITTEE REPORT

“The Committee provided guidance and oversight to increase investment returns whilst managing risks posed by the challenging economic conditions during the year.”

Dr. Sivakumar Selliah

Areas of Focus in 2020



Investment Returns



Oversight of Portfolios & its Risk Management



Liquidity Management Oversight

Charter of the Committee

The Investment Committee ('the Committee') is responsible to assist the Board in reviewing the investment policies, strategies and performance of the Investment portfolios of the Company and its Subsidiary.

As per the Charter of the Investment Committee in furtherance of its duties, the Committee is authorised to have direct access to, and receive regular reports from the management, and to request any additional information relating to its responsibilities. The Committee is also empowered to review and amend policies and programmes falling under its purview and recommend to the Board their adoption.

Activities in 2020

- The Committee reviewed information presented by the management, at its meetings, on macro-economic conditions and external environment and provided guidance on investment strategies to be followed.
- The performance of investment portfolios of the Company and its Subsidiary were evaluated each quarter and guidance given where necessary.
- The Company's and Subsidiary's compliance to requirements of the Investment Policy, statutory rules and regulations were monitored by receipt and review of quarterly compliance reports from the management.
- Risks relating to the investment function, Liquidity Management and Asset and Liability Management (ALM) positions were also evaluated.
- The Committee reviewed the changes proposed to the Investment Policy of the Company and its Subsidiary, in light of economic and regulatory changes, and the growth of the investment portfolios of the Company/Subsidiary, and made recommendations to the Board where relevant.
- In addition to scheduled meetings, the Committee also maintained constant dialogue with the management throughout the year, and discussed matters as and when they arose. Any issue that needed the attention of the Investment Committee was promptly attended to and solutions reached, through close communication between the Committee and the top management.

Composition

Dr. Sivakumar Selliah*
- Chairman

Ms. Siromi Wickramasinghe**
- Member

Mr. Ravindra Abey Suriya*
- Member

Mr. Arjuna Abeygunasekara***
- Member

* Independent Non-Executive Director

** Non-Executive Director

*** Non-Executive Director of Subsidiary

Meetings

The Committee held five meetings during the period.

Attendance

Dr. Sivakumar Selliah - 5/5
Ms. Siromi Wickramasinghe - 5/5
Mr. Ravindra Abey Suriya - 5/5
Mr. Arjuna Abeygunasekara - 5/5

Attendees by Invitation

Chief Executive Officer, Chief Investment & Strategy Officer, Actuarial Consultant and Middle Management of the investment front office and back office attended meetings by invitation regularly.

Secretary to the Committee

Ms. Punsirini Perera - Chief Financial Officer

INVESTMENT COMMITTEE REPORT

Key Responsibilities

- Developing and formulating guidelines for the management of the investment portfolios of the Company and Subsidiary.
- Reviewing and advising on the strategies to be followed by the investment function, after evaluation of the investment portfolios.
- Monitoring compliance of the investment function with applicable laws and regulations and the Investment Policy of the Group.
- Providing recommendations on any changes to the Investment Policy deemed by the Committee to be necessary, to the Board for approval.
- Evaluating and granting approval for any investment activity which require specific approval of the Committee as per the Investment Policy.
- Evaluating Liquidity Position of the Company and Subsidiary.
- Evaluating the performance of investments already made, through a periodic comparison of actual returns with expected returns.
- Regularly reporting to the Board on the Committee's activities.
- Reviewing and assessing the adequacy of the Charter periodically, and recommending any proposed changes to the Board for approval.
- Performing other activities under the Charter, as requested by the Board.

Conclusion

Considering the difficult and volatile market conditions that prevailed during the year mainly due to the COVID-19 pandemic situation together with poor economic conditions and low interest rate environment, the Committee is of the opinion that HNBA and HNBGI recorded an impressive performance by managing its investment portfolios, while operating within the framework prescribed by the Investment Policy and statutory and other laws, regulations and guidelines.



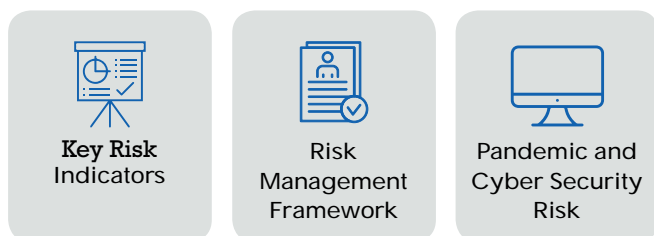
Dr. Sivakumar Selliah
Chairman – Investment Committee

Colombo, Sri Lanka
19th February 2021

RISK MANAGEMENT COMMITTEE REPORT

“The Committee continued to strengthen the Group risk framework, taking a universal approach to manage the risks at this unprecedented situation and pleased to implement our pandemic risk management strategies to reduce risks to our staff and ensure the continuity of our service delivery” **Dilshan Rodrigo**

Areas of Focus in 2020



Charter of the Committee

The Risk Management Committee (‘the Committee’) of HNB Assurance PLC (‘the Company’ or ‘HNBA’) is a standing committee of the Board of Directors (‘the Board’) appointed by and responsible to the Board.

The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to the oversight of the Risk Management Framework, including significant policies and practices used in managing risks of the Company and its fully owned subsidiary, HNB General Insurance Limited (‘HNBGI’).

The terms of reference of the Committee is defined in the Risk Management Committee Charter which is approved by the Board and is also reviewed annually.

Authority

The Committee has been empowered to have direct access to and receive regular reports from the Management. In order to discharge its duties and responsibilities effectively and efficiently, the Committee is authorised to request and receive any information from the management relating to its responsibilities.

Moreover, the Committee has the authority to engage independent professional advisors on matters within its purview.

Composition

Mr. Dilshan Rodrigo**
- Chairman

Ms. Rose Cooray**
- Member

Mr. Ravi Abeyesuriya*
- Member

Ms. Marina Tharmaratnam***
- Member

*Independent Non-Executive Director

** Non-Executive Director

***Independent Non-Executive Director of Subsidiary

Meetings

The Committee held 10 meetings during the year.

Attendance

Mr. Dilshan Rodrigo - 10/10

Ms. Rose Cooray - 10/10

Mr. Ravindra Abeyesuriya - 10/10

Ms. Marina Tharmaratnam - 9/10

Attendees by Invitation

Mr. Ruwan Manatunga - Chief Risk Officer (CRO) HNB PLC, Chief Executive Officer, Chief Operating Officer, Chief Financial officer, and Other members of the Executive Committee attended meetings by invitation regularly.

Secretary to the Committee

Mr. Patkunarajah Kugesan –
Manager Risk and Control

RISK MANAGEMENT COMMITTEE REPORT

Key Responsibilities

- Review the Company's Risk Management Framework, including significant policies, processes, and systems that the Management uses to manage risk exposures as well as risk measurement methodologies and approaches used for stress testing.
- Review and approve the Company's Risk Assessment Report and receive reports on the Company's adherence to significant risk limits.
- Review the risk appetite statement of the Company along with the Management by periodically assessing performance with the established risk appetite.
- Review and discuss with the Management on issues raised by Internal/External Auditors that impact upon the Risk Management Framework of the Company.
- Monitor whether the decisions relating to functions with high risks are taken in accordance with established and delegated authorities.

Activities in 2020

- The Committee reviewed the development, implementation and maintenance of the Group's overall Risk Management Framework, its Risk appetite principles, and policies, to ensure they are in line with emerging regulatory, governance, and industry best practices.
- Upon becoming aware of the advent of the COVID-19 pandemic, the Committee reviewed impact and level of preparedness and developed a comprehensive risk mitigation plan encompassing employee safety, cyber risk and liquidity. Implementation Plans were actively followed through at meetings.
- Emerging and high risks faced by the Group were discussed in detail and the Committee provided guidance on mitigating actions.
- The Committee also reviewed the Group's compliance with all applicable laws and regulations through review of compliance checklists prepared and presented by the Management.
- Discussed the investment strategy and reviewed the asset and liability management policy of the Group.
- Risks relating to new products were reviewed by the Committee prior to launch.
- The Committee reviewed the Key Risk Indicators (KRIs) of the Group against internal tolerance levels covering credit, reinsurance, market, operational and strategic risks facing the Group and management actions taken to address internal breaches.
- IT risks related issues of the Group and the steps taken by the Management to strengthen the IT Security environment of the Company were also discussed and guidance offered.
- The minutes of all meetings held were tabled at the Audit Committee meetings to permit the Audit Committee to carry out its statutory, regulatory, and other responsibilities as well as at the Board meetings of HNBA and HNBGI to update and inform the other members of the Board on the proceedings.



Dilshan Rodrigo
Chairman – Risk Management Committee

Colombo, Sri Lanka
19th February, 2021

STRATEGY REVIEW COMMITTEE REPORT

“The Committee guided the Company to achieve exemplary performance amidst the tough economic and social conditions faced with the support of the Management”

Rose Cooray

Areas of Focus in 2020



Charter of the Committee

The terms of reference of the Committee are defined in the Strategy Review Committee Charter, which is reviewed periodically. The main purposes of the Committee involve closely reviewing and monitoring the implementation of the three year strategic plan of the Group/Company, keeping the Board informed about the progress of such implementations and making timely recommendations that are deemed necessary to ensure the early arrest of any unhealthy developments with regard to the businesses of both HNB General Insurance Limited (HNBGI) and HNB Assurance PLC (HNBA).

Activities in 2020

- Review the front burner document containing materially significant short term activities, change of processes etc.
- Interaction with identified KMPs responsible for implementation of each activity.
- Identifying and monitoring the implementation of medium and long-term strategies.
- Review and make recommendations to the Board on the forecast made on KPIs
- Updated the Board regularly regarding the implementation and achievements against each target.
- Continuous reviewing of the strategic plan developed for the next three years.

- Monitoring progress of the Company performance with the challenges faced due to the global pandemic and revisiting the projections made during the year.

Rose Cooray
Chairperson – Strategy Review Committee

Colombo, Sri Lanka
19th February, 2021

Composition

- Ms. Rose Cooray**
- Chairperson
- Dr. Sivakumar Selliah*
- Member
- Mr. Damien Fernando**
- Member
- Mr. Stuart Chapman**
- Member
- Mr. Faizal Salieh**
- Member
- Ms. Marina Tharmaratnam***
- Member
- Mr. Sanjaya Wijemanne****
- Member
- Mr. Deepthi Lokuarachchi
- Member* ^

*Independent Non-Executive Directors

** Non-Executive Directors

*** Independent Non-Executive Director of Subsidiary

**** Non-Executive Director of Subsidiary

Meetings

The Committee held 7 meetings during the year

Attendance

- Ms. Rose Cooray - 7/7
Dr. Sivakumar Selliah - 7/7
Mr. Damien Fernando - 3/7•
Mr. Stuart Chapman - 7/7
Mr. Faizal Salieh - 7/7
Ms. Marina Tharmaratnam - 7/7
Mr. Sanjaya Wijemanne - 6/7
Mr. Deepthi Lokuarachchi - 4/4 ^

• Includes three (3) meetings attended by Alternate Director, Dr. Prasad Samarasinghe

^ Retired w.e.f 20th July 2020

Attendees by Invitation

Mr. Rajive Dissanayake, Chief Strategy Officer of HNB PLC and the Executive Committee members of the Company attended meetings by invitation regularly.

Secretary to the Committee

Mr. Nilesh Amarasinghe - Chief Investment and Strategy Officer

DIRECTORS' STATEMENT ON INTERNAL CONTROL

The following statement is presented as required by the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Responsibility

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the internal control and risk management mechanism in place at HNB Assurance PLC, ('the Company'). The Company has in place a comprehensive system of internal controls, covering risk management and financial, organisational, operational and compliance controls. However, as with the inherent limitations of any system, such systems of internal control are designed to manage, rather than to eliminate risks that may impede the achievement of the Company's objectives. In this light, the system of internal controls can only provide reasonable, but not absolute, assurance against material misstatement of financial information and records, or against financial loss or fraud.

The Board has established an on-going process for identifying, evaluating, and managing the significant risks faced by the Company, as well as for enhancing the system of internal controls in response to changes in the business environment or regulatory guidelines. This process is put in place for the year and is periodically reviewed by the Board through its Audit and Risk Management Committees, supported by the Internal Auditors. The Board, with the assistance of its Sub-Committees, reviewed deficiencies identified in internal controls during the year and has taken appropriate actions to improve the control environment.

The management assists the Board in implementing the policies and procedures on risk and control by identifying and assessing the risks faced by the Company, and in the design, operation, and monitoring of suitable internal controls to mitigate these risks.

The Board is of the view that the system of internal controls in place is sound and adequate to provide a reasonable assurance regarding the reliability of financial reporting, and that the

preparation of Financial Statements for external purposes is in accordance with relevant accounting policies, principles, and regulatory requirements.

Process of Reviewing the Internal Control System on Financial Reporting

The key features of the process that has been established to review the adequacy and integrity of the system of internal controls with respect to financial reporting are as follows:

- Various committees are established by the Board to assist the Board in ensuring the effectiveness of the Company's and its fully-owned subsidiary, HNB General Insurance Limited (HNBGI)'s daily operations, and that they are in accordance with the corporate objectives, strategies, annual budget, approved policies and business direction.
- The Company and subsidiary have outsourced its Internal Audit function to Messrs. Ernst & Young. The Internal Auditors check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis, using samples and rotational procedures and highlight significant findings in respect of any area of non-compliance. Audits are carried out covering main areas of the operations and branches island-wide, to provide an independent and objective report. The frequency of such audits is determined by the level of risk assessment, while the annual audit plan is reviewed and approved by the Audit Committee. Internal Auditors report their findings to the Audit Committee and their reports are discussed at Audit Committee meetings.
- The Audit Committee reviews internal control issues identified by the Internal Auditors, the External Auditors, regulatory authorities, and the management, and evaluate the adequacy and effectiveness of the risk management and internal control systems of the Company and its subsidiary. They also review the internal audit functions with particular emphasis on the scope and quality of internal audits. The minutes of the Audit Committee meetings are tabled at Board meetings for the information of the Board. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Report of the Audit Committee on pages 161 to 164.
- A Risk Management Committee has been established to assist the Board to oversee the risk management framework of the Company and its subsidiary. The management has prepared a Risk Register identifying all key risks faced by the Company and its subsidiary, as well as existing and proposed controls to mitigate such identified risks. This Risk Register has been shared with the Internal Auditors to ensure compliance with existing controls and to prepare the internal audit plan focusing on the significant risks faced by the Company. A Business Continuity Plan for Public Contagion was developed and approved by the Board risk committee to be followed in addition to the Business Continuity Plan.
- Key Risk Indicators (KRIs) have been identified for all major operations of the Company and its subsidiary and a KRI report is prepared monthly. A summary of the KRI report is included in the Risk Dashboard and presented to the Risk Management Committee. Furthermore, the key risks are discussed at Board level.
- The Risk and Compliance Department follows up on audit recommendations and ensures that the recommendations are implemented. A report is tabled at each Audit Committee meeting by the Risk and Compliance Department on the progress of implementing the actions agreed by the management.
- A compliance checklist covering all applicable laws and regulations is signed-off by the management monthly and is tabled at Audit Committee meetings. Compliance reports prepared by the Manager - Risk and Compliance are also presented to the Audit Committee, Risk Management Committee and the Investment Committee on a regular

basis. A monthly report to the Board is submitted by the Manager - Risk and Compliance on the Company's compliance with applicable laws and regulations.

- Procedure checklists have been prepared for Life Insurance operations, finance and IT related activities and the operations of the Company's fully owned subsidiary HNB General Insurance Limited (HNBGI), covering key control aspects. These checklists are prepared monthly, and any deviations noted in the checklists are reported to the Audit Committee.

Confirmation

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting. The preparation of Financial Statements for external purposes was done in accordance with Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), Companies Act, No. 07 of 2007, Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto and the Listing Rules of the Colombo Stock Exchange (CSE).

By order of the Board,



Mahendra Jayasekera
Chairman - Audit Committee



Rose Cooray
Chairperson

Colombo, Sri Lanka
19th February, 2021

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF HNB ASSURANCE PLC FOR THE YEAR ENDED 31ST DECEMBER 2020

Annual Report of the Board of Directors on the Affairs of the Company and Statement of Compliance of the contents of the Annual Report as Required by Section 168 of the Companies Act No. 07 of 2007.

1. PREFACE

The Board of Directors ('the Board') of HNB Assurance PLC ('HNBA' or 'the Company') is pleased to present the Annual Report together with the audited Financial Statements of the Company, consolidated Financial Statements of the Group for the financial year ended 31st December 2020 as set out in pages 194 to 329 and the Auditors Report on the Financial Statements.

This report covers statutory requirements and directions of the Companies Act No. 07 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 as amended, the Listing Rules of the Colombo Stock Exchange (CSE), Rules and regulations of the Insurance Regulatory Commission of Sri Lanka and is guided by the recommended best practices on Corporate Governance.

The Annual Report was reviewed and approved by the Board of Directors of the Company on 19th February 2021 and appropriate number of copies will be submitted to the Colombo Stock Exchange and to the Sri Lanka Accounting and Auditing Standards Monitoring Board as specified and stipulated.

2. REVIEW OF BUSINESS

2.1 Formation

The Company was incorporated on 23rd August 2001 as a limited liability company under the Companies Act No. 17 of 1982, and reregistered on 09th August 2007 as per the requirements of the Companies Act No. 07 of 2007 and bears the Company Registration Number, PQ 108. In November 2003, ordinary shares of the Company were listed on the Main Board of the Colombo Stock Exchange (CSE). The Company is registered under the Regulation of Insurance Industry Act No. 43 of 2000 to operate as a life insurance company and owns a fully owned subsidiary, HNB General Insurance Limited ("HNBGI"), which is a licensed General Insurance Company

registered under the same Act. The ultimate parent of the Company is Hatton National Bank PLC, a licensed commercial bank which owns 59.99% of the voting rights of the Company. The registered office of the Company is located at No. 479, T B Jayah Mawatha, Colombo 10.

Fitch Ratings Lanka Ltd has affirmed the National Insurer Financial Strength Ratings of HNB Assurance PLC and HNB General Insurance Ltd at A (Ika) with a revision of the outlook to Stable.

2.2 Corporate Vision, Mission and Values

The vision, mission and the values of the Company are given on page 10 of this report. The Company and the Group practices high standards of ethical behaviour in carrying out the business in line with the vision set.

2.3 Principal Business Activities of the Company and Group Companies

The principal activity of the Company is Life Insurance business and HNB General Insurance Limited carries out General Insurance business while no significant change took place in the principal business activities of both entities.

Both companies also provide Takaful Insurance products within the framework of main business activities. These Takaful business operations are structured as 'window units' and considered a part of the Company's/Group's operations for both financial and regulatory reporting purposes.

2.4 Review of Business and Future Developments

An overview of the business performance and the future developments of the Company and the Group are discussed and presented in the Chairperson's Message, Chief Executive Officer's review (pages 25 to 27 and 29 to 31), and the Management Discussion and Analysis (pages 102 to 157). These reports together with Audited Financial Statements reflect the state of affairs of the Company and the Group.

3. FINANCIAL STATEMENT OF THE COMPANY AND THE GROUP

3.1 Director's Responsibility for Financial Reporting

As per Section 150 (1) of the Companies Act No. 07 of 2007, the Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company and the Group and that these Financial Statements give a true and fair view of the state of affairs of the Company and Group in compliance with Sections 151, 152, 153 (1) and 153 (2) of the Companies Act No. 07 of 2007.

Accordingly, the Financial Statements of Company and the Group are prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) issued by the Institute of Chartered Accountants of Sri Lanka and also complies with requirements of the Companies Act No. 07 of 2007, Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995, Rules and Regulations of the Insurance Regulatory Commission of Sri Lanka and Listing Rules of the Colombo Stock Exchange (CSE). The detailed statement of Directors' Responsibility is included in pages 186 to 187 forms an integral part of this report.

The aforementioned Financial Statements for the year ended 31st December 2020 which appears on pages 194 to 329 are duly signed by the Chief Financial Officer and two Directors of the Company as per Section 168 (1) (b). These statements form an integral part of the Annual Report of the Board of Directors.

3.2 Significant Accounting Policies and Changes during the Year

The significant accounting policies adopted in the preparation of the Financial Statements and changes to significant accounting policies if any, in the preparation of the Financial Statements are described on pages 203 to 207.

3.3 Going Concern

The Directors after having made necessary assessment of the Company's and its Subsidiary's ability to continue as a going concern declare that it has the resources

to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Company's and its Subsidiary's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared for the Company and its subsidiary on going concern basis.

3.4 Events Occurring after the Date of the Statement of Financial Position

The payment of a first and final dividend of Rs. 2.80 per share for the year ended 31st December 2020 (2019: Interim Rs. 2.00 per share, Final Rs. 6.00 per share) is to be approved at the Annual General Meeting to be held on 31st March 2021. More information with respect to the dividend is given in Note 46 on page 318.

Except for the post balance events disclosed in Note 49 on page 327, there have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

3.5 Contingencies

All contingencies to the Group and the Company were disclosed in the Note 52 on the page 328. In the opinion of the Directors, and in consultation with the Company Lawyers, litigations currently pending against the Group and the Company, would not have a material impact on the reported financial results. All pending litigations for claims have been evaluated and adequate provisions have been made in the Financial Statements where necessary.

4. FINANCIAL RESULTS AND APPROPRIATIONS

4.1 Gross Written Premium

Gross written premium of the Group for the year 2020 was Rs. 10,398.9 Million. (2019: Rs. 9,942.8 Million) whilst the Company's Gross Written Premium for the year 2020 was Rs. 5,487.0 Million (2019: Rs. 5,175.0 Million). Note 31 to the Financial Statements in page 300 provides a segmental analysis of the Gross Written Premium.

4.2 Profits and Appropriations

The Profit After Tax of the Group for the year 2020 was Rs. 1,175.2 Million (2019 – Rs. 1,010.2 Million) whilst the Company's Profit After Tax for the year 2020 was Rs. 723.9 Million (2019 - Rs. 826.7 Million). The details of the appropriation of profit are given below.

For the year ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Profit Before Taxation (PBT)	1,630,496	1,404,891	999,363	1,106,535
Income Tax Reversal/(Expenses)	(455,273)	(394,663)	(275,418)	(279,826)
Profit for the Year	1,175,223	1,010,228	723,945	826,709
Unappropriated Profit Brought Forward	4,965,809	4,405,581	4,544,369	4,167,660
Profits Available for Appropriation	6,141,032	5,415,809	5,268,314	4,994,369
Dividends Paid	(300,000)	(450,000)	(300,000)	(450,000)
Unappropriated Profit Carried Forward	5,841,032	4,965,809	4,968,314	4,544,369

4.3 Dividends on Ordinary Shares

Information on final dividend proposed by the Company is given in Note 46 on page 318 to the Financial Statements.

The Directors recommended a first and final dividend of Rs. 2.80 per share for the year under review to be approved by the shareholders at the forthcoming Annual General Meeting to be held on 31st March 2021. The final dividend will be paid on or before 27th April 2021 to holders of issued and paid-up ordinary shares of the Company, whose names remain in the share registry as at the close of business on the 31st of March 2021.

As required by Section 56(3) of the Companies Act, No. 7 of 2007, the Board of Directors have confirmed that the Company satisfies the solvency test immediately after the distribution of the final dividend of Rs. 2.80 and Statement of Solvency prepared by the Board was audited by External Auditors Messrs. KPMG in terms of Section 56 (2) of the Companies Act, No. 07 of 2007. Further, the Company has submitted information on dividend distribution to the Insurance Regulatory Commission of Sri Lanka as requested from all insurance companies.

4.4 Stated Capital

The Stated Capital of the Company as at 31 December 2020 was Rs. 1,171,875,000 comprising 150,000,000 fully paid ordinary shares. (2019: Stated Capital - Rs. 1,171,875,000, No. of Shares – 50,000,000).

At the meeting of the Board of Directors of the Company held on 5th November 2020, the Board of Directors approved a subdivision of the Company shares,

whereby one (1) existing ordinary share was subdivided to three (3) ordinary shares, thereby increasing the ordinary shares in issue from 50,000,000 to 150,000,000 ordinary shares. The subdivision was carried out as per the provisions of the Articles of Association of the Company. There was no change to the stated capital of the Company subsequent to the subdivision of shares and the shares resulting from the subdivision carries the same voting and distribution rights. The subdivision was based on the shareholding as at end of trading on 1st December 2020.

4.5 Reserves

Transfers to/from reserves of the Group/ Company are shown in the Statement of Changes in Equity appearing on pages 196 and 197.

4.6 Taxation

Under the prevailing tax rules of the Country, the Company and its subsidiary were taxed at the corporate tax rate of 28% (2019 – 28%). The tax position of the Company and its subsidiary is disclosed in Note 44 to the Financial Statements on page 313.

Both the Company and the Subsidiary reversed Deferred Tax Assets previously recognised due to utilisation of brought forward tax losses against the taxable income. Accordingly, the Company has reversed a Deferred Tax Asset of Rs. 275.4 Million during the year and carries an asset of Rs. 725.3 Million as of 31st December 2020. The Subsidiary carries a deferred tax asset of Rs. 13.5 Million as of 31st December 2020.

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4.7 Capital Expenditure

The Company's and Group's capital expenditure on Property, Plant and Equipment and Intangible Assets amounted to Rs. 96.2 Million and Rs. 119.6 Million respectively (2019: Company Rs.49.9 Million and Group Rs. 69.5 Million) and all other related information and movements have been disclosed in Note 7 on page 252 and Note 9 on page 260 to the Financial Statements.

4.8 Financial Investments

The Financial Investments held by the Company and the Group mainly comprises of Financial Instruments. Financial Investments of the Company and Group amounted to Rs. 22,075.3 Million and Rs. 26,366.6 Million respectively as at 31st December 2020 (2019 - Rs. 17,777.4 Million and Rs. 21,202.1 Million respectively). The details of the Financial Investments are given in Note 10 to the Financial Statements on pages 262 to 273.

4.9 Provisions, Liabilities and Capital Commitments

The Directors have taken all reasonable steps to ensure that adequate provisions were made for all known liabilities and commitments. Contract Liabilities for Life Insurance stood at Rs. 17,064.1 Million (2019 - Rs. 14,464.5 Million) as at 31st December 2020, while Contract Liabilities for General Insurance constituted Rs. 3,309.1 Million (2019 - Rs. 2,871.4 Million) as at 31st December 2020. These liabilities have been valued by the appointed actuaries whose reports are disclosed on page 189 and 190 respectively. The assumptions and methods used are given in the accounting policies on pages 286 to 292 of these Financial Statements. The gratuity liability of the Company and the Group stood at Rs. 150.7 Million and Rs. 254.4 Million respectively (2019 - Rs. 100.1 Million and Rs. 167.1 Million respectively) and is certified by an External Actuary. At the year end, there were no capital expenditure approved by

the Board and contracted, for which no provision has been made in the Financial Statements other than Rs. 24.1 Million on computer hardware and software. (2019 - Rs. 8.9 Million).

5. THE BOARD OF DIRECTORS

5.1 Information on Directors of the Company and the Group and Directors Meetings

The Board of Directors of HNBA consists of 8 members and the Board of Directors of HNBGI consists of 7 members as at 31st December 2020. Information relating to the Directors of the Company is available in the Directors' Profile on pages from 34 to 39. The Board is made up of experienced professionals from diverse backgrounds, experience, expertise and age, contributing varied perspectives to boardroom deliberations. Directors are appointed through a formal and transparent process, assessed for their independence and approved by the IRCSL.

The names, appointment dates and meeting attendance of Directors of Company and the subsidiary are given below.

	Board Status	Appointment to HNBA Board	Appointment to HNBGI Board	HNBA Board	HNBGI Board	Audit Committee	Human Resources and Remuneration Committee	Related Party Transaction Review Committee	Nomination Committee	Investment Committee	Risk Management Committee	Strategy Review Committee
M A R C Cooray – Chairperson		06.07.2015	30.06.2015	13/13	12/12	-	5/5	-	1/1	-	10/10	7/7
J A P M Jayasekera	Independent	03.12.2012	N/A	13/13	N/A	7/7	4/5	4/4	1/1	-	-	-
D P N Rodrigo		01.07.2013	21.12.2015	12/13*	10/12*	-	-	-	1/1	-	10/10	-
S N Wickramasinghe		02.10.2013	N/A	13/13	N/A	-	-	-	-	5/5	-	-
Dr. S Selliah	Independent	17.06.2014	N/A	13/13	N/A	7/7	5/5	4/4	-	5/5	-	7/7
D R Abey Suriya	Independent	01.01.2018	N/A	12/13	N/A	-	-	-	-	5/5	10/10	-
L U D Fernando		29.03.2019	29.03.2019	13/13*	12/12*	4/7*	-	3/4*	-	-	-	3/7*
S A Chapman		29.03.2019	N/A	13/13	N/A	-	-	-	-	-	-	7/7
M O F Salieh	Independent	N/A	22.09.2014	N/A	12/12	-	-	-	-	-	-	7/7
M Tharmaratnam	Independent	N/A	01.09.2016	N/A	12/12	-	-	-	-	-	9/10	7/7
M S Wijemanne	Independent	N/A	29.03.2019	N/A	11/12	-	-	-	-	-	-	6/7
A V Abeygunasekara	Independent	N/A	29.03.2019	N/A	12/12	-	-	-	-	5/5	-	-
D P Lokuarachchi (retired w.e.f 20.07.2020)	Non-Executive	26.05.2017	23.05.2017	6/6	6/6	-	-	-	-	-	-	4/4

* Includes meeting/s attended by Alternate Directors

■ Independent ■ Non-Executive

5.2 New Appointments, Retirement and Resignations

Dr. T K D A P Samarasinghe was appointed to the Board of HNBA and HNBGI in the capacity of an Alternate Director to Mr. L U D Fernando with effect from 24th January 2020.

Mr. K L Wijesooriya resigned from the Board of the HNBA and HNBGI with effect from 17th October 2020 having served in the capacity of an Alternate Director to Mr. D P N Rodrigo for a period of 1 year.

Mr. D P Lokuarachchi retired from the Board of the HNBA and HNBGI with effect from 20th July 2020 having served a period of 3 years.

There were no appointments, retirements or resignations to the Board of both HNB Assurance PLC and HNB General Insurance Limited during the reporting period other than those mentioned above.

5.3 Retirement and Re-election of Directors

In terms of Article 27 (7), of the Articles of Association of the Company Dr. Sivakumar Selliah is retiring by rotation at the AGM and being eligible, offer himself for re-election.

Ms. Rose Cooray is over the age of 70 years. Accordingly, in terms of the provisions of the Companies Act in Section 210 and 211, she will offer herself for re-election as a Director at the Annual General Meeting.

5.4 Appraisal of Board Performance

Performance of the Board of Directors was reviewed through a self-assessment questionnaire and the responses were shared among all Board members. Suggestions to further improve the performance of the Board that arose from these self-assessment questionnaires were discussed in detail and adopted as appropriate. The Secretary to the Board and the Management continuously follow up on the progress of implementing such agreed actions.

5.5 Board and Subcommittees

Seven Board Subcommittees have been appointed by the Board to support the Board in ensuring that the Company and the Group carries out its activities with the highest ethical standards and in the

best interest of all its stakeholders at all times. The Terms of Reference of these Subcommittees follow the recommendations made by various regulatory bodies, including but not limited to the Insurance Regulatory Commission of Sri Lanka, Securities and Exchange Commission, the Colombo Stock Exchange and the Institute of Chartered Accountants of Sri Lanka. These Committee reports are given on page 161 to 175 in the Annual Report. Committee mandates are reviewed regularly. The composition and meeting attendance by members at the above Subcommittee meetings are given on page 180.

5.6 Interest Register and Interest in Contracts or Proposed Contracts

As per requirements of the Companies Act, No. 07 of 2007 an Interest Register is maintained by the Company Directors have made declarations of their interests in other

companies conforming to Sections 192 (1) and 192 (2) of the Companies Act, No. 07 of 2007 and they are recorded in the Directors' Interest Register.

The Interest Register is available at the registered office of the Company, in keeping with the requirements of the Section 119 (1) (d) of the Companies Act, No. 07 of 2007. Directors also refrained from voting on any contract or matter in which they have a material interest as a practice of good governance. Particulars of the Directors' Interests in Contracts are given on page 185 of the Annual Report and Note 48 to the Financial Statements presents complete disclosure on Related Party Transactions, which forms an integral part of the Annual Report of the Board of Directors.

The Directors' Interest in shares has not changed between 31st December 2020 and 19th February 2021, the date of this report.

Name of Director	No. of shares held as at 31st December	
	2020 Rs.:000	2019 Rs.:000
M A R C Cooray – Chairperson	69,105	18,035
J A P M Jayasekera	174,000	83,057
D P N Rodrigo	540	180
S N Wickramasinghe	37,500	52,500
Dr. S Selliah	600,000	200,000
D R Abeyseriya	5,000	1,000
L U D Fernando	498	166
S A Chapman	Nil	Nil
Dr. T K D A P Samarasinghe (Alternate Director to L U D Fernando)	Nil	N/A
D P Lokuarachchi – Managing Director *	N/A	Nil
K L Wijesooriya ** (Alternate Director to D P N Rodrigo)	N/A	Nil

* retired w.e.f 20.07.2020

** resigned w.e.f 17.10.2020

5.7 Directors' Remuneration

Directors' remuneration including post-employment is given in Note 42 on page 311 to the Financial Statements. Further, Directors are not entitled to obtain any loan from the Company.

5.8 Related Party Transactions

The Company's transactions with Related Parties, given in Note 48 on page 321 to the Financial Statements have complied with Colombo Stock Exchange Listing Rule 9.3.2 (d) and the Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13(c) of the Securities and Exchange Commission Act. No related party transaction exceeded the limits of 10% of equity or 5% of total assets requiring immediate disclosure to CSE and a separate disclosure in the Annual Report as per Section 9.3.2 of the Listing Rules. The Directors have also disclosed transactions, if any, that could be classified as Related Party Transactions in terms of the Sri Lanka Accounting Standard – LKAS 24 on 'Related Party Disclosures'.

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6. SHARE INFORMATION

6.1 Information on Earnings, Dividends, Net Assets and Market Value

Information related to earnings, dividends, net assets, market price per share, and share trading as per the CSE listing rules are given on pages 92 to 97. Ratios relating to dividends, net assets, market price per share are presented on Investor Information on page 348.

6.2 Distribution Schedule of Shareholding

The distribution and analysis of shareholding is given on page 93 of this Annual Report. As at 31st December 2020, HNB Assurance PLC had 4,075 registered ordinary shareholders (2019 – 3,397).

6.3 Substantial Shareholding

Hatton National Bank PLC holds 59.99% of the Ordinary Voting shares as at 31st December 2020. Information of the top 20 shareholders and the percentage held by each shareholder as at 31st December 2020 is presented on page 94 with comparable information as at 31st December 2019.

6.4 Employee Share Ownership/ Option Plans

The Company does not have any employee share ownership/option plans.

7. EQUITABLE TREATMENT OF SHAREHOLDERS

All shareholders irrespective of the number of shares owned by them are treated equally and the Company recognises the right of all shareholders to obtain information.

Further establishing this principle, the Chairperson's Message, the Chief Executive Officer's Review, the Statement of Financial Position, the Statement of Profit and Loss and Other Comprehensive Income, the Cash Flow Statement and the Statement of Changes in Equity are available in Sinhala and Tamil languages to our shareholders on request. This is also made available through our Company website.

8. INDEPENDENT AUDITORS' APPOINTMENT AND REMUNERATION

8.1 Appointment and Audit Report

The Company's Independent External Auditors, Messrs. KPMG, Chartered Accountants, who were appointed by a resolution passed at the 18th Annual General Meeting, have carried out an audit on the Financial Statements of the Company and the Consolidated Financial Statements of the Group for the year ended 31st December 2020 and expressed their opinion which appears on pages 191 to 193 of this Annual Report.

8.2 Auditors Remuneration and Relationship

The details of their remuneration in respect of audit fees and audit related fees are given in Note 42.3 to the Financial Statements as required by Section 168 (1) (i) of the Companies Act No 07 of 2007. As far as the Directors are aware, the Auditors do not have any relationship with the Company, and the Subsidiary which would impair the Auditors' independence within the means of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report, thus comply with the Section 168 (1) (j) of the Companies Act No 07 of 2007.

Report of the Audit Committee provides more information on appointment of auditors, Independence of auditors and the provision of Non-Audit services.

8.3 Re-appointment of Auditor for the Financial Year 2021

The retiring Auditors Messrs. KPMG have signified their willingness to continue to function as the auditor to the Company and Subsidiary. A resolution to reappoint Messrs. KPMG as auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting of HNB Assurance PLC and HNB General Insurance Limited to be held on 31st March 2021 for shareholder approval.

9. COMPLIANCE WITH LAWS AND REGULATIONS

To the best knowledge of the Directors, the Group/Company has not acted in contravention of any rule or regulation of the country. Further, the Group has submitted all statutory returns and other required details to the relevant authorities on or before the due dates.

10. STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government and related institutions, the Insurance Regulatory Commission of Sri Lanka, and relating to the employees, by the Company and its Subsidiary, have been made on time or where relevant provided for, except as specified in Note 52 to the Financial Statements, covering contingent liabilities.

11. RISK-BASED CAPITAL (RBC) COMPLIANCE

The Company and its Subsidiary have complied with the requirements of the Risk Based Capital (RBC) framework on solvency margin as required by the IRCSL. Total Available Capital (TAC) and Risk-based Capital Adequacy Ratio (CAR) of HNBA and HNBGI were maintained in excess of the minimum requirements as prescribed by the IRCSL throughout the year. At the end of the financial year 2020, HNB Assurance PLC recorded a CAR of 338% and HNB General Insurance Limited recorded a CAR of 256%.

12. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

The Board of Directors believe that strong internal controls are an essential part of management of the business and is committed to maintaining financial, operational and risk management controls over all its activities. The ultimate responsibility of Company's/ Group's system of internal controls and risk management is vested with the Board of Directors.

Therefore, the Board continuously monitors all business aspects through the Risk Management Committee and the Audit Committee along with the reports of the outsourced internal auditors to ensure the adequacy and effectiveness of internal controls of the Group, compliance with laws and regulations and established policies adopted by the Group.

Further, details of these aspects are discussed in the Corporate Governance Report, Director's Statement of Internal Control, Audit Committee Report and Risk Management Committee Report available on pages 45 to 75, pages 176 to 177, pages 161 to 164 and pages 173 to 174 respectively.

13. CORPORATE GOVERNANCE

The Board of Directors is committed towards maintaining an effective Corporate Governance Framework and implementing systems and structures required to ensuring best practices in Corporate Governance and their effective implementation.

The Company's compliance with relevant sections of Corporate Governance framework issued by IRC SL in the year 2018 is given on pages 67 to 68. Further, the table from page 65 to 66 shows the manner in which the Company has complied with Section 7.10 of the Rules of the Colombo Stock Exchange (CSE) on Corporate Governance and Company's compliance on the Code of Best Practice on Corporate Governance issued by CA Sri Lanka is given on page 98. The Corporate Governance Report is given from page 45 to 75. Also, the Director's declare that:

- a) all applicable laws and regulations have been complied with by the Company, in conducting its business activities.
- b) the Directors have disclosed all material interests in contracts involving the Company and have refrained from voting on matters in which they were materially interested.

- c) the Company has made all endeavours to ensure that all shareholders have been treated equitably.
- d) the business is a going concern with supporting assumptions or qualifications as necessary.
- e) a review of internal controls, covering financial, operational and compliance controls, and risk management, has been conducted, and a reasonable assurance of their effectiveness and successful adherence has been obtained.

14. CODE OF CONDUCT AND ETHICS

All employees of the Company/Subsidiary are governed by a Code of Business Conduct and are expected to abide by the Code without any exceptions. During the year no major violations of the Code was reported, except for few insignificant operational level incidents over which appropriate and prompt actions were taken by the management.

The Board of Directors is also governed by a Code of Conduct and Ethics and during the year no violations of the Code were reported.

15. WHISTLE BLOWING

An Integrity Reporting Policy is in place and has been communicated to all employees of the Company/Subsidiary. It encourages to bring to the attention of the Management or the Board any possible risks faced by the Company at the earliest. During the year no major concerns were raised through the Policy.

16. ENVIRONMENT PROTECTION

To the best of knowledge of the Board, the Company and Subsidiary have complied with the relevant environmental laws and regulations and the Company and Subsidiary have not engaged in any activity that is harmful or hazardous to the

environment. Specific measures taken to protect the environment are found in the Natural Capital section of this Report on pages 146 to 148.

17. CORPORATE SOCIAL RESPONSIBILITY (CSR)

As a socially responsible corporate citizen, the Company carries out a range of CSR activities. The details of Corporate Social Responsibility activities are given under Social and Relationship Capital section on pages 132 to 138.

18. CORPORATE DONATIONS

Total donations made by the Company during the year amounted to Rs. 500,000 (2019 - Rs. 500,000).

19. HUMAN RESOURCES

The Company and Group ensure that effective human resource practices and policies exist, continuously reviewed and improved to enhance workforce efficiency, effectiveness and productivity. These practices and policies are applied for all employees of Group/Company irrespective of ethnic origin, religion, political opinion, gender, marital status or physical disability.

Details of the Company and Group human resource are detailed in the Human Capital section on pages 123 to 131 and the on Human Resources and Remuneration Committee Report given on pages 165 to 166.

20. ANNUAL GENERAL MEETING

The nineteenth Annual General Meeting of the Company will be held at the Auditorium on Level 22 of "HNB Towers", at No. 479, T B Jayah Mawatha, Colombo 10, on the 31st of March 2021 at 10.00 in the forenoon. The Notice of the Annual General Meeting is on page 353 of the Annual Report.

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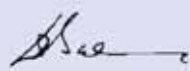
21. ACKNOWLEDGEMENT OF THE CONTENT OF THE REPORT

As required by the Section 168 of the Companies Act, No. 07 of 2007, the following information is disclosed in this Report prepared for the year ended 31st December 2020.

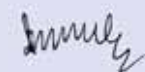
Reference to the Companies Act	Information Required to be Disclosed as per the Companies Act No. 07 of 2007	Reference from the Annual Report of the Board of Directors
Section 168 (1) (a) (i)	The nature of the business of the Company or any of its subsidiaries.	Section 2.3 on page 178
Section 168 (1) (b)	Financial Statements for the accounting period completed and signed in accordance with section 151, and any Group Financial Statements for the accounting period completed and signed in accordance with section 152.	Section 3.1 on page 178
Section 168 (1) (c)	Auditors' appointment and Auditors' Report on the Financial Statements of the Group and the Company.	Section 8.1 and 8.3 on page 182
Section 168 (1) (d)	Accounting Policies of the Group and the Company and any changes therein.	Section 3.2 on page 178
Section 168 (1) (e)	Particulars of the entries made in the Interests Registers of the Company and its Subsidiary during the accounting period.	Section 5.6 on page 181
Section 168 (1) (f)	Remuneration and other benefits paid to Directors during the accounting period.	Section 5.7 on page 181
Section 168 (1) (g)	Total amount of donations made by the Company during the accounting period.	Section 18 on page 183
Section 168 (1) (h)	Names of the persons holding office as Directors of the Company and the subsidiary as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the Company and the subsidiary during the accounting period	Section 5.1 on page 180 Section 5.2 on page 181
Section 168 (1) (i)	Disclosure on amounts payable to the Auditors as Audit Fees and Fees for other services rendered during the accounting period by the Company and the subsidiary.	Section 8.2 on page 182
Section 168 (1) (j)	Auditors' relationship or any interest with the Company and the Subsidiary	Section 8.2 on page 182
Section 168 (1) (k)	Acknowledgement of the contents of this Report/Signatures on behalf of the Board of Directors	Section 21 on page 184
Section 168 (2)	A company that is required to include Group Financial Statements in its annual report shall include those in relation to its subsidiaries, the information specified in paragraphs (b) to (j) of subsection (1).	All requirements in relation to the subsidiary operations have also been covered under relevant sections
Section 168 (3)	The annual report of a company need not comply with of paragraph (a) and paragraphs (d) to (j) of subsection (1), if all shareholders agree in writing that it need not do so. Any such agreement shall be noted in the annual report.	Not Applicable. The Company complies with paragraph (a) and (d) to (j) of subsection (1)

Board of Directors does hereby acknowledge the contents of this Annual Report as required by Section 168 (1) (k) of the Companies Act No. 07 of 2007.

By order of the Board,



Sitari Jayasundara
Board Secretary



J A P M Jayasekera
Director



M A R C Cooray
Chairperson

Colombo, Sri Lanka.
19th February, 2021.

DIRECTORS' INTEREST IN CONTRACTS WITH THE GROUP/COMPANY

Related party disclosures as per the Sri Lanka Accounting Standard - LKAS 24 'Related Party Disclosures' are detailed in Note 48 to the Financial Statements on pages 321 to 326 of this Annual Report.

In addition, Group/Company carries out transactions in the ordinary course of business on an arm's length basis with entities where no significant influence is exercised by the Chairperson or a Director of the Company, who is the Chairperson or a Director of such entities.

Name of the Company	Name of the Director	Nature of Transactions	Insurance Segment	Group		Company	
				2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
ODEL PLC	Dr. S. Selliah	Insurance Premium	HNBGI	317	-	-	-
		Claims Incurred	HNBGI	19	-	-	-
Uni dil Packaging Solutions Ltd	J A P M Jayasekara	Insurance Premium	HNBGI	651	510	-	-
Uni dil Packaging Ltd		Claims Incurred	HNBGI	512	1,422	-	-
Bio Foods (Pvt) Ltd	D R Abeyseriya	Insurance Premium	HNBGI	874	11	-	-
		Claims Incurred	HNBGI	4,201	-	-	-
Diesel And Motor Engineering PLC	Dr. L J S H Cabral	Insurance Premium	HNBGI	15	550	-	-
Tokyo Cement Company (Lanka) PLC		Claims Incurred	HNBGI	742	701	-	-
Access Engineering PLC	D S Weerakkody	Insurance Premium	HNBGI	118	-	-	-
		Claims Incurred	HNBGI	-	79	-	-
Beyond M (Pvt) Ltd		Insurance Premium	HNBGI	34	274	-	-
		Claims Incurred	HNBGI	132	-	-	-
H Senid Business Solutions (Pvt) Ltd	R S Captain	Insurance Premium	HNBGI	412	-	-	-
H Senid Mobile Solutions (Pvt) Ltd		Claims Incurred	HNBGI	2,237	-	-	-
H Senid Software International (Pvt) Ltd		Insurance Premium	HNBGI	1,963	-	-	-
		Claims Incurred	HNBGI	256	-	-	-
		Claims Incurred	HNBGI	424	-	-	-

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Board of Directors in relation to the Financial Statements of the Company and the Consolidated Financial Statements of the Company and its Subsidiary prepared in accordance with the provisions of the Companies Act No.07 of 2007, is given in this statement.

The responsibilities of the External Auditors in relation to the Financial Statements are set out in the Independent Auditor's Report given on pages 191 to 193.

As per the provisions of sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No 7 of 2007, the Directors are required to prepare and present Financial Statements for each financial year for the Company and the Group which give a true and fair view of the state of affairs of the Company as at the reporting date and of the profit or loss for the year and place the same before the Annual General Meeting. The financial statements comprise the Statement of Financial Position as at 31st December 2020, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto.

The Board of Directors' also confirm that the Financial Statements of the Company and the Consolidated Financial Statements of the Company and its Subsidiary give a true and fair view of;

- The state of affairs of the Company and the Group as at the date of the Statement of Financial Position; and
- The financial performance of the Company and the Group for the financial year ended 31st December 2020

Compliance Report

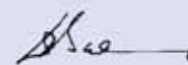
In preparing the financial statements for the period ended 31st December 2020, the Directors also confirm that,

- a) Appropriate accounting policies have been selected and applied in a consistent manner when preparing the Financial Statements/Consolidated Financial Statements appearing on pages 194 to 329.
- b) Reasonable and prudent judgments and estimates have been made so that the form and substance of transactions are properly reflected and material departures, if any, have been disclosed and explained in the Financial Statements/ Consolidated Financial Statements and accompanying Notes.
- c) The Financial Statements/Consolidated Financial Statements for the year ended 31st December 2020, prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the applicable regulatory requirements including;
 - Sri Lanka Accounting Standards (SLFRS/LKAS)
 - Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
 - Companies Act No. 07 of 2007
 - Regulation of Insurance Industry Act No. 43, of 2000 and subsequent amendments thereto
 - Statement of Recommended Practice (SoRP) issued by the Insurance Regulatory Commission of Sri Lanka (IRC SL)
 - Listing Rules of the Colombo Stock Exchange (CSE)
 - Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC).
- d) As required by the Section 148 (1) of the Companies Act the Company and the Group keep accounting records which correctly record and explain the Company's/Group's transactions and enable the financial position of the Company/Group to be determined with reasonable accuracy at any time while enabling the preparation of the Financial Statements in accordance with the Companies Act No. 07 of 2007 and ensuring that these statements can be readily and properly audited.
- e) Appropriate steps have been taken to ensure that the Company/ Group maintains proper books of accounts and the financial reporting system is reviewed through the Audit Committee. The report of the Audit Committee is given on pages 161 to 164 of this Annual Report. Financial records of the Company/ Group have been reviewed by the Board at their regular meetings and the Interim Financial Statements of the Company/ Group have been reviewed and recommended by the Audit Committee and have then been approved by the Board of Directors prior to release to the Shareholders and public.
- f) The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.
- g) Steps have been taken to establish and maintain a system of internal controls to provide reasonable assurance of the reliability of financial reporting, effectiveness and efficiency of the operations, safeguarding of the assets of the Company/Group, compliance with applicable laws and regulations, and prevention and detection of frauds and other irregularities. Directors' Statement on Internal Control is given on pages 176 to 177.

- h) The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments including taxes and duties due to all relevant regulatory and statutory authorities which were payable by the Company/ Group as at the reporting date have been paid or where relevant provided for.
- i) As required by the Section 56 (2) of the Companies Act No. 07 of 2007, the Board of Directors based on the information available is satisfied that the Company will immediately after the distribution of dividends satisfy the solvency test, in accordance with the Section 57 of the Companies Act No. 07 of 2007, and has obtained a certificate from the External Auditors, prior to declaring a final dividend of Rs. 2.80 per share for this year, to be paid on or before 27th April 2021.
- j) As required by the Sections 166 (1) and 167 (1) of the Companies Act No. 07 of 2007 and Rule 7.5 (a) and (b) on Continuing Listing Requirements of the Colombo Stock Exchange (CSE), the Board of Directors have prepared this Annual Report in time and will ensure that a copy thereof is sent to every Shareholder of the Company, who have expressed desire to receive a hard copy or to other shareholders an online link containing the Annual Report within the stipulated period of time.
- k) The Board of Directors after considering the financial position, operating conditions, regulatory environment and other factors required to be addressed, has established that it has reasonable expectations that the Company and the Group have adequate resources to continue in operation to justify applying the 'Going Concern' basis in preparation of these Financial Statements/Consolidated Financial Statements.
- l) As required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act No. 07 of 2007, Chief Financial Officer has certified that the Financial Statements of the Company/Group are in compliance with the requirements of the Companies Act No. 07 of 2007. Further, as required by the Sections 150 (1) (c) and 152 (1) (c) of the Companies Act No. 07 of 2007 and other regulatory requirements the Financial Statements of the Company/ Group have been signed by two Directors of the Company on 19th February 2021.
- m) The Consolidated Financial Statements of the Group and the Financial Statements of the Company have been provided to the Company's External Auditors, Messrs KPMG, who were appointed in terms of the Section 158 of the Companies Act No. 07 of 2007 and in accordance with a resolution passed at the last Annual

General Meeting held on 23rd June 2020. The External Auditors have been provided with every opportunity to carry out whatever reviews and sample checks on the system of internal controls they may consider appropriate and necessary to express their independent audit opinion on the Financial Statements of the Company and the Consolidated Financial Statements of the Group. The Financial Statements thus made available to them by the Board of Directors along with all the financial records, related data and minutes of Shareholders' and Directors' meetings have been examined by the External Auditors who have expressed their opinion which is given on pages 191 to 193.

By order of the Board



Sitari Jayasundara
Board Secretary

Colombo, Sri Lanka.
19th February, 2021.

CEO'S AND CFO'S RESPONSIBILITY STATEMENT

The Financial Statements of the Company and the Consolidated Financial Statements of the Company and its Subsidiary as at 31st December 2020 are prepared and presented in compliance with the requirements of the following;

- Sri Lanka Financial Reporting Standards/ Sri Lanka Accounting Standards (SLFRS/LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- Companies Act, No. 07 of 2007,
- The Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto,
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995,
- Statement of Recommended Practice (SoRP) issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL)
- Listing rules of the Colombo Stock Exchange (CSE),
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka

The accounting policies used in the preparation of the Financial Statements are in compliance with Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka and are consistently applied unless otherwise stated in the notes accompanying the Financial Statements. Significant Accounting Policies and estimates that involve a high degree of judgment and complexity were discussed with the Audit Committee and the External Auditors of the Group. Comparative information has been reclassified wherever necessary to comply with the current year's presentation.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to

these Financial Statements were made on a prudent and reasonable basis to ensure that the Financial Statements reflect in a true and fair manner, the form and substance of transactions as well as to ascertain that the state of affairs of the Company / Group is reasonably presented.

To ensure this, the Company / Group has taken proper and sufficient care in implementing a system of internal controls 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 on-going basis. The Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company are consistently followed. However, there are inherent limitations that should be recognised in weighing the assurance provided by any system of internal controls and accounting.

The Audit Committee of the Company meets periodically with the Internal Auditors and External Auditors to review the audit plan and 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 Board Audit Committee to discuss any matter of substance.

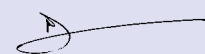
The Financial Statements of the Company / Group were audited by Messrs. KPMG, Chartered Accountants, Independent Auditors and their report is given on pages 191 to 193 of this Annual Report. Prior approval was obtained from the Audit Committee for the audit and non-audit services provided by them to ensure the provision of such services does not impair the objectivity of the Independent Auditors.

We confirm that:

- The Company and the Group have complied with all applicable laws and regulations and guidelines and there is no material litigation against the Group/Company other than those disclosed in Note 53 on page 329 of the Financial Statements.
- All taxes, duties, levies and all statutory payments payable by the Group/Company and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company/ Group as at 31st December 2020 have been paid, or where relevant accrued.



Punsirini Perera
Chief Financial Officer



Prasantha Fernando
Chief Executive Officer

Colombo, Sri Lanka.
19th February 2021

REPORT OF THE LIFE ACTUARY



Actuarial Partners Consulting Sdn Bhd
formerly known as Mercer Zainal Consulting Sdn Bhd
Suite 17.02 Kenanga International
Jalan Sultan Ismail
50250 Kuala Lumpur, Malaysia
603 2161 0433 Fax 603 2161 3595

19th February 2021

To the Shareholders of HNB Assurance PLC.

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER 2020

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December 2020. 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 2020, for all liabilities in respect of the Long Term Insurance Fund, taking into account all current and contingent liabilities as at that date;
- 3) As at 31 December 2020, the Company maintained a Capital Adequacy Ratio of 338% calculated as per the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Regulatory Commission of Sri Lanka as required under the Regulation of Insurance Industry Act No. 43 of 2000. This is well above the minimum Capital Adequacy Ratio of 120% as per the same rules;
- 4) We carried out a Liability Adequacy Test ("LAT") for Long Term Insurance fund as at 31 December 2020 as required by SLFRS 4 - Insurance Contracts and the assets are sufficiently adequate as compared to liabilities under the LAT.
- 5) The total surplus distributed to shareholders for FYE2020 is Rs. 612.2 million and the total surplus distributed to policyholders is Rs. 87.9 million.
- 6) The tax payable on surplus distributed to policyholders is amounted to Rs. 12,301k. This is determined based on 14% tax on the surplus distributed to policyholders.

A handwritten signature in black ink, appearing to read "Hassan Scott Odierno".

Hassan Scott Odierno
Actuary

CERTIFICATION OF INCURRED BUT NOT REPORTED (IBNR) AND INCURRED BUT NOT ENOUGH REPORTED (IBNER) CLAIMS RESERVE

27 January 2021



To the shareholders of HNB General Insurance Ltd

HNB General Insurance Ltd 31 December 2020 IBNR and LAT Certification

I hereby certify that the Central Estimate of IBNR provision of LKR102,567,862 including Claims Handling Expenses (CHE) is adequate, at a 50th percentile level of confidence, in relation to the Claim Liability of HNB General Insurance Ltd as at 31 December 2020, net of reinsurance (undiscounted). This IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate at a 50th percentile level of confidence, to meet the future liabilities, including the claims handling expenses, in respect of the Company's incurred claims obligations as at 31 December 2020, in many but not all scenarios of future experience.

At the end of each reporting period, companies are required to carry out a Liability Adequacy Test (LAT) as laid out in SLFRS 4. The LAT is performed to assess the adequacy of the carrying amount of the Unearned Premium Reserve (UPR). I hereby certify that the UPR provision of LKR2,001,131,830 set by the Company, net of reinsurance and DAC, is adequate in relation to the unexpired risks of HNB General Insurance Ltd as at 31 December 2020, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

The results have been determined in accordance with internationally accepted actuarial principles.

I have relied upon information and data provided by the management of the above Company and I have not independently verified the data supplied, beyond applying checks to satisfy myself as to the reasonableness of the data.

A handwritten signature in black ink, appearing to read 'Matthew Tiong'.

Matthew Tiong
Fellow of the Institute of Actuaries of Australia (IAA)
For and on behalf of NMG Financial Services Consulting
Dated 27 January 2021

I: +65 6325 9855 F: +65 6325 4700 E: contact@NMG-Group.com
www.NMG-Group.com
109 North Bridge Road, #05-21, Singapore 179097

INDEPENDENT AUDITORS' REPORT



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

Tel : +94 - 11 542 6426
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TO THE SHAREHOLDERS OF HNB ASSURANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of HNB Assurance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31st December 2020, and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 194 to 329 of this Annual Report.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31st December 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka ("Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Company financial statements and the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the Company's financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INSURANCE CONTRACT LIABILITIES

Refer to Note 24 (page 286) and Note 25 (page 290) to these financial statements.

The Life Insurance Contract Liabilities and General Insurance Contract Liabilities as at 31 December 2020 amounted to Rs.17.1 Bn and Rs.3.3 Bn respectively, which represents 87% of Group's total liabilities.

Risks Description

The valuation of these liabilities is highly judgemental and requires a number of key assumptions to be made that involves high level of estimation and uncertainty. The accuracy and completeness of the data used in calculating insurance liabilities or forming judgments over key assumptions, would have material impact on the valuation of insurance contract liabilities.

The valuation of insurance contract liabilities depends on the accuracy of data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims.

Our responses - Our audit procedures included;

- Evaluating the governance around the Group's reserving process including the scrutiny applied by the Group level actuarial reviews.
- Assessing the competence, capabilities and objectivity of the independent appointed actuary of the Group and the Group's staff involved in the valuation process of policyholders liability.
- Assessing the key controls adopted (including IT related controls) by the Group in providing accurate and complete data to the independent appointed actuary for the purpose of valuations.
- Assessing the Group's methodology for calculating the insurance contract liabilities to be in line with guidelines of Insurance Regulatory Commission of Sri Lanka (Risk Based Capital Rules 2015).

KPMG, a Sri Lankan Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara FCA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Kanunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan FCA	M.N.M. Shameel FCA	Ms. C.T.X.N. Perera ACA
A.M.R.P. Alahakoon ACA		
Principals - S.R.L. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, Ms. P.M.K. Sumanasekara FCA		

INDEPENDENT AUDITORS' REPORT



INSURANCE CONTRACT LIABILITIES

Risks Description

Changes in the assumptions used to value the liabilities, particularly those relating to the amount and timing of future claims, can lead to material impacts on the valuation of insurance contract liabilities. The key assumptions that drive the reserving calculations include loss ratios, mortality and morbidity assumptions, estimates of the frequency and severity of claims and where appropriate the discount rates for longer tail classes of business.

The appropriate margin added to the actuarial best estimate of insurance contract liabilities, to provide for the risk of adverse development in the claims involves judgment made by the management, based on the perceived uncertainty and potential for volatility in the underlying claim. As such it is subjective estimate.

As a result of the above factors, insurance contract liabilities have been identified as a key audit matter.

Our responses - Our audit procedures included;

- Reconciling the movements in insurance contract liabilities during the year with the movements in the financial results reported in separate funds.
- We used our actuarial specialist to assist us in performing the following audit procedures:
 - Assessing the accuracy and completeness of data used for estimates;
 - Assessing the key assumptions and reserving methodologies driving the value of the insurance liabilities by:
 - o Comparing the assumptions to expectations based on, current trends and our own industry knowledge and experience
 - o Evaluating the level of prudence applied and compared this to prior periods; and
 - o Reviewing sensitivity analysis over key judgments and assumptions
 - Independently re-projecting the reserve balances for certain classes of business.
- Assessing the adequacy of the Group's disclosure in relation to insurance liabilities.

RECOVERABILITY OF DEFERRED TAX ASSETS

Refer to Note 44 (page 313) to these financial statements.

The deferred tax assets recognized as at 31 December 2020 amounted to Rs. 725.3 Mn.

Risks Description

The Company has recognised deferred tax assets on unused tax losses based on the internal assessment made by the management on future recoverability. The assessment of recoverability of deferred tax assets arising from unused tax losses involves significant judgment made by the management in respect of sufficiency of future taxable profits and the probability of such future taxable profit being generated.

As a result of the above factors, Recoverability of Deferred Tax Assets has been identified as a key audit matter.

Our responses - Our audit procedures included;

- Evaluating the key assumptions driving the forecast of future taxable profits on which the recognition and recoverability of the deferred tax asset relies.
- Assessing the accuracy and consistency of the forecasting process in the past and considered whether projected margins are achievable with reference to the business's recent performance and revised operating plans approved by the board of directors.
- Evaluating the robustness of the internal review process adopted by the Board during the development of the operational plan, the extent to which alternative outcomes are considered prior to approval of the operational plan.
- Evaluating the adequacy of the disclosures made in the financial statements in respect of the key assumptions and judgement supporting the assessment of recoverability of deferred tax asset.

Other Matter

The financial statements of the Company and the consolidated financial statements of the Group for the year ended 31st December 2019 were audited by another auditor who had expressed an unmodified audit opinion on those financial statements on 13th February 2020.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

As required by Section 47(2) of the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto, as far as appears from our examination, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Regulatory Commission of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditors' report is FCA 2294.

Chartered Accountants

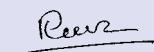
Colombo, Sri Lanka
19th February 2021

STATEMENT OF FINANCIAL POSITION

As at 31st December,	Note	Page No.	Group		Company		
			2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000	
Assets							
Property, Plant and Equipment	7	252	169,788	162,371	116,740	111,202	
Right of Use Assets	8	257	394,437	343,737	380,105	325,572	
Intangible Assets	9	260	68,858	51,787	62,240	49,830	
Deferred Tax Assets	44	313	738,721	1,009,711	725,255	1,000,673	
Financial Investments	10	262	26,366,608	21,202,074	22,075,265	17,777,410	
Investment in Subsidiary	11	273	-	-	1,150,000	1,150,000	
Loans to Life Policyholders	12	274	379,736	325,307	379,736	325,307	
Reinsurance Receivables	13	275	771,776	645,411	172,699	144,715	
Premium Receivables	14	276	1,111,594	946,650	4,988	9,458	
Other Assets	15	278	864,414	933,633	582,321	625,499	
Insurance Contract - Deferred Expenses	16	281	163,619	138,622	-	-	
Cash and Cash Equivalents	17	282	711,111	865,843	393,522	632,712	
Total Assets			31,740,662	26,625,146	26,042,871	22,152,378	
Equity and Liabilities							
Equity Attributable to the Equity Holders							
Stated Capital	18	283	1,171,875	1,171,875	1,171,875	1,171,875	
Retained Earnings	19	283	5,841,032	4,965,809	4,968,314	4,544,369	
Available For Sale Reserve	20	283	93,754	24,801	15,626	9,881	
Other Reserve	21	284	(51,520)	(6,525)	(33,916)	(6,514)	
Life Policyholders' Available For Sale Reserve Fund	22	284	757,933	177,228	757,933	177,228	
Restricted Regulatory Reserve	23	284	381,156	381,156	381,156	381,156	
Equity Attributable to the Equity Holders			8,194,230	6,714,344	7,260,988	6,277,995	
Non-Controlling Interest			-	-	-	-	
Total Equity			8,194,230	6,714,344	7,260,988	6,277,995	
Liabilities							
Insurance Contract Liabilities - Life Insurance	24	286	17,064,089	14,464,534	17,064,089	14,464,534	
Insurance Contract Liabilities - General Insurance	25	290	3,309,149	2,871,416	-	-	
Employee Defined Benefit Liabilities	26	293	254,438	167,118	150,729	100,076	
Current Tax Liabilities	27	296	151,093	112,031	12,301	16,175	
Reinsurance Creditors	28	296	700,105	540,652	290,916	125,151	
Lease Creditors	29	297	393,145	350,089	377,746	334,832	
Other Liabilities	30	298	1,550,108	1,274,326	832,198	802,565	
Bank Overdrafts	17	282	124,305	130,636	53,904	31,050	
Total Liabilities			23,546,432	19,910,802	18,781,883	15,874,383	
Total Equity and Liabilities			31,740,662	26,625,146	26,042,871	22,152,378	

The Notes to the Financial Statements as set out on pages 199 to 329 form an integral part of these Financial Statements.

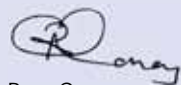
These Financial Statements are in compliance with the requirements of the Companies Act, No. 07 of 2007.



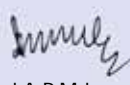
Punsirini Perera
Chief Financial Officer

The Board of Directors is responsible for these Financial Statements.

Signed and on behalf of the Board:



Rose Cooray
Chairperson



J A P M Jayasekera
Director

Colombo, Sri Lanka
19th February 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31st December,	Note	Page No.	Group		Company		Change	
			2020	2019	2020	2019	Group	Company
			Rs.'000	Rs.'000	Rs.'000	Rs.'000	%	%
Gross Written Premium	31	300	10,398,992	9,942,757	5,487,039	5,175,044	5	6
Premium Ceded to Reinsurers	32	302	(1,307,978)	(1,312,881)	(265,164)	(240,974)	(0.37)	10
Net Written Premium			9,091,014	8,629,876	5,221,875	4,934,070	5	6
Net Change in Reserves for Unearned Premium	33	302	(164,257)	(156,216)	-	-	5	-
Net Earned Premium	34	303	8,926,757	8,473,660	5,221,875	4,934,070	5	6
Other Revenue								
Interest and Dividend Income	35	303	2,493,317	2,248,926	2,125,362	1,949,467	11	9
Net Realised Gains	36	305	53,634	92,856	44,909	70,000	(42)	(36)
Net Fair Value Gains/(Losses)	37	306	17,696	(8,826)	12,987	(6,370)	300	304
Fee and Commission Income	38	307	140,843	121,510	34,945	42,733	16	(18)
Other Income	39	307	14,970	16,196	5,747	2,965	(8)	94
Total Other Revenue			2,720,460	2,470,662	2,223,950	2,058,795	10	8
Net Income			11,647,217	10,944,322	7,445,825	6,992,865	6	6
Net Benefits, Claims and Expenses								
Net Insurance Benefits and Claims Paid	40	308	(3,398,239)	(3,524,768)	(1,428,349)	(1,325,145)	(4)	8
Net Change in Insurance Claims Outstanding	41	310	(160,402)	(96,007)	(65,832)	(12,870)	67	412
Change in Contract Liabilities - Life Fund	24	286	(2,576,169)	(2,173,251)	(2,576,169)	(2,173,251)	19	19
Other Operating and Administration Expenses	42	311	(2,546,209)	(2,336,042)	(1,430,742)	(1,342,591)	9	7
Underwriting and Net Acquisition Costs	43	312	(1,235,446)	(1,288,068)	(888,527)	(959,550)	(4)	(7)
Finance and Other Insurance Related Costs			(100,256)	(121,295)	(56,843)	(72,923)	(17)	(22)
Total Benefits, Claims and Other Expenses			(10,016,721)	(9,539,431)	(6,446,462)	(5,886,330)	5	10
Profit Before Taxation			1,630,496	1,404,891	999,363	1,106,535	16	(10)
Income Tax Expense	44	313	(455,273)	(394,663)	(275,418)	(279,826)	15	(2)
Profit for the Year			1,175,223	1,010,228	723,945	826,709	16	(12)
Other Comprehensive Income, Net of Related Tax Items that are or may be reclassified to Profit or Loss								
- Net Change in fair value of Available For Sale Financial Assets			709,787	511,043	631,105	456,276	39	38
- Realised Gains transferred to Income Statement	36	305	(53,106)	(92,836)	(44,655)	(68,751)	(43)	(35)
- Net Change in fair value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	22	284	(580,705)	(379,095)	(580,705)	(379,095)	53	53
- Related Tax	44	313	(7,023)	(6,286)	-	-	12	-
Items that will never be Reclassified to Profit or Loss								
Actuarial Losses on Defined Benefit Plans	26	293	(44,995)	(2,119)	(27,402)	(2,119)	2,023	1,193
Total Other Comprehensive Income for the year, Net of Related Tax			23,958	30,707	(21,657)	6,311	(22)	(443)
Total Comprehensive Income for the year			1,199,181	1,040,935	702,288	833,020	15	(16)
Profit attributable to :								
Equity Holders of the Company			1,175,223	1,010,228	723,945	826,709	16	(12)
Non-Controlling Interest			-	-	-	-	-	-
Profit for the Year			1,175,223	1,010,228	723,945	826,709	16	(12)
Total Comprehensive Income Attributable to :								
Equity Holders of the Company			1,199,181	1,040,935	702,288	833,020	15	(16)
Non-Controlling Interest			-	-	-	-	-	-
Total Comprehensive Income for the year			1,199,181	1,040,935	702,288	833,020	15	(16)
Basic and Diluted Earnings Per Share (Rs.)	45	317	7.83	6.73*	4.83	5.51*	16	(12)
Dividend Per Share (Rs.)	46	318	2.80	8.00	-	-	-	-

* Basic and Diluted Earnings Per Share of 2019 have been restated based on the post subdivision weighted average number of ordinary shares as at 31st December 2020.

The Notes to the Financial Statements as set out on pages 199 to 329 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY - GROUP

For the Year Ended 31st December,	Stated Capital	Retained Earnings	Available For Sale Reserve	Other Reserve	Life Policy holders' Available For Sale Reserve Fund	Restricted Regulatory Reserve	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January 2019 (a)	1,171,875	4,405,581	(8,025)	(4,406)	(201,867)	381,156	5,744,314
Comprehensive Income for the Year							
Profit for the Year (b)	-	1,010,228	-	-	-	-	1,010,228
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	411,921	-	-	-	411,921
Net Change in Fair Value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(379,095)	-	-	-	(379,095)
Actuarial Losses on Defined Benefit Plans	-	-	-	(2,119)	-	-	(2,119)
Total Other Comprehensive Income for the Year (c)	-	-	32,826	(2,119)	-	-	30,707
Total Comprehensive Income for the Year (d = b+c)	-	1,010,228	32,826	(2,119)	-	-	1,040,935
Net Change in Fair Value of Available For Sale Financial Assets transferred from Available For Sale Reserve (e)	-	-	-	-	379,095	-	379,095
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Parent							
Final dividend 2018 (Note 46) (f)	-	(350,000)	-	-	-	-	(350,000)
First Interim Dividend for 2019 (Note 46) (g)	-	(100,000)	-	-	-	-	(100,000)
Balance as at 31st December 2019 (a+d+e+f+g)	1,171,875	4,965,809	24,801	(6,525)	177,228	381,156	6,714,344
Balance as at 1st January 2020 (h)	1,171,875	4,965,809	24,801	(6,525)	177,228	381,156	6,714,344
Comprehensive Income for the Year							
Profit for the Year (i)	-	1,175,223	-	-	-	-	1,175,223
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	649,658	-	-	-	649,658
Net Change in Fair Value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(580,705)	-	-	-	(580,705)
Actuarial Losses on Defined Benefit Plans	-	-	-	(44,995)	-	-	(44,995)
Total Other Comprehensive Income for the Year (j)	-	-	68,953	(44,995)	-	-	23,958
Total Comprehensive Income for the Year (k= i+j)	-	1,175,223	68,953	(44,995)	-	-	1,199,181
Net Change in Fair Value of Available For Sale Financial Assets transferred from Available For Sale Reserve Fund (l)	-	-	-	-	580,705	-	580,705
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Parent							
Final dividend 2019 (Note 46) (m)	-	(300,000)	-	-	-	-	(300,000)
Balance as at 31st December 2020 (h+k+l+m)	1,171,875	5,841,032	93,754	(51,520)	757,933	381,156	8,194,230

Stated Capital represents 150 Million Ordinary Shares as at 31st December 2020. (2019 - 50 Million Ordinary Shares)
The Notes to the Financial Statements as set out on pages 199 to 329 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY - COMPANY

For the Year Ended 31st December,	Stated Capital	Retained Earnings	Available For Sale Reserve	Other Reserve	Life Policy holders' Available For Sale Reserve Fund	Restricted Regulatory Reserve	Total Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st January 2019 (a)	1,171,875	4,167,660	1,451	(4,395)	(201,867)	381,156	5,515,880
Comprehensive Income for the Year							
Profit for the Year (b)	-	826,709	-	-	-	-	826,709
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	387,525	-	-	-	387,525
Net Change in Fair Value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(379,095)	-	-	-	(379,095)
Actuarial Losses on Defined Benefit Plans	-	-	-	(2,119)	-	-	(2,119)
Total Other Comprehensive Income for the Year (c)	-	-	8,430	(2,119)	-	-	6,311
Total Comprehensive Income for the Year (d = b+c)	-	826,709	8,430	(2,119)	-	-	833,020
Net Change in Fair Value of Available For Sale Financial Assets transferred from Available For Sale Reserve (e)	-	-	-	-	379,095	-	379,095
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Company							
Final dividend 2018 (Note 46) (f)	-	(350,000)	-	-	-	-	(350,000)
First Interim Dividend for 2019 (Note 46) (g)	-	(100,000)	-	-	-	-	(100,000)
Balance as at 31st December 2019 (a+d+e+f+g)	1,171,875	4,544,369	9,881	(6,514)	177,228	381,156	6,277,995
Balance as at 1st January 2020 (h)	1,171,875	4,544,369	9,881	(6,514)	177,228	381,156	6,277,995
Comprehensive Income for the Year							
Profit for the Year (i)	-	723,945	-	-	-	-	723,945
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	586,450	-	-	-	586,450
Net Change in Fair Value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	(580,705)	-	-	-	(580,705)
Actuarial Losses on Defined Benefit Plans	-	-	-	(27,402)	-	-	(27,402)
Total Other Comprehensive Income for the Year (j)	-	-	5,745	(27,402)	-	-	(21,657)
Total Comprehensive Income for the Year (k = i+j)	-	723,945	5,745	(27,402)	-	-	702,288
Net Change in Fair Value of Available For Sale Financial Assets transferred from Available For Sale Reserve (l)	-	-	-	-	580,705	-	580,705
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Company							
Final dividend 2019 (Note 46) (m)	-	(300,000)	-	-	-	-	(300,000)
Balance as at 31st December 2020 (h+k+l+m)	1,171,875	4,968,314	15,626	(33,916)	757,933	381,156	7,260,988

Stated Capital represents 150 Million Ordinary Shares as at 31st December 2020. (2019 - 50 Million Ordinary Shares)

The Notes to the Financial Statements as set out on pages 199 to 329 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the Year Ended 31st December,	Note	Page No.	Group		Company	
			2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Cash Flows From Operating Activities						
Profit Before Taxation			1,630,496	1,404,891	999,363	1,106,535
Adjustments for:						
Interest Income	35	303	(2,487,950)	(2,243,284)	(2,120,053)	(1,884,977)
Dividend Income	35	303	(5,367)	(5,642)	(5,309)	(64,490)
Amortisation of Intangible Assets	9	260	19,632	18,885	19,147	18,469
Depreciation of Property, Plant and Equipment	7	252	54,000	47,319	38,287	32,593
Net Depreciation of Right of Use Assets	8	257	130,693	139,525	115,293	126,628
Interest Expense of Lease Creditor	29	297	45,703	53,710	43,121	51,699
Provision for Employee Benefits	26	293	47,312	37,136	26,945	21,656
Net Realised Gains	36	305	(53,634)	(92,856)	(44,909)	(70,000)
Net Fair Value Losses/(Gains)	37	306	(17,696)	8,826	(12,987)	6,370
(Gains)/Losses on Disposal of Property, Plant and Equipment			(3,339)	(4,283)	(3,242)	403
Gains on Disposal of Right of Use Assets			(234)	-	(475)	-
			(640,384)	(635,773)	(944,819)	(655,114)
Net Change in Operating Assets	A		(362,064)	(558,137)	(48,747)	(219,553)
Net Change in Operating Liabilities	B		3,447,285	2,898,914	2,791,079	2,380,061
Cash Flows from Operating Activities			2,444,837	1,705,004	1,797,513	1,505,394
Gratuity Paid	26	293	(4,987)	(12,493)	(3,694)	(8,539)
Economic Service Charges (ESC) paid			(6,137)	(22,205)	-	-
Income Tax Paid	27	296	(73,109)	-	-	-
Withholding Tax on Inter Company Dividends			-	(9,575)	-	-
Capital Gain Tax Paid	27	296	(1,213)	(814)	-	-
Net Cash Generated From Operating Activities (a)			2,359,391	1,659,917	1,793,819	1,496,855
Cash Flows from Investing Activities						
Acquisition of Financial Investments	10	262	(161,539,857)	(135,558,700)	(112,016,270)	(97,671,001)
Proceeds from Maturity of Financial Investments	10	262	156,827,276	130,618,738	108,179,859	93,759,085
Proceeds from Sale of Financial Investments	10	262	391,770	1,684,919	301,267	1,173,551
Interest Received			2,372,238	2,377,621	2,001,689	1,976,793
Dividend Received			5,367	5,933	5,309	64,750
Acquisition of Intangible Assets	9	260	(36,703)	(9,585)	(31,557)	(9,517)
Acquisition of Property, Plant and Equipment	7	252	(77,408)	(59,965)	(59,114)	(40,469)
Proceeds from the Disposal of Property, Plant and Equipment			19,330	6,117	18,531	758
Advance Paid to Right of Use Asset			(8,487)	(30,363)	(8,487)	(22,587)
Net Cash Used in Investing Activities (b)			(2,046,474)	(965,285)	(1,608,773)	(768,637)
Cash Flows from Financing Activities						
Dividend Paid	46	318	(300,000)	(450,000)	(300,000)	(450,000)
Payment of Lease Liabilities	29	297	(161,318)	(148,520)	(147,090)	(136,481)
Net Cash Used in Financing Activities (c)			(461,318)	(598,520)	(447,090)	(586,481)
Net (Decrease)/Increase in Cash and Cash						
Equivalents (a+b+c)			(148,401)	96,112	(262,044)	141,737
Cash and Cash Equivalents at the Beginning of the Year			735,207	639,095	601,662	459,925
Cash and Cash Equivalents at the End of the Year	17	282	586,806	735,207	339,618	601,662
Notes to the Cash Flow Statement						
A. Change in Operating Assets						
(Increase)/Decrease in Deferred Expenses			(24,997)	1,864	-	-
Increase in Loans to Life Policyholders			(54,429)	(82,194)	(54,429)	(82,194)
Increase in Reinsurance Receivables			(126,365)	(229,638)	(27,984)	(68,789)
(Increase)/Decrease in Premium Receivables			(164,944)	(148,437)	4,470	(1,412)
Decrease/(Increase) in Other Assets			8,671	(99,732)	29,196	(67,158)
Net Change in Operating Assets			(362,064)	(558,137)	(48,747)	(219,553)
B. Change in Operating Liabilities						
Increase in Other Liabilities			254,418	177,265	29,633	166,649
Increase in Insurance Contract Liabilities - (Before Tax) Life Insurance			2,595,681	2,204,529	2,595,681	2,204,529
Increase in Insurance Contract Liabilities - General Insurance			437,733	346,321	-	-
Increase in Reinsurance Creditors			159,453	170,799	165,765	8,883
Net Change in Operating Liabilities			3,447,285	2,898,914	2,791,079	2,380,061

The Notes to the Financial Statements as set out on pages 199 to 329 form an integral part of these Financial Statements.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Reporting entity

HNB Assurance PLC (“the Company”) is a public limited liability Company incorporated on 23rd August 2001 under the Companies Act No. 17 of 1982 with limited liability and domiciled in Sri Lanka. The Company was re-registered under the Companies Act No. 07 of 2007 on 13th December 2007. 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. 30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03.

The Ordinary Shares of the Company are listed on the Colombo Stock Exchange (CSE) and the Company is a licensed insurance company registered under the Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto.

More details of the Group are presented in pages 359 and 360 of this Annual Report.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements as at and for the year ended 31st December 2020, comprise “the Company” refers to HNB Assurance PLC as the holding Company and “the Group” referring to HNB Assurance PLC and its fully owned Subsidiary HNB General Insurance Limited.

1.3 Principal Activities and Nature of Operations

There was no significant change in the nature of the principal activities of the Company and its subsidiary during the financial year under review. The principal business activities, nature of operations of the Company and its subsidiary are as follows:

Entity	Principal business activities	Description
Parent		
HNB Assurance PLC	Life Insurance	HNB Assurance PLC provides Life Insurance solutions for both individual and corporate customers. Life Insurance is a protection against financial losses that would result from an insured event adversely affecting the insured. In such situations, the nominated beneficiary receives the proceeds and is thereby safeguarded from financial impacts of the insured event. The benefit paid by a life insurer is consideration in exchange for premium payments made by the insured.
Subsidiary		
HNB General Insurance Limited	General Insurance	HNB General Insurance Limited provides General Insurance solutions for both individual and corporate customers. Insurance other than ‘Life Insurance’ falls under the category of General Insurance; Fire, Motor, Marine and Miscellaneous insurance are the main categories under General Insurance.

1.4 Parent Entity and Ultimate Parent Entity

The Group's holding/parent entity is HNB Assurance PLC. In the opinion of the Directors, the Group's ultimate parent undertaking and controlling party is Hatton National Bank PLC which is a licensed commercial bank incorporated in Sri Lanka. The Financial Statements of the Parent and the Subsidiary have a common financial year which ends on December 31st.

1.5 Number of Employees

The staff strength of the Group as at 31st December 2020 is 1,145 (2019 – 1,076) and the Company 590 (2019 – 583).

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

2.1 Basis of Preparation

2.1.1 Statement of Compliance

These Financial Statements of the Group and the Company have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) set out by the Institute of Chartered Accountants of Sri Lanka

and comply with the requirements of the Companies Act No. 7 of 2007, the Regulation of Insurance Industry Act No. 43 of 2000 and amendments thereto, rules and regulations of the Insurance Regulatory Commission of Sri Lanka and the listing rules of the Colombo Stock Exchange (CSE).

The Group did not adopt any inappropriate accounting treatments, which are not in compliance with the requirements of the SLFRSs and LKASs, regulations governing the preparation and presentation of these Financial Statements.

The Group has opted to defer full application of SLFRS 9 – Financial Instruments, until the earlier of 2023 or adopting SLFRS -17 Insurance Contracts, exercising the temporary exemption provided to an insurer. (Refer Note 3 of page 207)

Details of the Group's significant accounting policies followed during the year are given in Note 2.4 to 49 on pages 204 to 327.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

The Consolidated Financial Statements include the following components:

Component	Description	Page No.
Statement of Financial Position	Provides information on the financial position of the Group and the Company as at the year end	194
Statement of Profit or Loss and Other Comprehensive Income	Provides information on the financial performance of the Group and the Company for the year under review	195
Statement of Changes in Equity – Group	Depicts all changes made to Shareholders' equity of the Group	196
Statement of Changes in Equity – Company	Depicts all changes made to Shareholders' equity of the Company	197
Statement of Cash Flows	Provides information to the users, on the ability of the Group and the Company to generate cash and cash equivalents and the needs of entities to utilise those cash flows	198
Notes to the Financial Statements	Comprising accounting policies and other explanatory information	199 to 329

applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

2.1.6 Going Concern

The directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. The assessment took into consideration the existing and potential implications of COVID 19 pandemic on the business operations and performance of the Group and the measures adopted by the Government to mitigate the pandemics spread and support recovery of the economy. The Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to

2.1.2 Responsibility for Financial Statements

The Board of Directors is responsible for these Financial Statements as per the provisions of the Companies Act No. 07 of 2007, the Sri Lanka Accounting Standards, Regulation of Insurance Industry Act No. 43 of 2000 and the Listing Rules of Colombo Stock Exchange.

Responsibility of the Directors in relation to these Financial Statements is set out in detail in the Annual Report of the Board of Directors, Directors' Responsibility for Financial Statements and the certification of the Statement of Financial Position appearing on pages 178 to 184 ; 186 to 187 and 194 respectively in this Annual Report.

2.1.3 Approval of Financial Statements by the Board of Directors

The Consolidated Financial Statements of the Company and its Subsidiary (Collectively the Group) for the year ended 31st December 2020 (including comparatives for 2019) were approved and authorised for issue by the Board of Directors on 19th February 2021.

2.1.4 Basis of Measurement

These Financial Statements have been prepared on an accrual basis and under the historical cost convention except for the following material items stated in the Statement of Financial Position.

Item	Basis of Measurement	Note	Page No.
Financial instruments at Available For Sale	at Fair Value	10.3	268
Financial instruments at Fair Value Through Profit or Loss	at Fair Value	10.4	270
Insurance Contract Liabilities – Life Insurance	Actuarially Determined Values Based on Actuarial Guidelines Issued by IRCSL	24	286
Incurred But Not Reported/ Incurred But Not Enough Reported Liability	Actuarially Determined Values Based on Internationally Accepted Actuarial Policies and Methodologies	25	290
Defined Benefit Obligations	Actuarially Valued and Recognised at Present Value of the Defined Benefit Obligation	26	293

The Group and the Company presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery of settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in Note 47 on page 320 of this financial Statement. No adjustments have been made for inflationary factors affecting these Financial Statements.

2.1.5 Supplementary Statements – Statement of Financial Position of the Life Insurance Fund

Supplementary Statement of Financial Position of the Life Insurance Fund together with the notes are disclosed in pages 332 to 338 continuing the past practice which was a requirement of the Statement of Recommended Practice (SoRP) for Insurance Contracts then

continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore, the financial statements continue to be prepared on the going concern basis.

2.1.7 Functional and Presentation Currency

The Financial Statements of the Group/ Company are presented in Sri Lanka Rupees (LKR), which is the primary economic environment in which the Group operates and is also the Functional Currency. There was no change in the Group's Presentation and Functional Currency during the year under review.

2.1.8 Rounding

Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand (Rs:000) except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 on "Presentation of Financial Statements".

2.1.9 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liabilities simultaneously. Assets and liabilities or income and expenses are not offset unless required or permitted by Sri Lanka Accounting Standards or Interpretations (issued by the IFRS Interpretations Committee and Standard Interpretations Committee).

2.1.10 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by LKAS 01 - 'Presentation of Financial Statements' and subsequent amendments.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Group and the Company. Understandability of the Financial Statements is not compromised by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

2.1.11 Comparative Information

These Financial Statements provide comparative information in respect of the previous financial year. The presentation and classification of assets and liabilities in the Financial Statements of the previous financial year have been amended, where relevant for better presentation and to be comparable with those of the current year.

2.1.12 Financial Period

The Financial Statements of the Company and Subsidiary have a common financial year which ends on December 31st. Hence the Financial Statements of the Group are prepared for the twelve months period from 1st January to 31st December.

2.2 Use of Significant Accounting Judgments, Estimates and Assumptions

The preparation of these Financial Statements in conformity with SLFRSs/ LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future reporting periods.

Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual results may differ from these estimates.

2.2.1 Coronavirus (COVID-19) pandemic

The COVID-19 pandemic and its effect on the global economy have impacted the customers, operations and Group performance. The outbreak necessitated the Government to respond at unprecedented levels to protect the health of the population, local economy and livelihoods. Thus, the pandemic has significantly increased the estimation uncertainty in the preparation of these financial statements including, the extent and duration of the disruption to businesses, expected economic downturn, and subsequent recovery.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and the assessment of the recoverable amount of non-financial assets. The impact of the COVID-19 pandemic on each of these estimates is discussed further in the relevant notes of these financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on

an ongoing basis. Revisions to estimates are recognised prospectively.

2.2.2 Judgement

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in these Financial Statements is included in the following notes.

2.2.2.1 Classification of Financial Assets and Liabilities

The significant accounting policies of the Group provide scope for assets to be classified upon initial recognition into different accounting categories under certain circumstances.

The Group has classified assets as "Held to Maturity" (HTM), "Loans and Receivables", "Fair value through profit or loss" (FVTPL), and "Available For Sale" (AFS) based on the criteria given on Note 10 on page 262.

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. At initial recognition, Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss or financial liabilities at amortised cost.

2.2.3 Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are included in Notes 2.2.3.1 to 2.2.3.9 below.

2.2.3.1 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recognised on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

possible, but if this is not available, judgment is required to establish their fair values. This judgment may include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of the financial instruments. Group measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The methodologies used for valuation of financial instruments and fair value hierarchy are stated in Note 5 on pages 236 to 242.

2.2.3.2 Impairment of Available For Sale Financial Assets

The Group reviews debt securities classified as Available For Sale investments at each reporting date to assess whether they are impaired. This requires similar judgments as applied on the individual assessment of loans and advances.

The Group also reviews equity investments classified as Available For Sale at each reporting date and records impairment charges when there has been a 'significant' or 'prolonged' decline in the fair value below their cost considering the historical share price movements, duration and extent up to which the fair value of an investment is less than its cost. Where there is evidence of impairment, the cumulative impairment loss on that investment previously recognised in Equity through the OCI is removed from Equity and charged to Profit or Loss. Further details of impairment of each financial asset will be discussed in Note 10 on page 262.

2.2.3.3 Impairment of Non-Financial Assets

The Group assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each reporting date or more frequently, if events or changes in circumstances necessitates to do so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating 'value in use' requires Management to make an estimate of the

expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Group to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.2.3.4 Useful lifetime of property, plant and equipment

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgement of the Management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

Refer Note 7 on page 252.

2.2.3.5 Deferred Tax Assets

The Group uses judgement in recognising a deferred tax asset in its Financial Statements. Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available to the Group which can be utilised against such tax losses. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Details of Deferred tax asset recognised on tax losses of the Group are disclosed in Note 44 on page 313.

The accumulated tax losses of the Company are disputed by the Department of Inland Revenue through assessments issued, the details of which are disclosed in Note 52 on page 328. These Tax Assessments have been common assessments for all Life Insurance companies in the insurance industry. The Company has appealed against the assessments issued in consultation with its Tax Consultants, as detailed in Note 52. The Company is of the firm view that these assessments will not materialise against the Company and total tax losses will be available to set off against future taxable income.

2.2.3.6 Valuation of Insurance Contract Liabilities – Life Insurance

The liability for Life Insurance contracts with Discretionary Participating Features (DPF) is either based on current assumptions or on assumptions established at the inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used are mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. For those contracts that ensure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to lifestyle, which could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing the Life Insurance Contracts. These estimates are based on current market returns, as well as expectations about future economic and financial developments. Assumptions on future expenses are based on current expense levels, adjusted for expected expense inflation, if appropriate.

Lapse and surrender rates are based on the Group's historical experience of lapses and surrenders. Discount rates are based on current industry risk rates for the non-participating products, whereas it is the expected fund yield of par fund for the policies with Discretionary Participating Benefit.

The key assumptions and estimations made in the valuation of the Life Fund is given in note 24 on page 286.

2.2.3.7 Valuation of Insurance Contract Liabilities – General Insurance

The estimates of General Insurance contracts have to be made both for the expected ultimate cost of claims reported at the reporting date and for

the expected ultimate cost of claims incurred, but not yet reported and claims incurred, but not enough reported (IBNR/IBNER) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying in estimating the value of outstanding claims is the past claims development experience.

Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios.

The key assumptions and estimates made in the valuation of the General Insurance Contract Liabilities are given in Note 25 on page 290.

2.2.3.8 Valuation of Defined Benefit Liability – Gratuity

The cost of defined benefit plans – Gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increments, withdrawal rates and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit liability is highly sensitive to changes in these assumptions.

All assumptions are reviewed annually at each reporting date. In determining the discount rate, management considers the interest rates of the Government of Sri Lanka Treasury bond with maturities corresponding to the expected duration of defined benefit obligation. Future expected inflation rates and salary increment rates of the Group are considered in determining the salary increases.

Details of the key assumptions used by the Actuary and sensitivities there on the estimation are contained in Note 26 on page 293.

2.2.3.9 Provisions for Liabilities and Contingencies

The Group receives legal claims against it in the ordinary course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. Timing of concluding legal claims is uncertain; as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

The table below provides the references of this report which discusses the estimates in detail.

Significant Accounting Estimate/Judgement	Disclosure Reference	
	Note	Page No.
Fair Value of Financial Instruments	5	236
Assessment of Impairment	2.7	205
Property, Plant and Equipment (PPE)	7	252
Intangible Assets	9	260
Deferred Tax Assets	44	313
Insurance Contract Liabilities – Life Insurance	24	286
Liability Adequacy Test (LAT) – Life Insurance	24.5	288
Insurance Contract Liabilities – General Insurance	25	290
Liability Adequacy Test (LAT) – General Insurance	25.8	292
Valuation of Defined Benefit Liabilities – Gratuity	26	293
Provisions for Liabilities and Contingencies	2.8	207

2.3 Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparation and presentation of Financial Statements as set out in Note 2 to 55 on pages 199 to 329.

Significant Accounting Policies

Significant Accounting policies adopted by the Group have been applied consistently for all financial periods presented in the Financial Statements of the Group unless otherwise stated. An index to the Significant Accounting Policies is set out below; and the detailed explanations to each are set out in the respective notes to the Financial Statements.

Description	Note	Page No.
Basis of Consolidation	2.4	204
Foreign Currency Transactions and Balances	2.5	205
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New Accounting Standards issued as at the reporting date	3	207
Financial Risk Management	4	214
Financial Assets, Liabilities and Fair Value Measurement	5	236
Segmental Reporting	6	243
Property, Plant and Equipment	7	252
Right of Use Assets	8	257
Intangible Assets	9	260
Financial Investments	10	262
Investment in Subsidiary	11	273
Loans to Life Policyholders	12	274
Reinsurance Receivables	13	275

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Description	Note	Page No.
Premium Receivables	14	276
Other Assets	15	278
Insurance Contract – Deferred Expenses	16	281
Cash and Cash Equivalents	17	282
Insurance Contract Liabilities – Life Insurance	24	286
Insurance Contract Liabilities – General Insurance	25	290
Employee Defined Benefits Liabilities	26	293
Current Tax Liabilities	27	296
Reinsurance Creditors	28	296
Lease Creditors	29	297
Other Liabilities	30	298
Gross Written Premium	31	300
Premium Ceded to Reinsurers	32	302
Net Change in Reserves for Unearned Premium	33	302
Interest and Dividend Income	35	303
Net Realised Gains	36	305
Net Fair Value Gains/(Losses)	37	306
Fee and Commission Income	38	307
Other Income	39	307
Net Insurance Benefits and Claims Paid	40	308
Net Change in Insurance Claims Outstanding	41	310
Staff Expenses	42	311
Underwriting and Net Acquisition Costs	43	312
Income Tax and Deferred Tax	44	313
Basic and Diluted Earnings Per Share	45	317
Dividend Per Share (DPS)	46	318
Events Occurring After The Reporting Date	49	327

2.4 Basis of Consolidation

The Group's Financial Statements comprise the consolidation of the Financial Statements of the Company and its subsidiary in terms of the Sri Lanka Accounting Standard – SLFRS 10 on “Consolidated Financial Statements”.

2.4.1 Business Combination and Goodwill

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

From 1st January 2020, in determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a ‘concentration test’ that permits a simplified assessment of whether an

acquired set of activities and assets is not a business. The optional concentration test is met if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent

consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

2.4.2 Subsidiaries

Subsidiaries are investees that the Parent has control over. Specifically, the Parent controls an investee if, and only if, the Parent has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

The Financial Statements of Subsidiaries are prepared for the same reporting period as followed by the parent Company, using consistent accounting policies and same accounting policies are used for preparation. Profit or Loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the Parent, even if this results a deficit balance. When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

The Details of the Company's subsidiaries, how they are accounted in the Financial Statements of the Company and their contingencies are set out in Notes 11 and 52 on pages 273 and 328 to the financial statements.

2.4.3 Transactions Eliminated on Consolidation

Intra-group balances, transactions and income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Un-realised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee. Un-

realised losses are eliminated in the same way as un-realised gains, except that those are only eliminated to the extent that there is no evidence of impairment.

2.4.4 Loss of Control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently, it is accounted for as an associate or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

2.4.5 Material Gains or Losses, Provisional Values or Error Corrections in Business Combinations

There were no material gains or losses, provisional values or error corrections recognised during the year in respect of business combinations that took place in previous periods.

2.5 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated to the functional currency of the Group companies which is Sri Lankan Rupees at exchange rates at the dates the transactions are affected. In this regard, the Group's practice is to use the buying rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the buying exchange rate of the functional currency ruling as at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate as at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in Profit or Loss. However, foreign currency differences arising from the translation of Available for sale equity instruments are recognised in Other Comprehensive Income.

2.6 Product Classification

SLFRS 4 requires contracts written by insurers to be classified as either "insurance contracts" or "investment contracts" depending on the level of insurance risk transferred.

2.6.1 Insurance Contracts

Insurance contracts are those contracts under which one party (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. Contracts which transfer significant insurance risk are classified as insurance contracts and others are classified as investment contracts.

2.6.2 Investment Contracts

Investment contracts are those contracts that transfer significant financial risk and no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity

price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

2.6.3 Subsequent Classification and Reclassification

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

2.6.4 Product Portfolio of the Group

The Group checks all its new insurance products for compliance with SLFRS 4 at the product modelling stage and ensures that no insurance products are launched if it does not meet the above criterion. As such, all products sold by the Group are insurance contracts and therefore classified as insurance contracts under the SLFRS 4 – Insurance Contracts.

Thus, the Group does not have any investment contracts within its product portfolio as at the reporting date.

2.7 Impairment of Financial Assets/ Non-Financial Assets

2.7.1 Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Group of financial assets that can be reliably estimated.

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Objective evidence of impairment may include:

- (a) significant financial difficulty of the borrower or issuer,
- (b) default or delinquency by debtor,
- (c) It becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation,
- (d) adverse changes in the payment status of issuers or debtors in the Group, and
- (e) In the case of equity, a significant or prolonged decline in its fair value below its cost.

2.7.2 Impairment of Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in Profit or Loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Other Revenue in Profit or Loss.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

If a future write-off is later recovered, the recovery is credited to the 'Other Income' in Profit or Loss.

The Group has not experienced any indication of impairment and thus no additional impairment losses were recognized other than disclosed in the Financial Statements.

2.7.3 Impairment of Financial Investments classified as Available For Sale

For Available For Sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments are impaired. If the asset is determined to be impaired, the cumulative loss is recognised in Profit or Loss and removed from the Available For Sale reserve.

In the case of debt instruments classified as Available For Sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between

the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in Profit or Loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Other Revenue'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in Profit or Loss, the impairment loss is reversed through the Profit or Loss; otherwise, any increase in fair value is recognised through OCI.

In the case equity investments classified as AFS, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. LKAS 39 does not provide any further guidance or quantitative threshold for 'significant' or 'prolonged'. In the absence of further authoritative guidance, applying these criteria is a matter for professional judgement. The term 'prolonged' should be assessed based on the period for which fair value has been less than acquisition cost. A general stock market decline over the period of 12 months may not necessarily be considered as 'prolonged' in the Sri Lankan stock market context. A decline of 20%-30% of the fair value of an investment in an equity instrument below its acquisition cost may be considered as 'significant'.

Where there is evidence of impairment, the cumulative impairment loss on that investment previously recognised in Equity through the OCI is removed from Equity and charged to Profit or Loss. Any subsequent recovery in the fair value of an Available For Sale equity instrument is always recognised in OCI.

2.7.4 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets other than, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is re-estimated and adjusted in profit or loss.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in Profit or Loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount

that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.8 Provisions and Contingencies

2.8.1 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.8.2 Contingent Liabilities

Contingent liabilities are disclosed if material and if there is a possible obligation 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 readily measured (Note 52).

2.8.3 Contingent Assets

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised and a contingent asset is disclosed where an inflow of economic benefits is probable.

2.9 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the indirect method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard LKAS 7 – Cash Flows Statements.

Interest and dividend received are classified as investing cash flows. Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flows, cash and cash equivalents are presented net of bank overdrafts (Note 17).

2.10 Changes in Accounting Policies and Disclosures

The Group initially applied the Definition of a Business (Amendments to SLFRS 3), amendments to standards from 1st January 2020.

Definition of a business

The Group applied Definition of a Business (Amendments to SLFRS 3) to business combinations whose dates of acquisition are on or after 1st January 2020 in assessing whether it had acquired a business or a group of assets.

The amendments do not have a material effect on the Group's financial statements because the Group has not acquired any subsidiaries during the year. However, the Group has amended its accounting policies for acquisitions on or after 1st January 2020. The details of accounting policies are set out in Note 11.

While there are other amendments to the existing standards which are also effective from 1st January 2020, those do not have a material effect on the Group/ separate financial statements.

3. NEW ACCOUNTING STANDARDS ISSUED AS AT THE REPORTING DATE

3.1 Standards Issued but not yet Adopted as at the Reporting Date

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and have not been applied in preparing these Financial Statements. Those SLFRSs will have an effect on the accounting policies currently adopted by the Group and may have an impact on future Financial Statements which is summarised as below.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

3.1.1 SLFRS 9 – Financial Instruments

In December 2014, the CA Sri Lanka issued the final version of SLFRS 9 Financial Instruments classification and measurement which reflects all phases of the financial instruments project and replaces LKAS 39 – Financial Instruments: Recognition and Measurement. The standard introduces new requirements for,

- Classification and Measurement
- Impairment
- Hedge Accounting

SLFRS 9 is effective for annual periods beginning on or after 1st January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

Temporary Exemption from SLFRS 9

An insurer that meets the criteria in paragraph 20B of SLFRS 4 (amended) provides a temporary exemption that permits, but does not require, the insurer to apply LKAS 39 – Financial Instruments: Recognition and Measurement rather than SLFRS 9 for annual periods beginning before 1st January 2023.

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- it has not previously applied any version of SLFRS 9, other than only the requirements for the presentation of gains and losses on financial liabilities designated as Fair Value Through Profit or Loss and;
- its activities are predominantly connected with insurance, at its annual reporting date that immediately precedes 1st April 2016, or at a subsequent annual reporting date.

	Group	
	2020	2019
As at 31st December,	Rs.'000	Rs.'000
Insurance contract liabilities- Life	17,064,089	14,464,534
Insurance contract liabilities- General	3,309,149	2,871,416
Reinsurance Creditors	700,105	540,652
Liabilities Connected with insurance	21,073,343	17,876,602
Total Liabilities	23,546,432	19,910,802
Predominance Ratio	90%	90%

Having considered the above criteria, since HNB Assurance PLC and HNB General Insurance Limited are predominantly connected with Insurance activities, both companies may continue to apply LKAS 39 – Financial Instruments: Recognition and Measurement rather than SLFRS 9 for annual periods beginning before 1st January 2023.

Summary of the Requirements Classification and Measurement Financial Assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 contains three principal classification categories for financial assets measured at:

- Amortised Cost
- Fair Value Through Other Comprehensive Income (FVTOCI)
- Fair Value Through Profit or Loss

The standard eliminates the existing LKAS 39 categories of Held to Maturity, Loans and Receivables and Available For Sale. Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

As at 31st December 2020, the Group had equity investments classified as Available For Sale with a fair value of Rs. 50.6 Million. Under SLFRS 9, the Group will reclassify these investments as measured at FVTPL. Consequently, all fair value gains and losses on disposal will be reported in Profit or Loss.

Financial Liabilities

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, under LKAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in Profit or Loss, whereas under SLFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income; and
- the remaining amount of change in the fair value is presented in Profit or Loss.

The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so.

Impairment

SLFRS 9 replaces the 'Incurred Loss' model in LKAS 39 with a forward-looking 'Expected Credit Loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVTOCI, except for investments in equity instruments, and to contract assets.

Under SLFRS 9, loss allowances will be measured on either of the following bases:

12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and:

Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not.

An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

Disclosure to provide comparability

The Group will make an assessment of the objective of the business model when a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Classification – Financial assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 includes three principal classification categories for financial assets; measured at amortised cost, Fair Value Through Other Comprehensive Income (FVTOCI) and Fair Value Through Profit or Loss (FVTPL). It replaces the existing four categories under LKAS 39 of held to maturity (HTM), Loans and Receivables (L & R), Fair Value Through Profit or Loss (FVTPL) and Available For Sale (AFS).

The table below provides an initial assessment made by the Group on its portfolio of financial assets.

Financial assets that meet the Solely Payment of Principal and Interest (SPPI) Test (excluding the financial assets that meet the definition of held for trading or managed and evaluated on a fair value basis).

Instrument	Current Classification	Carrying Value under LKAS 39 (Rs:000)	Fair Value (Rs:000)	Classification under SLFRS 9
REPO	L & R	2,827,051	2,827,051	Amortised cost
Term Deposit	L & R	9,942,693	10,399,344	Amortised cost
Debentures	L & R	5,448,960	6,190,127	Amortised cost
Sri Lanka Development Bonds	L & R	33,470	33,470	Amortised cost

All other financial assets

(that meet the definition of held for trading or managed and evaluated on a fair value basis)

Instrument	Current Classification	Carrying Value under LKAS 39 (Rs:000)	Fair Value (Rs:000)	Classification under SLFRS 9
Treasury Bonds	AFS	7,120,330	7,120,330	FVTOCI
Equity Shares	AFS	50,600	50,600	FVTPL
Equity Shares	FVTPL	100,810	100,810	FVTPL
Investment in Units	FVTPL	842,694	842,694	FVTPL

Impact Assessment

The standard will affect the classification and measurement of financial assets held, as follows:

- Trading assets and derivative assets held for risk management, which are classified as held for trading and measured at fair value under LKAS 39, will also be measured at fair value under SLFRS 9.
- Loans and receivables measured at amortised cost under LKAS 39 will also be measured at amortised cost under SLFRS 9.
- Held to maturity investment securities measured at amortised cost under LKAS 39 will be measured at amortised cost under SLFRS 9.
- Debt investment securities that are classified as Available For Sale under LKAS 39 may, under SLFRS 9, be classified under FVTOCI or amortised cost and measured at fair value / amortised cost depending on the particular circumstance.

- The majority of the equity investment securities that are classified as Available For Sale under LKAS 39 will be classified under FVTOCI and measured at fair value under SLFRS 9. However, some of the equity investment securities are held for Long-Term strategic purposes and will be designated as FVTOCI on initial recognition and measured at fair value.

3.2 New Accounting Standards Issued But Not Effective as at the Reporting Date

3.2.1 SLFRS 17 – Insurance Contracts
SLFRS 17 will replace SLFRS 4 on accounting for insurance contracts and will be effective from 1st January 2023.

Objective

SLFRS 17 Insurance contracts establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

The objective of SLFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of Financial Statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

Scope

An entity shall apply SLFRS 17 Insurance contracts to:

- Insurance contracts, including reinsurance contracts, it issues;
- Reinsurance contracts it holds; and
- Investment contracts with discretionary participation features issues, provided the entity also issues insurance contracts.

Some contracts meet the definition of an insurance contract but have their primary purpose as provision of services for a fixed fee. Such issued contracts are in the scope of the Standard, unless an entity chooses to apply to them SLFRS 15 Revenue from Contracts with Customers and provided the following conditions are met:

- a. the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;
- b. the contract compensates customers by providing a service, rather than by making cash payments to the customer; and
- c. the insurance risk transferred by the contract arises primarily from the customer's use of service rather than from uncertainty over the cost of those services.

Recognition

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

- a) the beginning of the coverage period;
- b) the date when the first payment from a policyholder becomes due; and
- c) when the group becomes onerous if facts and circumstances indicate that there is such a group.

SLFRS – 17 specify three measurement approaches;

- I. Building Block Approach (BBA)
- II. Premium Allocation Approach (PAA)
- II. Variable Fee Approach (VFA)

Building Block Approach (General Measurement Model) Measurement

On initial recognition, an entity shall measure a group of contracts at the total of:

- a) the amount of fulfilment cash flows ("FCF"), which comprise:
 - I. estimates of future cash flows;
 - II. an adjustment to reflect the time value of money ("TVM") and the financial risks associated with the future cash flows; and
 - III. a risk adjustment for non-financial risk
- b) the contractual service margin ("CSM").

An entity shall include all the cash flows within the boundary of each contract in the group. The entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts.

The estimates of future cash flows shall be current, explicit, unbiased, and reflect all the information available to the entity without undue cost and effort about the amount, timing and uncertainty of those future cash flows. They should reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices.

Discount rates

The discount rates applied to the estimate of cash flows shall:

- a) reflect the time value of money (TVM), the characteristics of the cash flows and the liquidity characteristics of the insurance contracts;
- b) be consistent with observable market prices of those financial instruments whose cash flow characteristics are

consistent with those of the insurance contracts; and

- c) exclude the effect of factors that influence such observable market prices but do not affect the future cash flows of the insurance contracts.

Risk Adjustment for Non-financial Risk

The estimate of the present value of the future cash flows is adjusted to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of future cash flows that arises from non-financial risk.

Contractual Service Margin

The CSM represents the unearned profit of the group of insurance contracts that the entity will recognise as it provides services in the future. This is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- a) the initial recognition of an amount for the FCF;
- b) the derecognition at that date of any asset or liability recognised for acquisition cash flows; and
- c) any cash flows arising from the contracts in the group at that date.

Subsequent Measurement

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:

- a) the liability for remaining coverage comprising:
 - I. the FCF related to future services and;
 - II. the CSM of the group at that date;
- b) the liability for incurred claims, comprising the FCF related to past service allocated to the group at that date.

Onerous Contracts

An insurance contract is onerous at initial recognition if the total of the FCF, any previously recognised acquisition cash flows and any cash flows arising from

the contract at that date is a net outflow. An entity shall recognise a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the FCF and the CSM of the group being zero.

On subsequent measurement, if a group of insurance contracts become onerous (or more onerous), that excess shall be recognised in profit or loss. Additionally, CSM cannot increase and no revenue can be recognised, until the onerous amount previously recognised has been reversed in profit or loss as part of a service expense.

Premium Allocation Approach

An entity may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the Premium Allocation Approach (PAA) on the condition that, at the inception of the group:

- a) the entity reasonably expects that this will be a reasonable approximation of the General Model, or
- b) the coverage period of each contract in the group is one year or less

Where, at the inception of the group, an entity expects significant variances in the FCF during the period before a claim is incurred, such contracts are not eligible to apply the PAA.

Using the PAA, the liability for remaining coverage shall be initially recognised as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows.

Subsequently the carrying amount of the liability is the carrying amount at the start of the reporting period plus the premiums received in the period, minus insurance acquisition cash flows, plus amortisation of acquisition cash flows, minus the amount recognised as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

Modification and De-recognition

Modification of an insurance contract

If the terms of an insurance contract are modified, an entity shall derecognise the original contract and recognise the modified contract as a new contract if there is a substantive modification, based on meeting any of the specified criteria.

The modification is substantive if any of the following conditions are satisfied:

- a) if, had the modified terms been included at contract's inception, this would have led to:
 - I. exclusion from the Standard's scope;
 - II. unbundling of different embedded derivatives;
 - III. redefinition of the contract boundary; or
 - IV. the reallocation to a different group of contracts; or
- b) if the original contract met the definition of a direct participating insurance contracts, but the modified contract no longer meets that definition, or vice versa; or
- c) the entity originally applied the PAA, but the contract's modifications made it no longer eligible for it.

De-recognition

An entity shall de-recognise an insurance contract when it is extinguished, or if any of the conditions of a substantive modification of an insurance contract are met.

Presentation in the Statement of Financial Position

An entity shall present separately in the statement of financial position the carrying amount of groups of:

- a) insurance contracts issued that are assets;
- b) insurance contracts issued that are liabilities;
- c) reinsurance contracts held that are assets; and

- d) reinsurance contracts held that are liabilities.

Recognition and Presentation in the statement(s) of financial performance

An entity shall disaggregate the amounts recognised in the statement(s) of financial performance into:

- a) an insurance service result, comprising insurance revenue and insurance service expenses; and
- b) insurance finance income or expenses.

Income or expenses from reinsurance contracts held shall be presented separately from the expenses or income from insurance contracts issued.

Insurance Service Result

An entity shall present in profit or loss revenue arising from the groups of insurance contracts issued, and insurance service expenses arising from a group of insurance contracts it issues, comprising incurred claims and other incurred insurance service expenses. Revenue and insurance service expenses shall exclude any investment components. An entity shall not present premiums in the profit or loss, if that information is inconsistent with revenue presented.

Insurance Finance Income or Expenses

Insurance finance income or expenses comprises the change in the carrying amount of the group of insurance contracts arising from: [SLFRS 17:87]

- a) the effect of the time value of money and changes in the time value of money; and
- b) the effect of changes in assumptions that relate to financial risk; but
- c) excluding any such changes for groups of insurance contracts with direct participating insurance contracts that would instead adjust the CSM.

An entity has an accounting policy choice between including all of insurance finance income or expense for the period in profit or loss, or disaggregating it between amount presented in profit or loss and amount presented in other comprehensive income ("OCI").

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Under the general model, disaggregating means presenting in profit or loss an amount determined by a systematic allocation of the expected total finance income or expenses over the duration of the group of contracts. On derecognition of the groups amounts remaining in OCI are reclassified to profit or loss.

Under the VFA, for direct participating insurance contracts, only where the entity holds the underlying items, disaggregating means presenting in profit or loss as insurance finance income or expenses an amount that eliminates the accounting mismatches with the finance income or expenses arising on the underlying items. On derecognition of the groups, the amounts previously recognised in OCI remain there.

Disclosures

An entity shall disclose qualitative and quantitative information about:

- a) the amounts recognised in its Financial Statements that arise from insurance contracts;
- b) the significant judgements, and changes in those judgements, made when applying SLFRS 17; and
- c) the nature and extent of the risks that arise from insurance contracts.

Effective Date

SLFRS 17 is effective for annual reporting periods beginning on or after 1st January 2023. Earlier application is permitted if both SLFRS 15 'Revenue from Contracts with Customers' and SLFRS 9 'Financial instruments' have also been applied.

Transition

An entity shall apply the Standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.

Under the modified retrospective approach, an entity shall utilise reasonable and supportable information and

maximise the use of information that would have been used to apply a full retrospective approach, but need only use information available without undue cost or effort. Under this approach the use of hindsight is permitted, if that is the only practical source of information for the restatement of prior periods.

Under the fair value approach, an entity determines the CSM or the loss component at the transition date as the difference between the fair value of a group of insurance contracts at that date and the FCF measured at that date. Using this approach, on transition entity has a choice need for annual groups.

At the date of initial application of the Standard, those entities already applying SLFRS 9 may retrospectively re-designate and reclassify financial assets held in respect of activities connected with contracts within the scope of the Standard.

Entities can choose not to restate SLFRS 9 comparatives with any difference between the previous carrying amount of those financial assets and the carrying amount at the date of initial application recognised in the opening equity at the date of initial application. Any restatements of prior periods must reflect all the requirements of SLFRS 9.

The Group has initiated a gap assessment for SLFRS 17 in consultation with external consultants of actuarial and finance.

3.3 Interest Rate Benchmark Reform

Interbank Offered Rate (IBOR) reform is expected to result in a change to the basis for determining contractual cash flows of impacted assets and liabilities of the Group. The amendments provide a practical expedient to account for a change in the basis for determining the

contractual cash flows as a result of IBOR reform by updating the effective interest rate.

The standard includes amendments in respect of:

- Modification of a financial asset or a financial liability measured at amortised cost
- Additional relief for hedging relationships

On 15th January 2021, the CA Sri Lanka issued Interest Rate Benchmark Reform (Amendments to SLFRS 9, LKAS 39 and SLFRS 7), Phase 1 and Phase 2 which is mandatory for application in respect of annual periods beginning on or after 1st January 2021.

These amendments are not expected have a material effect on the Group's financial statements as there are no hedging relationships as at 31st December 2020. The Group is in the process of assessing the impact of the new standard on its financial statements.

3.4 Other new accounting pronouncements

The following new and amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to LKAS 37).
- COVID-19-Related Rent Concessions (Amendment to SLFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16).
- Reference to Conceptual Framework (Amendments to SLFRS 3).

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ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

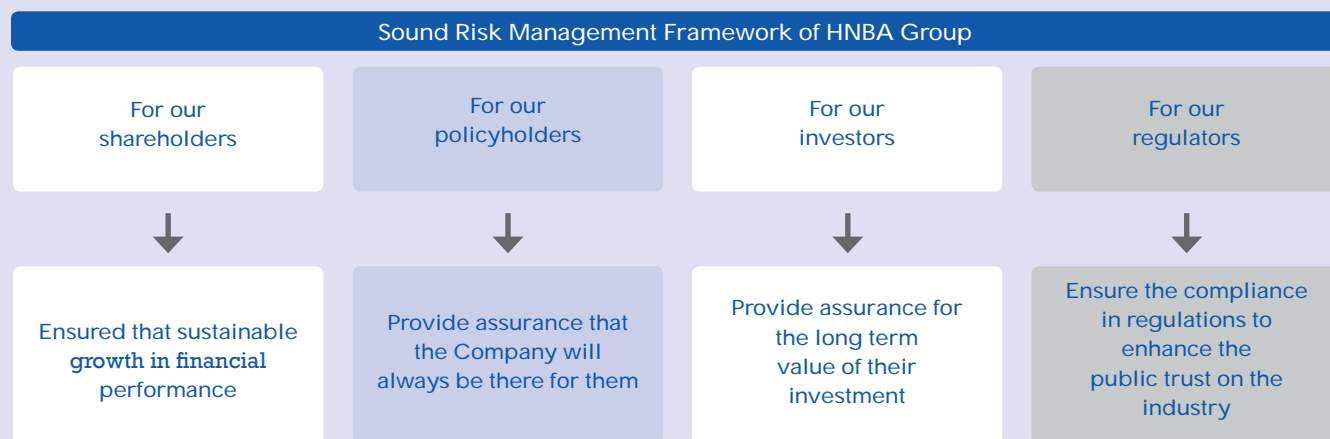
4. FINANCIAL RISK MANAGEMENT

4.1 Overview

The Group and Company are exposed to various types of risks in carrying out its business activities. This necessitates having an effective risk management framework in place to ensure growth, profitability and long-term value creation to shareholders and other stakeholders. The main types of risks to which the Group/Company is exposed are given below.

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Importance of a sound risk management process



4.2 Risk Management Framework

Risk management of the group is governed by various aspects ranging from group policies, capital structure and regulatory requirements.

a) Risk Management Framework

The Company / Group have a Risk Management Framework (RMF) to

provide a structure to identify current and emerging risks, measure, formulate response strategies, implement and continuously monitor effectiveness of responses. The primary role of RMF is to protect the Group's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit

opportunities. It is also intended to protect the interests of policyholders and other key stakeholders. An effective RMF is the key to avoid the financial and reputational damage that arises from inadequate or ineffective controls in the business.

The primary responsibility of establishment and oversight of the RMF lies with the Board of Directors of the Company. The Board has delegated their authority to the Risk Management Committee which is responsible for review and oversight of the RMF, policies and processes. The Risk Management Committee comprises four non-executive Directors, two of whom are independent, representing the Boards of the Company and subsidiary and Chief Risk Officer of Hatton National Bank PLC who is an invitee of the Risk management Committee who oversees the Risk Management activities of the HNBA Group. The Committee reports to the Board of Directors regarding the risk profile of the Group, RMF, including the significant policies and practices employed to manage risks in the business, as well as the overall adequacy of the Risk Management function. The Audit Committee liaises with the Risk Management Committee in exercising oversight of risks arising in the internal control environment. The outsourced Internal Audit function reviews the effectiveness of controls in place to

manage risks and reports any deviations to the Audit Committee.

While the Risk Management Committee has the responsibilities and powers, the Executive Committee and Management are responsible for designing, implementing and maintaining an effective risk program to identify and manage risks which affect the Company/ Group adversely. The management discharges this responsibility by maintaining a periodically updated risk register and monitors risks through identified Key Risk Indicators (KRIs). These KRIs are prepared by the Risk and Compliance Department, reviewed by the Executive Committee and the Risk Management Committee regularly.

Significant KRIs are reported to the Boards of the Company and subsidiary on a monthly basis for review.

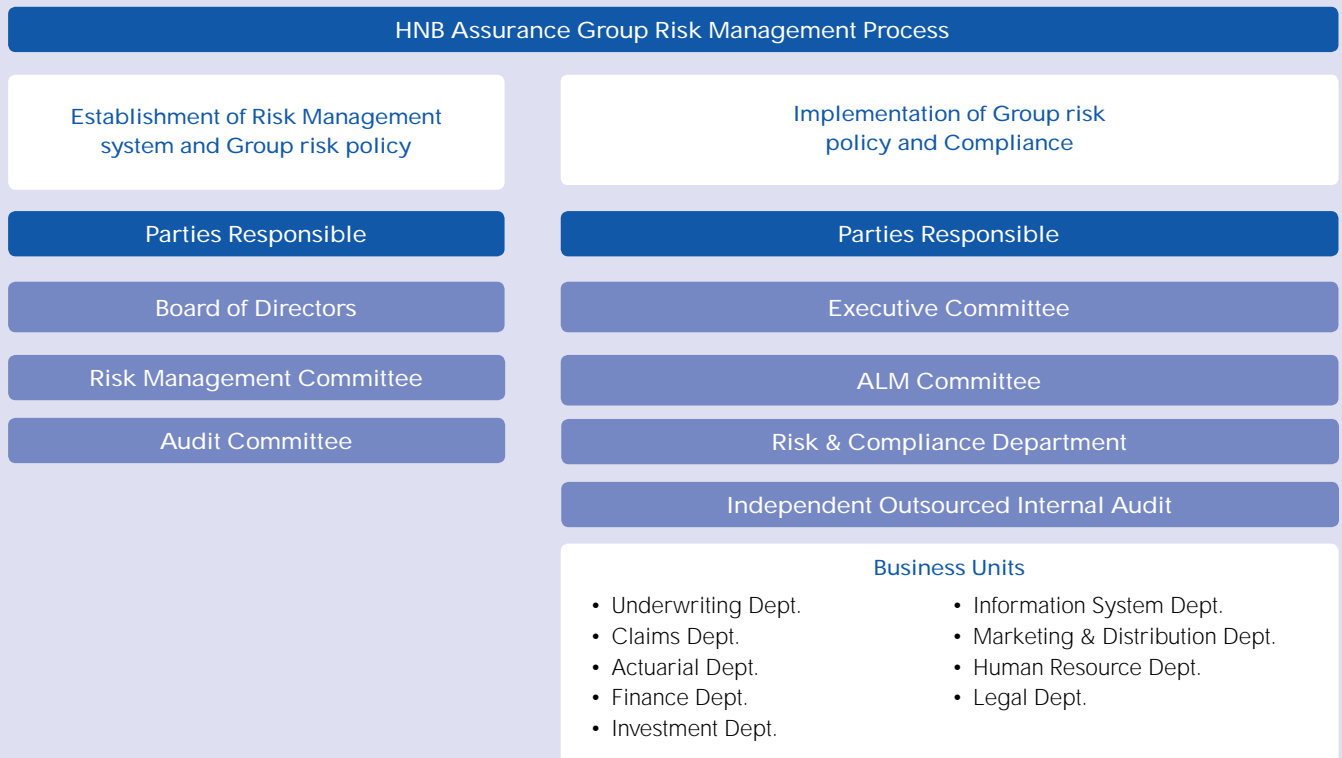
An Asset and Liability Management Committee (ALMC), comprising the Chief Executive Officer, senior management and representatives from the Finance, Investment, Actuarial and

Risk and Compliance Department formed in 2018, monitors the asset, liability and liquidity positions of the Company and subsidiary.

The Company/Group's risk management policies and systems are reviewed regularly to reflect the changes in the market conditions and products offered.

The Board of Directors approves the Group's risk management policies and any commercial, regulatory and organisational requirements of such policies. These policies are defined based on the Group's identification of risk and its interpretation, limit its structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements.

The following diagram depicts the accountable and responsible parties for the Group's established risk management process which underlines the principal risk management and control responsibilities.



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Objectives of Risk Management

The major Risk Management objectives of the Group are to;

- Enhance value creation and stability of the Group by establishing an optimal risk-return profile which avoids losses greater than expected.
- Allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and shareholders.
- Maintain financial strength to support new business growth and to satisfy the requirements of the policyholders, regulators and stakeholders.
- Maintain strong credit ratings and healthy capital adequacy ratios in order to support business objectives and maximise shareholders value.
- Support decision-making processes by providing consistent, reliable and timely risk information.

b) Capital Management Framework

The Group's Capital Management Framework formed to optimise the structure and sources of capital to ensure that it consistently maximises returns to the shareholders and policyholders.

The Group's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Group in the light of changes in economic conditions and risk characteristics. The capital requirements are forecasted on a periodic basis by the Management and the Board of Directors.

The Group has made no significant changes, from previous years, to its policies and processes of its capital structure. Thus, there were no changes in the capital structure in the Company during the year.

Capital Management Objectives, Policies and Approach

The Group has established the following capital management objectives, policies and approaches to manage the risks that affect its capital position:

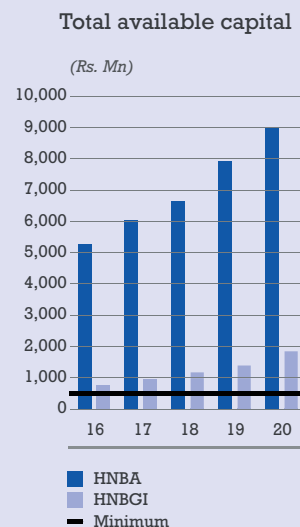
- To maintain solvency levels of the Company and subsidiary above the levels stipulated by the regulator and thereby providing a degree of security to Policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meets the requirements of its Shareholders and Policyholders.
- To retain financial flexibility by maintaining strong liquidity.
- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the Policyholders, Shareholders, regulators and other stakeholders.
- To maintain strong credit ratings and healthy capital adequacy ratios in order to support its business objectives and maximize Shareholders' value.

The operations of both companies (HNB Assurance PLC and HNB General Insurance Limited) in the Group are subject to regulatory guidelines and frameworks. Such regulations are there, not only to prescribe approval and

monitor activities, but also to impose certain restrictive provisions such as minimum Capital Requirement, Solvency Margin, Approved Assets Requirements, etc. to minimise the risk of default, insolvency on the part of the insurance companies to meet unforeseeable liabilities as they arise.

The Group has complied with all these regulatory requirements throughout the financial year.

The chart below shows the development of the Company (HNBA) and subsidiary (HNBGI) total available capital throughout past five years.



c) Regulatory Framework

Insurance Regulatory Commission of Sri Lanka (IRC SL) protects Policyholders rights through supervision of both life and general insurance companies in line with the requirements of the Regulation of Insurance Industry Act No 43 of 2000 (IRR Act) and subsequent amendments thereto. During the financial year the Company and the subsidiary maintained appropriate levels of solvency and

admissible assets as per the Risk-Based Capital Rules (RBC) issued by the IRC SL and in compliance with Section 26 of the IRR Act and approved assets complying to Section 25 of the IRR Act and Determination 1 issued by the IRC SL, to meet unforeseeable events.

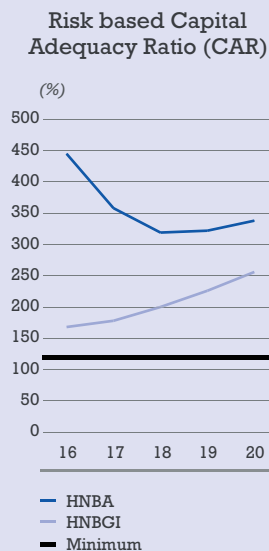
The Company and subsidiary each maintained adequate Total Available Capital (TAC) levels to support the

Risk-Based Capital Requirements (RCR) throughout the year thereby maintained Capital Adequacy Ratios (CAR) well above the regulatory minimum of 120%. The TAC and CAR of the Company (HNBA) and subsidiary (HNBGI) as of 31st December 2020 and 2019 are as follows.

Total Available Capital (TAC) and Risk-based Capital Adequacy Ratio (CAR)

Company	31st December 2020				31st December 2019			
	Total Available Capital (TAC)	Regulatory Minimum Capital Requirement	Risk-based Capital Adequacy Ratio (CAR)	Regulatory Minimum CAR	Total Available Capital (TAC)	Regulatory Minimum Capital Requirement	Risk-based Capital Adequacy Ratio (CAR)	Regulatory Minimum CAR
	Rs.'000	Rs.'000	%	%	Rs.'000	Rs.'000	%	%
HNBA	8,966,667	500,000	338	120	7,921,589	500,000	322	120
HNBGI	1,845,655	500,000	256	120	1,391,752	500,000	226	120

The chart below shows Company (HNBA) and subsidiary (HNBGI) Risk based Capital Adequacy Ratio (CAR) throughout past five years.



Further, the operations of the Company and the subsidiary are in compliance with requirements of other regulators such as Colombo Stock Exchange (CSE), Securities and Exchange Commission of Sri Lanka (SEC), Central Bank of Sri Lanka (CBSL), Department of Inland Revenue (IRD), etc. Both companies are also regulated by the Companies Act No. 07 of 2007.

4.3 Organisation Risk

4.3.1 Introduction and Overview

As a Group providing insurance services, both HNB Assurance PLC and HNB General Insurance Ltd, are exposed to Insurance, Financial and Operational Risks. The following chart graphically presents all kinds of risks that the Group considers in Risk Management.



4.3.2 Insurance Risk

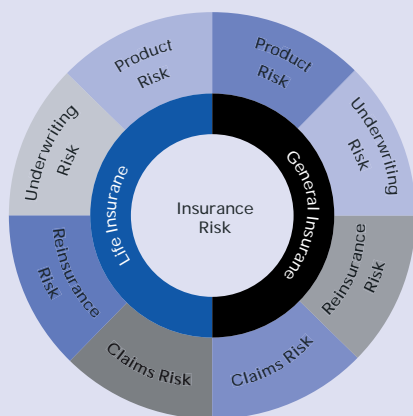
The primary risk faced by the Group is insurance risk, which arises due to the insurance contracts undertaken from customers. Insurance risk is the uncertainty relating to the occurrence, magnitude and timing of insurance liabilities. Insurance liabilities are claims and benefit payments and possibility that actual experience of claims/benefits differ from expectations gives rise to risk.

Risk Response Strategies

The objective of the Group is to ensure that at a given time sufficient reserves are held to cover all reported and expected future liabilities.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

The following chart graphically presents all types of insurance risks considered in Risk Management.



Strategies used to mitigate Insurance Risk

- Diversification across a large portfolio of insurance contracts and geographical areas.
- Risk variability through careful selection and implementation of underwriting guidelines.

- Use of reinsurance arrangements - proportional and non-proportional basis.

4.3.2.1 Life Insurance Risk

A life insurance contract is an agreement between the policyholder and Company where the Company agrees to compensate the policyholder or his/her beneficiaries in the event of a specified event occurring such the policyholder's policy maturity, death, disability, illness etc., in exchange for a premium.

The Company issues life Insurance contracts which include term assurance, endowment plans, annuity plans and Group Life plans. Endowment and term assurance are conventional regular or single premium products, where lump sum benefits are payable on death, maturity or in some cases, permanent total disability. Regular endowment products acquire a surrender value upon completion of three years.

The Company offers two single premium annuity products. The first product being "myfreedom", offers a pre-determined annuity amount for a specified time period, whilst the second product; namely "mypension", offers a fixed monthly annuity for the entire lifetime of the policyholder. Both these products offer a life cover along with its annuity pay-out as part of its product feature. The Company also issues single premium investment policies with a guaranteed maturity benefit.

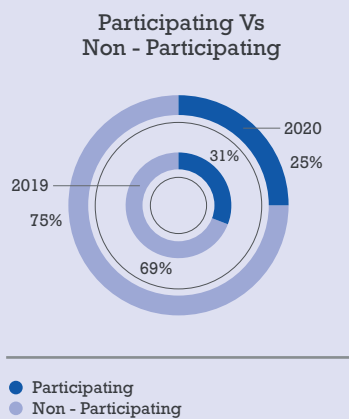
4.3.2.1.1 Product Design Risk

Product design risk occurs when life insurance products become unprofitable due the futuristic assumptions and judgments used in designing the product being inappropriate. The main risks relating to assumptions used in product design are detailed below.

Risk	Description	Assumptions and Risk Response Strategies
Mortality Risk	Mortality assumption relates to the occurrence of death of policyholder. Mortality risk arises due to policyholder death experience being different than expected resulting in loss to the company.	<ul style="list-style-type: none"> • Use of latest industry mortality tables with adjustments to reflect the company's mortality experience. • Underwriting limits are in place to enforce appropriate risk selection.
Morbidity Risk	Morbidity assumption relates to the occurrence of accidents and sickness of the insured and the risk arises due to policyholder health experience being different than expected resulting in loss to the company.	<ul style="list-style-type: none"> • Reinsurance tables are used with adjustment to reflect company experience. • Medical screening to ensure pricing takes account of current health conditions and family medical history, regular review of actual claims experience.
Longevity Risk	Longevity assumption relates to lifetime of an annuity policyholder. The risk arises due to the annuitant living longer than expected causing a loss to the company.	<ul style="list-style-type: none"> • Terms and conditions in annuity product applications designed to address non-standard and unpredictable risk.
Investment Return Risk	Investment returns projections are derived from current and projected market rates on current and projected investments held to support liabilities. Risk of loss arising from actual returns being different than expected is the investment return risk.	<ul style="list-style-type: none"> • The weighted average rate of return is derived based on a model portfolio, consistent with the long term investment strategy of the company, which is assumed to back liabilities. • Discretion to declare bonus rates based for participating policies. • Guaranteed dividend rates for universal life policies decided based on latest projected returns encompassing market interest rate expectations. • Annuity products structured by backing investments which are maintained for the agreed amount of business for the year.

Risk	Description	Assumptions and Risk Response Strategies
Expense Risk	Expense assumptions are the expected cost of acquisition and maintaining policies. Expense risk is the loss arising from expense experience being different than expected.	<ul style="list-style-type: none"> Annual expense studies are carried out to align expectation with actuals. The management expense assumptions are developed as such that all management expenses are fully allocated to the policies.
Policyholder decision Risk	Policyholders have the discretion to stop payment of premiums resulting in policy lapses or to surrender policies prior to maturity. Policyholder decision risk is the loss arising due to policyholder experiences (lapses and surrenders) being different than expected.	<ul style="list-style-type: none"> Lapse and surrender rates are projected based on company past experience. Need analysis prior to sale of product to reduce lapse risk and introduction of convenient premium payment methods. Charging surrender penalties to discourage surrenders.
Concentration Risk	Concentration risk refers to losses that may arise due to over dependence on a product, product type or geographical area.	<ul style="list-style-type: none"> Diversification across industry, sectors, geography. Maintain a predetermined product mix in line with the corporate strategy and reducing over reliance on one product. Limiting exposure on any single life by way of retention limits agreed with the reinsurers and by having a catastrophic treaty in place to address risks such as natural disasters. Reducing reliance on participating products and increasing non-participating type of products.

The following graph shows the concentration of the Participating and Non-Participating funds position of the Company.



4.3.2.1.2 Underwriting Risk

Premiums received from policyholders being insufficient to cover claims due to inaccurate assessment when issuing the policy can give rise to losses for the Company which is underwriting risk.

Risk Response Strategies

- Underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits.
- Maximum input is obtained from the Consultant Actuary and Reinsurer in deciding on the terms and conditions of products in order to ensure that products are adequately priced.
- An in-house Actuarial Department reviews the Life Insurance business closely and guides the management to take more informed pricing decisions.
- Customers are required to submit medical reports from registered laboratories and strict adherence to auto underwriting limits.
- Focused training programs are organised for Insurance Advisors on proper selling in Sinhala, Tamil and English regularly.
- A customer need analysis form is used to identify customers' requirements and sell the most appropriate policy.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured amount.
- Continuous training and development of staff on underwriting policy and practices.
- Strict adherence to underwriting manual and ISO 9001:2015 certification for new business.
- In addition to the need analysis form, a detailed quotation, which is signed by both client and the salesperson, is obtained to avoid any misunderstanding in terms and conditions.
- Subject to the "Sum at Risk" value, financial stability of the client is verified by obtaining completed financial questioners, salary slips or audited accounts.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

4.3.2.1.3 Reinsurance Risk

Although reinsurance is used as a risk transfer strategy, it also gives rise to certain risks for the company. These include legal risk, liquidity risk, counterparty risk, residual insurance risk and operational risk.

Legal Risk arises when the terms of the reinsurance contract do not accurately reflect the intent of the insurer or when the contract cannot be legally enforced.

Liquidity Risk may arise from the possible lag time between the payment of a claim by the insurer to its insured and receipt of the reinsurance recoverable.

Counterparty Risk arises due to failure of reinsurers to meet their obligations

to company due to insufficient financial strength or potential refusal of the reinsurer to honour its obligations towards the ceding insurer.

Residual Insurance Risk arises when insurer retains a higher risk than expected as a result of discrepancies between reinsurance needs and the actual coverage provided in the contract to policyholder.

Insufficient capacity of insurer to maintain records and collect receivables could lead to Operational Risk.

Risk Response Strategies

- Strict adherence to reinsurer's guidelines and limits which are set in line with the requirements of the regulator and opting

for facultative covers for risk beyond treaty levels.

- Restructuring of reinsurance agreements with reinsurance parties regularly.
- Continue and maintain a close and professional relationship with all reinsurers and reinsurance brokers.
- Frequent review of the outstanding Reinsurance Receivables.
- Minimise risk of reinsurer insolvency by selection of reinsurers with ratings of AA- and above and monitor changes to the ratings of reinsurance companies continuously.

The following table shows the credit ratings of the reinsurance companies with whom the company has reinsurance arrangements at the end of the reporting period.

Reinsurer	Country of Origin	Rating	Rating Agency
Munich-Re	Germany	AA	Fitch Rating
Munich-Re Retakaful	Malaysia (Retakaful branch)	AA	Fitch Rating
Hannover Re	Germany	AA-	Standard & Poor
RGA	Ireland	AA-	Standard & Poor

4.3.2.1.4 Claims Risk

The risk arising due to experiencing higher level of claims cost than expected at product development and pricing resulting in losses to the Company.

Risk Response Strategies

- In-house Actuarial Department reviews reserving in the Life Insurance business more closely and guide the Management to take more informed decisions.

- The support of the reinsurers is obtained on reserving such claim liability and the share of reinsurers.
- Claims are reserved immediately at the intimation or on the availability of information of the death or injury of an insured.
- Financial authority limits are set based on the claim limits where the maximum limit is with the Claims Panel which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.

- Claims ratio is closely monitored and any significant change in current experience is brought to the management attention, in order to take corrective remedies.
- All suspicious claims are investigated with the support of expert third-party investigators.

Valuation of Life Insurance Contract Liability

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions used are based on past experience, current internal data, investment returns and benchmarks which reflect current observable market prices and other published information. All these assumptions are subject to the guidelines issued by the IRCSL. Assumptions and prudent estimates are determined at the date of valuation. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality Rates	Mortality rate is determined based on industry standard mortality tables and Company historical experience.
Longevity	Assumptions are based on standard industry tables, adjustments made when appropriate to reflect the company's own risk experience. Assumptions are differentiated by gender, underwriting class and contract type.
Lapse Rates	Policies which do not have premium payment up to date after the grace period are considered as lapsed. Lapse and surrender rates are projected based on company past experience.
Discount Rate	Life Insurance liabilities are determined as the sum of the discounted value of the expected benefits directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows.
	<p>Risk-Free Rate Risk-free discount rate shared by the IRCSL was used to discount the cash flows for corresponding durations for guaranteed benefits of Non-Participating and Participating insurance fund policies.</p> <p>Fund-Based Yield Fund-based yield was used in the Participating fund to discount the cash flows for corresponding durations where total guaranteed and non-guaranteed benefits are considered.</p>
Expenses	Allowance has been made for the payment of commission to advisors and managers on business. These rates exclude appropriate allowances for overriding and bonus commissions. The assumptions for management expenses are determined based on the expense analysis carried out. The management expense assumptions are developed such that all the management expenses are fully allocated to the policies.

Sensitivities

The following analysis provides the sensitivity of the life insurance liability due to possible movements in key assumptions with all other assumptions held constant, and shows the impact on gross liabilities.

Sensitivity of the Value of Insurance Liabilities

31st December,	Change in assumptions	Impact on Gross Liabilities	
		2020 %	2019 %
Mortality	+10%	0.21	0.24
	-10%	(0.21)	(0.24)
Discount rate	+ 50 basis points	(0.74)	(0.89)
	- 50 basis points	0.76	0.93
Expense	+10%	0.40	0.50
	-10%	(0.40)	(0.50)

HNBGI primarily issues Motor, Fire, Engineering, Marine, Medical, Title, Workmen Compensation and Miscellaneous insurance contracts. General Insurance contracts of the subsidiary are predominantly issued for a one-year period. The exceptions are; Marine insurance contracts where coverage period is less than one year, Title insurance and certain Fire and Engineering contracts which may be issued for a period exceeding a year.

4.3.2.2.1 Product Design Risk

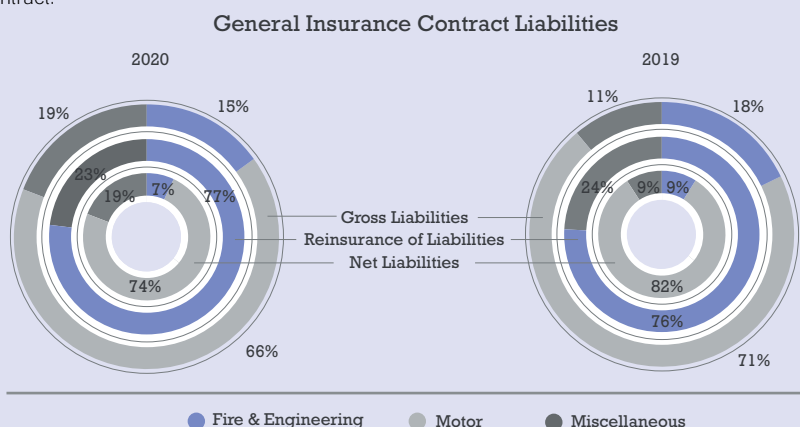
Risk of General Insurance product pricing being inadequate due to outdated/ inaccurate assumptions on effects of climate change, natural disasters, terrorist activities, behavioural trends of people due to changing life styles, epidemics and medical science/ technology improvements in the case of medical insurance, the steady escalation of costs due to currency rate changes and inflation in respect of spare parts in the Motor industry etc. resulting in losses.

4.3.2.2 General Insurance Risk

General Insurance contracts are offered by the fully owned subsidiary of the Company, HNB General Insurance Ltd (HNBGI). A General insurance contract is an agreement between the policyholder and the insurer

where the insurer agrees to compensate the policyholder in the event of a specified unforeseen event which adversely affects the policyholder occurs, in exchange for a premium.

The graph below depicts the concentration of non-life insurance contract liabilities by type of contract:



Risk Response Strategies

- Diversification across large portfolio of insurance contracts and geographical areas and increasing the number of policies issued to spread risk.
- Considering adequate reinsurance arrangements in pricing.
- Monitoring external factors such as floods, terrorist activities, political climate and economic factors and updating pricing accordingly.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

4.3.2.2.2 Underwriting Risk

This risk arises due to insufficiency of premiums received from policyholder to cover claims in the insured event or contingency occurs.

Risk Response Strategies

- Careful selection and implementation of underwriting strategies designed to ensure risks are diversified in terms of type of risk and level of insured benefits.
- Training and development of underwriting staff and distribution network team including through "General Insurance Academy", an internal training and development school, set up targeting the improvement of technical knowledge.
- Statistical databases maintained on all customer profiles and loss-making customers strategically reviewed.
- Strict controls are maintained on the issuance of temporary cover notes and limiting such notes to 60 days validity period.
- Daily monitoring of Motor average premium based on risk appetite.
- Centralised underwriting of Motor and Non-Motor policies to ensure control and specialisation.
- Internal flood mapping and alignment with the past catastrophe incidents considered in underwriting.
- Both the underwriters and the distribution managers are assigned Key Performance Indicators on both top-line and profitability, ensuring alignment of Company objectives.
- Motor Insurance pricing determined based on a risk-based pricing grid.
- Financial authority limits are in place for underwriting clearly prescribing the limits to underwrite based on the sum assured and risk.

4.3.2.2.3 Reinsurance Risk

Reinsurance risk arises due to retention of risks beyond the subsidiary's net retention capacity without having adequate reinsurance and/or the inability of reinsurers to meet their commitments due to insufficient financial strength, inability to meet obligations on time.

Reinsurance recoveries on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposures through prudent reinsurance arrangements, the obligation to meet claims emanating from Policyholders rests with HNBGI. Default of reinsurers does not negate the obligation and in that respect HNBGI carries a credit risk up to the extent ceded to each reinsurer.

HNBGI reinsurance placement is arranged in a manner that is neither dependent on a single reinsurer nor substantially dependent upon any single reinsurance contract. All reinsurance contracts are reviewed annually and renewed based on careful selection of reinsurers. All General Insurance reinsurance contracts are with companies holding credit ratings above the minimum stipulated by the Insurance Regulatory Commission of Sri Lanka.

Risk Response Strategies

- Adequate reinsurance arrangements have been placed within the guidelines of the IRCSL and are continuously reviewed for the adequacy of covers in light of catastrophic/extreme events.
- Majority of proportional reinsurance is quota-share reinsurance to reduce the overall exposure of the subsidiary to most of the classes of business. Non-proportional reinsurance used as primarily excess-of-loss reinsurance designed to mitigate the subsidiary's net exposure to catastrophe losses. Retention limits for these arrangements differ by product line and territory.
- Strict controls to ensure that no insurance cover is issued without a proper reinsurance arrangement backing the cover.
- Limiting reinsurer panel to globally trusted and stable portfolio of reinsurance companies with high ratings by Standard & Poors, AM Best or Fitch with the exception of reinsurance placed with National Insurance Trust Fund (NITF), a reinsurer operating under Government of Sri Lanka.
- Periodic review of the credit rating and ensuring all reinsurers maintain the rating throughout the year.
- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- Clearly defined financial authority for reinsurance arrangements.

Reinsurance Credit Rating

The following table shows the credit ratings of the reinsurance companies with whom the subsidiary has arrangements at end of the reporting period.

Reinsurer	Country of Origin	Rating	Rating Agency
General Insurance Corporation of India	India	BBB+	A M Best
Echo Reinsurance Ltd	Switzerland	A-	S&P
Santam Ltd	Switzerland	AA-	S&P
XL Insurance Company SE	India	AA-	A M Best
National Insurance Trust Fund (NITF)	Sri Lanka (Government owned entity)	AA-	Fitch Rating
Saudi Re for Cooperative Reinsurance Co	Saudi Arabia	A3	Moody's
Lancashire Syndicates Limited (9329 at Lloyds)	UK	A+	A M Best
Antares Syndicate 1274 (AUL 1274 at Lloyds)	UK	A+	A M Best

4.3.2.2.4 Claims Risk

This is the risk of actual claim experience differing from expectation resulting in losses for the company.

Risk Response Strategies

- Claim intimation is carried out through a 24-hour fully fledged Customer Service Centre (CSC) to reduce time lag.
- Assessments are carried out by an independent expert panel of assessors/loss adjusters working throughout the Island on a 24-hour basis.
- Claims are assessed immediately upon intimation and reserved accordingly.
- Comprehensive estimation of costs and high-quality service to customers granted through garages located island-wide.
- Significant outstanding claims are subjected to monthly reviews by the management.
- Service of a qualified Independent Actuary is obtained quarterly to assess the adequacy of reserves made in relation to Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) claims.
- All third-party claim intimations are separately reviewed with the support of the Head of the legal department.
- Adequate claim reserves are maintained according to the agreed methodology adopted by the Company.
- Claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are established to reduce the risk exposure.
- Financial authority limits are set for claim limit giving the maximum limit to the Claims Panel which is involved in taking decisions on significant/problematic claims and appeals made in respect of claims.

Valuation of liabilities in General Insurance

The principal assumption underlying the liability estimates is that HNBI's future claims development may follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are also used to assess the extent to which liabilities may arise in the future, but exclude one-off occurrences, changes in market factors such as public attitude to claiming, economic conditions, and internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and Government legislation affect the estimates.

The following analysis is performed for possible movements in Claims Outstanding with all other assumptions held constant, showing the impact on gross and net liabilities, Profit before Tax and equity. It should be noted that movements in these assumptions are non-linear.

Sensitivity of Claims Outstanding

As at,	Change in Assumptions	Reported Claim Outstanding Rs. '000	Impact on Gross Liabilities Rs. '000	Impact on Net Liabilities Rs. '000	Impact on Profit Before Tax Rs. '000	Impact on Equity (After Tax) Rs. '000
31st December 2020	+/-10%	950,111	+/-95,011	+/-58,533	+/-58,533	-/+42,144
31st December 2019	+/-10%	716,944	+/-71,694	+/-50,696	+/-50,696	-/+36,501

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Claims Development Table

The following table shows the estimated net claims liability (after considering reinsurance) for each successive accident year at each reporting date.

Accident Year	0	1	2	3	4	5	6	7	8	9	10
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
2010	100,283	6,980	4,675	3,219	2,365	1,312	5,964	4,019	9,005	10,591	11,365
2011	170,450	7,258	3,422	2,661	1,494	3,622	1,826	3,408	3,798	2,433	-
2012	163,480	3,250	2,821	3,064	4,039	3,564	4,305	6,826	6,221	-	-
2013	163,203	5,303	3,529	1,695	1,902	2,542	3,395	7,100	-	-	-
2014	188,644	7,055	2,765	4,300	4,304	4,086	4,675	-	-	-	-
2015	324,314	9,962	8,599	8,472	9,798	9,713	-	-	-	-	-
2016	267,060	12,372	10,050	10,497	8,943	-	-	-	-	-	-
2017	351,723	9,785	11,017	8,835	-	-	-	-	-	-	-
2018	419,251	27,114	23,624	-	-	-	-	-	-	-	-
2019	468,169	37,746	-	-	-	-	-	-	-	-	-
2020	518,468	-	-	-	-	-	-	-	-	-	-

4.3.3 Financial Risk

4.3.3.1 Introduction

The Group is exposed to different types of financial risks as a result of investing in financial instruments. The Group's Senior Management has established appropriate policies and procedures to identify financial risks, measure and manage in accordance with the Group's policies and risk objectives. Following are the primary risks exposed by the Group.



4.3.3.2 Credit Risk

Credit risk of the Group arises from the possibility of financial loss to the Group by a counter party's failure to discharge its contractual obligations to a financial instrument.

Risk Exposure

The following table shows the maximum risk positions of assets which are generally subject to credit risk. The maximum risk exposure of following financial assets are equal to their carrying amounts.

Concentrations of Credit Risk - Financial Assets

As at 31st December,	Group				Company			
	2020		2019		2020		2019	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Financial Investments	26,366,608	88.48	21,202,074	86.71	22,075,265	94.82	17,777,410	92.70
Loans to Life Policyholders	379,736	1.27	325,307	1.33	379,736	1.63	325,307	1.70
Reinsurance Receivables	771,776	2.59	645,411	2.64	172,699	0.74	144,715	0.75
Premium Receivables	1,111,594	3.73	946,650	3.87	4,988	0.02	9,458	0.05
Staff and Advisor Loans	449,423	1.51	458,971	1.88	248,130	1.07	266,065	1.39
Amounts due from Related Parties	-	-	-	-	7,286	0.03	21,344	0.11
Co - Insurance Receivables	8,216	0.03	6,142	0.03	-	-	-	-
Short term Deposits	-	-	352,286	1.44	-	-	352,286	1.84
Cash and Cash Equivalents	711,111	2.39	513,557	2.10	393,522	1.69	280,426	1.46
Total	29,798,464	100	24,450,398	100	23,281,626	100	19,177,011	100

Credit Risk of Financial Investments

The counterparty failing to fulfil the obligation to repay the principal and interest of a financial instrument expose the Group to credit risk.

The credit exposure of financial investments including short term deposits is given below.

Concentrations of Credit Risk - Financial Instruments

As at 31st December,	Group				Company			
	2020		2019		2020		2019	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Medium & Long Term Financial Instruments								
Government Securities	9,980,851	39.3	8,318,186	38.8	8,278,384	38.8	6,935,124	38.5
Corporate Debt Securities	5,448,960	21.5	5,157,410	24.1	4,902,208	23.0	4,598,453	25.5
Term Deposit	9,942,693	39.2	7,600,594	35.5	8,143,522	38.2	6,117,949	34.0
Total Credit Risk Exposure (a)	25,372,504	100	21,076,190	98.4	21,324,114	100	17,651,526	98.0
Short Term Deposits (b)	-	-	352,286	1.6	-	-	352,286	2.0
Total Credit Risk Exposure (a+b)	25,372,504	100	21,428,476	100	21,324,114	100	18,003,812	100
Credit Risk-Free Financial Instruments								
Equity	151,410		125,884		149,187		125,884	
Unit Trusts	842,694		-		601,964		-	
Total Credit Risk-Free Financial Instruments (c)	994,104		125,884		751,151		125,884	
Total Financial Instruments (a+c)	26,366,608		21,202,074		22,075,265		17,777,410	

Concentrations of Credit Risk - Financial Instruments & Short Term Deposits

As at 31st December,	Group				Company			
	2020		2019		2020		2019	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Held to Maturity	-	-	-	-	-	-	-	-
Available For Sale								
Treasury Bonds	7,120,330	28.07	6,245,704	29.15	6,263,397	29.36	5,586,037	31.03
Treasury Bills	-	-	-	-	-	-	-	-
Fair Value Through Profit or Loss	-	-	-	-	-	-	-	-
Loans and Receivables								
Repo	2,827,051	11.14	2,072,482	9.67	2,011,243	9.43	1,349,087	7.49
Sri Lanka Development Bonds	33,470	0.13	-	-	3,743	0.02	-	-
Debentures								
AAA	-	-	-	-	-	-	-	-
AA+ to AA-	250,611	0.99	1,398,315	6.53	250,611	1.18	1,275,235	7.08
A+ to A-	4,167,394	16.42	3,336,444	15.57	3,709,124	17.39	2,952,204	16.40
BBB+ to BBB-	1,030,955	4.06	422,651	1.97	942,473	4.42	371,014	2.06
BB+ to BB-	-	-	-	-	-	-	-	-
Term Deposits								
AAA	1,694,298	6.68	-	-	1,491,939	7.00	-	-
AA+ to AA-	3,169,713	12.49	3,883,015	18.12	2,444,941	11.47	2,974,992	16.52
A+ to A-	5,078,682	20.02	4,069,865	18.99	4,206,643	19.73	3,495,243	19.42
BBB+ to BBB-	-	-	-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-	-	-	-
Total	25,372,504	100	21,428,476	100	21,324,114	100	18,003,812	100

HNBA Group had no instruments classified as Held to Maturity and Fair Value Through Profit or Loss, with exposure to Credit Risk during the year and the comparative period.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Specific actions undertaken by the Group to mitigate Credit Risk in financial investments are shown below.

Risk Response Strategies

During new placements

- Adoption of a list of counterparties approved by the Investment Committee, consisting of companies which, in the opinion of the Committee, carry minimal Credit Risk.
- Checking the credit worthiness of potential investees, mainly through ratings assigned to the issuing institution or the ratings assigned to the issue.
- Obtaining explicit approval of the Investment Committee for any investments in an entity not included in the Committee approved list.
- Deciding on single party exposure limits based on the credit ratings and regulatory requirements and monitoring them closely at different levels.
- Conducting a detailed analysis of individual counterparties for each equity and corporate debt investment before taking the investment decision.
- The Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. All our investments in Repos are on DVP/RVP basis (Delivery vs. Payment and Receive vs. Payment).
- Established guidelines regarding the acceptability of collateral and valuation parameters with regards to Repo investments were followed. The management monitors the market value of the collateral, requests for additional collateral when needed and performs an impairment valuation when applicable.

- Adhering to the guidelines on selection of Primary dealer with regard to Government security investments and strict adherence to IRCSL rules and guidelines.
- Preparation of checklist to ensure adherence to the Company investment policy and other regulatory requirements.
- Approved financial authority limits set by Investment Committee and the Board for all investment related activities.

Investment Operation and Monitoring

- Signing Master Repurchase Agreements (MRA) with all primary dealers the Group works with in order to ensure zero level of default risk for lending under repo transactions, in the event of their bankruptcy. MRA's provide the facility to the investor or investee to recover the money due by selling the collateral securities in the secondary market in the event of a default by either party.
- Maintaining a custodian arrangement for Government securities with Acuity Securities Ltd, a subsidiary of Acuity Partners (Pvt) Ltd (a joint venture of HNB and DFCC Bank).
- Entering into a custodian agreement with Hatton National Bank PLC for listed equity investments.
- Obtaining specialist advice from legal experts on any issues related to investment activities.

The Group regularly reviews the policies and procedures in respect of managing the Credit Risk in investments and no significant changes were made during the year.

Loans to Life Policyholders

Life policyholders failing to repay policy loans granted gives rise to credit risk for the Company.

Risk Response Strategies

The value of each loan granted to a Life Policyholder including interest receivable, is limited to the surrender value of the insurance policy and if the loan and interest amount exceeds the surrender value, policy is foreclosed. The surrender value of policies for which loans were granted amounted to Rs. 627 Million.

Staff and Advisor Loans

The Group staff and agent benefits include vehicle and emergency loans. The risk of non-repayment of such loans gives rise to credit risk.

Risk Response Strategies

Group has established an effective Credit Policy which evaluates Staff and Advisor credit worthiness before granting loans. All loans are fair valued and tested for impairment on a periodic basis. The Group obtains collateral in the form of mortgage over the vehicle for all vehicle loans to staff and agents. An approved policy is followed when granting loans and valuation certificates of vehicles are obtained from a reputed valuer prior to grant. 93% of loans granted includes collateral.

Reinsurance Receivables

Reinsurance receivables comprise reinsurance receivable from claim outstanding and settled claims amounts. Following table provides information regarding the Credit Risk exposure on Reinsurance Receivables of the Group and the Company.

Credit Risk - Reinsurance Receivables

As at 31st December,	Group				Company			
	2020		2019		2020		2019	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Reinsurance Receivable on Outstanding Claims	491,630	64	343,554	53	35,129	20	65,275	45
Reinsurance Receivable on Claims Settled	280,146	36	301,857	47	137,570	80	79,440	55
Total Exposure to Credit Risk	771,776	100	645,411	100	172,699	100	144,715	100

Reinsurance Receivables on Claims Outstanding and IBNR/IBNER on claims have not yet crystallised.

Reinsurance Receivables Based on Credit Rating (on Settled Claims)

Reinsurance receivables classified according to counterparty and rating are given below along with an analysis of aging.

Reinsurance Receivable Based on Credit Rating

Group	AA+ to AA-		A+ to A-		BBB+ to BBB-		Not rated		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,										
2020	217,928	77.8	731	0.3	61,487	21.9	-	-	280,146	100
2019	206,697	68.5	89,619	29.7	2,334	0.8	3,207	1.0	301,857	100

Company	AA+ to AA-		A+ to A-		BBB+ to BBB-		Not rated		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,										
2020	137,570	100	-	-	-	-	-	-	137,570	100
2019	79,440	100	-	-	-	-	-	-	79,440	100

Age Analysis of Reinsurance Receivable

Group	≤ 30 days		31 to 60 days		61 to 90 days		91 to 180 days		>180 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,												
2020	50,028	18	22,310	8	44,657	16	40,794	15	122,357	43	280,146	100
2019	71,055	24	30,736	10	78,787	26	57,900	19	63,379	21	301,857	100

Company	≤ 30 days		31 to 60 days		61 to 90 days		91 to 180 days		>180 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,												
2020	9,049	7	2,865	2	24,407	18	26,098	19	75,151	54	137,570	100
2019	6,392	8	9,237	12	29,439	37	25,442	32	8,930	11	79,440	100

Risk Response Strategies

- All reinsurers of the Company and 78.1% of reinsurers of the Group, are rated A- and above. However, reinsurance is placed according to the directions given by Board of Directors and IRCSL guidelines.
- Long outstanding are monitored and collected or set off against payables to the same counter party.
- Management assesses the credit worthiness of reinsurers on a regular basis and align the reinsurance strategy accordingly.

Premium Receivable

The Group is exposed to credit risk where policyholder or intermediary does not settle the premium due.

Age Analysis of Premium Receivable

Group	≤ 30 days		31 to 60 days		> 61 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,								
2020	812,962	73	298,632	27	-	-	1,111,594	100
2019	628,631	66	318,019	34	-	-	946,650	100

Company	≤ 30 days		31 to 60 days		> 61 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,								
2020	4,988	100	-	-	-	-	4,988	100
2019	9,458	100	-	-	-	-	9,458	100

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Risk Response Strategies

Specific actions undertaken by the Group to mitigate Credit Risk in premium receivable are shown below.

- Strict implementation of Premium Payment Warranty (PPW), ensuring that all General Insurance policies with payments outstanding for more than 60 days are cancelled.
- Conducting follow-up meetings on debt collection on a monthly basis.
- Using the latest technology (e.g.: mobile text messages) to inform customers on premium reminders and cancellation notices.

- Follow up with the customer by contacting from our Customer Relations Centre (CRC) on long outstanding balances.

- Processing claims only for the premium settled policies.

Group regularly reviews the policies and procedures in respect of managing the premium receivables under General Insurance and no significant changes were made during the year.

The Group has no significant concentration of credit risk during the reporting period.

Cash and Cash Equivalents

Credit risk relating to cash can arise in the event of the bank/financial institution faces an inability to repay the amounts in credit to the Group. Given below is the list of banks and financial institutions the Group maintains current/savings accounts with, and their respective credit ratings.

Current/Savings Accounts Balances with Respective Credit Ratings

As at 31st December,	Rating	Rating Agency	Group		Company	
			2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Hatton National Bank PLC	AA-	Fitch Rating	684,641	500,179	382,135	277,235
Commercial Bank of Ceylon PLC	AA-	Fitch Rating	6,942	8,254	391	388
Bank of Ceylon	AA-	Fitch Rating	3,733	1,020	2,014	290
National Savings Bank	AAA	ICRA Rating	363	50	297	41
DFCC Bank PLC	A+	Fitch Rating	7,958	700	5,715	89
Pan Asia Banking Corporation PLC	BBB-	Fitch Rating	27	27	27	27
Sampath Bank PLC	AA-	Fitch Rating	1,426	517	1,130	464
HDFC Bank of Sri Lanka	BB+	Fitch Rating	12	11	11	10
LOLC Finance PLC	A	ICRA Rating	22	21	14	14
People's Leasing & Finance PLC	A+	Fitch Rating	35	32	26	24
National Development Bank PLC	A+	Fitch Rating	75	47	-	-
Nations Trust Bank PLC	A	Fitch Rating	3,348	105	-	-
HNB Finance PLC	A	Fitch Rating	66	311	66	311
Total Exposure to Credit Risk			708,648	511,274	391,826	278,893
Cash in hand			2,463	2,283	1,696	1,533
Cash and Cash Equivalents			711,111	513,557	393,522	280,426

Risk Response Strategies

The Group maintains savings and current accounts with banks and financial institutions with good credit ratings. As at 31st December 2020, 98.4% of cash was maintained with AA and above rated banks (2019: 99.8%).

Assessment of Impairment Losses

The Group assesses all financial investments for impairment at each reporting date and adequate provisions are made where relevant. Accounting policy relating to impairment is given on page 205.

The Company has no significant concentration of Credit risk during the reporting period.

4.3.3.3 Liquidity Risk

Liquidity risk refers to the risk of the Group encountering difficulty in meeting obligations associated with financial liabilities due to non-availability of sufficient level of liquid assets or having to incur additional costs to meet obligations when they fall due. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

Risk Response Strategies

The following policies and procedures are in place to mitigate the Group's exposure to liquidity risk.

- The Group follows Asset and Liability Management (ALM) guidelines set out in the Group Investment Policy which is reviewed by Investment Committee regularly.
- Guidelines are set out for asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet Group insurance and investment contract obligations.
- Asset and Liability Management positions are monitored by the ALM Committee quarterly and any deviations are noted and corrective action taken.

- Maintaining sufficient cash balances, repurchase agreements and other short tenure investments to accommodate expected obligations and commitments of the Group.
 - Determining the maturity profiles of insurance Contract Liabilities and reinsurance assets based on the estimated timing of net cash outflows from recognised insurance liabilities.
 - Reviewing the maturity mix of the investment portfolio by the management and the Investment Committee on a regular basis.
 - Agreeing with the reinsurers to support in case of catastrophic by way of cash call.
 - Forecasting and planning for all large cash outflows in advance and making necessary arrangements to ensure the availability of funds to meet such outflows.
 - Guaranteed Life insurance investment policies are fully matched with investments.
 - Availability of a stand-by overdraft facility to be used only in the event of an emergency.
- The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that can be accessed to meet its liquidity needs. The Group has an effective and efficient daily cash management process to mitigate risk.
- The table below summarizes the maturity profile of the financial assets of the Group and the Company based on remaining contractual obligations.

Maturity Profile of Assets and Liabilities - Group

As at 31st December 2020,	Total Rs.'000	Less than One Year Rs.'000	One Year to Three Years Rs.'000	Three to Five Years Rs.'000	More than Five Years Rs.'000
Assets					
Financial Investments	26,366,608	10,603,957	5,619,085	5,194,582	4,948,984
Loans to Life Policyholders	379,736	-	-	-	379,736
Reinsurance Receivables	771,776	771,776	-	-	-
Premium Receivables	1,111,594	1,111,594	-	-	-
Staff and Advisor Loans	449,423	124,434	169,840	116,243	38,906
Co - Insurance Receivables	8,216	8,216	-	-	-
Cash and Cash Equivalents	711,111	711,111	-	-	-
Total Assets	29,798,464	13,331,088	5,788,925	5,310,825	5,367,626
Liabilities					
Reinsurance Creditors	700,105	700,105	-	-	-
Lease Creditors	393,145	94,145	209,686	83,038	6,276
Other Liabilities	729,994	521,408	-	-	208,586
Bank Overdrafts	124,305	124,305	-	-	-
Total Liabilities	1,947,549	1,439,963	209,686	83,038	214,862

As at 31st December 2019,	Total Rs.'000	Less than One Year Rs.'000	One Year to Three Years Rs.'000	Three to Five Years Rs.'000	More than Five Years Rs.'000
Assets					
Financial Investments	21,202,074	7,606,223	4,207,483	4,954,079	4,434,289
Loans to Life Policyholders	325,307	-	-	-	325,307
Reinsurance Receivables	645,411	645,411	-	-	-
Premium Receivables	946,650	946,650	-	-	-
Staff and Advisor Loans	458,971	129,425	169,122	116,164	44,260
Co - Insurance Receivables	6,142	6,142	-	-	-
Cash and Cash Equivalents	865,843	865,843	-	-	-
Total Assets	24,450,398	10,199,694	4,376,905	5,070,243	4,803,856
Liabilities					
Reinsurance Creditors	540,652	540,652	-	-	-
Lease Creditors	350,089	97,848	188,999	52,506	10,736
Other Liabilities	665,754	463,381	-	-	202,373
Bank Overdrafts	130,636	130,636	-	-	-
Total Liabilities	1,687,131	1,232,517	188,999	52,506	213,109

The Group has no significant concentration of Liquidity risk during the reporting period.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Maturity Profile of Assets & Liabilities - Company

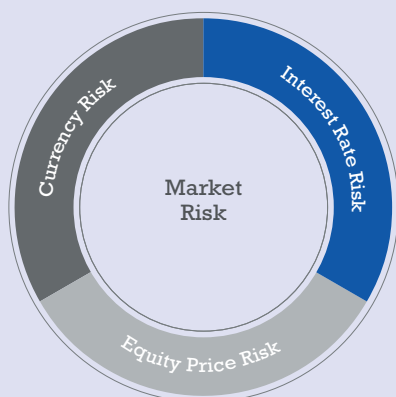
As at 31st December 2020,	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	22,075,265	8,024,240	4,945,560	4,518,989	4,586,476
Loans to Life Policyholders	379,736	-	-	-	379,736
Reinsurance Receivables	172,699	172,699	-	-	-
Premium Receivables	4,988	4,988	-	-	-
Staff and Advisor Loans	248,130	79,149	94,869	58,250	15,862
Amounts due from Related Parties	7,286	7,286	-	-	-
Cash and Cash Equivalents	393,522	393,522	-	-	-
Total Assets	23,281,626	8,681,884	5,040,429	4,577,239	4,982,074
Liabilities					
Reinsurance Creditors	290,916	290,916	-	-	-
Lease Creditors	377,746	88,794	203,528	79,148	6,276
Other Liabilities	463,202	277,464	-	-	185,738
Bank Overdrafts	53,904	53,904	-	-	-
Total Liabilities	1,185,768	711,078	203,528	79,148	192,014

As at 31st December 2019,	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	17,777,410	5,502,196	3,868,666	4,318,505	4,088,043
Loans to Life Policyholders	325,307	-	-	-	325,307
Reinsurance Receivables	144,715	144,715	-	-	-
Premium Receivables	9,458	9,458	-	-	-
Staff and Advisor Loans	266,065	85,471	95,482	64,041	21,071
Amounts due from Related Parties	21,344	21,344	-	-	-
Cash and Cash Equivalents	632,712	632,712	-	-	-
Total Assets	19,177,011	6,395,896	3,964,148	4,382,546	4,434,421
Liabilities					
Reinsurance Creditors	125,151	125,151	-	-	-
Lease Creditors	334,832	88,051	183,591	52,454	10,736
Other Liabilities	466,067	285,127	-	-	180,940
Bank Overdrafts	31,050	31,050	-	-	-
Total Liabilities	957,100	529,379	183,591	52,454	191,676

The Company has no significant concentration of Liquidity risk during the reporting period.

4.3.3.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk namely interest rate risk, equity price risk and currency risk.



Risk Response Strategies

The following policies and procedures are in place to mitigate the Group's exposure to market risks.

- The Group follows Asset and Liability Management (ALM) guidelines set out

in the Group Investment Policy. The ALM guidelines are reviewed by ALM Committee and Investment Committee regularly.

- Macro-economic indicators and their impact on the Group's Investment Portfolio are monitored closely by the Management, Investment Committee and Risk Management Committee regularly.

a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. This is considered to be the most important risk to be managed by the Group because the magnitude of the impact is considered significant.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed interest rate instruments expose the Group to fair value interest risk.

Risk Response Strategies

In order to mitigate the interest rate risk faced by the Group, the management follows the guidelines set out in the

Investment Policy. Amongst other such guidelines, the policy also requires the management of the maturities of interest bearing financial assets. Compliance with the policy is monitored and the exposure and instances of noncompliance are reported to the Investment Committee. The Policy is reviewed regularly for pertinence and for changes in the risk environment. Macro-economic variables are closely monitored and their sensitivities are reported to the Investment Committee and the Risk Committee.

Interest on floating rate instruments is re-priced annually whilst Interest on fixed interest rate instruments is priced at the inception of the financial instrument and is fixed until maturity.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity. The table below depicts the Group's and the Company's sensitivity to Interest Rate Risk.

Sensitivity to Interest Rate Risk

	Group				Company			
	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity
	2020		2019		2020		2019	
As at 31st December,	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
100 bps parallel increase in all yield curves	-	(285,667)	-	(249,933)	-	(259,543)	-	(226,842)
100 bps parallel decrease in all yield curves	-	309,662	-	270,478	-	282,085	-	245,969

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Following tables presents the exposure to the Interest Rate Risk by the Group and the Company.

Exposure to Interest Rate Risk - Group

31st December 2020,	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets				
Financial Investments - Loans & receivables	-	18,252,174	-	18,252,174
Financial Investments - Available for sale	-	7,120,330	50,600	7,170,930
Financial Investments - Fair value through profit or loss	-	-	943,504	943,504
Loans to Life Policyholders	-	379,736	-	379,736
Reinsurance Receivables	-	-	771,776	771,776
Premium Receivables	-	-	1,111,594	1,111,594
Staff and Advisor Loans	-	449,423	-	449,423
Co - Insurance Receivables	-	-	8,216	8,216
Cash and cash equivalent	-	-	711,111	711,111
Total Financial Assets	-	26,201,663	3,596,801	29,798,464
Financial Liabilities				
Reinsurance Creditors	-	-	700,105	700,105
Lease Creditors	-	393,145	-	393,145
Other Liabilities	208,586	-	521,408	729,994
Bank Overdrafts	-	124,305	-	124,305
Total Financial Liabilities	208,586	517,450	1,221,513	1,947,549

31st December 2019,	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets				
Financial Investments - Loans & receivables	-	14,830,486	-	14,830,486
Financial Investments - Available for sale	-	6,245,704	48,060	6,293,764
Financial Investments - Fair value through profit or loss	-	-	77,824	77,824
Loans to Life Policyholders	-	325,307	-	325,307
Reinsurance Receivables	-	-	645,411	645,411
Premium Receivables	-	-	946,650	946,650
Staff and Advisor Loans	-	458,971	-	458,971
Co - Insurance Receivables	-	-	6,142	6,142
Cash and cash equivalent	-	352,285	513,558	865,843
Total Financial Assets	-	22,212,753	2,237,645	24,450,398
Financial Liabilities				
Reinsurance Creditors	-	-	540,652	540,652
Lease Creditors	-	350,089	-	350,089
Other Liabilities	202,373	-	463,381	665,754
Bank Overdrafts	-	130,636	-	130,636
Total Financial Liabilities	202,373	480,725	1,004,033	1,687,131

Exposure to Interest Rate Risk - Company

31st December 2020,	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets				
Loans & receivables	-	15,060,717	-	15,060,717
Available for sale	-	6,263,397	50,600	6,313,997
Fair value through profit or loss	-	-	700,551	700,551
Loans to Life Policyholders	-	379,736	-	379,736
Reinsurance Receivables	-	-	172,699	172,699
Premium Receivables	-	-	4,988	4,988
Staff and Advisor Loans	-	248,130	-	248,130
Amounts due from Related Parties	-	-	7,286	7,286
Cash and cash equivalent	-	-	393,522	393,522
Total Financial Assets	-	21,951,980	1,329,646	23,281,626
Financial Liabilities				
Reinsurance Creditors	-	-	290,916	290,916
Lease Creditors	-	377,746	-	377,746
Other Liabilities	185,738	-	277,464	463,202
Bank Overdrafts	-	53,904	-	53,904
Total Financial Liabilities	185,738	431,650	568,380	1,185,768

31st December 2019,	Variable interest rate	Fixed interest rate	Non-interest bearing	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets				
Loans & receivables	-	12,065,489	-	12,065,489
Available for sale	-	5,586,037	48,060	5,634,097
Fair value through profit or loss	-	-	77,824	77,824
Loans to Life Policyholders	-	325,307	-	325,307
Reinsurance Receivables	-	-	144,715	144,715
Premium Receivables	-	-	9,458	9,458
Staff and Advisor Loans	-	266,065	-	266,065
Amounts due from Related Parties	-	-	21,344	21,344
Cash and cash equivalent	-	352,285	280,427	632,712
Total Financial Assets	-	18,595,183	581,828	19,177,011
Financial Liabilities				
Reinsurance Creditors	-	-	125,151	125,151
Lease Creditors	-	334,832	-	334,832
Other Liabilities	180,940	-	285,127	466,067
Bank Overdrafts	-	31,050	-	31,050
Total Financial Liabilities	180,940	365,882	410,278	957,100

The Company has no significant concentration of interest rate risk during the reporting period.

b) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in equity prices other than those arising due to interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

Risk Response Strategies

- Group's Investment Policy guides the management to set/monitor objectives and constraints on investments, diversification plans as well as limits on equity exposure in order to manage the equity price risk.
- Equity portfolios are reviewed by the Investment Committee on a quarterly basis.
- Impact from the market movement is monitored on a daily basis by the Chief Investment Officer.
- Total exposure to equity investments is made strictly within the agreed target asset allocation and sectorial equity limits.
- Equity investments are made in fundamentally sound stocks which are identified after an in-depth research and evaluation process by the investment management team.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

Following table shows the equity portfolio diversification the Group and the Company.

Equity Portfolio Diversification

As at 31st December,	Group				Company			
	2020		2019		2020		2019	
Industry	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Banks, Finance and Insurance	60,187	39.7	69,526	55.2	60,187	40.3	69,526	55.2
Manufacturing	64,303	42.5	31,667	25.2	62,080	41.6	31,667	25.2
Diversified Holdings	19,216	12.7	16,276	12.9	19,216	12.9	16,276	12.9
Land and Property	7,008	4.6	7,787	6.2	7,008	4.7	7,787	6.2
Beverage, Food and Tobacco	696	0.5	628	0.5	696	0.5	628	0.5
Total	151,410	100	125,884	100	149,187	100	125,884	100

The sensitivity analysis below is performed for reasonably possible movements in All Share Price Index with all other variables held constant, showing the impact on profit before tax.

Percentage Change in Benchmark Index (ASPI)

As at 31st December,	Group				Company			
	Impact on PBT		Impact on OCI		Impact on PBT		Impact on OCI	
	2020	2019	2020	2019	2020	2019	2020	2019
	Rs.'000	Rs. '000	Rs.'000	Rs. '000	Rs.'000	Rs. '000	Rs.'000	Rs. '000
10 per cent increase in equity prices	10,081	7,782	5,060	4,806	9,859	7,782	5,060	4,806
10 per cent decrease in equity prices	(10,081)	(7,782)	(5,060)	(4,806)	(9,859)	(7,782)	(5,060)	(4,806)

The Group has no significant concentration of equity price risk during the reporting period.

c) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Risk Response Strategies

The Group's principal transactions are carried out in Sri Lankan Rupees and hence, its exposure to foreign exchange risk arises primarily with respect to the US Dollar and Euro denominated assets maintained in order to honour liabilities of foreign currency denominated insurance policies, which are sold in the ordinary course of business.

However, no material liabilities were recorded on foreign currency denominated policies as at the reporting date.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets.

Sensitivity to Foreign Currency Risk

As at 31st December,	Group				Company			
	Amount in Foreign Currency		Amount in Foreign Currency		Amount in Foreign Currency		Amount in Foreign Currency	
	2020	LKR Amount	2019	LKR Amount	2020	LKR Amount	2019	LKR Amount
	USD'000	Rs.'000	USD'000	Rs.'000	USD'000	Rs.'000	USD'000	Rs.'000
Assets	1,720	316,765	1,414	254,043	659	121,249	560	100,554
	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity	Impact on PBT	Impact on Equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
5% strengthening of rupee	(15,838)	(11,404)	(12,702)	(9,146)	(6,062)	(4,365)	(5,028)	(3,620)
5% weakening of rupee	15,838	11,404	12,702	9,146	6,062	4,365	5,028	3,620
+/- % impact on Profit	0.97%	0.97%	0.90%	0.91%	0.61%	0.60%	0.45%	0.44%

The Group has no significant concentration of currency risk during the reporting period.

Risk Sensitivity of Financial Assets

This analysis has been performed for reasonably possible movements in key individual variables, while holding all other variables constant. It shows the impact on Profit Before Tax (due to changes in fair value of financial assets whose fair values movements are recorded in the Statement of Profit or Loss and Other Comprehensive Income) and equity.

An analysis of the sensitivity of financial assets and liabilities of the Group and the Company to the key impacting variables are set out in the table below.

Sensitivity on Overall Finance Assets

As at 31st December,		Group				Company			
		Impact on PBT	Impact on equity	Impact on PBT	Impact on equity	Impact on PBT	Impact on equity	Impact on PBT	Impact on equity
		2020	2020	2019	2019	2020	2020	2019	2019
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Exchange rate	5% strengthening of rupee	(15,838)	(11,404)	(12,702)	(9,146)	(6,062)	(4,365)	(5,028)	(3,620)
Yield curve	+100 basis points		(285,667)		(249,933)		(259,543)		(226,842)
ASPI	10% increase	10,081	7,258	7,782	10,409	9,859	7,098	7,782	10,409
Total		(5,757)	(289,813)	(4,920)	(248,670)	3,797	(256,810)	2,754	(220,053)
Exchange rate	5% weakening of rupee	15,838	11,404	12,702	9,146	6,062	4,365	5,028	3,620
Yield curve	-100 basis points		309,662		270,478		282,085		245,969
ASPI	10% decrease	(10,081)	(7,258)	(7,782)	(10,409)	(9,859)	(7,098)	(7,782)	(10,409)
Total		5,757	313,808	4,920	269,215	(3,797)	279,352	(2,754)	239,180

Note 1 : The correlation of variables will have a significant effect in determining the ultimate impact of exchange rate, interest rate and equity price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

Note 2 : It should be noted that movements in these variables are nonlinear. The method used for deriving sensitivity information and significant variables has not changed from the previous period.

4.3.4 Operational Risk

Operational risk is the possibility of incurring losses resulting from inadequate or failed internal processes, incidents caused by the actions of personnel or system malfunctions, or external events. This includes fraud, business interruptions, inaccurate processing of transactions, non-compliance regulations etc.

Risk Response Strategies

- The management is responsible for the monitoring and control of operational risk. Compliance is monitored through monthly checklist filled and signed by Heads of Divisions, a summary of which is presented to the Audit Committee.
- Risk and Compliance division monitors compliance with regulations through a monthly checklist a summary of which is tabled at the Board meeting on a monthly basis.
- Each employee is required to adhere to Financial Authority Manual in entering into transactions and discharge of duties.
- Divisional procedure manuals including branch procedure manuals are in place for the employees to follow.
- Staff are trained on the company policies and procedure on a regular basis.
- The Group has a business continuity plan and annual tests are carried out.
- Employee code of conduct, whistle blower policy and share trading policy are in place for the guidance of staff and streamline controls.
- Segregation of duties is incorporated into each operational area to the highest practicable level.
- Internal audit reviews the internal controls of the Group through audits carried out and shares the findings with the Audit Committee. Corrective actions/implementation of recommendations are also monitored.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT

ACCOUNTING POLICY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability or;

In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- **Level 1**

Inputs that are quoted market prices (unadjusted) in an active market for identical instruments

When available, the Group measures the fair value of an instrument using active quoted prices without any deduction for transaction costs. A market is regarded as active if transactions for asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

- **Level 2**

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices).

This category includes instruments valued using:

- (a) quoted prices in active markets for similar instruments,
- (b) quoted prices for identical or similar instruments in markets that are considered to be less active, or
- (c) other valuation techniques in which almost all significant inputs are directly or indirectly observable from market data.

- **Level 3**

Inputs that are unobservable.

This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices of similar instruments for which significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, risk premiums in estimating discount rates, bond and equity prices, foreign exchange rates, expected price volatilities and corrections.

Observable prices or model inputs such as market interest rates are usually available in the market for listed equity securities and Government Securities such as Treasury Bills and Treasury Bonds. Availability of observable prices and model inputs reduces the need for management judgement and estimation while reducing uncertainty associated in determining the fair values.

Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ("Day 1" profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument. For

assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Instrument Category	Fair Value Basis	Fair Value Hierarchy
Government Securities		
Treasury Bonds and Treasury Bills	Valued using the market yields obtained from the "Two Way Quotes" report published by the Central Bank of Sri Lanka (CBSL) on www.cbsl.gov.lk	Level 1
Investment in Shares		
Listed Shares	Volume Weighted Average (VWA) prices obtained from the "CSE Daily" report published by the Colombo Stock Exchange (CSE) on www.cse.lk	Level 1
Investment in Units		
Unlisted redeemable Units	Valued using the Published Net Asset Value of each Unit Trust Fund	Level 2
Corporate Debt		
Listed/Unlisted Fixed Rate	Discounted Cash Flow (DCF) Method using current Treasury Bond rates (obtained from the "Two Way Quotes" report published by the CBSL on www.cbsl.gov.lk) for similar maturity plus a risk premium. The risk premium is determined based on the upgrade/downgrade of the credit rating of the instrument	Level 2
Fixed and Term Deposits		
Deposits more than one year	Discounted Cash Flow (DCF) Method using current Treasury Bond rates (obtained from the "Two Way Quotes" report published by the CBSL on www.cbsl.gov.lk) for similar maturity plus a risk premium. The risk premium is determined based on the upgrade/downgrade of the credit rating of the institution.	Level 2
Other Financial Assets		
Staff and Advisor Loans	The fair value of the Staff and Advisor loans have been computed based on the interest rates prevailed at reporting date.	Level 2

Listed Corporate Debt have been classified under level two in fair value hierarchy since there is no active market for these instruments even if such instruments are listed. Therefore, when calculating the fair value, published market prices are not used.

The following is a list of financial instruments which have not been considered under the fair value measurement hierarchy, because the carrying amount of those financial instruments is a reasonable approximation of fair value since they are short-term in nature or re-priced to current market rates frequently :

Assets	Liabilities
Cash and Cash Equivalents/Term Deposits less than one year	Reinsurance Creditors
Repo	Lease Creditors
Loans to Life Policyholders	Other Financial Liabilities
Reinsurance Receivables	Bank Overdrafts
Sri Lanka Development Bonds	
Premium Receivables	
Co-Insurance Receivables	
Amounts due from Related Parties	

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (CONTD.)

5.1 Accounting Classifications and Fair Value - Group

The table below sets out the carrying amounts and fair values of the Group's financial assets and financial liabilities:

5.1.a Financial Assets

As at 31st December,		2020				
		Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total Carrying Amount	Fair Value
Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Repos	10.2	2,827,051	-	-	2,827,051	2,827,051
Term Deposit	10.2.1	9,942,693	-	-	9,942,693	10,399,344
Debentures	10.2.2	5,448,960	-	-	5,448,960	6,190,127
Treasury Bonds	10.3	-	7,120,330	-	7,120,330	7,120,330
Sri Lanka Development Bonds	10.2.3	33,470	-	-	33,470	33,470
Equity Shares	10.3.1 & 10.4.1	-	50,600	100,810	151,410	151,410
Investment in Units	10.4.2	-	-	842,694	842,694	842,694
Loans to Life Policyholders	12	379,736	-	-	379,736	379,736
Reinsurance Receivables	13	771,776	-	-	771,776	771,776
Premium Receivables	14	1,111,594	-	-	1,111,594	1,111,594
Staff and Advisor Loans	15.2	449,423	-	-	449,423	449,423
Co - Insurance Receivable	15	8,216	-	-	8,216	8,216
Cash and Cash Equivalents	17.1	711,111	-	-	711,111	711,111
Total Financial Assets		21,684,030	7,170,930	943,504	29,798,464	30,996,282

5.1.b Financial Liabilities

As at 31st December,		2020		
		Other Financial Liabilities	Total Carrying Amount	Fair Value
Note	Rs.'000	Rs.'000	Rs.'000	
Reinsurance Creditors	28	700,105	700,105	700,105
Lease Creditors	29	393,145	393,145	393,145
Other Financial Liabilities	30	729,994	729,994	729,994
Bank Overdrafts	17.2	124,305	124,305	124,305
Total Financial Liabilities		1,947,549	1,947,549	1,947,549

5.1.c Financial Assets

As at 31st December,		2019				
		Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total Carrying Amount	Fair Value
Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Repos	10.2	2,072,482	-	-	2,072,482	2,072,482
Term Deposit	10.2.1	7,600,594	-	-	7,600,594	7,711,961
Debentures	10.2.2	5,157,410	-	-	5,157,410	5,451,462
Treasury Bonds	10.3	-	6,245,704	-	6,245,704	6,245,704
Equity Shares	10.3.1 & 10.4.1	-	48,060	77,824	125,884	125,884
Loans to Life Policyholders	12	325,307	-	-	325,307	325,307
Reinsurance Receivables	13	645,411	-	-	645,411	645,411
Premium Receivables	14	946,650	-	-	946,650	946,650
Staff and Advisor Loans	15.2	458,971	-	-	458,971	458,971
Co - Insurance Receivable	15	6,142	-	-	6,142	6,142
Cash and Cash Equivalents	17.1	865,843	-	-	865,843	865,843
Total Financial Assets		18,078,810	6,293,764	77,824	24,450,398	24,855,817

5.1.d Financial Liabilities

	Note	2019		Fair Value Rs.'000
		Other Financial Liabilities Rs.'000	Total Carrying Amount Rs.'000	
Reinsurance Creditors	28	540,652	540,652	540,652
Lease Creditors	29	350,089	350,089	350,089
Other Financial Liabilities	30	665,754	665,754	665,754
Bank Overdrafts	17.2	130,636	130,636	130,636
Total Financial Liabilities		1,687,131	1,687,131	1,687,131

5.1.e The Group's exposure to interest rate risk and sensitivity analysis for Financial Assets and Liabilities is disclosed in Note 4.

5.2 Accounting Classifications and Fair Value - Company

The table below sets out the carrying amounts and fair values of the Company's financial assets and financial liabilities:

5.2.a Financial Assets

	Note	2020				Fair Value Rs.'000
		Loans and Receivables Rs.'000	Available For Sale Rs.'000	Fair Value Through Profit or Loss Rs.'000	Total Carrying Amount Rs.'000	
Repos	10.2	2,011,243	-	-	2,011,243	2,011,243
Term Deposit	10.2.1	8,143,522	-	-	8,143,522	8,566,301
Debentures	10.2.2	4,902,208	-	-	4,902,208	5,576,066
Treasury Bonds	10.3	-	6,263,397	-	6,263,397	6,263,397
Sri Lanka Development Bonds	10.2.3	3,744	-	-	3,744	3,744
Equity Shares	10.3.1 & 10.4.1	-	50,600	98,587	149,187	149,187
Investment in Units	10.4.2	-	-	601,964	601,964	601,964
Loans to Life Policyholders	12	379,736	-	-	379,736	379,736
Reinsurance Receivables	13	172,699	-	-	172,699	172,699
Premium Receivables	14	4,988	-	-	4,988	4,988
Staff and Advisor Loans	15.2	248,130	-	-	248,130	248,130
Amounts due from Related Parties- HNB General Insurance Limited	15	7,286	-	-	7,286	7,286
Cash and Cash Equivalents	17.1	393,522	-	-	393,522	393,522
Total Financial Assets		16,267,078	6,313,997	700,551	23,281,626	24,378,263

5.2.b Financial Liabilities

	Note	2020		Fair Value Rs.'000
		Other Financial Liabilities Rs.'000	Total Carrying Amount Rs.'000	
Reinsurance Creditors	28	290,916	290,916	290,916
Lease Creditors	29	377,746	377,746	377,746
Other Financial Liabilities	30	463,202	463,202	463,202
Bank Overdrafts	17.2	53,904	53,904	53,904
Total Financial Liabilities		1,185,768	1,185,768	1,185,768

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (CONTD.)

5.2.c Financial Assets

As at 31st December,		2019				
		Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total Carrying Amount	Fair Value
Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Repos	10.2	1,349,087	-	-	1,349,087	1,349,087
Term Deposit	10.2.1	6,117,949	-	-	6,117,949	6,222,249
Debentures	10.2.2	4,598,453	-	-	4,598,453	4,866,426
Treasury Bonds	10.3	-	5,586,037	-	5,586,037	5,586,037
Equity Shares	10.3.1 & 10.4.1	-	48,060	77,824	125,884	125,884
Loans to Life Policyholders	12	325,307	-	-	325,307	325,307
Reinsurance Receivables	13	144,715	-	-	144,715	144,715
Premium Receivables	14	9,458	-	-	9,458	9,458
Staff and Advisor Loans	15.2	266,065	-	-	266,065	266,065
Amounts due from Related Parties- HNB General Insurance Limited	15	21,344	-	-	21,344	21,344
Cash and Cash Equivalents	17.1	632,712	-	-	632,712	632,712
Total Financial Assets		13,465,090	5,634,097	77,824	19,177,011	19,549,284

5.2.d Financial Liabilities

As at 31st December,		2019		
		Other Financial Liabilities	Total Carrying Amount	Fair Value
Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Reinsurance Creditors	28	125,151	125,151	125,151
Lease Creditors	29	334,832	334,832	334,832
Other Financial Liabilities	30	466,067	466,067	466,067
Bank Overdrafts	17.2	31,050	31,050	31,050
Total Financial Liabilities		957,100	957,100	957,100

5.2.e The Company's exposure to interest rate risk and sensitivity analysis for Financial Assets and Liabilities is disclosed in Note 4.

5.3 Fair Value Measurement Hierarchy

The table below analyses fair value measurement of financial assets by valuation method, in respect of the fair value hierarchy disclosures below.

The different levels have been defined as follows:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

5.3.1 Fair Value Measurement Hierarchy - Group

As at 31st December,

		2020			
		Fair Value Measurement Disclosed Using			Total Fair Value Rs.'000
	Note	Quoted Prices in Active Markets (Level 1) Rs.'000	Significant Observable (Level 2) Rs.'000	Significant Unobservable (Level 3) Rs.'000	
Fair Value Through Profit or Loss					
Equity Shares	10.4.1	100,810	-	-	100,810
Investment in Units	10.4.2	-	842,694	-	842,694
Total (a)		100,810	842,694	-	943,504
Available for Sale					
Treasury Bonds	10.3	7,120,330	-	-	7,120,330
Equity Shares	10.3.1	50,600	-	-	50,600
Total (b)		7,170,930	-	-	7,170,930
Loans and Receivable					
Term Deposit (More than one year)		-	5,709,934	-	5,709,934
Debentures	10.2.2	-	6,190,127	-	6,190,127
Staff and Advisor Loans	15.2	-	449,423	-	449,423
Total (c)		-	12,349,484	-	12,349,484
Total Financial Assets (a+b+c)		7,271,740	13,192,178	-	20,463,918

As at 31st December,

		2019			
		Fair Value Measurement Disclosed Using			Total Fair Value Rs.'000
	Note	Quoted Prices in Active Markets (Level 1) Rs.'000	Significant Observable (Level 2) Rs.'000	Significant Unobservable (Level 3) Rs.'000	
Fair Value Through Profit or Loss					
Equity Shares	10.4.1	77,824	-	-	77,824
Total (a)		77,824	-	-	77,824
Available For Sale					
Treasury Bonds	10.3	6,245,704	-	-	6,245,704
Equity Shares	10.3.1	48,060	-	-	48,060
Total (b)		6,293,764	-	-	6,293,764
Loans and Receivable					
Term Deposit (More than one year)		-	3,666,194	-	3,666,194
Debentures	10.2.2	-	5,451,462	-	5,451,462
Staff and Advisor Loans	15.2	-	458,971	-	458,971
Total (c)		-	9,576,627	-	9,576,627
Total Financial Assets (a+b+c)		6,371,588	9,576,627	-	15,948,215

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

5. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (CONTD.)

5.3.2 Fair Value Measurement Hierarchy - Company

As at 31st December,

		2020			
		Fair Value Measurement Disclosed Using			Total Fair Value Rs.'000
		Quoted Prices in Active Markets (Level 1) Rs.'000	Significant Observable (Level 2) Rs.'000	Significant Unobservable (Level 3) Rs.'000	
	Note				
Fair Value Through Profit or Loss					
Equity Shares	10.4.1	98,587	-	-	98,587
Investment in Units	10.4.2	-	601,964	-	601,964
Total (a)		98,587	601,964	-	700,551
Available For Sale					
Treasury Bonds	10.3	6,263,397	-	-	6,263,397
Equity Shares	10.3.1	50,600	-	-	50,600
Total (b)		6,313,997	-	-	6,313,997
Loans and Receivable					
Term Deposit (More than one year)		-	5,050,484	-	5,050,484
Debentures	10.2.2	-	5,576,066	-	5,576,066
Staff and Advisor Loans	15.2	-	248,130	-	248,130
Total (c)		-	10,874,680	-	10,874,680
Total Financial Assets (a+b+c)		6,412,584	11,476,644	-	17,889,228

As at 31st December,

		2019			
		Fair Value Measurement Disclosed Using			Total Fair Value Rs.'000
		Quoted Prices in Active Markets (Level 1) Rs.'000	Significant Observable (Level 2) Rs.'000	Significant Unobservable (Level 3) Rs.'000	
	Note				
Fair Value Through Profit or Loss					
Equity Shares	10.4.1	77,824	-	-	77,824
Total (a)		77,824	-	-	77,824
Available for Sale					
Treasury Bonds	10.3	5,586,037	-	-	5,586,037
Equity Shares	10.3.1	48,060	-	-	48,060
Total (b)		5,634,097	-	-	5,634,097
Loans and Receivable					
Term Deposit (More than one year)		-	3,346,658	-	3,346,658
Debentures	10.2.2	-	4,866,426	-	4,866,426
Staff and Advisor Loans	15.2	-	266,065	-	266,065
Total (c)		-	8,479,149	-	8,479,149
Total Financial Assets (a+b+c)		5,711,921	8,479,149	-	14,191,070

6. SEGMENTAL REPORTING

ACCOUNTING POLICY

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the chief operating decision maker. The Board of Directors is identified as the Chief Operating Decision Maker who makes decisions about resources to be allocated to each segment and assess its performance, and for which discrete financial information is available. The Group's primary format for segmental reporting is business segments. The business segments are determined based on the Group's management and internal reporting structure.

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

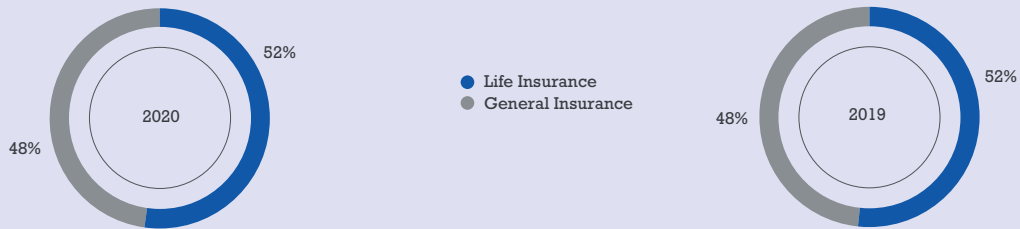
Reportable Operating Segment	Category of Information	Details
Life Insurance	Nature of Products	Protection and other Long-Term Insurance contracts both with and without discretionary Participating features.
	Classification of Products	Comprises a wide range of term assurance, guaranteed pensions, endowment products and annuity products.
	Revenue derived from	Insurance premium and fees charged from policyholders, Reinsurance Commission Income, Investment Income and Fair Value Gains and Losses on Investments
General Insurance	Nature of Products	Comprises General insurance contracts to individuals and businesses which are short-term in nature.
	Classification of Products	Mainly classified into Motor and Non-motor segments, and Non-motor segment consist of Fire, Accident and Liability, Marine and Workmen Compensation.
	Revenue derived from	Insurance premium and fees charged from policyholders, Reinsurance Commission Income, Investment Income and Fair Value Gains and Losses on Investments.

Activities of the Group are located within the country. The economic environment in which the Group operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

SEGMENTAL PERFORMANCE HIGHLIGHT

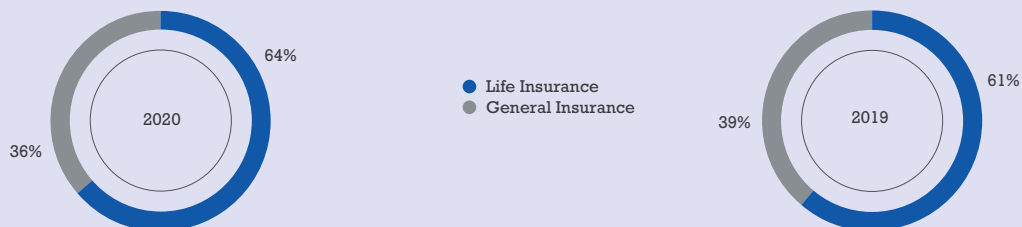
Gross Written Premium



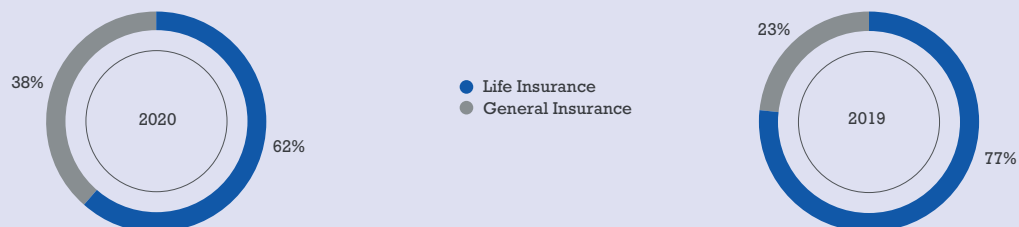
Other Revenue Composition



Benefits Claims and Other Expenses



Segment - Profitability



Total Assets



Financial Investments Composition



Total Liabilities



Insurance Contract Liabilities



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENTAL REPORTING (CONTD.)

6.1 Statement of Financial Position - Segmental Review - 2020

As at 31st December 2020,	Life Insurance	General Insurance	Intersegment Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets				
Property, Plant and Equipment	116,740	53,048	-	169,788
Right of Use Assets	380,105	14,332	-	394,437
Intangible Assets	62,240	6,618	-	68,858
Deferred Tax Assets	725,255	13,466	-	738,721
Financial Investments	22,075,265	4,291,343	-	26,366,608
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders	379,736	-	-	379,736
Reinsurance Receivables	172,699	599,077	-	771,776
Premium Receivables	4,988	1,106,606	-	1,111,594
Other Assets	582,321	289,379	(7,286)	864,414
Insurance Contract - Deferred Expenses	-	163,619	-	163,619
Cash and Cash Equivalents	393,522	317,589	-	711,111
Total Assets	26,042,871	6,855,077	(1,157,286)	31,740,662
Equity and Liabilities				
Equity Attributable to the Equity Holders of Parent				
Stated Capital	1,171,875	1,150,000	(1,150,000)	1,171,875
Retained Earnings	4,968,314	872,718	-	5,841,032
Available For Sale Reserve	15,626	78,128	-	93,754
Other Reserve	(33,916)	(17,604)	-	(51,520)
Life Policyholders' Available For Sale Reserve Fund	757,933	-	-	757,933
Restricted Regulatory Reserve	381,156	-	-	381,156
Equity Attributable to the Equity Holders of Parent	7,260,988	2,083,242	(1,150,000)	8,194,230
Non-Controlling Interest	-	-	-	-
Total Equity	7,260,988	2,083,242	(1,150,000)	8,194,230
Liabilities				
Insurance Contract Liabilities - Life Insurance	17,064,089	-	-	17,064,089
Insurance Contract Liabilities - General Insurance	-	3,309,149	-	3,309,149
Employee Defined Benefit Liabilities	150,729	103,709	-	254,438
Current Tax Liabilities	12,301	138,792	-	151,093
Reinsurance Creditors	290,916	409,189	-	700,105
Lease Creditors	377,746	15,399	-	393,145
Other Liabilities	832,198	725,196	(7,286)	1,550,108
Bank Overdrafts	53,904	70,401	-	124,305
Total Liabilities	18,781,883	4,771,835	(7,286)	23,546,432
Total Equity and Liabilities	26,042,871	6,855,077	(1,157,286)	31,740,662

6.1.1 Additional Information as per paragraph 24b of SLFRS 08 is as follows,

As at 31st December 2020,	Life Insurance	General Insurance	Total
	Rs.'000	Rs.'000	Rs.'000
Property, Plant and Equipment Additions	64,610	18,294	82,904
Intangible Assets Additions	31,557	5,146	36,703

6.2 Statement of Financial Position - Segmental Review - 2019

As at 31st December 2019,	Life Insurance	General Insurance	Intersegment Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets				
Property, Plant and Equipment	111,202	51,169	-	162,371
Right of Use Assets	325,572	18,165	-	343,737
Intangible Assets	49,830	1,957	-	51,787
Deferred Tax Assets	1,000,673	9,038	-	1,009,711
Financial Investments	17,777,410	3,424,664	-	21,202,074
Investment in Subsidiary	1,150,000	-	(1,150,000)	-
Loans to Life Policyholders	325,307	-	-	325,307
Reinsurance Receivables	144,715	500,696	-	645,411
Premium Receivables	9,458	937,192	-	946,650
Other Assets	625,499	329,478	(21,344)	933,633
Insurance Contract - Deferred Expenses	-	138,622	-	138,622
Cash and Cash Equivalents	632,712	233,131	-	865,843
Total Assets	22,152,378	5,644,112	(1,171,344)	26,625,146
Equity and Liabilities				
Equity Attributable to the Equity Holders of Parent				
Stated Capital	1,171,875	1,150,000	(1,150,000)	1,171,875
Retained Earnings	4,544,369	421,440	-	4,965,809
Available For Sale Reserve	9,881	14,920	-	24,801
Other Reserve	(6,514)	(11)	-	(6,525)
Life Policyholders' Available For Sale Reserve Fund	177,228	-	-	177,228
Restricted Regulatory Reserve	381,156	-	-	381,156
Equity Attributable to the Equity Holders of Parent	6,277,995	1,586,349	(1,150,000)	6,714,344
Non-Controlling Interest	-	-	-	-
Total Equity	6,277,995	1,586,349	(1,150,000)	6,714,344
Liabilities				
Insurance Contract Liabilities - Life Insurance	14,464,534	-	-	14,464,534
Insurance Contract Liabilities - General Insurance	-	2,871,416	-	2,871,416
Employee Defined Benefit Liabilities	100,076	67,042	-	167,118
Current Tax Liabilities	16,175	95,856	-	112,031
Reinsurance Creditors	125,151	415,501	-	540,652
Lease Creditors	334,832	15,257	-	350,089
Other Liabilities	802,565	493,105	(21,344)	1,274,326
Bank Overdrafts	31,050	99,586	-	130,636
Total Liabilities	15,874,383	4,057,763	(21,344)	19,910,802
Total Equity and Liabilities	22,152,378	5,644,112	(1,171,344)	26,625,146

6.2.1 Additional Information as per paragraph 24b of SLFRS 08 is as follows,

As at 31st December 2019,	Life Insurance	General Insurance	Total
	Rs.'000	Rs.'000	Rs.'000
Property, Plant and Equipment Additions	40,469	19,496	59,965
Intangible Assets Additions	9,517	68	9,585

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENTAL REPORTING (CONTD.)

6.3 Statement of Profit or Loss - Segmental Review - 2020

For the Year Ended 31st December 2020,	Life Insurance Rs.'000	General Insurance Rs.'000	Intersegment Adjustment Rs.'000	Total Rs.'000
Gross Written Premium	5,487,039	4,997,728	(85,775)	10,398,992
Premium Ceded to Reinsurers	(265,164)	(1,042,814)	-	(1,307,978)
Net Written Premium	5,221,875	3,954,914	(85,775)	9,091,014
Net Change in Reserves for Unearned Premium	-	(164,257)	-	(164,257)
Net Earned Premium	5,221,875	3,790,657	(85,775)	8,926,757
Other Revenue				
Interest and Dividend Income	2,125,362	367,955	-	2,493,317
Net Realised Gains	44,909	8,725	-	53,634
Net Fair Value Gains	12,987	4,709	-	17,696
Fee and Commission Income	34,945	137,055	(31,157)	140,843
Other Income	5,747	9,223	-	14,970
Total Other Revenue	2,223,950	527,667	(31,157)	2,720,460
Net Income	7,445,825	4,318,324	(116,932)	11,647,217
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims Paid	(1,428,349)	(1,969,932)	42	(3,398,239)
Net Change in Insurance Claims Outstanding	(65,832)	(94,570)	-	(160,402)
Change in Contract Liabilities - Life Fund	(2,576,169)	-	-	(2,576,169)
Other Operating and Administration Expenses	(1,430,742)	(1,212,747)	97,280	(2,546,209)
Underwriting and Net Acquisition Costs	(888,527)	(366,529)	19,610	(1,235,446)
Finance and Other Insurance Related Costs	(56,843)	(43,413)	-	(100,256)
Total Benefits, Claims and other Expenses	(6,446,462)	(3,687,191)	116,932	(10,016,721)
Profit Before Taxation	999,363	631,133	-	1,630,496
Income Tax Expense	(275,418)	(179,855)	-	(455,273)
Profit for the Year	723,945	451,278	-	1,175,223

6.3.1 Additional Information as per paragraph 24b of SLFRS 08 is as follows,

For the Year Ended 31st December 2020,	Life Insurance Rs.'000	General Insurance Rs.'000	Total Rs.'000
Intersegment GWP	48,196	37,579	85,775
External Customers GWP	5,438,843	4,960,149	10,398,992
Interest Income	2,120,053	367,897	2,487,950
Interest Expenses of Lease Creditor	43,121	2,582	45,703
Depreciation on Property, Plant and Equipment	38,287	15,713	54,000
Amortisation of Intangibles	19,147	485	19,632
Depreciation on Right of Use Assets	115,293	15,400	130,693

6.4 Statement of Profit or Loss - Segmental Review - 2019

For the Year Ended 31st December 2019,	Life Insurance Rs.'000	General Insurance Rs.'000	Intersegment Adjustment Rs.'000	Total Rs.'000
Gross Written Premium	5,175,044	4,818,686	(50,973)	9,942,757
Premium Ceded to Reinsurers	(240,974)	(1,071,907)	-	(1,312,881)
Net Written Premium	4,934,070	3,746,779	(50,973)	8,629,876
Net Change in Reserves for Unearned Premium	-	(156,216)	-	(156,216)
Net Earned Premium	4,934,070	3,590,563	(50,973)	8,473,660
Other Revenue				
Interest and Dividend Income	1,949,467	358,884	(59,425)	2,248,926
Net Realised Gains	70,000	19,901	2,955	92,856
Net Fair Value Losses	(6,370)	(2,456)	-	(8,826)
Fee and Commission Income	42,733	101,239	(22,462)	121,510
Other Income	2,965	13,231	-	16,196
Total Other Revenue	2,058,795	490,799	(78,932)	2,470,662
Net Income	6,992,865	4,081,362	(129,905)	10,944,322
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims Paid	(1,325,145)	(2,199,823)	200	(3,524,768)
Net Change in Insurance Claims Outstanding	(12,870)	(83,137)	-	(96,007)
Change in Contract Liabilities - Life Fund	(2,173,251)	-	-	(2,173,251)
Other Operating and Administration Expenses	(1,342,591)	(1,050,708)	57,257	(2,336,042)
Underwriting and Net Acquisition Costs	(959,550)	(344,496)	15,978	(1,288,068)
Finance and Other Insurance Related Costs	(72,923)	(48,372)	-	(121,295)
Total Benefits, Claims and other Expenses	(5,886,330)	(3,726,536)	73,435	(9,539,431)
Profit Before Taxation	1,106,535	354,826	(56,470)	1,404,891
Income Tax Expense	(279,826)	(105,262)	(9,575)	(394,663)
Profit for the Year	826,709	249,564	(66,045)	1,010,228

6.4.1 Additional Information as per paragraph 24b of SLFRS 08 is as follows,

For the Year Ended 31st December 2019,	Life Insurance Rs.'000	General Insurance Rs.'000	Total Rs.'000
GWP from Intersegment	43,056	7,917	50,973
GWP from External Customers	5,131,988	4,810,769	9,942,757
Interest Income	1,884,977	358,307	2,243,284
Interest Expenses of Lease Creditor	51,699	2,011	53,710
Depreciation on Property, Plant and Equipment	32,593	14,726	47,319
Amortisation of Intangibles	18,469	416	18,885
Depreciation on Right of Use Assets	126,628	12,897	139,525

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

6. SEGMENTAL REPORTING (CONTD.)

6.5 Statement of Cash Flows - Segmental Review - 2020

For the Year Ended 31st December 2020,		Life	General	Intersegment	Total
	Note	Insurance	Insurance	Adjustment	
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash Flows From Operating Activities					
Profit Before Taxation		999,363	631,133	-	1,630,496
Adjustments for:					
Interest Income		(2,120,053)	(367,897)	-	(2,487,950)
Dividend Income		(5,309)	(58)	-	(5,367)
Amortisation of Intangible Assets		19,147	485	-	19,632
Depreciation of Property, Plant and Equipment		38,287	15,713	-	54,000
Net Depreciation of Right of Use Assets		115,293	15,400	-	130,693
Interest Expense of Lease Creditor		43,121	2,582	-	45,703
Provision for Employee Benefits		26,945	20,367	-	47,312
Net Realised Gains		(44,909)	(8,725)	-	(53,634)
Net Fair Value Gains		(12,987)	(4,709)	-	(17,696)
Gains on Disposal of Property, Plant and Equipment		(3,242)	(97)	-	(3,339)
(Gains)/Losses on Disposal of Right of Use Assets		(475)	241	-	(234)
		(944,819)	304,435	-	(640,384)
Net Change in Operating Assets	A	(48,747)	(320,603)	7,286	(362,064)
Net Change in Operating Liabilities	B	2,791,079	663,492	(7,286)	3,447,285
Cash Flows from Operating Activities		1,797,513	647,324	-	2,444,837
Gratuity Paid		(3,694)	(1,293)	-	(4,987)
Economic Service Charges (ESC) Paid		-	(6,137)	-	(6,137)
Income Tax Paid		-	(73,109)	-	(73,109)
Capital Gain Tax Paid		-	(1,213)	-	(1,213)
Net Cash Generated From Operating Activities (a)		1,793,819	565,572	-	2,359,391
Cash Flows from Investing Activities					
Acquisition of Financial Investments		(112,016,270)	(49,523,587)	-	(161,539,857)
Proceeds from Maturity of Financial Investments		108,179,859	48,647,417	-	156,827,276
Proceeds from Sale of Financial Investments		301,267	90,503	-	391,770
Interest Received		2,001,689	370,549	-	2,372,238
Dividend Received		5,309	58	-	5,367
Acquisition of Intangible Assets		(31,557)	(5,146)	-	(36,703)
Acquisition of Property, Plant and Equipment		(59,114)	(18,294)	-	(77,408)
Proceeds from the Disposal of Property, Plant and Equipment		18,531	799	-	19,330
Advance Paid to Right of Use Asset		(8,487)	-	-	(8,487)
Net Cash Used in Investing Activities (b)		(1,608,773)	(437,701)	-	(2,046,474)
Cash Flows from Financing Activities					
Dividend Paid		(300,000)	-	-	(300,000)
Payment of Lease Liabilities		(147,090)	(14,228)	-	(161,318)
Net Cash Used in Financing Activities (c)		(447,090)	(14,228)	-	(461,318)
Net (Decrease)/Increase in Cash and Cash Equivalents (a+b+c)		(262,044)	113,643	-	(148,401)
Cash and Cash Equivalents at the Beginning of the Year		601,662	133,545	-	735,207
Cash and Cash Equivalents at the End of the Year	17	339,618	247,188	-	586,806
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Increase in Deferred Expenses		-	(24,997)	-	(24,997)
Increase in Loans to Life Policyholders		(54,429)	-	-	(54,429)
Increase in Reinsurance Receivables		(27,984)	(98,381)	-	(126,365)
Decrease/(Increase) in Premium Receivables		4,470	(169,414)	-	(164,944)
Decrease/(Increase) in Other Assets		29,196	(27,811)	7,286	8,671
Net Change in Operating Assets		(48,747)	(320,603)	7,286	(362,064)
B. Change in Operating Liabilities					
Increase in Other Liabilities		29,633	232,071	(7,286)	254,418
Increase in Insurance Contract Liabilities (Before Tax) - Life Insurance		2,595,681	-	-	2,595,681
Increase in Insurance Contract Liabilities - General Insurance		-	437,733	-	437,733
Increase/(Decrease) in Reinsurance Creditors		165,765	(6,312)	-	159,453
Net Change in Operating Liabilities		2,791,079	663,492	(7,286)	3,447,285

6.6 Statement of Cash Flows - Segmental Review - 2019

For the Year Ended 31st December 2019,					
	Note	Life Insurance Rs.'000	General Insurance Rs.'000	Intersegment Adjustment Rs.'000	Total Rs.'000
Cash Flows From Operating Activities					
Profit Before Taxation		1,106,535	354,826	(56,470)	1,404,891
Adjustments for:					
Interest Income		(1,884,977)	(358,307)	-	(2,243,284)
Dividend Income		(64,490)	(577)	59,425	(5,642)
Amortisation of Intangible Assets		18,469	416	-	18,885
Depreciation of Property, Plant and Equipment		32,593	14,726	-	47,319
Net Depreciation of Right of Use Assets		126,628	12,897	-	139,525
Interest Expense of Lease Creditor		51,699	2,011	-	53,710
Provision for Employee Benefits		21,656	15,480	-	37,136
Net Realised Gains		(70,000)	(19,901)	(2,955)	(92,856)
Net Fair Value Losses		6,370	2,456	-	8,826
Losses/(Gains) on Disposal of Property, Plant and Equipment		403	(4,686)	-	(4,283)
		(655,114)	19,341	-	(635,773)
Net Change in Operating Assets	A	(219,553)	(359,928)	21,344	(558,137)
Net Change in Operating Liabilities	B	2,380,061	540,197	(21,344)	2,898,914
Cash Flows from Operating Activities		1,505,394	199,610	-	1,705,004
Gratuity Paid		(8,539)	(3,954)	-	(12,493)
Economic Service Charges (ESC) Paid		-	(22,205)	-	(22,205)
Withholding Tax on Inter Company Dividends		-	-	(9,575)	(9,575)
Capital Gain Tax Paid		-	(814)	-	(814)
Net Cash Generated From Operating Activities (a)		1,496,855	172,637	(9,575)	1,659,917
Cash Flows from Investing Activities					
Acquisition of Financial Investments		(97,671,001)	(37,887,699)	-	(135,558,700)
Proceeds from Maturity of Financial Investments		93,759,085	36,859,653	-	130,618,738
Proceeds from Sale of Financial Investments		1,173,551	511,368	-	1,684,919
Interest Received		1,976,793	400,828	-	2,377,621
Dividend Received		64,750	608	(59,425)	5,933
Acquisition of Intangible Assets		(9,517)	(68)	-	(9,585)
Acquisition of Property, Plant and Equipment		(40,469)	(19,496)	-	(59,965)
Proceeds from the Disposal of Property, Plant and Equipment		758	5,359	-	6,117
Advance Paid to Right of Use Asset		(22,587)	(7,776)	-	(30,363)
Net Cash Used in Investing Activities (b)		(768,637)	(137,223)	(59,425)	(965,285)
Cash Flows from Financing Activities					
Dividend Paid		(450,000)	(69,000)	69,000	(450,000)
Payment of Lease Liabilities		(136,481)	(12,039)	-	(148,520)
Net Cash Used in Financing Activities (c)		(586,481)	(81,039)	69,000	(598,520)
Net Increase/(Decrease) in Cash and Cash Equivalents (a+b+c)		141,737	(45,625)	-	96,112
Cash and Cash Equivalents at the Beginning of the Year		459,925	179,170	-	639,095
Cash and Cash Equivalents at the End of the Year	17	601,662	133,545	-	735,207
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Decrease in Deferred Expenses		-	1,864	-	1,864
Increase in Loans to Life Policyholders		(82,194)	-	-	(82,194)
Increase in Reinsurance Receivables		(68,789)	(160,849)	-	(229,638)
Increase in Premium Receivables		(1,412)	(147,025)	-	(148,437)
Increase in Other Assets		(67,158)	(53,918)	21,344	(99,732)
Net Change in Operating Assets		(219,553)	(359,928)	21,344	(558,137)
B. Change in Operating Liabilities					
Increase in Other Liabilities		166,649	31,960	(21,344)	177,265
Increase in Insurance Contract Liabilities (Before Tax) - Life Insurance		2,204,529	-	-	2,204,529
Increase in Insurance Contract Liabilities - General Insurance		-	346,321	-	346,321
Increase in Reinsurance Creditors		8,883	161,916	-	170,799
Net Change in Operating Liabilities		2,380,061	540,197	(21,344)	2,898,914

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT (PPE)

ACCOUNTING POLICY

Property, Plant and Equipment are tangible items that are held for servicing or for administrative purposes and are expected to be used for more than one year. The Group applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on “Property, Plant and Equipment”.

BASIS OF RECOGNITION

Property, Plant and Equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group and the cost of assets can be measured reliably.

BASIS OF MEASUREMENT

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes,

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the asset to a working condition for its intended use;
- the costs of dismantling and removing the items and restoring at the site on which they are located;
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as a part of such equipment.

COST MODEL

The Group applies the cost model to Property, Plant and Equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

SUBSEQUENT COSTS

The cost of replacing a component of an item of Property, Plant 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 Group and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. The costs of the day-to-day servicing of Property, Plant and Equipment are recognised in Profit or Loss as incurred.

REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

DEPRECIATION

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the Profit or Loss.

The estimated useful lives and residual values for the current and comparative years are as follows:

Class of Asset	Period	Depreciation percentage per annum (%)	Residual Value
Computer Equipment	6 years	16.67	Nil
Motor Vehicles	4 years	25	Nil
Office Equipment	5 years	20	Nil
Furniture and Fittings	10 years	10	Nil
Fixtures	Based on Lease Agreement period or useful life of asset whichever is lower		Nil

ACCOUNTING POLICY

The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and depreciation commences when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year together with other relevant information are given below on pages 254 to 256. Depreciation methods, useful lives, and residual values are reassessed at each reporting date and adjusted, if required.

DE-RECOGNITION

The carrying amount of an item of Property, Plant and Equipment is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de-recognition of an item of Property, Plant and Equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in Profit or Loss when the item is de-recognised.

When replacement costs are recognised in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost of inspection is de-recognised.

CAPITAL WORK-IN-PROGRESS

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in Property, Plant and Equipment, waiting for capitalisation.

BORROWING COSTS

Borrowing Cost that are directly attributable to the acquisition, construction or production of a qualifying asset is capitalised as part of the cost of the asset as per the Sri Lanka Accounting Standard - LKAS 23 Borrowing Costs. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other borrowing costs are recognised in the Profit or Loss in the period in which they occur.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT (PPE) (CONTD.)

7.1 Movement of Property, Plant and Equipment (PPE) - Group

	Computer Equipment Rs.'000	Motor Vehicles Rs.'000	Office Equipment Rs.'000	Furniture and Fittings Rs.'000	Fixtures Rs.'000	Total Rs.'000
Cost						
Balance as at 1st January 2019	219,838	11,401	65,652	64,404	101,819	463,114
Additions during the year	30,477	1,330	8,759	5,520	13,879	59,965
Disposals during the year	(24,739)	(7,281)	(8,025)	(1,082)	(3,457)	(44,584)
Balance as at 31st December 2019 (a)	225,576	5,450	66,386	68,842	112,241	478,495
Balance as at 1st January 2020	225,576	5,450	66,386	68,842	112,241	478,495
Additions during the year	41,593	25,071	3,466	2,965	9,809	82,904
Disposals during the year	(5,346)	(14,993)	(4,094)	(2,058)	(11,718)	(38,209)
Balance as at 31st December 2020 (b)	261,823	15,528	65,758	69,749	110,332	523,190
Accumulated Depreciation						
Balance as at 1st January 2019	150,760	11,401	47,935	38,125	63,334	311,555
Depreciation for the year	22,602	3	6,600	4,982	13,132	47,319
Depreciation on Disposals	(23,724)	(7,281)	(7,904)	(1,000)	(2,841)	(42,750)
Balance as at 31st December 2019 (c)	149,638	4,123	46,631	42,107	73,625	316,124
Balance as at 1st January 2020	149,638	4,123	46,631	42,107	73,625	316,124
Depreciation for the year	25,356	2,178	6,951	5,061	14,454	54,000
Depreciation on disposals	(336)	(494)	(3,222)	(1,281)	(11,389)	(16,722)
Balance as at 31st December 2020 (d)	174,658	5,807	50,360	45,887	76,690	353,402
Carrying Value as at 31st December 2019 (a-c)	75,938	1,327	19,755	26,735	38,616	162,371
Carrying Value as at 31st December 2020 (b-d)	87,165	9,721	15,398	23,862	33,642	169,788

7.1.a Acquisition of Property, Plant and Equipment during the Year

During the financial year, the Group acquired PPE to the aggregate value of Rs. 82.9 Million (2019 - Rs. 59.9 Million). Cash payments amounting to Rs. 77.4 Million (2019 - Rs. 59.9 Million) were made by the Group during the year to purchase of PPE.

7.2 Movement of Property, Plant and Equipment (PPE) - Company

	Computer Equipment Rs.'000	Motor Vehicles Rs.'000	Office Equipment Rs.'000	Furniture and Fittings Rs.'000	Fixtures Rs.'000	Total Rs.'000
Cost						
Balance as at 1st January 2019	161,456	5,317	51,063	39,514	75,884	333,234
Additions during the year	17,728	1,330	7,263	4,118	10,030	40,469
Disposals during the year	(21,292)	(1,197)	(5,252)	(580)	(2,977)	(31,298)
Balance as at 31st December 2019 (a)	157,892	5,450	53,074	43,052	82,937	342,405
Balance as at 1st January 2020	157,892	5,450	53,074	43,052	82,937	342,405
Additions during the year	28,353	24,481	2,772	1,716	7,288	64,610
Disposals during the year	(4,853)	(14,993)	(3,115)	(839)	(1,788)	(25,588)
Balance as at 31st December 2020 (b)	181,392	14,938	52,731	43,929	88,437	381,427
Accumulated Depreciation						
Balance as at 1st January 2019	116,839	5,317	36,316	23,664	46,611	228,747
Depreciation for the year	14,631	3	5,449	2,983	9,527	32,593
Depreciation on Disposals	(20,420)	(1,197)	(5,252)	(547)	(2,721)	(30,137)
Balance as at 31st December 2019 (c)	111,050	4,123	36,513	26,100	53,417	231,203
Balance as at 1st January 2020	111,050	4,123	36,513	26,100	53,417	231,203
Depreciation for the year	16,289	2,123	5,726	3,078	11,071	38,287
Depreciation on Disposals	(252)	(494)	(2,242)	(342)	(1,473)	(4,803)
Balance as at 31st December 2020 (d)	127,087	5,752	39,997	28,836	63,015	264,687
Carrying Value as at 31st December 2019 (a-c)	46,842	1,327	16,561	16,952	29,520	111,202
Carrying Value as at 31st December 2020 (b-d)	54,305	9,186	12,734	15,093	25,422	116,740

7.2.a Acquisition of Property, Plant and Equipment during the Year

During the financial year, the Company acquired PPE to the aggregate value of Rs. 64.6 Million (2019 - Rs. 40.5 Million). Cash payments amounting to Rs. 59.1 Million (2019 - Rs. 40.5 Million) were made by Company during the year to purchase of PPE.

7.3 Maturity Analysis of Property, Plant and Equipment is given in Note 47 on page 320.

7.4 Apportionment of Depreciation between the Company and the Subsidiary

	Computer Equipment Rs.'000	Motor Vehicles Rs.'000	Office Equipment Rs.'000	Furniture and Fittings Rs.'000	Fixtures Rs.'000	Total Rs.'000
Amount Recognised in Company	10,050	1	4,090	2,653	6,488	23,282
Amount Transferred to HNB General Insurance Limited	4,581	2	1,359	330	3,039	9,311
Total Depreciation for 2019	14,631	3	5,449	2,983	9,527	32,593
Amount Recognised in Company	11,093	1,122	4,339	3,009	7,914	27,477
Amount Transferred to HNB General Insurance Limited	5,196	1,001	1,387	69	3,157	10,810
Total Depreciation for 2020	16,289	2,123	5,726	3,078	11,071	38,287

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT (PPE) (CONTD.)

7.5 Fully Depreciated Property, Plant and Equipment in Use

PPE includes fully depreciated assets which are in the use of ordinary course of business activities. The initial cost of fully depreciated PPE which are still in use as at reporting date, is as follows;

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Computer Equipment	95,558	84,108	74,927	67,331
Motor Vehicles	3,623	4,120	3,623	4,120
Office Equipment	33,657	31,953	25,528	24,789
Furniture and Fittings	22,731	18,748	15,495	12,573
Fixtures	28,201	35,727	24,998	23,556
Total	183,770	174,656	144,571	132,369

7.6 Property, Plant and Equipment Pledged as Security for Liabilities

There were no items of PPE in the Group and Company, pledged as securities for liabilities during the year. (2019 - Nil)

7.7 Title Restriction on Property, Plant and Equipment

There are no restrictions that existed on the title of the PPE of the Group and Company as at the reporting date. (2019- No Title Restriction)

7.8 Assessment of Impairment of Property, Plant and Equipment

The Board of Directors has assessed the potential impairment loss of property, plant and equipment as at 31st December 2020. Based on the assessment no impairment provision is required to be made in the financial statements as at the reporting date in respect of property, plant and equipment. (2019 - No Impairment of PPE)

7.9 Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of PPE during the year. (2019 - Nil)

7.10 Temporarily idle Property, Plant and Equipment

There were no temporarily idle properties as at the year ended 31st December 2020. (2019 - Nil)

7.11 Amount of Contingent Commitment for acquisition of Property, Plant and Equipment

Commitments for the acquisition of Computer Equipment of the Group and Company is Rs. 10.5 Million as at the reporting date. (2019 - Nil)

7.12 Compensation from Third-Parties for items of Property, Plant and Equipment

There were no compensation received/receivable from third parties for items of property, plant and equipment that were impaired, loss or given up.

8. RIGHT OF USE ASSETS

ACCOUNTING POLICY

As a Lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative standalone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a Right of Use Asset and a lease liability at the lease commencement date. The Right of Use Asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The Right of Use Asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the Right of Use Asset reflects that the Group will exercise a purchase option. In that case the Right of Use Asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the Right of Use Asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Short-Term leases and leases of Low Value Assets

The Group has elected not to recognise Right of use Assets and lease liabilities for leases of Low Value Assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a Lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the Right of Use Asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies SLFRS 15 to allocate the consideration in the contract.

The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

8. RIGHT OF USE ASSETS (CONTD.)

8.1 Leases as Lessee

The Group has number of lease contracts for properties and motor vehicles, typically made in between 2 to 10 years of lease term and have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

8.1.a The movement of Right of Use Assets of the Group is as follows:

As at 31st December,	2020			2019		
	Property	Motor Vehicles	Total	Property	Motor Vehicles	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost						
Balance as at 1st January	450,802	29,367	480,169	342,898	19,206	362,104
Balance of Advance Payments as at 1st January	-	-	-	16,553	-	16,553
Day One Loss of Refundable Deposit on Fair Valuation	13,980	-	13,980	-	-	-
Rent Payable Under LKAS 17 as at 1st January	-	-	-	(8,553)	-	(8,553)
Additions during the Year	152,639	13,550	166,189	72,634	10,161	82,795
Advances Paid during the Year	8,487	-	8,487	30,363	-	30,363
Disposals during the Year	(35,968)	(12,188)	(48,156)	(3,093)	-	(3,093)
Total Cost of Right of Use Asset (a)	589,940	30,729	620,669	450,802	29,367	480,169
Accumulated Depreciation and Amortisation						
Balance of as at 1st January	127,681	8,751	136,432	-	-	-
Depreciation for the Year	115,765	8,926	124,691	116,185	8,751	124,936
Day One Loss of Refundable Deposit on Fair Valuation	5,993	-	5,993	-	-	-
Amortisation of Rent Payable Under LKAS 17	(4,730)	-	(4,730)	(3,346)	-	(3,346)
Amortisation of Rent Advance	4,739	-	4,739	17,935	-	17,935
Depreciation on Disposals	(33,985)	(6,908)	(40,893)	(3,093)	-	(3,093)
Total Accumulated Depreciation and Amortisation (b)	215,463	10,769	226,232	127,681	8,751	136,432
Net Right of Use Assets as at 31st December (a-b)	374,477	19,960	394,437	323,121	20,616	343,737

8.1.b The movement of Right of Use Assets of the Company is as follows:

As at 31st December,	2020			2019		
	Property	Motor Vehicles	Total	Property	Motor Vehicles	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost						
Balance as at 1st January	426,137	22,970	449,107	337,971	12,809	350,780
Balance of Advance Payments as at 1st January	-	-	-	16,553	-	16,553
Day One Loss of Refundable Deposit on Fair Valuation	13,980	-	13,980	-	-	-
Rent Payable Under LKAS 17 as at 1st January	-	-	-	(6,554)	-	(6,554)
Additions during the Year	152,639	-	152,639	58,673	10,161	68,834
Advances Paid during the Year	8,487	-	8,487	22,587	-	22,587
Disposals during the Year	(15,631)	(12,188)	(27,819)	(3,093)	-	(3,093)
Total Cost of Right of Use Asset (a)	585,612	10,782	596,394	426,137	22,970	449,107
Accumulated Depreciation and Amortisation						
Balance of as at 1st January	117,310	6,225	123,535	-	-	-
Depreciation for the Year	108,163	4,456	112,619	107,816	6,225	114,041
Day One Loss of Refundable Deposit on Fair Valuation	5,993	-	5,993	-	-	-
Amortisation of Rent Payable Under LKAS 17	(4,170)	-	(4,170)	(2,384)	-	(2,384)
Amortisation of Rent Advance	851	-	851	14,971	-	14,971
Depreciation on Disposals	(15,631)	(6,908)	(22,539)	(3,093)	-	(3,093)
Total Accumulated Depreciation and Amortisation (b)	212,516	3,773	216,289	117,310	6,225	123,535
Net Right of Use Assets as at 31st December (a-b)	373,096	7,009	380,105	308,827	16,745	325,572

8.2 Amount recognised in Profit or Loss

For the year ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Depreciation for the Year	124,691	124,936	112,619	114,041
Day One Loss of Refundable Deposit on Fair Valuation	5,993	-	5,993	-
Amortisation of Rent Payable Under LKAS 17	(4,730)	(3,346)	(4,170)	(2,384)
Amortisation of Rent Advance	4,739	17,935	851	14,971
Net Depreciation	130,693	139,525	115,293	126,628

8.3 Amount recognised in Statement of Cash flows

For the year ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Advance paid to Right of Use Asset	8,487	30,363	8,487	22,587
Payment of Lease Liabilities	161,318	148,520	147,090	136,481

8.4 Amendment to SLFRS 16 - COVID-19 Related Rent Concessions

The Group has elected to apply the Amendment to SLFRS 16 - COVID-19 Related Rent Concessions issued by the Institute of Chartered Accountants of Sri Lanka. The Group has concluded that all of the following conditions are met as a direct consequence of the COVID-19 pandemic:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30th June 2021; and
- there is no substantive change to other terms and conditions of the lease.

Accordingly, the Group and Company have recognised rent concessions of Rs. 2.1 Million and Rs. 1.2 Million respectively in Profit or Loss.

8.5 Extension options

Property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

8.6 Maturity Analysis of Right of Use Assets is given in Note 47 on page 320.

8.7 Short-term Leases and Leases of Low-Value Assets

Group has recognised following amounts in respect of Short term and Low value leases in Profit or Loss.

For the year ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Short term and Low Value Leases	4,394	2,100	2,439	1,199

8.8 Apportionment of Depreciation between the Company and the Subsidiary

For the year ended 31st December,	Company	
	2020 Rs.'000	2019 Rs.'000
Amount Recognised in Company	64,240	73,351
Amount Transferred to HNB General Insurance Limited	51,053	53,277
Total Depreciation under Right of Use Assets	115,293	126,628

8.9 Lease Creditors

The Details of Lease Creditors in relation to Right of Use Assets are disclosed in note 29 on page 297.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

9. INTANGIBLE ASSETS

ACCOUNTING POLICY

The Group's Intangible Assets include the value of Computer Software.

RECOGNITION AND MEASUREMENT

An intangible asset is recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard LKAS 38 - Intangible Assets.

Software

Software acquired separately are measured on initial recognition at cost. Following initial recognition, these assets are stated in the statement of financial position at cost, less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

SUBSEQUENT EXPENDITURE

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

USEFUL ECONOMIC LIFE AND AMORTISATION

Amortisation is calculated to write off the cost of intangible assets over their estimated useful lives and is generally recognised in profit or loss. The estimated useful life, residual value and the amortisation method of Intangible Assets for the current and comparative periods are as follows:

Intangible Assets	Estimated Useful Life	Residual Value	Amortisation Method
Computer Software	6 Years	Nil	Straight-line basis over the estimated useful life of the software, from the date that it is available for use

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

Changes in the expected useful life or the expected pattern of future economic benefits embodied in the assets is accounted for by changing the amortisation period or method as appropriate and are treated as changes in accounting estimates.

DE-RECOGNITION

An Intangible Asset is de-recognised on disposal or when no future economic benefits are expected from it. The gain or loss arising from de-recognition of such Intangible Assets is included in Profit or Loss when the item is de-recognised.

RESEARCH AND DEVELOPMENT COST

Expenditure on research activities is recognised in Profit or Loss as incurred. Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in Profit or Loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Computer Software				
Cost				
Balance as at 1st January	247,888	238,303	245,206	235,689
Acquisition/Capitalisation during the Year	36,703	9,585	31,557	9,517
Balance as at 31st December (a)	284,591	247,888	276,763	245,206
Accumulated Amortisation				
Balance as at 1st January	196,101	177,216	195,376	176,907
Amortisation for the Year	19,632	18,885	19,147	18,469
Balance as at 31st December (b)	215,733	196,101	214,523	195,376
Carrying Amount as at 31st December (a-b)	68,858	51,787	62,240	49,830

9.1 Maturity Analysis of Intangible Assets is given in Note 47 on page 320.

9.2 Apportionment of Depreciation between the Company and the Subsidiary

For the year ended 31st December,	Company	
	2020 Rs.'000	2019 Rs.'000
Amount Recognised in Company	13,281	12,568
Amount Transferred to HNB General Insurance Limited	5,866	5,901
Total Depreciation for 2020	19,147	18,469

9.3 Acquisition of Intangible Assets during the Year

During the financial year, the Group acquired/Capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 36.7 Million (2019 - Rs. 9.6 Million) where the Company acquired/capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 31.6 Million (2019 - Rs. 9.5 Million).

Cash payments of the Group amounting to Rs. 36.7 Million (2019 - Rs. 9.6 Million) were made during the year for purchase of Intangible Assets. Cash payments of the Company amounting to Rs. 31.6 Million (2019 - Rs. 9.5 Million) were made during the year for purchase of Intangible Assets.

9.4 Fully Amortised Intangible Assets in Use

The Group's Intangible Assets includes fully amortised Computer software which are in the use ordinary course of business activities having an initial cost of Rs. 156.9 Million. (2019 - Rs. 140 Million)

9.5 Title Restriction on Intangible Assets

There were no restrictions that existed on the title of the Intangible Assets of the Group as at the reporting date. (2019 - No Title Restriction)

9.6 Assessment of Impairment of Intangible Assets

The Board of Directors has assessed potential impairment indicators of Intangible Assets as at the reporting date. Based on the assessment, no impairment indicators were identified. (2019 - No Impairment of Intangible Assets)

9.7 Amount of Contingent Commitment for acquisition of Intangible Assets

Commitments for the acquisition of Computer Software of the Group and Company is Rs. 13.6 Million as at the reporting date. (2019 - Rs. 8.98 Million)

9.8 Intangible Assets pledged as Security

There were no items of Intangible assets in the Group, pledged as securities for liabilities during the year. (2019 - Nil)

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS

ACCOUNTING POLICY

FINANCIAL INSTRUMENT

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

NON-DERIVATIVE FINANCIAL ASSETS

INITIAL RECOGNITION OF FINANCIAL ASSETS

The Group initially recognises Loans and Receivables and debt securities issued on the date when they are originated. All other financial assets are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

CLASSIFICATION OF FINANCIAL ASSETS

The Group determines the classification of its financial assets at initial recognition and classifies them into one of the following categories:

1. Held to Maturity (HTM);
2. Loans and Receivables (L&R);
3. Available For Sale (AFS);
4. Fair Value Through Profit or Loss (FVTPL). ; and within this category as,
 - Held for Trading; or
 - Designated at Fair Value Through Profit or Loss ;

The classification depends on the purpose for which the investments were acquired or originated (i.e. intention) and based on ability. Financial assets are classified as Fair Value Through Profit or Loss where the Group investment strategy is to manage financial investments on a fair value basis. The Available For Sale and Held to Maturity categories are used when the relevant liability (including shareholders' funds) is passively managed and/or carried at amortised cost.

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the settlement date, i.e., the date that the Group receives/settles money for the sale/purchase of the financial asset. However, when it comes to investment in quoted equities and corporate debt, the transaction date (i.e. trade date) is used to recognise/de-recognise the asset.

MEASUREMENT OF FINANCIAL ASSETS

Initial and subsequent measurement of each classes of financial assets are disclosed in respective sub-notes.

DE-RECOGNITION OF FINANCIAL ASSETS

The Group de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire or, when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or, in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in Profit or Loss.

De-recognition of each classes of financial assets are disclosed in respective sub-notes.

ACCOUNTING POLICY

RE-CLASSIFICATION OF FINANCIAL ASSETS

The Group reclassifies non-derivative financial assets out of the held for trading category and into the AFS, L&R, or HTM categories as permitted by the Sri Lanka Accounting Standard LKAS 39 - Financial Instruments: Recognition and Measurement. Further, in certain circumstances, the Group is permitted to reclassify financial instruments out of the AFS category and into the L&R category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost. Reclassification to held to maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

For a financial asset with a fixed maturity reclassified out of the 'AFS' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the Profit or Loss.

The Group may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'L&R' category, if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of the management and is determined on an instrument by instrument basis.

The Group does not reclassify any financial instrument into the FVTPL category after initial recognition. Further, the Group does not reclassify any financial instrument out of the FVTPL category if upon initial recognition it was designated as fair value through profit or loss.

IMPAIRMENT OF FINANCIAL ASSETS

Accounting policy for impairment is disclosed in respective notes of these Financial Statements.

NON-DERIVATIVE FINANCIAL LIABILITIES

RECOGNITION AND MEASUREMENT OF FINANCIAL LIABILITIES

The Group classifies non derivative financial liabilities into other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise, reinsurance payables, other liabilities and bank overdraft.

DERECOGNITION

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS (CONTD.)

The following table consists each class of financial investments together with their fair values and carrying values.

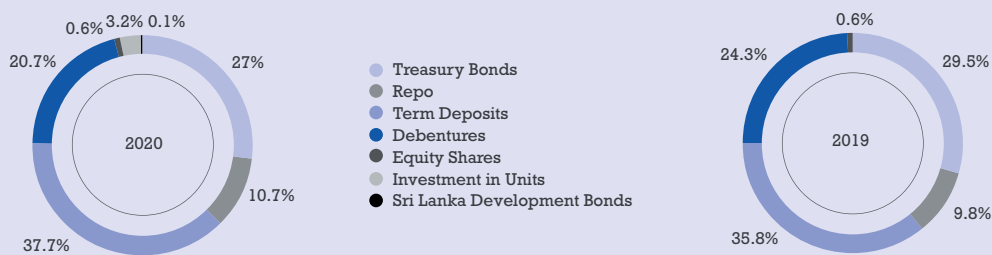
As at 31st December,	Note	Group				Company			
		2020		2019		2020		2019	
		Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Held to Maturity	10.1	-	-	-	-	-	-	-	-
Loans and Receivables	10.2	18,252,174	19,449,992	14,830,486	15,235,905	15,060,717	16,157,354	12,065,489	12,437,762
Available For Sale	10.3	7,170,930	7,170,930	6,293,764	6,293,764	6,313,997	6,313,997	5,634,097	5,634,097
Fair Value Through Profit or Loss	10.4	943,504	943,504	77,824	77,824	700,551	700,551	77,824	77,824
Total Financial Investments		26,366,608	27,564,426	21,202,074	21,607,493	22,075,265	23,171,902	17,777,410	18,149,683

Maturity Analysis of Investment Assets is given in Note 47 on page 320.

Financial Investment Analysis Based on Reporting Category



Financial Investment Analysis Based on Asset Classes - Group



10.1 Held To Maturity (HTM)

ACCOUNTING POLICY

INITIAL MEASUREMENT

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as Held to Maturity when the Group has the intention and ability to hold until maturity. HTM Financial Instruments are initially measured at fair value inclusive of transaction costs that are directly attributable to acquisition of such instrument.

SUBSEQUENT MEASUREMENT

Subsequent to initial measurement, Held to Maturity financial assets are measured at amortised cost, using the Effective Interest Rate (EIR), less impairment. The EIR amortisation is included in 'Interest Income' in Profit or Loss.

AMORTISED COST

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

DE-RECOGNITION

Gains and losses are recognised in Profit or Loss when the investments are de-recognised or impaired, as well as through the amortisation process.

No Financial Assets were classified as HTM for the current and comparative financial years.

10.2 Loans and Receivables (L & R)

ACCOUNTING POLICY

INITIAL MEASUREMENT

Financial Instruments classified as loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to acquisition or issue of such instrument.

SUBSEQUENT MEASUREMENT

Subsequent to initial measurement, Loans and Receivables are measured at amortised cost, using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium if any, on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest Income' in Profit or Loss.

DE-RECOGNITION

Gains and losses are recognised in Profit or Loss when the investments are de-recognised or impaired, as well as through the amortisation process.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS (CONTD.)

As at 31st December,	Note	Group				Company			
		2020		2019		2020		2019	
		Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Repo*		2,827,051	2,827,051	2,072,482	2,072,482	2,011,243	2,011,243	1,349,087	1,349,087
Term Deposit	10.2.1	9,942,693	10,399,344	7,600,594	7,711,961	8,143,522	8,566,301	6,117,949	6,222,249
Debentures**	10.2.2	5,448,960	6,190,127	5,157,410	5,451,462	4,902,208	5,576,066	4,598,453	4,866,426
Sri Lanka Development Bonds	10.2.3	33,470	33,470	-	-	3,744	3,744	-	-
Total		18,252,174	19,449,992	14,830,486	15,235,905	15,060,717	16,157,354	12,065,489	12,437,762

* HNB Assurance PLC and HNB General Insurance Limited, in its normal course of business invest in Repurchase Agreements (Repos) through number of Bank and Non-Bank Primary Dealers approved by the Central Bank of Sri Lanka (CBSL). During the year, the Group invested in Repos with primary dealers by obtaining Government Securities as collateral with a sufficient haircut. Investments in Repos are carried out on DVP/RVP basis. (Delivery versus Payment and Receive versus Payment)

Group has taken appropriate steps to secure these securities received on investments in Repo's through a custodian (Acuity Securities Limited - a related Company) and also by signing Master Repurchase Agreements (MRA) with all Primary Dealing Companies the Group deals with. MRA's provide the investor the ability to recover the money due by selling the collateral securities in the secondary market in the event of a default. As of the reporting date the Group hold Rs. 3,107 Million worth of Repos as Collateral.

** Debentures - The Group classifies quoted Corporate Debt under Loans and Receivables category since there is no active market for these instruments even if such instruments are listed.

Fair Value Measurement

The Group measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 5.

Impairment of Financial Investments at L & R

The Group has not experienced any indication of impairment in respect of L & R financial investments and thus no impairment losses were recognised.

Re-Classification of Financial Investments at L & R

During the year the Group has not re-classified any financial investment under this category.

10.2.1 Term Deposits

As at 31st December,	Group				Company			
	2020		2019		2020		2019	
	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Licensed Commercial Banks								
Term Deposits with Related Parties -								
Hatton National Bank PLC	625,063	625,063	294,132	294,132	395,318	395,318	144,864	144,864
Other Banks	5,212,572	5,318,347	4,139,587	4,169,825	4,247,776	4,351,244	3,386,907	3,415,243
Total (a)	5,837,635	5,943,410	4,433,719	4,463,957	4,643,094	4,746,562	3,531,771	3,560,107
Licensed Specialised Banks								
Licensed Specialised Banks	1,694,297	1,758,286	883,490	885,622	1,491,938	1,555,927	705,381	707,513
Total (b)	1,694,297	1,758,286	883,490	885,622	1,491,938	1,555,927	705,381	707,513
Licensed Finance Companies								
Term Deposits with Related Parties -								
HNB Finance PLC	50,076	55,215	50,806	54,130	50,076	55,215	50,806	54,130
Other Finance Companies	2,360,685	2,642,433	2,232,579	2,308,252	1,958,414	2,208,597	1,829,991	1,900,499
Total (c)	2,410,761	2,697,648	2,283,385	2,362,382	2,008,490	2,263,812	1,880,797	1,954,629
Total Investment In Term Deposit (a+b+c)	9,942,693	10,399,344	7,600,594	7,711,961	8,143,522	8,566,301	6,117,949	6,222,249

10.2.2 Debentures

As at 31st December,	Note	Group				Company			
		2020		2019		2020		2019	
		Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Debentures - Quoted	10.2.2.a	5,031,857	5,736,380	5,157,410	5,451,462	4,516,929	5,157,523	4,598,453	4,866,426
Debentures - Unquoted	10.2.2.b	417,103	453,747	-	-	385,279	418,543	-	-
Total Investment In Debentures		5,448,960	6,190,127	5,157,410	5,451,462	4,902,208	5,576,066	4,598,453	4,866,426

10.2.2.a Debentures - Quoted

As at 31st December,	Group				Company			
	2020		2019		2020		2019	
	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Banks, Finance and Insurance								
Bank of Ceylon	40,044	42,504	45,329	42,347	40,044	42,504	45,329	42,347
Commercial Bank of Ceylon PLC	230,116	267,935	230,116	243,343	190,336	223,992	190,336	201,993
DFCC Bank PLC	1,208,743	1,408,984	976,735	1,069,109	1,164,904	1,360,790	932,910	1,023,337
Hatton National Bank PLC	268,725	290,147	264,159	271,541	268,725	290,147	264,159	271,541
National Development Bank PLC	312,568	348,061	245,657	260,864	243,519	271,602	212,504	224,837
Nations Trust Bank PLC	608,161	692,153	607,952	644,408	571,334	651,476	571,137	605,570
Sampath Bank PLC	600,139	678,432	766,116	805,670	544,293	613,882	692,075	726,953
Seylan Bank PLC	281,156	309,673	335,547	341,751	229,501	252,462	262,117	267,741
Commercial Credit and Finance PLC	-	-	213,510	212,895	-	-	152,536	152,071
Commercial Leasing and Finance PLC	277,612	305,011	65,850	62,610	215,920	237,231	65,850	62,610
HNB Finance PLC	125,090	146,315	125,045	133,416	125,090	146,315	125,045	133,416
LOLC Holdings PLC	290,932	356,231	290,932	330,128	238,980	292,618	238,979	271,176
LB Finance PLC	17,124	18,847	17,173	18,007	9,066	9,978	9,092	9,533
People's Leasing and Finance PLC	122,068	132,231	151,415	157,864	95,070	102,652	114,292	119,237
Siyapatha Finance PLC	41,898	45,627	41,883	44,221	41,898	45,627	41,883	44,221
Vallibel Finance PLC	-	-	46,150	46,283	-	-	30,767	30,855
Sector Total (a)	4,424,376	5,042,151	4,423,569	4,684,457	3,978,680	4,541,276	3,949,011	4,187,438
Construction and Engineering								
Access Engineering PLC	-	-	126,509	127,117	-	-	111,328	111,863
Sector Total (b)	-	-	126,509	127,117	-	-	111,328	111,863
Diversified Holdings								
Hayleys PLC	376,870	421,889	376,798	394,790	307,638	343,907	307,580	322,027
Sector Total (c)	376,870	421,889	376,798	394,790	307,638	343,907	307,580	322,027
Telecommunications								
Sri Lanka Telecom PLC	148,112	186,424	148,062	160,211	148,112	186,424	148,062	160,211
Sector Total (d)	148,112	186,424	148,062	160,211	148,112	186,424	148,062	160,211
Trading								
Singer (Sri Lanka) PLC	82,499	85,916	82,472	84,887	82,499	85,916	82,472	84,887
Sector Total (e)	82,499	85,916	82,472	84,887	82,499	85,916	82,472	84,887
Total Investment In Quoted Debentures (a+b+c+d+e)	5,031,857	5,736,380	5,157,410	5,451,462	4,516,929	5,157,523	4,598,453	4,866,426

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS (CONTD.)

10.2.2.b Debentures - Unquoted

As at 31st December,	Group				Company			
	2020		2019		2020		2019	
	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Banks, Finance and Insurance								
DFCC Bank PLC	260,974	288,675	-	-	229,150	253,471	-	-
People's Bank	156,129	165,072	-	-	156,129	165,072	-	-
Total Investment In Unquoted Debentures	417,103	453,747	-	-	385,279	418,543	-	-

10.2.3 Sri Lanka Development Bonds

As at 31st December,	Group				Company			
	2020		2019		2020		2019	
	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Year of Maturity								
2021	3,777	3,777	-	-	1,888	1,888	-	-
2022	29,693	29,693	-	-	1,856	1,856	-	-
Total Investment in Sri Lanka Development Bonds	33,470	33,470	-	-	3,744	3,744	-	-

10.3 Available For Sale (AFS)

ACCOUNTING POLICY

INITIAL MEASUREMENT

Equity investments classified as Available For Sale are those that are neither classified as held for trading nor designated at Fair Value Through Profit or Loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and which may be sold in response to need for liquidity or in response to changes in the market conditions. AFS Financial Instruments are initially measured at fair value plus transaction costs that are directly attributable to acquisition.

SUBSEQUENT MEASUREMENT

Subsequent to initial measurement, Available For Sale financial assets are measured at fair value, with unrealised gains or losses recognised through Other Comprehensive Income (OCI) in the Available For Sale reserve.

Fair value changes of Available For Sale financial assets of life insurance related assets are included under life policyholders' Available For Sale reserve fund through OCI in equity. Refer Note 22.

Interest earned whilst holding Available For Sale investments is reported as 'Interest Income' using the EIR. Dividends earned whilst holding Available For Sale investments are recognised in Profit or Loss as 'Dividend Income' when the right of the payment has been established.

DE-RECOGNITION

When the asset is de-recognised, the cumulative gain or loss is recycled to Profit or Loss as 'Realised gains or losses'.

As at 31st December,	Note	Group				Company			
		2020		2019		2020		2019	
		Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Treasury Bonds		7,120,330	7,120,330	6,245,704	6,245,704	6,263,397	6,263,397	5,586,037	5,586,037
Equity Shares	10.3.1	50,600	50,600	48,060	48,060	50,600	50,600	48,060	48,060
Total		7,170,930	7,170,930	6,293,764	6,293,764	6,313,997	6,313,997	5,634,097	5,634,097

Fair Value Measurement

The Group measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 5.

Impairment of Financial Investments at AFS

If the asset is determined to be impaired, the cumulative loss is recognised in the Profit or Loss and removed from the Available For Sale reserve

At the reporting date Group has recognised an impairment loss of Rs. 2.5 Million (2019 - Rs. 9.9 Million) for equity instruments. Refer Note 37 of these Financial Statements.

The Group has not experienced any indication of impairment for debt instruments, categorised under AFS. Hence, no impairment is recognised for such instruments.

Re-Classification of Financial Investments at AFS

During the year Group has not re-classified any financial investment under this category.

10.3.1 Equity Shares

As at 31st December,	Group						Company					
	2020			2019			2020			2019		
	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value
	Rs.'000	Rs.'000		Rs.'000	Rs.'000		Rs.'000	Rs.'000		Rs.'000	Rs.'000	
Banks, Finance and Insurance												
Seylan Bank PLC - (Non-Voting)	287,729	11,827	9,783	278,710	11,548	9,420	287,729	11,827	9,783	278,710	11,548	9,420
Sampath Bank PLC	41,382	7,220	5,611	41,382	7,220	6,720	41,382	7,220	5,611	41,382	7,220	6,720
Central Finance Company PLC	140,201	16,921	11,637	138,104	16,756	14,363	140,201	16,921	11,637	138,104	16,756	14,363
Sector Total (a)			27,031			30,503			27,031			30,503
Diversified Holdings												
Melstacorp PLC	39,532	2,343	2,056	39,532	2,343	1,720	39,532	2,343	2,056	39,532	2,343	1,720
Sector Total (b)			2,056			1,720			2,056			1,720
Manufacturing												
Tokyo Cement Company (Lanka) PLC	71,002	886	5,410	71,002	886	3,408	71,002	886	5,410	71,002	886	3,408
Royal Ceramics Lanka PLC	50,000	6,067	8,855	50,000	6,067	4,425	50,000	6,067	8,855	50,000	6,067	4,425
Sector Total (c)			14,265			7,833			14,265			7,833
Beverage, Food and Tobacco												
Distilleries Company of Sri Lanka PLC	11,713	-	240	11,713	-	217	11,713	-	240	11,713	-	217
Sector Total (d)			240			217			240			217
Land and Property												
Overseas Realty (Ceylon) PLC	486,679	12,453	7,008	486,679	12,453	7,787	486,679	12,453	7,008	486,679	12,453	7,787
Sector Total (e)			7,008			7,787			7,008			7,787
Total Investment In Equity Shares (AFS) (a+b+c+d+e)			50,600			48,060			50,600			48,060

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS (CONTD.)

10.4 Fair Value Through Profit or Loss (FVTPL)

ACCOUNTING POLICY

INITIAL MEASUREMENT

Financial assets at Fair Value Through Profit or Loss include financial assets held for trading and those designated upon initial recognition at Fair Value Through Profit or Loss. Investments typically bought with the intention to sell in the near future are classified as held for trading.

Financial Instruments classified as FVTPL are initially measured at fair value and transaction cost that are directly attributable to acquisition of such instrument are charged to Profit or Loss.

For investments designated as Fair Value Through Profit or Loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring assets or liabilities or recognising gains or losses on a different basis, or
- Assets and liabilities are part of a Group of financial assets, financial liabilities or both, which are managed and their performance is evaluated on a fair value basis, in accordance with the Group investment strategy.

SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, these investments are re-measured at fair value. Changes in fair value are recorded in 'Fair value gains and losses' in Profit or Loss.

DE-RECOGNITION

Gains and Losses are recognised in Profit or Loss when assets are disposed.

Portfolio of Equity Investments (FVTPL) - Group



As at 31st December,	Note	Group				Company			
		2020		2019		2020		2019	
		Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000	Carrying Value Rs.'000	Fair Value Rs.'000
Equity Shares	10.4.1	100,810	100,810	77,824	77,824	98,587	98,587	77,824	77,824
Investment in Units	10.4.2	842,694	842,694	-	-	601,964	601,964	-	-
Total		943,504	943,504	77,824	77,824	700,551	700,551	77,824	77,824

Fair Value Measurement

The Group measures the fair value using fair value hierarchy which reflects the significance of the level of inputs used in making the fair value measurement which is described in the Note 5.

10.4.1 Equity Shares

As at 31st December,	Group						Company					
	2020			2019			2020			2019		
	No. of Shares	Cost	Carrying/Fair Value	No. of Shares	Cost	Carrying/Fair Value	No. of Shares	Cost	Carrying/Fair Value	No. of Shares	Cost	Carrying/Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000		Rs.'000	Rs.'000		Rs.'000	Rs.'000
Banks, Finance and Insurance												
National Development Bank PLC	-	-	-	3,594	384	358	-	-	-	3,594	384	358
Sampath Bank PLC	64,634	12,527	8,764	64,634	12,527	10,496	64,634	12,527	8,764	64,634	12,527	10,496
Nations Trust Bank PLC	91,471	6,258	5,488	91,471	6,258	7,318	91,471	6,258	5,488	91,471	6,258	7,318
People's Leasing & Finance PLC	513,583	9,067	6,368	490,414	8,773	8,778	513,583	9,067	6,368	490,414	8,773	8,778
Seylan Bank PLC - (Non-Voting)	368,673	11,994	12,535	357,116	11,637	12,071	368,673	11,994	12,535	357,116	11,637	12,071
Sector Total (a)			33,155			39,021			33,155			39,021
Diversified Holdings												
John Keells Holdings PLC	29,670	3,679	4,439	29,670	3,679	4,973	29,670	3,679	4,439	29,670	3,679	4,973
Richard Pieris and Company PLC	312,851	4,351	4,661	312,851	4,351	3,692	312,851	4,351	4,661	312,851	4,351	3,692
Vallibel One PLC	200,000	3,600	5,200	200,000	3,600	3,500	200,000	3,600	5,200	200,000	3,600	3,500
Melstacorp PLC	55,000	3,260	2,860	55,000	3,260	2,393	55,000	3,260	2,860	55,000	3,260	2,393
Sector Total (b)			17,160			14,558			17,160			14,558
Beverage Food and Tobacco												
Distilleries Company of Sri Lanka PLC	22,222	-	456	22,222	-	411	22,222	-	456	22,222	-	411
Sector Total (c)			456			411			456			411
Manufacturing												
Royal Ceramics Lanka PLC	28,000	4,318	4,959	28,000	4,318	2,478	28,000	4,318	4,959	28,000	4,318	2,478
Dipped Products PLC	38,400	11,906	13,338	-	-	-	32,000	9,921	11,115	-	-	-
ACL Cables PLC	95,200	3,016	7,292	95,200	3,016	5,474	95,200	3,016	7,292	95,200	3,016	5,474
Tokyo Cement Company (Lanka) PLC	320,869	11,938	24,450	330,869	12,278	15,882	320,869	11,938	24,450	330,869	12,278	15,882
Sector Total (d)			50,039			23,834			47,816			23,834
Total Investment In Equity Shares (FVTPL) (a+b+c+d)			100,810			77,824			98,587			77,824

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

10. FINANCIAL INVESTMENTS (CONTD.)

10.4.2 Investments in Units

As at 31st December,	Group				Company			
	2020		2019		2020		2019	
	No. of Units	Carrying/ Fair Value Rs.'000	No. of Units	Carrying/ Fair Value Rs.'000	No. of Units	Carrying/ Fair Value Rs.'000	No. of Units	Carrying/ Fair Value Rs.'000
Unquoted								
NDB Wealth Money Plus Fund	9,026,249	211,674	-	-	6,447,170	151,191	-	-
JB Vantage Money Market Fund	7,665,171	210,303	-	-	5,475,641	150,231	-	-
Capital Alliance Investment Grade Fund	10,655,914	210,347	-	-	7,612,082	150,262	-	-
Capital Alliance Income Fund	10,274,098	210,370	-	-	7,339,379	150,280	-	-
Total Investment in Unquoted Units (FVTPL)		842,694		-		601,964		-

10.5 Movement in the Carrying Values of Financial Investments - Group

	Loans and Receivable Rs.'000	Available for Sale Rs.'000	Fair Value Through Profit or Loss Rs.'000	Total Rs.'000
As at 1st January 2019	10,709,515	6,776,591	93,025	17,579,131
Purchases	134,230,460	1,324,485	3,755	135,558,700
Maturities	(130,090,844)	(505,910)	(21,984)	(130,618,738)
Disposals	-	(1,683,542)	(1,377)	(1,684,919)
Fair Value (Losses)/Gains and Foreign Currency Translation Recorded in Profit or Loss	(2,439)	(10,552)	3,528	(9,463)
Amortisation Adjustment/Accrued Interest	(16,206)	(118,346)	-	(134,552)
Realised Gains Recorded in Profit or Loss	-	89,876	877	90,753
Net Fair Value Gains Recorded in Other Comprehensive Income	-	421,162	-	421,162
Total as at 31st December 2019	14,830,486	6,293,764	77,824	21,202,074
As at 1st January 2020	14,830,486	6,293,764	77,824	21,202,074
Purchases	159,639,585	1,017,696	882,576	161,539,857
Maturities	(156,428,562)	(398,714)	-	(156,827,276)
Disposals	-	(360,572)	(31,198)	(391,770)
Fair Value Gains/(Losses) Foreign Currency Translation Recorded in Profit or Loss	6,251	(2,516)	13,962	17,697
Amortisation Adjustment/Accrued Interest	204,414	(88,515)	-	115,899
Realised Gains Recorded in Profit or Loss	-	53,106	340	53,446
Net Fair Value Gains Recorded in Other Comprehensive Income	-	656,681	-	656,681
Total as at 31st December 2020	18,252,174	7,170,930	943,504	26,366,608

10.6 Movement in the Carrying Values of Financial Investments - Company

	Loans and Receivable	Available for Sale	Fair Value Through Profit or Loss	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
As at 1st January 2019	8,728,381	5,872,886	78,439	14,679,706
Purchases	96,785,325	882,044	3,632	97,671,001
Maturities	(93,439,040)	(312,393)	(7,652)	(93,759,085)
Disposals	-	(1,172,174)	(1,377)	(1,173,551)
Fair Value Gains/(Losses) Foreign Currency Translation Recorded in Profit or Loss	17	(9,915)	3,528	(6,370)
Amortisation Adjustment/Accrued Interest	(9,194)	(82,622)	-	(91,816)
Realised Gains Recorded in Profit or Loss	-	68,746	1,254	70,000
Net Fair Value Gains Recorded in Other Comprehensive Income	-	387,525	-	387,525
Total as at 31st December 2019	12,065,489	5,634,097	77,824	17,777,410
As at 1st January 2020	12,065,489	5,634,097	77,824	17,777,410
Purchases	110,625,897	759,782	630,591	112,016,270
Maturities	(107,828,744)	(351,115)	-	(108,179,859)
Disposals	-	(280,155)	(21,112)	(301,267)
Fair Value Gains/(Losses) Foreign Currency Translation Recorded in Profit or Loss	2,509	(2,516)	12,994	12,987
Amortisation Adjustment/Accrued Interest	195,566	(77,201)	-	118,365
Realised Gains Recorded in Profit or Loss	-	44,655	254	44,909
Net Fair Value Gains Recorded in Other Comprehensive Income	-	586,450	-	586,450
Total as at 31st December 2020	15,060,717	6,313,997	700,551	22,075,265

11. INVESTMENT IN SUBSIDIARY - COMPANY

ACCOUNTING POLICY

Recognition and measurement

Subsidiaries are entities controlled by the Group. The Group "controls" an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date on which control commenced until the date on which control ceases.

Investments in subsidiaries are recognised at cost of acquisition and thereafter it is carried at cost less any impairment losses in the separate Financial Statements of the Company. The net assets of each subsidiary are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its net assets loss.

As at 31st December,		2020			2019		
Unquoted	Principal Activity	No of Shares	Holding	Cost	No of Shares	Holding	Cost
				Rs.'000			Rs.'000
HNB General Insurance Limited	General Insurance Business	115,000,000	100%	1,150,000	115,000,000	100%	1,150,000
Total Investment In Subsidiary				1,150,000			1,150,000

The Company incorporated a fully owned Subsidiary, HNB General Insurance Limited on 30th January 2014 in order to transfer the General Insurance business w.e.f. 1st January 2015 to be in line with the requirement to segregate Life and General Insurance businesses as required by the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011.

11.1 Impairment of Investment in Subsidiary

The Board of Directors has assessed the potential impairment loss of Investment in Subsidiary as at 31st December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of such investment.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

12. LOANS TO LIFE POLICYHOLDERS

ACCOUNTING POLICY

Policyholder Loans are recognised as a financial asset and categorised in the category of Loans and Receivables. Please refer Note 10.2 of page 265 for Accounting Policy of Loans and Receivables.

Policyholder Loans are granted up to 90% of the surrender value of a Life Insurance Policy at a rate equivalent to market rate. Policyholder Loans are initially measured at Fair value of loan amount granted and subsequently measured at the amortised cost. If the policyholder demises before the full repayment of the loan, the loan balance is deducted from the death benefit. If the total receivable of the loan, including interest due and accrued, exceeds the cash surrender value, the policy terminates and becomes void. The Company has a first lien on all policies which are subject to Policy Loans. Policyholder Loans are reviewed for impairment at each reporting date.

As at 31st December,	Group/Company	
	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January	269,579	200,951
Loans Granted during the Year	120,711	148,357
Repayments during the year	(86,809)	(79,729)
Balance as at 31st December	303,481	269,579
Interest Receivable	76,255	55,728
Total Loans to Life Policyholders	379,736	325,307

12.1 Maturity Analysis of Loans to Life Policyholders is given in Note 47 on page 320.

12.2 Collateral Details

The surrender value of the policies for which Policyholder Loans have been granted as at 31st December 2020 amounted to Rs. 626.7 Million (2019 - Rs. 529.9 Million).

12.3 Number of Policyholder Loans

Number of Policy Loans due as at 31st December 2020 was 3,652 (2019 - 3,546).

12.4 Fair Value Measurement

The Company Grants Policy Loans at a rate equivalent to the market rate; hence carrying amount is a reasonable approximation of fair value.

12.5 Impairment Losses on Loans to Life Policyholders

Policyholder Loans are reviewed for impairment at each reporting date. The Board of Directors has assessed the potential impairment loss of Loans to Life Policyholders as at 31st December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Policyholders Loans.

12.6 Financial Risk Disclosure on Policyholder Loans

The Group's exposure to interest rate risk of policyholder loans, risk management initiatives and a sensitivity analysis is disclosed in Note 4 of these financial statements.

13. REINSURANCE RECEIVABLES

ACCOUNTING POLICY

Reinsurance Receivables are recognised as a financial asset and categorised in the category of Loans and Receivables. Please refer Note 10.2 of page 265 for Accounting policy of Loans and Receivables.

The Group cedes insurance risk in the normal course of business with recognised reinsurers through formal reinsurance arrangements.

Reinsurance receivables include the balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Gross Reinsurance is recorded in the Statement of Financial Position unless a right to offset exists.

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

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

Reinsurance assets are de-recognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Reinsurance Receivable on Outstanding Claims	13.3	491,630	343,554	35,129	65,275
Reinsurance Receivable on Settled Claims	13.4	280,146	301,857	137,570	79,440
Total Reinsurance Receivables		771,776	645,411	172,699	144,715

13.1 Maturity Analysis of Reinsurance Receivable is given in Note 47 on page 320.

13.2 Collateral Details

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

13.3 Reinsurance Receivables on Outstanding Claims

The reinsurance portion of the outstanding claims has not been materialised, since the insurance claim has not been paid as at the reporting date.

13.4 Reinsurance Receivable on Settled Claims

The age analysis of the reinsurance receivable on settled claims is as follows:

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Up to 30 days	50,028	71,055	9,049	6,392
31 to 60 days	22,310	30,736	2,865	9,237
61 to 90 days	44,657	78,787	24,407	29,439
91 to 180 days	40,794	57,900	26,098	25,442
181 to 365 days	59,653	47,259	30,081	8,930
Over 365	62,704	16,120	45,070	-
Total	280,146	301,857	137,570	79,440

13.5 Fair Value Measurement

The carrying value of reinsurance receivables approximates the fair value at the reporting date.

13.6 Impairment Losses on Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of reinsurance receivables as at 31st December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

13. REINSURANCE RECEIVABLES (CONTD.)

13.6.1 Reinsurance Receivables Past Due but Not Impaired (On Settled Claims)

As at 31st December 2020, Reinsurance Receivables of the Group and Company amounted to Rs. 63 Million and Rs. 45 Million were past due but not impaired respectively (2019 - Group - Rs. 16 Million/Company - Nil). These relate to parties where there was no recent history of default.

13.7 Financial Risk Disclosure on Reinsurance Receivables

Refer Note 4 (Page 214) for Group's exposure to credit risk of reinsurance receivables and risk management initiatives.

14. PREMIUM RECEIVABLES

ACCOUNTING POLICY

Premium Receivables are recognised as a financial asset and categorised in the category of Loans and Receivables. Please refer Note 10.2 of page 265 for Accounting policy of Loans and Receivables.

Premium Receivables are recognised when due and measured on initial recognition at the fair value of the consideration receivable. The carrying value of Premium Receivable is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Impairment losses on premium receivables are the difference between the carrying amount and the present value of the estimated discounted cash flows. The impairment losses are recognised in Profit or Loss.

Life Insurance premiums for policies within the 30-day grace period are considered as due premium, subject to a provision for premium default. Premium Default Ratio is computed by analysing the default history. Premium will be reversed if those premiums are not settled during the subsequent month, and thus the policies will be lapsed as per the Company policy.

Insurance receivables from General Insurance are recognised when due and measured on initial recognition at the fair value of the consideration receivable. Collectability of premiums is reviewed on an ongoing basis.

According to the Premium Payment Warranty (PPW) ruling issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL), all General Insurance policies are issued subject to PPW and are cancelled upon the expiry of 60-days if not settled.

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Premium Receivable From;					
Life Insurance					
Policyholders		10,007	15,509	10,007	15,509
Impairment loss on Premium Default		(5,019)	(6,051)	(5,019)	(6,051)
		4,988	9,458	4,988	9,458
General Insurance					
Policyholders		545,523	498,740	-	-
Related Parties	14.1	1,004	52,936	-	-
Agents, Brokers and Intermediaries		560,079	385,516	-	-
		1,106,606	937,192	-	-
Total	14.2	1,111,594	946,650	4,988	9,458

14.1 Premium Receivable from Related Parties

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
General Insurance				
Hatton National Bank PLC	56	40,802	-	-
HNB Finance PLC	397	63	-	-
Sithma Development (Pvt) Ltd	-	11,502	-	-
Acuity Stockbrokers (Pvt) Ltd	83	59	-	-
Acuity Partners (Pvt) Ltd	304	360	-	-
Acuity Securities Ltd	164	150	-	-
Total	1,004	52,936	-	-

14.2 Age Analysis of Premium Receivables

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Life Insurance				
Up to 30 days	4,988	9,458	4,988	9,458
General Insurance				
Up to 30 days	807,974	619,173	-	-
31 to 60 days	298,632	318,019	-	-
Total Premium Receivables	1,111,594	946,650	4,988	9,458

14.3 Maturity Analysis of Premium Receivable is given in Note 47 on page 320.

14.4 Collateral Details

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

14.5 Fair Value Measurement

Carrying value of premium receivable is approximation of fair value due to short-term nature.

14.6 Impairment Losses on Premium Receivables

The Board of Directors has assessed potential impairment loss of Premium Receivable as at 31st December 2020. Since the subsidiary company has adopted the Premium Payment Warranty (PPW) ruling issued by Insurance Regulatory Commission of Sri Lanka, no long outstanding balances are left in Premium Receivables. Thus, there is no need for an additional impairment loss provision other than amounts provided.

14.7 Financial Risk Disclosure on Premium Receivables

Refer Note 4 (Page 214) for Group's exposure to credit risk of Premium Receivables and risk management initiatives.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

15. OTHER ASSETS

ACCOUNTING POLICY

STAFF AND ADVISOR LOANS

Staff Loans and Advisor Loans are recognised as financial assets and categorised in the category of Loans and Receivables. Please refer Note 10.2 of page 265 for Accounting policy of Loans and Receivables.

Loans are granted as a benefit to Staff and Advisors subject to defined eligibility criteria. These are measured at amortised cost based on the prevailing interest rates at the loan grant date. Impairment test of loans are carried out when the indicators of impairment exist.

INVENTORIES

Inventories include all consumable items which are stated at lower of cost and net realisable value.

OTHER ASSETS

All Other Assets including Receivables and dues from Related Parties are recognised at cost less accumulated impairment losses.

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Financial Assets					
Staff and Advisor Loans	15.2	449,423	458,971	248,130	266,065
Amounts due from Related Parties- HNB General Insurance Limited		-	-	7,286	21,344
Co - Insurance Receivables		8,216	6,142	-	-
Total Financial Assets (a)		457,639	465,113	255,416	287,409
Non-Financial Assets					
Advance Payments		165,095	159,409	108,075	117,858
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	15.3	227,331	293,722	211,175	209,899
Inventories		3,610	4,306	1,652	2,583
Other Receivables		10,739	11,083	6,003	7,750
Total Non-Financial Assets (b)		406,775	468,520	326,905	338,090
Total Other Assets (a+b)		864,414	933,633	582,321	625,499

15.1 Maturity Analysis of Other Assets is given in Note 47 on page 320.

Other Assets Composition - Group



15.2 Staff and Advisor Loans

Loans to Staff and Advisor portfolio mainly consists of vehicle loans (95%) which are given to selected categories of Staff and Advisors. These loans are secured with guarantors, mortgage or promissory note. Movement of these loans are given in below table.

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Staff Loans	15.2.a	405,961	397,751	208,639	209,915
Advisor Loans	15.2.b	43,462	61,220	39,491	56,150
Total		449,423	458,971	248,130	266,065

15.2.a Staff Loans

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January		388,050	359,675	205,254	207,888
Loans granted during the year		193,846	206,246	94,930	98,478
Loans Recovered during the year		(184,493)	(177,871)	(97,525)	(101,112)
		397,403	388,050	202,659	205,254
Allowance for Impairment Losses	15.2.a.2	(6,287)	(3,256)	(2,400)	(1,506)
Fair Value Adjustment on Staff Loan		14,845	12,957	8,380	6,167
Balance as at 31st December		405,961	397,751	208,639	209,915

15.2.a.1 No loans have been granted to the Directors of the Group.

15.2.a.2 Impairment Movement of Staff Loans

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January	(3,256)	(7)	(1,506)	-
Allowance for Impairment Losses	(3,031)	(3,249)	(894)	(1,506)
Balance as at 31st January	(6,287)	(3,256)	(2,400)	(1,506)

15.2.b Advisor Loans

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January		60,261	68,333	55,006	63,761
Loans granted during the year		55,590	62,816	51,378	58,014
Loans Recovered during the year		(71,602)	(70,888)	(66,215)	(66,769)
		44,249	60,261	40,169	55,006
Allowance for Impairment Losses	15.2.b.1	(753)	(700)	(720)	(667)
Fair Value Adjustment on Advisor Loan		(34)	1,659	42	1,811
Balance as at 31st December		43,462	61,220	39,491	56,150

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

15. OTHER ASSETS (CONTD.)

15.2.b.1 Impairment Movement of Advisor Loans

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January	(700)	(570)	(667)	(537)
Allowance for Impairment Losses	(53)	(130)	(53)	(130)
Balance as at 31st January	(753)	(700)	(720)	(667)

15.2.c Fair Value Measurement

The carrying value of the Staff and Advisor loans has been computed based on the market interest rates which prevailed at the time of granting such loan, and the fair value of the same has been computed based on the interest rates prevailed as at the reporting date.

15.2.d Impairment Losses on Staff and Advisor Loans

The Board of Directors has assessed potential impairment loss of Staff and Advisor loans as at 31st December 2020. Based on the assessment, no additional impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Staff and Advisor loans, other than the amounts provided.

15.2.e Collateral Details

Loans of Staff and Advisor portfolio mainly consists of vehicle loans which are given to selected categories of Staff and Advisors. These loans are secured with guarantors, mortgage or promissory note.

15.2.f Financial Risk Disclosure on Staff and Advisor Loans

Refer Note 4 (Page 265) for Group's exposure to credit risk of Staff and Advisor Loans and risk management initiatives.

15.3 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Withholding Tax Recoverable		225,924	235,798	209,768	208,326
Value Added Tax Recoverable		1,407	1,573	1,407	1,573
ESC Recoverable		-	30,059	-	-
Notional Tax on Government Securities	15.3.a	-	26,292	-	-
Balance as at 31st December		227,331	293,722	211,175	209,899

15.3.a Notional Tax on Government Securities

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Notional Tax Credit as at 1st January	277,299	292,007	251,007	265,715
Notional tax utilised during the year	(42,467)	(14,708)	(16,175)	(14,708)
Notional Tax Credit as at 31st December	234,832	277,299	234,832	251,007
Provision for irrecoverable Notional Tax Credit as at 1st January	251,007	265,715	251,007	265,715
Reversal of over Provision for irrecoverable Notional Tax Credit	(16,175)	(14,708)	(16,175)	(14,708)
Provision for irrecoverable Notional Tax Credit as at 31st December	234,832	251,007	234,832	251,007
Carrying Value of Notional Tax Credit as at 31st December	-	26,292	-	-

15.4 The Value of inventories written off by the Group and Company as an expense amounted to Rs. 0.6 Million for the Financial Year 2020. (2019 - Nil)

16. INSURANCE CONTRACT - DEFERRED EXPENSES

ACCOUNTING POLICY

DEFERRED ACQUISITION COSTS (DAC)

The direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred and amortised over the period in which the related revenues are earned. All other acquisition costs are recognised as an expense when incurred.

The DAC is applicable only to General Insurance Contracts. No DAC is calculated for Life Insurance Contracts as the acquisition costs are incurred in line with the revenue earned.

In accordance with the available regulatory guidelines of the IRCSL, the DAC is calculated based on the 1/24th basis except for the Marine policies which are computed on a 60-40 basis.

The DAC for reinsurers is amortised in the same manner as the underlying asset and amortisation is recorded in the statement of Profit or Loss.

An impairment review of DAC is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in Profit or Loss.

DAC is de-recognised when the related contracts are either settled or cancelled.

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Reserve for Net Deferred Acquisition Expenses					
Reserve for Deferred Acquisition Expenses					
Balance as at 1st January		237,571	220,345	-	-
Increase in Deferred Acquisition Expenses	43.1	16,015	17,226	-	-
Balance as at 31st December (a)		253,586	237,571	-	-
Reserve for Deferred Reinsurance Commission					
Balance as at 1st January		(98,949)	(79,859)	-	-
Decrease/(Increase) in Deferred Reinsurance commission	43.1	8,982	(19,090)	-	-
Balance as at 31st December (b)		(89,967)	(98,949)	-	-
Total Insurance Contract - Deferred Expenses (a+b)		163,619	138,622	-	-

16.1 Maturity Analysis of Deferred Expenses is given in Note 47 on page 320.

16.2 Impairment of Deferred Expenses

The Board of Directors has assessed potential impairment loss of deferred expenses as at 31st December 2020. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

17. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and Cash Equivalents comprise cash in hand, cash at bank, 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, which form an integral part of cash management, are included as a component of Cash and Cash Equivalents in the Statement of Cash Flows. In the Statement of Financial Position, bank overdrafts are included under liabilities.

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
17.1 Cash and Cash Equivalents				
Cash in Hand	2,463	2,283	1,696	1,533
Cash at Bank with Related Parties - Hatton National Bank PLC	684,642	500,179	382,135	277,235
Cash at Bank with Related Parties - HNB Finance PLC	66	311	66	311
Cash at Bank with Other Licensed Commercial Banks & Financial institutions	23,940	10,784	9,625	1,347
	711,111	513,557	393,522	280,426
Short Term Deposits				
Short term Deposits with Commercial Banks and Financial institutions	-	352,286	-	352,286
Total Cash and Cash Equivalents (a)	711,111	865,843	393,522	632,712
17.2 Bank Overdraft				
Bank Overdraft with Related Parties - Hatton National Bank PLC	(124,305)	(130,636)	(53,904)	(31,050)
Total Bank Overdraft (b)	(124,305)	(130,636)	(53,904)	(31,050)
Total Cash and Cash Equivalents in Statement of Cash flows (a+b)	586,806	735,207	339,618	601,662

17.3 Maturity Analysis of Cash and Cash Equivalents is given in Note 47 on page 320.

17.4 Cash Pledged as Security for Liabilities

Company

The Company has obtained a Bank Guarantee facility from Hatton National Bank PLC for sum of Rs. 26.69 Million (2019: Rs. 18.79 Million), being the 25% of sum assessed by the Commissioner General of Inland Revenue. This facility was secured by 100% cash margin lying to the credit in the account No. 701020065023. Details of Bank Guarantees are as follows,

Underline Assessment	Year of Assessment	Guarantee Period	Guarantee Amount RS. '000
VAT on Financial Services	2014/2015	30.11.2020 - 01.09.2021	7,898
Income Tax	2013/2014	01.05.2020 - 31.01.2021	18,793
Total			26,691

Subsidiary

The subsidiary company has obtained performance bond for sum of Rs. 0.9 Million (2019: Rs. 0.6 Million) and bid bonds for sum of Rs. 3.1 Million (2019: Rs. 3.1 Million) from Hatton National Bank PLC. This was secured by equivalent cash margin lying to the credit in the account No. 701020060189.

18. STATED CAPITAL

ACCOUNTING POLICY

The Company has issued Ordinary shares that are classified as equity instruments. Ordinary shares of the Company are recognised at the amount paid per ordinary share net of directly attributable issue cost.

	No. of Shares	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January	50,000,000	1,171,875	1,171,875	1,171,875	1,171,875
Balance as at 31st December	150,000,000	1,171,875	1,171,875	1,171,875	1,171,875

The Stated Capital of the Company as at 31st December 2020 was Rs. 1,171,875,000 comprising 150,000,000 fully paid ordinary shares. (2019: Stated Capital - Rs. 1,171,875,000, No. of Shares – 50,000,000).

At the meeting of the Board of Directors of the Company held on 5th November 2020, the Board of Directors approved a subdivision of the Company shares, whereby one (1) existing share was subdivided to three (3), thereby increasing the ordinary shares in issue from 50,000,000 to 150,000,000 ordinary shares. This has not altered the stated capital of the Company. Subdivision was based on the shareholding as at end of trading on 1st December 2020.

18.1 Rights of Ordinary Shareholders

The shares of HNB Assurance PLC are quoted in the Colombo Stock Exchange-Main Board. All issued shares are fully paid. The Ordinary Shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the members of the Company.

19. RETAINED EARNINGS

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January		4,965,809	4,405,581	4,544,369	4,167,660
Profit for the Year		1,175,223	1,010,228	723,945	826,709
Dividend Paid to Equity Holders	46	(300,000)	(450,000)	(300,000)	(450,000)
Balance as at 31st December		5,841,032	4,965,809	4,968,314	4,544,369

20. AVAILABLE FOR SALE RESERVE

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January	24,801	(8,025)	9,881	1,451
Other Comprehensive Income for the Year	649,658	411,921	586,450	387,525
Transferred to Life Policyholders Reserve Fund	(580,705)	(379,095)	(580,705)	(379,095)
Balance as at 31st December	93,754	24,801	15,626	9,881

20.1 Nature and Purpose of Reserve

Available For Sale Reserve comprise of the impact arising from the changes in market values of financial assets classified under the category of Available For Sale.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

21. OTHER RESERVE

	Group		Company	
	2020	2019	2020	2019
As at 31st December,	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1st January	(6,525)	(4,406)	(6,514)	(4,395)
Actuarial Losses - Gratuity	(44,995)	(2,119)	(27,402)	(2,119)
Balance as at 31st December	(51,520)	(6,525)	(33,916)	(6,514)

21.1 Nature and Purpose of Reserve

Other Reserves comprises of the actuarial gains/(losses) arising from valuation of gratuity liability as required by LKAS 19 - "Employee Benefits".

22. LIFE POLICYHOLDERS' AVAILABLE FOR SALE RESERVE FUND

	Group		Company	
	2020	2019	2020	2019
As at 31st December,	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1st January	177,228	(201,867)	177,228	(201,867)
Other Comprehensive Income for the Year	580,705	379,095	580,705	379,095
Balance as at 31st December	757,933	177,228	757,933	177,228

22.1 Nature and Purpose of Reserve

The Life Policyholders' Available For Sale Reserve Fund includes the fair value gains/(losses) recorded under Other Comprehensive Income arising from life insurance related financial assets categorised under Available For Sale.

23. RESTRICTED REGULATORY RESERVE

	Group		Company	
	2020	2019	2020	2019
As at 31st December,	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 31st December	381,156	381,156	381,156	381,156

23.1 Surplus Created due to Change in Valuation Method

As required by the IRCSL, every registered insurer was required to apply Solvency Margin (Risk-Based Capital) Rules with effect from 1st January 2016. According to the Risk-Based Capital rules, all Insurers are required to value Life Insurance Policy Liabilities as per the Gross Premium Valuation (GPV) method and valuation rules and methodologies stipulated by the IRCSL. The change in the valuation method from NPV to GPV resulted in a release in Life Policyholder Liabilities of the Company as of 1st January 2016.

The IRCSL had directed insurance Companies to maintain this One-off Surplus arising from change in the policy liability valuation within the Long Term Insurance Fund/Insurance Contract Liabilities separately in the name of "Surplus created due to change in valuation method from NPV to GPV" and not to transfer/distribute any part of the surplus until specific instructions are issued in this regard.

Description	Participating Fund	Non - Participating Fund	Total
	Rs.'000	Rs.'000	RS. '000
Value of Insurance contract liability based on NPV as at 31st December 2015 (a)	2,988,500	3,856,964	6,845,464
Value of Insurance contract liability based on GPV 31st December 2015 (b)	3,015,001	3,475,808	6,490,809
Zeroisation of Negative Surplus as per Direction No.16 (c)	26,501	-	26,501
Surplus Created due to Change in Valuation Method - One-Off Surplus as at 1st January 2016 (a-b+c)	-	381,156	381,156

Subsequently the IRCSL, through the Direction No 16 issued on 20th March 2018 on "Directions for identification and treatment of One-Off Surplus" Life Insurance Companies were directed to Transfer One-Off Surplus attributable to Policyholders' Non-Participating Fund to Shareholders' Fund in the relevant period. The transfer has been presented as a separate line item in the Profit or Loss as "Change in contract Liability due to transfer of One-Off Surplus" and as a separate reserve in the Statement of Financial Position as "Restricted Regulatory Reserve" under Equity in accordance with Direction. As required by the said Direction, the Company received the approval of the IRCSL for this transfer on 11th May 2018.

Further, distribution of One-Off Surplus to shareholders, held as part of the Restricted Regulatory Reserve, is subject to meeting governance requirements stipulated by the IRCSL and can only be released as dividends upon receiving approval from the IRCSL. The One-Off Surplus in the Shareholders' Fund will remain invested in Term deposits as disclosed in Note No. 23.2 as per the directions of IRCSL.

The Financial ratios presented in these Annual Financial Statements have been determined in accordance with Sri Lanka Accounting Standards. Additionally, the Company has voluntarily presented financial ratios without one-off surplus impact. As per the Direction One-Off Surplus in respect of participating business is to be held within the participating fund as part of the unallocated valuation surplus and may only be transferred to the Shareholders' Fund by means of bonuses to policyholders in line with Section 38 of the "Regulation of Insurance Industry, Act No. 43 of 2000".

23.2 Composition of Investments Supporting the Restricted Regulatory Reserve

Based on the Direction issued by IRCSL following Instruments have been marked to support the Restricted Regulatory Reserve of the Company.

As at 31st December,	Group/Company	
	2020 Fair Value Rs.'000	2019 Fair Value Rs.'000
Asset Category		
Term Deposits	384,662	383,260

23.3 Distribution of One-Off Surplus

The IRCSL will consider the distribution of One-Off Surplus when the RBC rules are revised. The distribution of One-Off Surplus to shareholders as dividends shall remain restricted until a Company develops appropriate policies and procedures for effective management of its business, as listed below. Further these policies should be approved by the Board of Directors of the Company and must also comply with any relevant guidance issued by the IRCSL from time to time.

- Expense allocation policy setting out basis of allocation of expenses between the Shareholders' Fund and the Policyholders' Fund as well as between different lines of business within the Policyholders' Fund, particularly Participating and Non-participating.
- Dividend declaration policy for universal life business.
- Bonus policy for the participating business, which should include treatment of One-Off Surplus for the purpose of bonus declaration.
- Asset Liability Management policy
- Policy on internal target Capital Adequacy Ratio.
- Considerations for transfer of funds from Policyholders' Fund to Shareholders' Fund.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE

ACCOUNTING POLICY

INSURANCE PROVISION - LIFE INSURANCE

BASIS OF RECOGNITION AND MEASUREMENT

Life Insurance Contract Liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future benefits, the expected future management and distribution expense, less the present value of future gross premiums arising from the policy discounted at the appropriate discount rate as specified by the Insurance Regulatory Commission of Sri Lanka. The liability is based on best estimate assumptions and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is included in the valuation.

Refer Note 2.2.3.6 and 2.6 for accounting policies on Discretionary participation features (DPF) and product classifications respectively.

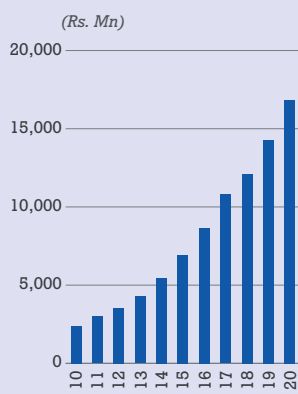
DE-RECOGNITION

The liability is de-recognised when the contract expires, discharged or cancelled. At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, by using a liability Adequacy Test.

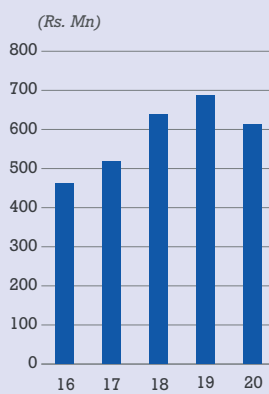
LIABILITY ADEQUACY TEST (LAT)

As required by SLFRS 4 - Insurance Contracts, the Company performed a Liability Adequacy Test (LAT) in respect of Life Insurance Contract Liabilities with the assistance of an External Actuary. In performing the LAT, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. Number of valuation techniques are applied including discounting cash flows, interest rate applied is based on the management's expectation of current market interest rates. The liability value is adjusted to the extent that it is sufficient to meet future benefits and expenses.

Insurance Contract Liabilities - Life Fund



Surplus Distribution to Shareholders



As at 31st December,	Note	Group/Company					
		2020			2019		
		Participating	Non - Participating	Total	Participating	Non - Participating	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
Insurance Contract Liabilities							
Life Insurance Fund	24.1	4,301,910	12,531,140	16,833,050	4,492,435	9,776,747	14,269,182
Claims Outstanding		62,823	168,216	231,039	34,589	160,763	195,352
Total Insurance Contract Liabilities - Life Insurance		4,364,733	12,699,356	17,064,089	4,527,024	9,937,510	14,464,534

24.1 Life Insurance Fund - Composition and Movement

As at 31st December,	Note	2020			2019		
		Gross Insurance Contract Liabilities	Reinsurance	Net Insurance Contract Liabilities	Gross Insurance Contract Liabilities	Reinsurance	Net Insurance Contract Liabilities
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01st January		14,450,559	(181,377)	14,269,182	12,248,595	(136,489)	12,112,106
Premiums received/Reinsurance expenses		5,487,039	(265,164)	5,221,875	5,175,044	(240,974)	4,934,070
Liabilities released for payments on Death Surrender and Other terminations in the year		(1,556,535)	62,354	(1,494,181)	(1,493,812)	155,797	(1,338,015)
Net Finance and Other Income		1,811,515	9,022	1,820,537	1,645,401	24,395	1,669,796
Expenses		(2,375,545)	15,686	(2,359,859)	(2,421,078)	15,894	(2,405,184)
Increase in Life Insurance Fund Before Surplus Distribution to Shareholders		3,366,474	(178,102)	3,188,372	2,905,555	(44,888)	2,860,667
Surplus Distributed to Shareholders		(612,203)	-	(612,203)	(687,416)	-	(687,416)
Increase in Life Insurance Fund		2,754,271	(178,102)	2,576,169	2,218,139	(44,888)	2,173,251
Effect of Taxation on surplus/Bonus transferred to Policyholders	24.4	(12,301)	-	(12,301)	(16,175)	-	(16,175)
Balance as at 31st December		17,192,529	(359,478)	16,833,050	14,450,559	(181,377)	14,269,182

24.2 Maturity Analysis of Life Insurance Fund is given in Note 47 on page 320.

24.3 Valuation of Life Insurance Fund

The valuation of the Life Insurance Fund as at 31st December 2020 was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of Messrs. Actuarial Partners Consulting Sdn Bhd. Valuation of Life Insurance Fund is performed on a semi-annual basis. According to the appointed Actuary's report, the reserve for the year amounted to Rs. 16,779 Million (2019 - Rs. 14,083 Million). In opinion of the appointed Actuary, the reserve is adequate to cover the liabilities pertaining to the Life Insurance Fund.

As recommended by the Consultant Actuary a sum of Rs. 612.2 Million (2019 - Rs. 687.4 Million) has been transferred from the Life Insurance Fund to the Shareholders' Fund for the year 2020. Refer paragraph 5 of the Actuarial report provided in page 189.

24.4 Effects of Taxation on Surplus/Bonus Transferred to Policyholders

According to the section 67 (2) of Inland Revenue Act No. 24 of 2017 which was effective from 1st April 2018, the surplus distributed to a life insurance policyholder who shares the profit of a person engaged in the business of life insurance, as provided in the Regulation of Insurance Industry Act No. 43 of 2000, shall be deemed as gains and profits of the business and shall be taxed at a concessionary rate of 14% for three years of assessment after the commencement of the Act. As recommended by the Consultant Actuary, (refer paragraph 5 of the Actuarial report provided in page 189) the Company declared a bonus of Rs. 87.9 Million (2019- Rs. 115.5 Million) to Life Insurance policyholders, participating in the profits of the Life Insurance business. The Company has charged a tax of Rs. 12.3 Million (2019 - Rs. 16.2 Million) on the said bonus which is payable to the Department of Inland Revenue as of the reporting date. Refer paragraph 6 of the Actuarial report provided in page 189.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

24. INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE (CONTD.)

24.5 Liability Adequacy Test (LAT)

A Liability Adequacy Test (LAT) for Life Insurance Contract Liability was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of Messers Actuarial Partners Consulting Sdn Bhd, as at 31st December 2020 as required by SLFRS 4 - Insurance Contracts. When performing the LAT, the Company discounted all contractual cash flows and compared this amount with the carrying value of the liability. According to the Consultant Actuary's Report, assets are sufficiently adequate as compared to the discounted cash flow reserves. No additional provision was required against the LAT as at 31st December 2020. Refer paragraph 4 of Actuarial Report provided by the Consultant Actuary for LAT in page 189.

24.6 Methodology used in determination of Market Value of Liability

A discounted cash flow approach, equivalent to a gross premium valuation methodology, has been used for calculating the liabilities for the existing business as at 31st December 2020. Gross and net of reinsurance liabilities have been calculated as required in the RBC submission template. In determining the policy liabilities provisions for reinsurance have been allowed for according to the applicable reinsurance terms as per the current agreements.

In accordance with the RBC guidelines, negative policy reserves for long term insurance contracts are acceptable and the value of the liabilities held have been floored to zero at a policy level for Privileged Life, riders attaching to Privileged Life product, Supreme Health Max rider and Super CI rider attaching to all base products.

There are no implicit or explicit surrender value floor has been assumed for the value of liabilities for a contract. Instead, in accordance with the guidelines, the impact of surrender value deficiency is captured in the risk charge capital calculation through the Surrender Value Capital Charge (SVCC).

24.6.1 Details of calculation of policy liability and net cash flows are provided in following table for each class of products;

Details of product category	Basis of determinants of policy liability	Basis of calculating Net Cash flows
Individual traditional Non-Participating products	Discounting "Net Cash Flows" at the risk-free interest rate curve	Future Premium Income (-) Death benefit Outgo (+) Rider benefit Outgo (+) Surrender benefit Outgo (+) Maturity benefit Outgo (+) Commission Expense Outgo (+) Policy Expense Outgo (+) Reinsurance Recoveries (-) Reinsurance Premium Outgo (+) Reinsurance Commission (-) Net cash flows = sum of above
Individual traditional Participating products	Max (Guaranteed benefit liability, Total benefit liability)	Same as above
individual universal Non-Participating products	Privileged Life Product-Discounting "Net Cash Flows" at the risk free interest rate curve Products except Privileged Life-Max(Discounting "Net Cash Flows" at the risk-free interest rate curve, Fund Value)	Future Premium Income (-) Death benefit Outgo inclusive of dividend accumulations (+) Rider benefit Outgo (+) Surrender benefit Outgo inclusive of dividend accumulations (+) Maturity benefit Outgo inclusive of dividend accumulations (+) Commission Expense Outgo (+) Policy Expense Outgo (+) Reinsurance Recoveries (-) Reinsurance Premium Outgo (+) Reinsurance Commission (-) Net cash flows = sum of above
Group Traditional Non-participating products	Policy liability has been set equal to UPR	Not Applicable

24.7 Key Assumptions Used in determinations of Best Estimate Liability (BEL)

Details of key assumptions used and basis of arriving for the same are summarised in following table;

Assumption	Basis of Estimation																						
Economic Assumption																							
Risk Free Rate	The risk free rates have been set based on Sri Lankan Government Bond yields issued by IRCSL for the industry as at 31st December 2020.																						
	<table border="1"> <thead> <tr> <th>Year</th> <th>Spot Rate</th> </tr> </thead> <tbody> <tr><td>1</td><td>4.97%</td></tr> <tr><td>2</td><td>5.80%</td></tr> <tr><td>3</td><td>6.17%</td></tr> <tr><td>4</td><td>6.56%</td></tr> <tr><td>5</td><td>6.92%</td></tr> <tr><td>6</td><td>6.93%</td></tr> <tr><td>7</td><td>7.10%</td></tr> <tr><td>8</td><td>7.17%</td></tr> <tr><td>9</td><td>8.08%</td></tr> <tr><td>10</td><td>8.36%</td></tr> </tbody> </table>	Year	Spot Rate	1	4.97%	2	5.80%	3	6.17%	4	6.56%	5	6.92%	6	6.93%	7	7.10%	8	7.17%	9	8.08%	10	8.36%
Year	Spot Rate																						
1	4.97%																						
2	5.80%																						
3	6.17%																						
4	6.56%																						
5	6.92%																						
6	6.93%																						
7	7.10%																						
8	7.17%																						
9	8.08%																						
10	8.36%																						
Participating Fund Yield	Based on the weighted average of projected asset mix and based on the expected yields for various asset types.																						
Operating Assumptions																							
Mortality Rate	Derived from the Industry mortality table SLA07/09																						
Morbidity Rates	The morbidity rates have been set based on loss ratios whereby loss ratio is calculated as computing the actual/expected experience for riders																						
Expenses	Based on the Expense investigation carried out as at 30th September 2020 based on the expenses incurred during October 2019 to September 2020. For the purpose of the expense study, a functional split of expenses between acquisition or maintenance costs have been done on the basis of inputs from various department heads of each cost Centre to determine a reasonable activity-based split of expense. These have been further identified as either fixed or variable based on the nature of expenses to determine a unit cost loading for use in the valuation.																						
Expense inflation	This is derived based on the weighted salary increment experience and the CPI inflation for non-salary expense items.																						
Bonus Rates	Bonus rate scale assumption has been arrived based on bonus declared as at 31st December 2020, based on the Company management's views on policyholder reasonable expectations. This assumes that Company is at least expecting to maintain the current bonus levels into the future.																						
Lapse Ratio	Policies which do not have premium payment up to date after the grace period are considered as lapsed. The lapse rates are derived based on the latest complete year of experience.																						

24.8 Sensitivity Analysis

Sensitivity Analysis of Life Insurance Contract Liability is provided in Note 4.

24.9 Solvency Margin

As per the Report of the Life Actuary, the Company's Capital Adequacy Ratio (CAR) is 338% (2019 - 322%), well above the minimum requirement of 120%. Refer paragraph 3 of the Actuarial report provided in page 189.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE

ACCOUNTING POLICY

BASIS OF RECOGNITION AND MEASUREMENT

General Insurance Contract Liabilities are recognised when contracts are entered into and premiums are charged. These liabilities comprise claims liabilities and premium liabilities.

CLAIMS LIABILITIES

Claims Liabilities are recognised in respect of both with reinsurance and without reinsurance. Claims liabilities refer to the obligation of the insurance company, whether contractual or otherwise to make future payments in relation to all claims that have been incurred as at valuation date. This include provision for claims reported, claims incurred but not reported (IBNR) and claims incurred But not enough reported (IBNER) together with related claims handling costs.

PREMIUM LIABILITIES

Premium Liabilities are the higher of the aggregate of the Unearned Premium Reserve (UPR) and the best estimate value of the insurer's Unexpired Risk Reserves (URR) at the valuation date and the Provision of Risk Margins for Adverse Deviation (PRAD) calculated at line of business level.

The provision for unearned premium represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income.

LIABILITY ADEQUACY TEST (LAT)

As required by SLFRS 4 - "Insurance Contracts", the Group performs a Liability Adequacy Test (LAT) in respect of General Insurance Contract Liabilities with the assistance of the External Actuary.

TITLE INSURANCE RESERVE

Title Insurance reserve is maintained by the Group to pay potential claims arising from the Title Insurance policies. Title Insurance policies are normally issued for a long period such as 5 years or more. Thus, no profit is recognised in the first year of the policy given the higher probability of claims occurring in the first year. From the 2nd year onwards, profit is recognised by amortising the premium received over a five-year period using the straight-line method. Profit in the first year will be recognised in the 2nd year and thereafter it will be periodically recognised.

The General Insurance reserves as shown in the Statement of Financial Position represents the following:

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Reserves for Net Unearned Premium	25.1	2,108,020	1,946,972	-	-
Reserves for Title Insurance	25.2	56,731	53,522	-	-
Reserves for Gross Outstanding Claims	25.3	1,144,398	870,922	-	-
Total Insurance Contract Liabilities - General Insurance		3,309,149	2,871,416	-	-

Maturity Analysis of General Insurance Fund is given in Note 47 on page 320.

25.1 Reserves for Net Unearned Premium

25.1.a. Reserves for Unearned Premium

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January	2,367,660	2,102,101	-	-
Increase in Reserve for Unearned Premium	137,436	265,559	-	-
Balance as at 31st December (a)	2,505,096	2,367,660	-	-

25.1.b. Reserves for Unearned Reinsurance Premium

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January	(420,688)	(307,405)	-	-
Decrease/(Increase) in Reserve for Unearned Reinsurance Premium	23,612	(113,283)	-	-
Balance as at 31st December (b)	(397,076)	(420,688)	-	-
Total Reserves for Net Unearned Premium (a+b)	2,108,020	1,946,972	-	-

25.2 Reserves for Title Insurance

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January (a)		53,522	49,582	-	-
Transfer to Title Insurance Reserve (b)		21,486	20,295	-	-
Recognition of Title Insurance Profit (c)	25.5	(18,277)	(16,355)	-	-
Transfer to Title Insurance Reserves (d=b+c)		3,209	3,940	-	-
Total Reserves for Title Insurance as at 31st December (a+d)		56,731	53,522	-	-

25.3 Reserves for Gross Outstanding Claims

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January		716,944	550,126	-	-
Claims Incurred during the Year		2,516,650	2,640,769	-	-
Claims Paid during the Year		(2,283,483)	(2,473,951)	-	-
Balance as at 31st December (a)		950,111	716,944	-	-
IBNR/IBNER balance as at 1st January		153,978	130,691	-	-
Increase in IBNR/IBNER		40,309	23,287	-	-
IBNR/IBNER balance as at 31st December (b)	25.7	194,287	153,978	-	-
Total Reserves for Gross Outstanding Claims (a+b)		1,144,398	870,922	-	-

25.4 Reconciliation between Insurance Contract Liabilities and Technical Reserves

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Insurance Contract Liabilities - General Insurance		3,309,149	2,871,416	-	-
Reserve for Net Deferred Acquisition Expenses	16	(163,619)	(138,622)	-	-
Reinsurance on Claims Reserves		(364,783)	(209,983)	-	-
Reinsurance on Claims Reserves IBNR/IBNER		(91,719)	(68,296)	-	-
Technical Reserves		2,689,028	2,454,515	-	-

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

25. INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE (CONTD.)

25.5 Recognition of Title Insurance Profit

Net Written Premium on Title Insurance after deducting acquisition cost has been transferred to the Title Reserves account to pay potential claims arising from the Title Insurance policies. During the year, the Group recognised Rs. 18.28 Million (2019 - Rs. 16.36 Million) as profit from Title Insurance.

25.6 Assessment of Liabilities

Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the reporting date. The Reserves are determined based on the information currently available. However, it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent developments.

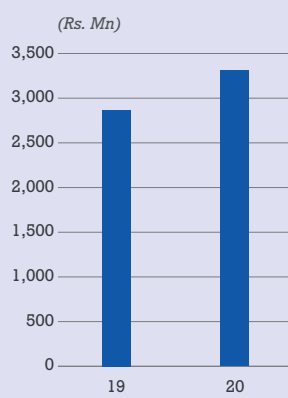
25.7 Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER)

IBNR and IBNER claims Reserves as at 31st December 2020 has been actuarially computed by Mr. Matthew Kung-Chuong Tiong (2019 - valuation was carried by Mr. Sivaraman Kumar, FIA) for and on behalf of NMG Financial Services Consulting Pte Limited. The valuation is based on internationally accepted actuarial methods and is performed on a semi-annual basis and ensured adequate reserves are maintained.

25.8 Liability Adequacy Test (LAT)

A Liability Adequacy Test (LAT) for General Insurance Contract Liability was carried out by Mr. Matthew Kung-Chuong Tiong, (2019 - LAT was carried by Mr. Sivaraman Kumar, FIA) for and on behalf of NMG Financial Services Consulting Pte Limited as at 31st December 2020 as required by SLFRS 4 - Insurance Contracts. The valuation is based on internationally accepted actuarial methods and is performed on semi-annual basis. According to the Consultant Actuary's report, HNB General Insurance Limited adequately satisfies the LAT as at 31st December 2020. No additional provision was required against the LAT as at 31st December 2020. Refer the page 190 for Actuarial Report provided by the consultant actuary for LAT.

**Insurance Contract
Liabilities - General Insurance**



26. EMPLOYEE DEFINED BENEFIT LIABILITIES

ACCOUNTING POLICY**MEASUREMENT**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. Under the Payment of Gratuity Act No. 12 of 1983, the liability to pay the gratuity to an employee arises only on completion of 5 years of continued service. The liability is not externally funded.

RECOGNITION

The re-measurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognised immediately in Other Comprehensive Income. Interest cost and current service cost are recognised in Profit or Loss.

VALUATION OF EMPLOYEE DEFINED BENEFIT LIABILITY

The defined benefit obligation is calculated by a qualified Actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - "Employee Benefits". The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

26.1 Defined Benefit Plans - Provision for Employee Defined Benefit Liabilities

	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
As at 31st December,					
Present Value of Unfunded Obligation	26.2	254,438	167,118	150,729	100,076

26.2 Movement in the Present Value of the Employee Defined Benefit Liability

	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
As at 31st December,					
Balance as at 1st January		167,118	140,356	100,076	84,840
Expenses Recognised in Profit or Loss during the year	26.2.1	47,312	37,136	26,945	21,656
Actuarial Losses recognised in Other Comprehensive Income during the Plan Year	26.2.2	44,995	2,119	27,402	2,119
		259,425	179,611	154,423	108,615
Payments during the Year		(4,987)	(12,493)	(3,694)	(8,539)
Balance as at 31st December		254,438	167,118	150,729	100,076

26.2.1 Expenses Recognised in Profit or Loss

	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
As at 31st December,				
Current Service Cost	30,601	20,995	16,937	11,899
Interest on Obligation	16,711	16,141	10,008	9,757
Total	47,312	37,136	26,945	21,656

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

26. EMPLOYEE DEFINED BENEFIT LIABILITIES (CONTD.)

26.2.2 Actuarial Losses Recognised in Other Comprehensive Income

As at 31st December,	Group		Company	
	2020	2019	2020	2019
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Actuarial Losses due to Changes in Assumptions	42,511	10,579	25,314	8,118
Actuarial Losses/(Gains) due to Changes in Experience	2,484	(8,460)	2,088	(5,999)
Actuarial Losses during the Plan Year	44,995	2,119	27,402	2,119

As at 31st December 2020, the Gratuity Liability was actuarially valued under the Projected Unit Credit (PUC) method by Consultant Actuary Mr. Pushpakumar Gunasekera (Actuary/Associate of the Institute of Actuaries of Australia) of Messrs. Smiles Global (Pvt) Ltd. The valuation is performed annually and have ensured adequate reserves are maintained.

26.3 Maturity Analysis of the Liability

As at 31st December,	Group		Company	
	2020	2019	2020	2019
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Within next 12 Months	8,089	5,356	7,543	4,906
Between 1 to 2 Years	7,621	2,961	1,359	2,329
Between 2 to 5 Years	51,970	18,122	30,967	11,349
Between 5 to 10 Years	139,471	51,688	65,085	29,346
Beyond 10 years	47,287	88,991	45,775	52,146
Total	254,438	167,118	150,729	100,076

26.4 Principal Assumptions Used

As at 31st December,	Group		Company	
	2020	2019	2020	2019
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assumptions				
(a) Discount Rate	7.0%	10.0%	7.0%	10.0%
(b) Future Salary Increase Rate	8.5%	9.0%	8.5%	9.0%
Demographic Assumptions				
(c) Early withdrawal through Resignations				
- Less than 5 years	20% - 32%	16% - 19%	32%	19%
- More than 5 years	9% - 7%	3% - 3%	7%	3%
(d) Normal retirement age	55 years	55 years	55 years	55 years
(e) Mortality in Service	A1967/70 Ultimate Mortality table has used			

26.5 Sensitivity Effect on Statement of Financial Position

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Discount Rate				
1% Increase in Discount Rate	(17,441)	(14,038)	(10,683)	(8,268)
1% Decrease in Discount Rate	19,804	16,162	12,187	9,528
Salary Increment Rate				
1% Increase in Salary	20,474	16,917	12,561	9,972
1% Decrease in Salary	(18,367)	(14,914)	(11,216)	(8,782)

26.6 Method and Assumptions Used in Preparing the Sensitivity Analysis

The above sensitivity analyses are based on a change in significant assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method "Projected Unit Credit method (PUC)" has been applied as when calculating the defined benefit liability recognised in the balance sheet as at the reporting date.

The methods and types of assumptions used in preparing the sensitivity did not change compared to the prior period. However, the discount rate has changed from 10% to 7% during the year to reflect the reduction in market interest rates and future salary increment rate has changed from 9% to 8.5% to be inline with the economic variables.

26.7 Apportionment of Provision for Employee Defined Benefit Liabilities between the Company and the Subsidiary

As at 31st December,	Company	
	2020 Rs.'000	2019 Rs.'000
Amount Recognised in Company	23,243	18,876
Amount Transferred to HNB General Insurance Limited	3,702	2,780
Total Provision for Employee Defined Benefit Liabilities	26,945	21,656

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

27. CURRENT TAX LIABILITIES

ACCOUNTING POLICY

Current tax liabilities consist of amounts expected to be paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted on the reporting date.

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January		112,031	22,541	16,175	14,708
Current Tax for the Year		190,310	95,487	-	-
Capital Gain Tax for the Year		845	1,182	-	-
Effect of Taxation on Surplus/Bonus Transferred to Policyholders	24.4	12,301	16,175	12,301	16,175
Over Provision Pertaining to Previous Year		151	(465)	-	-
		315,638	134,920	28,476	30,883
Tax Set Off/Paid during the Year					
Withholding Tax Credits		(11,560)	-	-	-
Economic Service Charge		(36,196)	(7,367)	-	-
Notional Tax on Government Securities		(42,467)	(14,708)	(16,175)	(14,708)
Tax paid during the year		(73,109)	-	-	-
Capital Gain Tax Paid		(1,213)	(814)	-	-
Balance as at 31st December		151,093	112,031	12,301	16,175

27.1 Maturity Analysis of Current Tax Liability is given in Note 47 on page 320.

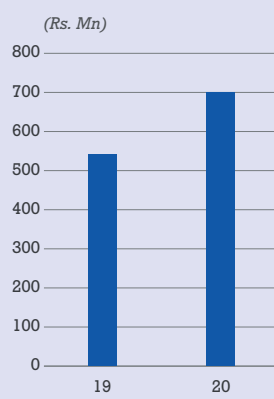
28. REINSURANCE CREDITORS

ACCOUNTING POLICY

Reinsurance creditors are recognised as financial liabilities and categorised in the category of other financial liabilities. Please refer Note 10 of page 262 for Accounting policy of other financial liabilities.

Reinsurance creditors consist of premiums payable to reinsurers recognised when due and measured on initial recognition at the fair value less directly attributable transaction costs in a manner consistent with the related reinsurance contract. Reinsurance liabilities are derecognised when the contractual rights are extinguished or expire, or when the contract is transferred to another party.

Reinsurance Creditors - Group



As at 31st December,	Group		Company	
	2020	2019	2020	2019
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Domestic Reinsurer - National Insurance Trust Fund (NITF)	217,082	199,756	-	-
Foreign Reinsurers	483,023	340,896	290,916	125,151
Total Reinsurance Creditors	700,105	540,652	290,916	125,151

28.1 Maturity Analysis of Reinsurance Creditors is given in Note 47 on page 320.

29. LEASE CREDITORS

ACCOUNTING POLICY

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease Payments included in the measurement lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the Right of Use Asset, or is recorded in profit or loss if the carrying amount of the Right of Use Asset has been reduced to zero.

As at 31st December,	Group					
	2020			2019		
	Property	Motor Vehicles	Total	Property	Motor Vehicles	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1st January	328,727	21,362	350,089	342,898	19,206	362,104
Additions during the Year	152,639	13,550	166,189	72,634	10,161	82,795
Interest Expenses during the Year	42,049	3,654	45,703	50,682	3,028	53,710
Disposal of Lease Creditor upon termination of Contract	(1,762)	(5,756)	(7,518)	-	-	-
Rentals Paid during the Year	(149,762)	(11,556)	(161,318)	(137,487)	(11,033)	(148,520)
Balance as at 31st December	371,891	21,254	393,145	328,727	21,362	350,089

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

29. LEASE CREDITORS (CONTD.)

As at 31st December,	Company					
	2020			2019		
	Property	Motor Vehicles	Total	Property	Motor Vehicles	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1st January	317,482	17,350	334,832	337,971	12,809	350,780
Additions during the Year	152,639	-	152,639	58,673	10,161	68,834
Interest Expenses during the Year	41,203	1,918	43,121	49,104	2,595	51,699
Disposal of Lease Creditor upon termination of Contract	-	(5,756)	(5,756)	-	-	-
Rentals Paid during the Year	(141,310)	(5,780)	(147,090)	(128,266)	(8,215)	(136,481)
Balance as at 31st December	370,014	7,732	377,746	317,482	17,350	334,832

29.1 Maturity Analysis of Lease Creditors is given in Note 47 on page 320.

30. OTHER LIABILITIES

ACCOUNTING POLICY

FINANCIAL LIABILITIES

Please refer Note 10 of page 262 for Accounting policy of financial liabilities. The Group initially recognises financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

OTHER LIABILITIES

Other Liabilities include accruals and advances and these liabilities are recorded at the amounts that are expected to be paid.

As at 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Financial Liabilities					
Payable to Policyholders		25,460	21,347	9,904	5,506
Acquisition Cost Payable		198,103	168,970	85,348	78,341
Advisor Terminal Benefit Payable	30.2	208,586	202,373	185,738	180,940
Amounts due to Related Parties	30.3	55,172	74,952	41,736	62,054
Co-Insurance Payable		27,052	9,243	-	-
Claims payable		3,311	322	-	-
Staff Related Payables		212,310	188,547	140,476	139,226
Total Financial Liabilities (a)		729,994	665,754	463,202	466,067
Non-Financial Liabilities					
Accrued Expenses		136,132	202,867	9,957	133,270
Policyholders Advance Payments		198,587	133,572	198,587	133,572
Government Levies	30.4	83,591	78,092	21,156	33,903
Advance for Future Utilisation and Other Liabilities		401,804	194,041	139,296	35,753
Total Non-Financial Liabilities (b)		820,114	608,572	368,996	336,498
Total Other Liabilities (a+b)		1,550,108	1,274,326	832,198	802,565

30.1 Maturity Analysis of Other Liabilities is given in Note 47 on page 320.

30.2 Advisor Terminal Benefit Payable

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Life Insurance	185,738	180,940	185,738	180,940
General Insurance	22,848	21,433	-	-
Total	208,586	202,373	185,738	180,940

30.3 Amounts due to Related Parties

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Hatton National Bank PLC	54,244	74,220	41,732	62,005
HNB Finance PLC	928	732	4	49
Total	55,172	74,952	41,736	62,054

30.4 Government Levies

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Stamp Duty Payable	1,795	1,778	305	261
Value Added Tax (VAT) Payable	48,607	22,205	3,292	3,901
Cess Payable	6,992	6,389	3,158	2,837
Crop Insurance	5,813	8,923	4,540	7,894
Pay As You Earn (PAYE)	827	2,389	620	1,782
Employee Provident Fund Payable	14,573	12,460	8,036	7,167
Employee Trust Fund Payable	2,186	1,869	1,205	1,075
Withholding Tax Payable	-	19,092	-	8,985
Contribution to Road Safety Fund Payable	101	90	-	-
Luxury tax Payable to Department of Motor Traffic	2,697	2,897	-	-
Total	83,591	78,092	21,156	33,903

Other Liabilities Composition - Group



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

31. GROSS WRITTEN PREMIUM (GWP)

ACCOUNTING POLICY

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured.

Life Insurance Business

Gross Written Premiums on Life Insurance contracts are recognised as revenue when a premium is due from a Policyholder (policies within the 30-day grace period are considered as due). Premiums received in advance are not recorded as revenue but recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as revenue. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

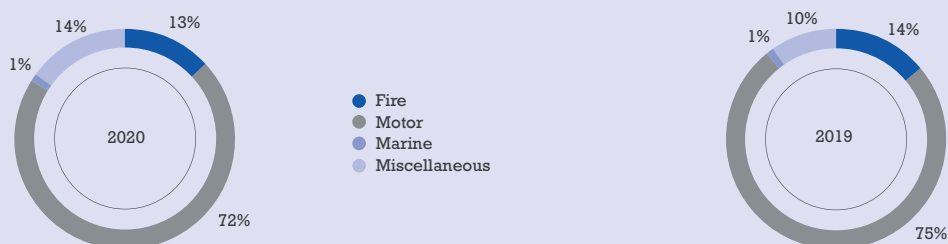
General Insurance Business

Gross Written Premium on General Insurance comprises of the total premium received/receivable for the whole period of cover provided by contracts entered during the accounting period. Premium is generally recognised upon the inception of the policy as written and is earned primarily on a pro-rata basis over the term of the related policy coverage.

Gross Written Premium-Life Insurance



Gross Written Premium-General Insurance



For the Year Ended 31st December,	Group							
	2020				2019			
	First Year Premium Rs.'000	Renewal Premium Rs.'000	Single Premium Rs.'000	Total Rs.'000	First Year Premium Rs.'000	Renewal Premium Rs.'000	Single Premium Rs.'000	Total Rs.'000
Life Insurance								
Individual Policies	1,386,401	3,536,462	499,288	5,422,151	1,444,199	3,200,562	475,710	5,120,471
Corporate Policies	-	-	64,888	64,888	-	-	54,573	54,573
Adjustment for Intercompany Premiums	-	-	-	(48,196)	-	-	-	(43,056)
Gross Written Premium - Life Insurance (a)				5,438,843				5,131,988

	Basic	*SRCC/TC	**Co - Insurance Local	Total	Basic	*SRCC/TC	**Co - Insurance Local	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
General Insurance								
Fire	392,941	287,429	(32,581)	647,789	387,337	303,398	(13,173)	677,562
Motor	2,858,947	724,304	(190)	3,583,061	2,941,613	680,410	-	3,622,023
Marine	55,009	2	(329)	54,682	57,553	66	-	57,619
Miscellaneous	668,165	44,031	-	712,196	417,749	43,733	-	461,482
Adjustment for Intercompany Premiums	(37,579)	-	-	(37,579)	(7,917)	-	-	(7,917)
Gross Written Premium - General Insurance (b)				4,960,149				4,810,769
Total Gross Written Premium (a+b)				10,398,992				9,942,757

For the Year Ended 31st December,	Company							
	2020				2019			
	First Year Premium Rs.'000	Renewal Premium Rs.'000	Single Premium Rs.'000	Total Rs.'000	First Year Premium Rs.'000	Renewal Premium Rs.'000	Single Premium Rs.'000	Total Rs.'000
Life Insurance								
Individual Policies	1,386,401	3,536,462	499,288	5,422,151	1,444,199	3,200,562	475,710	5,120,471
Corporate Policies	-	-	64,888	64,888	-	-	54,573	54,573
Total Gross Written Premium				5,487,039				5,175,044

* SRCC – (Strike Riot and Civil Commotion Cover), TC – (Terrorism Cover); both ceded to the SRCC and TC Fund

** Co-Insurance is an arrangement to share risks with domestic insurer under a special contract and the portion shared with the co-insurance partner is not considered as a part of Gross Written Premium.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

32. PREMIUM CEDED TO REINSURERS

ACCOUNTING POLICY

Gross reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective. Value of the reinsurance premiums are decided based on rates agreed with reinsurers.

For the Year Ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Life Insurance				
Individual Policies	138,705	123,442	138,705	123,442
Single Premium	118,519	112,677	118,519	112,677
Corporate Policies	7,940	4,855	7,940	4,855
Total Life Insurance (a)	265,164	240,974	265,164	240,974
General Insurance				
Fire	632,873	637,719	-	-
Motor	152,229	153,165	-	-
Marine	52,840	51,771	-	-
Miscellaneous	204,872	229,252	-	-
Total General Insurance (b)	1,042,814	1,071,907	-	-
Total Premium Ceded to Reinsurers (a+b)	1,307,978	1,312,881	265,164	240,974

33. NET CHANGE IN RESERVES FOR UNEARNED PREMIUM

ACCOUNTING POLICY

Gross Written Premium of General business is deferred over the term of the underlying policies' risk attached period according to the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments there to, Unearned premiums are the proportion of premiums that relate to the period of risk after the respective reporting period. Group uses 1/24th basis to defer the GWP of all policies except for the Marine Insurance policies and Title Insurance policies, where Marine Insurance premiums are deferred based on 60 : 40 basis and total premiums on Title Insurance are transferred to Reserve for Title Insurance for the reporting period.

Similarly Reinsurance Premiums attached to those policies are also deferred over the policies risk attached period using the same basis as mentioned above. Further, Title Insurance Reserve is maintained based on the net transfer of Net Written Premium after deducting acquisition cost and profit recognised during that period.

For the Year Ended 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
General Insurance					
Change in Reserve for Unearned Premium	25.1.a	(137,436)	(265,559)	-	-
Change in Reserve for Unearned Reinsurers Premium	25.1.b	(23,612)	113,283	-	-
Transfer to Reserve for Title Insurance	25.2	(3,209)	(3,940)	-	-
Total Net Change in Reserves for Unearned Premium		(164,257)	(156,216)	-	-

34. NET EARNED PREMIUM

For the Year Ended 31st December,	Group					
	2020			2019		
	Life Insurance Rs. '000	General Insurance Rs. '000	Total Rs. '000	Life Insurance Rs. '000	General Insurance Rs. '000	Total Rs. '000
Gross Written Premium	5,487,039	4,997,728	10,484,767	5,175,044	4,818,686	9,993,730
Adjustment for Intercompany Premium	(48,196)	(37,579)	(85,775)	(43,056)	(7,917)	(50,973)
	5,438,843	4,960,149	10,398,992	5,131,988	4,810,769	9,942,757
Change in Reserve for Unearned Premium	-	(137,436)	(137,436)	-	(265,559)	(265,559)
Gross Earned Premium (a)	5,438,843	4,822,713	10,261,556	5,131,988	4,545,210	9,677,198
Premium Ceded to Reinsurance	(265,164)	(1,042,814)	(1,307,978)	(240,974)	(1,071,907)	(1,312,881)
Change in Reserve for Unearned Reinsurance Premium	-	(23,612)	(23,612)	-	113,283	113,283
Gross Reinsurance Premium (b)	(265,164)	(1,066,426)	(1,331,590)	(240,974)	(958,624)	(1,199,598)
Transfer to Title Insurance Reserve (c)	-	(3,209)	(3,209)	-	(3,940)	(3,940)
Total Net Earned Premium (a+b+c)	5,173,679	3,753,078	8,926,757	4,891,014	3,582,646	8,473,660

For the Year Ended 31st December,	Company	
	2020 Rs.'000	2019 Rs.'000
Gross Written Premium	5,487,039	5,175,044
Premium Ceded to Reinsurance	(265,164)	(240,974)
Total Net Earned Premium	5,221,875	4,934,070

35. INTEREST AND DIVIDEND INCOME

ACCOUNTING POLICY

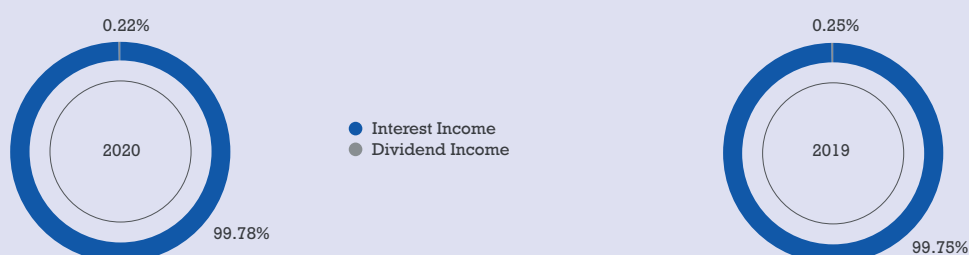
Interest Income

Interest income is recognised in Profit or Loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial asset or liabilities (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liabilities. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Dividend Income

Dividend income is recognised when the right to receive income is established which is usually the ex-dividend date of equity securities.

Finance Income Composition - Group



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

35. INTEREST AND DIVIDEND INCOME (CONTD.)

For the Year Ended 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Interest Income	35.1	2,487,950	2,243,284	2,120,053	1,884,977
Dividend Income	35.2	5,367	5,642	5,309	64,490
Total Interest and Dividend Income		2,493,317	2,248,926	2,125,362	1,949,467

Temporary Exception from SLFRS 9

As explained in page 208, the Group has decided to take temporary exception from SLFRS 9 as the Group's activities are predominantly connected with insurance activities and Group had not previously applied any version of SLFRS 9. This is further explained in Note 3.1.1. Therefore, interest and dividend income is presented in accordance with LKAS 39.

35.1 Interest Income

For the Year Ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Interest Income from Financial Investments - Loans and Receivables				
Repurchase Agreements on Government Securities	114,090	89,348	75,843	64,041
Fixed Deposits	931,022	764,955	780,827	627,845
Debentures	633,791	526,529	567,561	456,012
Sri Lanka Development Bonds	339	-	67	-
Policy Loans	54,383	42,894	54,383	42,894
Staff and Advisor Loans	50,770	53,738	29,935	33,688
Total (a)	1,784,395	1,477,464	1,508,616	1,224,480
Interest Income from Financial Investments - Available For Sale				
Treasury Bonds	660,976	724,866	582,828	634,516
Treasury Bills	4,804	9,712	2,402	4,843
Total (b)	665,780	734,578	585,230	639,359
Interest Income from Cash and Cash Equivalents				
Short Term Deposits	13,372	11,410	12,250	10,238
Savings Accounts	24,403	19,832	13,957	10,900
Total (c)	37,775	31,242	26,207	21,138
Total Interest Income (a+b+c)	2,487,950	2,243,284	2,120,053	1,884,977

35.2 Dividend Income

For the Year Ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Equity Shares	5,367	5,642	5,309	5,065
Dividend Income from Investments in Subsidiary	-	-	-	59,425
Total Dividend Income	5,367	5,642	5,309	64,490

36. NET REALISED GAINS

ACCOUNTING POLICY

Net Realised Gains comprises gains and losses related to Financial Investments. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original/fair value of prior year or amortised cost which are recorded on occurrence of the sale. On de-recognition of investments classified as AFS, the cumulative gain or loss previously recognised in OCI is recycled to Profit or Loss.

For the Year Ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Financial Investments - Available For Sale				
Realised Gains				
Treasury Bonds	53,106	91,384	44,655	68,578
Treasury Bills	-	214	-	-
Equity Shares	-	1,475	-	173
Total (a)	53,106	93,073	44,655	68,751
Realised Losses				
Equity Shares	-	(237)	-	-
Total (b)	-	(237)	-	-
Total Net Realised Gains - Available For Sale (c = a+b)	53,106	92,836	44,655	68,751
Financial Investments - Fair Value Through Profit or Loss				
Realised Gains				
Investment in Units	280	1,789	194	1,251
Equity Shares	60	2	60	2
Total (d)	340	1,791	254	1,253
Realised Losses				
Equity Shares	-	(1,552)	-	-
Total (e)	-	(1,552)	-	-
Total Net Realised Gains - Fair Value Through Profit or Loss (f = d+e)	340	239	254	1,253
Financial Investments - Loans and Receivables				
Realised Gains				
Foreign Exchange	188	-	-	-
Total (g)	188	-	-	-
Realised Losses				
Foreign Exchange	-	(219)	-	(4)
Total (h)	-	(219)	-	(4)
Total Net Realised Gains - Loans and Receivables (i = g+h)	188	(219)	-	(4)
Total Net Realised Gains (c+f+i)	53,634	92,856	44,909	70,000

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

37. NET FAIR VALUE GAINS/(LOSSES)

ACCOUNTING POLICY

Net fair value gains and losses comprises fair value gains and Losses on financial assets at Fair Value Through Profit or Loss and any impairment loss of Available For Sales financial assets.

For the Year Ended 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Financial Investments at Fair Value Through Profit or Loss					
Unrealised Gains					
Investment in Units		2,694	-	1,964	-
Equity Securities		11,268	3,528	11,030	3,528
Total (a)		13,962	3,528	12,994	3,528
Financial Investments at Available For Sale					
Impairment of Available For Sale Financial Assets		(2,516)	(9,915)	(2,516)	(9,915)
Total (b)	37.1	(2,516)	(9,915)	(2,516)	(9,915)
Loans & Receivables					
Unrealised Gains					
Foreign Exchange - Term Deposits		6,058	17	2,491	17
Sri Lanka Development Bonds		192	-	18	-
Total (c)		6,250	17	2,509	17
Unrealised Losses					
Foreign Exchange - Term Deposits		-	(2,456)	-	-
Total (d)		-	(2,456)	-	-
Total Net Fair Value Gains/(Losses) (a+b+c+d)		17,696	(8,826)	12,987	(6,370)

37.1 Impairment of Equity Shares - Available For Sale

Group has experienced a significant and prolonged decline in market price than cost of equity shares categorised under AFS category hence an impairment loss is recognised in Profit or Loss.

38. FEE AND COMMISSION INCOME

ACCOUNTING POLICY

Insurance contract policyholders are charged for policy administration services and other contract fees. These fees are recognised as income upon receipt or when they become due.

For the Year Ended 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Profit Commission from Reinsurers		5,172	29,127	9,022	24,395
Fund Management Fee	38.1	-	-	11,547	6,484
Policy and Related Fee		135,671	92,383	14,376	11,854
Total Fee and Commission Income		140,843	121,510	34,945	42,733

38.1 Rearrangement of Comparative Information

Fund Management Fee income recorded under Fee and Commission Income has been rearranged to net off with the respective expense recognised under Other Operating and Administration Expenses. Refer Note 54 of these Financial Statements for further details.

39. OTHER INCOME

ACCOUNTING POLICY

Income earned on other sources, which are not directly related to the normal operations of the Group/Company are recognised as Sundry Income upon receipt or become due. Gain on disposal of an item of Property, Plant and Equipment is calculated as the excess over the net proceeds from disposal and carrying amount at the time of disposal and recognised under other income in Profit of Loss.

For the Year Ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Gain on Disposal of Property, Plant and Equipment	3,339	4,686	3,242	-
Gain on Disposal of Lease Assets	475	-	475	-
Sundry Income	11,156	11,510	2,030	2,965
Total Other Income	14,970	16,196	5,747	2,965

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

40. NET INSURANCE BENEFITS AND CLAIMS PAID

ACCOUNTING POLICY

Benefits and claims for insurance contracts include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and are recorded net of recoveries from Reinsurance on Claims.

BENEFITS AND CLAIMS PAID - LIFE INSURANCE

Claims on accident, hospitalisation, death and maturity are charged on notification of death or on expiry of the term. The interim payments and surrenders are accounted for only at the time of settlement.

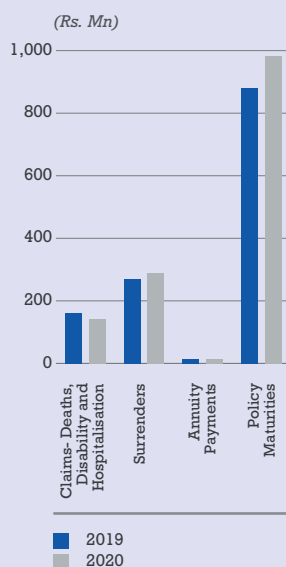
BENEFITS AND CLAIMS PAID - GENERAL INSURANCE

General Insurance claims include all claims occurred during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, reductions for the value of salvage and other recoveries.

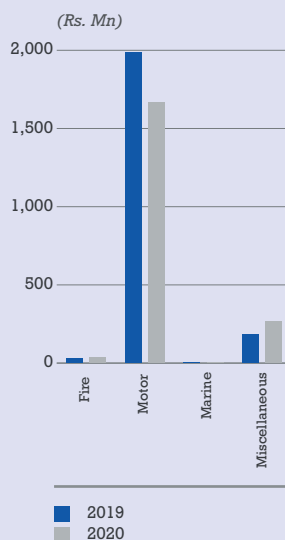
REINSURANCE ON CLAIMS

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

Net Claims Paid - Life Insurance



Net Claims Paid - General Insurance



For the Year Ended 31st December,	Group					
	2020			2019		
	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Life Insurance						
Claims - Deaths, Disability and Hospitalisation	233,547	(92,500)	141,047	284,239	(122,682)	161,557
Surrenders	290,293	-	290,293	269,697	-	269,697
Annuity Payments	13,574	-	13,574	13,888	-	13,888
Policy Maturities	983,435	-	983,435	880,003	-	880,003
Net Life Insurance Claims (a)			1,428,349			1,325,145
General Insurance						
Fire	282,914	(246,467)	36,447	186,121	(154,963)	31,158
Motor	1,694,429	(27,123)	1,667,306	2,021,607	(35,861)	1,985,746
Marine	15,361	(13,179)	2,182	44,420	(42,063)	2,357
Miscellaneous	290,778	(26,781)	263,997	221,480	(40,918)	180,562
Net General Insurance Claims (b)			1,969,932			2,199,823
Adjustments for Intercompany Claims (c)			(42)			(200)
Total Net Insurance Benefits and Claims Paid (a+b+c)			3,398,239			3,524,768

For the Year Ended 31st December,	Company					
	2020			2019		
	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid	Gross Claims Paid	Recovery from Reinsurers	Net Claims Paid
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Life Insurance						
Claims - Deaths, Disability and Hospitalisation	233,547	(92,500)	141,047	284,239	(122,682)	161,557
Surrenders	290,293	-	290,293	269,697	-	269,697
Annuity Payments	13,574	-	13,574	13,888	-	13,888
Policy Maturities	983,435	-	983,435	880,003	-	880,003
Total Net Insurance Benefits and Claims Paid			1,428,349			1,325,145

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

41. NET CHANGE IN INSURANCE CLAIMS OUTSTANDING

ACCOUNTING POLICY

Reinsurance claim recoveries are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract. Difference between the estimated cost and subsequent settlement of claims or re-estimated costs are recognised in the income statement in the year in which they are settled or in which the insurance contract liabilities are re-estimated. Net change in insurance claim outstanding is recognised in Profit or Loss.

For the Year Ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Gross Change in Insurance Claims Outstanding				
Life Insurance (a)	35,686	45,985	35,686	45,985
General Insurance				
Fire	(16,514)	96,130	-	-
Motor	96,919	56,122	-	-
Marine	(26,531)	33,382	-	-
Miscellaneous	219,602	4,471	-	-
Total General Insurance (b)	273,476	190,105	-	-
Total Gross Change in Insurance Claims Outstanding (c = a+b)	309,162	236,090	35,686	45,985
Gross Change in Reinsurance Recoverable on Claims Outstanding				
Life Insurance (d)	30,146	(33,115)	30,146	(33,115)
General Insurance				
Fire	6,433	(83,544)	-	-
Motor	(19,755)	13,491	-	-
Marine	26,292	(33,518)	-	-
Miscellaneous	(191,876)	(3,397)	-	-
Total General Insurance (e)	(178,906)	(106,968)	-	-
Total Gross Change in Reinsurance Recoverable on Claims Outstanding (f = d+e)	(148,760)	(140,083)	30,146	(33,115)
Total Net Change in Insurance Claims Outstanding (c+f)	160,402	96,007	65,832	12,870

42. OTHER OPERATING AND ADMINISTRATION EXPENSES

ACCOUNTING POLICY

Expenses are recognised in Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and maintaining the Property, Plant and Equipment in a state of efficiency has been charged to Profit or Loss.

For the Year Ended 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Directors' Fees and Remuneration		24,560	20,015	15,705	12,533
Staff Expenses	42.1	1,379,726	1,155,877	679,680	588,424
Administration and Establishment Expenses	42.2	434,460	493,114	298,489	317,715
Selling Expenses		513,202	469,857	344,404	326,116
Reversal of Provision for Notional Tax Credits		(16,175)	(14,708)	(16,175)	(14,708)
Amortisation of Intangible Assets		19,632	18,885	13,281	12,568
Depreciation of Property Plant and Equipment		54,000	47,424	27,477	23,282
Net Depreciation of Right of Use Assets		130,693	139,524	64,240	73,351
Loss on sale of Right of Use Assets		241	-	-	-
Auditor's Fees and Expenses	42.3	4,400	4,396	2,630	2,257
Legal Fees		970	1,158	511	553
Donations		500	500	500	500
Total Other Operating and Administration Expenses		2,546,209	2,336,042	1,430,742	1,342,591

42.1 Staff Expenses

ACCOUNTING POLICY

SHORT-TERM BENEFITS

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

EMPLOYEE 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 further amounts. Obligations for contributions to defined contribution plans are recognised as an expense in Profit and Loss when incurred.

EMPLOYEE PROVIDENT FUND

All employees of the Group are members of the Employees' Provident Fund (EPF). The Group and employees contribute 12% and 8% respectively of the salary to EPF.

EMPLOYEES TRUST FUND

All employees of the Group are members of the Employees' Trust Fund (ETF). The Group contributes 3% of the salary of each employee to ETF.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

42. OTHER OPERATING AND ADMINISTRATION EXPENSES (CONTD.)

For the Year Ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Staff Salaries	842,137	727,158	412,807	361,499
Defined Contribution Plan Costs - EPF 12%	101,057	87,259	49,537	43,380
Defined Contribution Plan Costs - ETF 3%	25,264	21,815	12,384	10,845
Defined Benefit Plan Costs - Employee Benefits	47,312	37,136	23,243	18,876
Other Staff Costs	363,956	282,509	181,709	153,824
Total	1,379,726	1,155,877	679,680	588,424

42.2 Rearrangement of Comparative Information

Fund Management Fee income recorded under Fee and Commission Income has been rearranged to net off with the respective expense recognised under Other Operating and Administration Expenses. Refer Note 54 of these Financial Statements for further details.

42.3 Auditor's Fees and Expenses

For the Year Ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Audit Fees and Expenses	3,500	3,528	2,130	1,764
Audit Related Fees	900	868	500	493
Total	4,400	4,396	2,630	2,257

43. UNDERWRITING AND NET ACQUISITION COSTS

ACCOUNTING POLICY

Expenses for acquisition and maintenance of Life and General Insurance business are accounted for net of reinsurance commission on accrual basis. Reinsurance Commission Income is accrued according to the agreed terms with the reinsurers.

For the Year Ended 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Underwriting and Acquisition Costs		1,469,110	1,513,909	904,213	975,445
Reinsurance Commission		(208,667)	(227,705)	(15,686)	(15,895)
(Increase)/Decrease in Deferred Acquisition Expenses	43.1	(24,997)	1,864	-	-
Total Underwriting and Net Acquisition Costs		1,235,446	1,288,068	888,527	959,550

43.1 (Increase)/Decrease in Net Deferred Acquisition Expenses

For the Year Ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
(Increase)/Decrease in Deferred Reinsurance Commission	(8,982)	19,090	-	-
Increase in Acquisition Cost	(16,015)	(17,226)	-	-
Total (Increase)/Decrease in Net Deferred Acquisition Expenses	(24,997)	1,864	-	-

44. INCOME TAX EXPENSE

ACCOUNTING POLICY

Income Tax Expense comprises current and Deferred Tax. Current and deferred taxes are recognised in Profit or Loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

CURRENT TAX

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of previous years.

From 1st April 2018 onwards the gains and the profits from the Life Insurance Business are ascertained in terms of Section 67 of the Inland Revenue Act No. 24 of 2017. As per this section, the gains and profits on which tax is payable is the aggregate of:

- Surplus distributed to shareholders from the Life Insurance Policyholders Fund as certified by the actuary at the rate of 28%;
- Investment income of the shareholder fund less any expenses incurred in the production of such income at the rate of 28%;
- Surplus distributed to a Life insurance policyholder who shares the profits of a person engaged in the business of life insurance at the rate of 14% (Up to 3 years from 2018 and thereafter at 28%).

Current income tax assets and liabilities also include adjustments for tax expected to be payable or recoverable in respect of previous periods.

Current income tax relating to items recognised directly in Equity or Other Comprehensive Income is recognised in Equity or Other Comprehensive Income and not in Profit or Loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

DEFERRED TAXATION

Deferred Taxation is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount substantively enacted by the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences. As at the date of the Statement of Financial Position, the Group has deferred tax liabilities arising from Property Plant and Equipment, Right of use assets and Available For Sale financial assets.

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside Profit or Loss, if any is recognised outside Profit or Loss. Deferred tax items are recognised in correlation to the underlying transaction either in Other Comprehensive Income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

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44 INCOME TAX EXPENSE (CONTD.)

ACCOUNTING POLICY

WITHHOLDING TAX ON DIVIDENDS DISTRIBUTED

Withholding tax that arises from the distribution of dividends by the Group is recognised at the time the liability to pay the related dividend is recognised. Withholding tax on intercompany dividend are charged to Profit or Loss as it resulted in net outflow of cash from the Group. With effect from 1st January 2020, WHT scheme is abolished subject to the formal amendments being made to the Act and to be implemented.

ECONOMIC SERVICE CHARGE (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006 and the amendments thereto, 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 within the specified time period mentioned in the Act and set off against the income tax payable as per the relevant provisions in the Act. With effect from 1st January 2020, ESC scheme is abolished subject to the formal amendments being made to the Act and to be implemented.

CROP INSURANCE LEVY

The Crop Insurance Levy was introduced under the provisions of the Section 14 of the Finance Act No. 12 of 2013, and came into effect from 1st April 2013. It is payable to the National Insurance Trust Fund and liable at 1% of the Profit After Tax.

The major components of income tax expense for the year ended 31st December are as follows:

44.1.a Tax Recognised in Profit or Loss

For the Year Ended 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Income Tax					
Income Tax on Current Year's Profit		190,310	95,487	-	-
Over Provision of Current Taxes in Respect of Prior Years		151	(465)	-	-
Withholding Tax on Intercompany Dividends		-	9,575	-	-
Capital Gain Tax for the Year		845	1,182	-	-
Total Income Tax (a)		191,306	105,779	-	-
Deferred Tax					
Reversal of Deferred Tax Asset	44.2a/44.2c	265,012	287,018	275,418	279,826
Origination of Deferred Tax Liability	44.2.b	(1,045)	1,866	-	-
Deferred Taxation (b)		263,967	288,884	275,418	279,826
Total Tax Expense (a+b)		455,273	394,663	275,418	279,826

44.1.b Tax Recognised in Other Comprehensive Income

For the Year Ended 31st December,	Note	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Deferred Tax					
Origination of Deferred Tax Assets/(Liability)	44.2.b	(7,023)	(6,286)	-	-

44.2 Deferred Taxation

As at 31st December,	Note	Group		Company	
		2020	2019	2020	2019
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deferred Tax Asset	44.2.a & 44.2.c	754,432	1,019,444	725,255	1,000,673
Deferred Tax Liability	44.2.b	(15,711)	(9,733)	-	-
Net Deferred Tax Asset		738,721	1,009,711	725,255	1,000,673

As at 31st December,	Group							
	Statement of Financial Position				Profit or Loss		Other Comprehensive Income	
	2020		2019		2020	2019	2020	2019
	Temporary Difference	Tax Effect Assets/ (Liability)	Temporary Difference	Tax Effect Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
44.2.a Deferred Tax Asset								
Employee Benefits	103,709	29,038	67,042	18,771	10,267	3,227	-	-
Brought Forward Tax Losses	2,590,197	725,255	3,573,832	1,000,673	(275,418)	(290,245)	-	-
Right of Use Assets	495	139	-	-	139	-	-	-
Available For Sale Financial Assets	-	-	-	-	-	-	-	(4,629)
Total (a)	2,694,401	754,432	3,640,874	1,019,444	(265,012)	(287,018)	-	(4,629)
44.2.b Deferred Tax Liability								
Property, Plant and Equipment	25,109	(7,031)	25,793	(7,222)	191	(1,012)	-	-
Right of Use Assets	-	-	3,049	(854)	854	(854)	-	-
Available For Sale Financial Assets	86,809	(8,680)	16,577	(1,657)	-	-	(7,023)	(1,657)
Total (b)	111,918	(15,711)	45,419	(9,733)	1,045	(1,866)	(7,023)	(1,657)
Total (a+b)	-	738,721	-	1,009,711	(263,967)	(288,884)	(7,023)	(6,286)

As at 31st December,	Company							
	Statement of Financial Position				Profit or Loss		Other Comprehensive Income	
	2020		2019		2020	2019	2020	2019
	Temporary Difference	Tax Effect Assets/ (Liability)	Temporary Difference	Tax Effect Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)	Change in Deferred Tax Assets/ (Liability)
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
44.2.c Deferred Tax Assets								
Brought Forward Tax Losses	2,590,197	725,255	3,573,832	1,000,673	(275,418)	(279,826)	-	-
Total	-	725,255	-	1,000,673	(275,418)	(279,826)	-	-

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

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44. INCOME TAX EXPENSE (CONTD.)

As per Section 67 of Inland Revenue Act No. 24 of 2017 which was effective from 1st April 2018, the Company incurred a taxable income. The act allows to deduct 100% of taxable income against the tax losses incurred whereas in the previous Inland Revenue Act No. 10 of 2006, it was limited to 35% of the Total Statutory Income. As at 31st December 2020, Life Insurance business had a cumulative tax loss of Rs. 2,590 Million (2019 - Rs. 3,574 Million) was incurred as per Section 92 Inland Revenue Act No. 10 of 2006. According to the transitional provisions of new act, brought forward tax losses can be claimed against taxable income for a period of 6 years with effect from 1st April 2018. The Company made an assessment of future taxable profits and identified that total tax losses can be claimed within the period specified in the transitional provisions. During the year Company utilised a tax loss of Rs.984.33 Million against the taxable income generated for the year ended 31st December 2020 (2019 - Rs. 998.29 Million) this was resulted in a reversal of Deferred Tax Asset of Rs. 275.42 Million for the year ended 31st December 2020 (2019 - Rs. 279.83 Million).

The Subsidiary Company, HNB General Insurance Limited also recorded a Net Deferred Tax Asset amounted to Rs. 13.47 Million (2019 - Rs. 9.04 Million). The Group does not have unrecognised Deferred Tax Asset as at reporting date.

44.2.d Proposed Changes to Income Tax Rates

The Government has announced a reduction of the income tax rate to 24% from 28% with effect from 1st January 2020. As provided in LKAS 12 - Income taxes, deferred tax assets and liabilities should be measured at the tax rate that are expected to be applied in the period in which the asset will be realised or the liability will be settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the reporting date. As the said amendment to tax rates is yet to be approved by the Parliament and cannot be considered to be legislated, the proposed changes to the tax rates have not been considered to be substantially enacted as at the reporting date. Accordingly, the prevailing income tax rate of 28% has been used for current tax and deferred tax computation as at 31st December 2020. Had the Group applied the reduced income tax rate of 24%, the recorded Profit After Tax of the Group will reduce by Rs. 79.8 Million and the recorded Deferred Tax Asset and Profit After Tax of the Company will reduce by Rs. 103.6 Million as at 31st December 2020.

44.3 The Company and its subsidiary are liable to pay income tax at the rate of 28% of its taxable profits in accordance with the provisions of the Inland Revenue Act No. 24 of 2017.

44.4 Reconciliation of Effective Tax rate

For the Year Ended 31st December,	Effective Tax Rate	Group		Company	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Profit for the year		1,175,223	1,010,228	723,945	826,709
Income Tax Expenses		191,306	96,204	-	-
Withholding tax on intercompany dividends		-	9,575	-	-
Deferred Taxation		263,967	288,884	275,418	279,826
Profit Before Tax		1,630,496	1,404,891	999,363	1,106,535
At the Statutory Income Tax Rate of 28% (2019: 28%)	28%	456,539	393,369	279,822	309,830
Tax Effect on Intercompany Adjustments	0%	-	15,812	-	-
Withholding tax on intercompany dividends	0%	-	9,575	-	-
Capital gain tax at the rate of 10%	0.1%	845	1,182	-	-
Over Provision of Current Taxes in Respect of Prior Years	0%	(43)	(465)	(194)	-
Income Exempt from Tax	(1%)	(10,568)	(39,682)	(4,671)	(32,537)
Aggregate Allowable Expenses	(0.4%)	(6,964)	(10,482)	-	-
Aggregate Disallowed Expenses	2%	27,109	24,183	655	2,229
Utilisation of Previous Tax Losses	(17%)	(275,612)	(287,713)	(275,612)	(279,522)
Reversal of Deferred Tax Assets	16%	263,967	288,884	275,418	279,826
Income Tax Expenses	28%	455,273	394,663	275,418	279,826

44.5 Tax Loss Analysis

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 1st January	3,573,832	4,610,422	3,573,832	4,573,212
Prior Year Adjustments	693	(1,085)	693	(1,085)
Tax Losses Utilised Against Taxable Income during the Year	(984,328)	(1,035,505)	(984,328)	(998,295)
Balance as at 31st December	2,590,197	3,573,832	2,590,197	3,573,832

45. BASIC AND DILUTED EARNINGS PER SHARE

ACCOUNTING POLICY

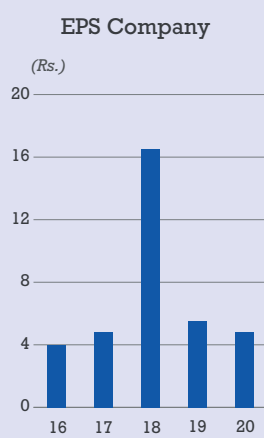
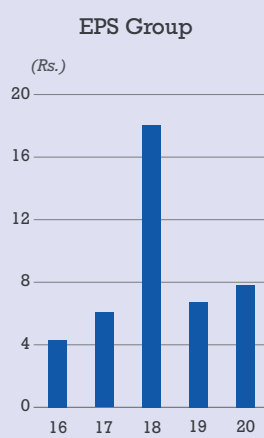
The Group presents basic Earnings Per Share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the Net Profit or Loss After Tax for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting Net Profit or Loss After Tax for the year attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

45.1 Basic Earnings Per Share (EPS)

For the Year Ended 31st December,	Group			Company		
	2020	2019 Restated	2019	2020	2019 Restated	2019
Amounts Used as the Numerator:						
Net Profit Attributable to Ordinary Shareholders (Rs.'000)	1,175,223	1,010,228	1,010,228	723,945	826,709	826,709
Number of Ordinary Shares used as the Denominator:						
Weighted Average No. of Ordinary Shares as at 31st December ('000)	150,000	150,000	50,000	150,000	150,000	50,000
Basic Earnings Per Share (Rs.)	7.83	6.73*	20.20	4.83*	5.51	16.53

* Basic Earnings Per Share of 2019 have been restated based on the post subdivision weighted average number of ordinary shares as at 31st December 2020.

At the meeting of Board of Directors of the Company held on 5th November 2020, the Board of Directors approved a subdivision of the Company shares, whereby one (1) existing shares was subdivided to three (3), thereby increasing the ordinary shares in issue from 50,000,000 to 150,000,000 ordinary shares. This has not altered the stated capital of the Company.



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

45. BASIC AND DILUTED EARNINGS PER SHARE (CONTD.)

45.2 Diluted Earnings Per Share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, Diluted Earnings Per Share is same as Basic Earnings Per Share shown above.

45.3 Movement of Weighted Average Number of Ordinary Shares

	Group		Company	
	2020	2019	2020	2019
Ordinary Shares at the Beginning of the year ('000)	50,000	50,000	50,000	50,000
Ordinary Shares on Share split ('000)	100,000	-	100,000	-
Weighted Average Number of Ordinary Shares After Share Split ('000)	150,000	50,000	150,000	50,000

46. DIVIDEND PER SHARE (DPS)

ACCOUNTING POLICY

Dividend on Ordinary Shares are recognised as a liability and deducted from equity when they are approved by the Group's Board of Directors/Shareholders in accordance with the Articles of Association. As per the requirements of the regulator, IRCSL, required information is provided prior to declaration of dividend.

For the Year Ended 31st December,	Group/Company	
	2020 Rs.'000	2019 Rs.'000
Interim Dividend per Share (Rs.)	-	2.00
Proposed Dividend per Share - Final (Rs.)	2.80*	6.00
Total	2.80*	8.00

* The dividend per share of 2020 is subsequent to the subdivision of shares.

46.1 Proposed Dividend

For the Year Ended 31st December,	Group/Company	
	2020 Rs.'000	2019 Rs.'000
Dividends to Shareholders	420,000	300,000
Total	420,000	300,000

46.2 Proposed Dividend

The Board of Directors has recommended a payment of Rs. 2.80 per share as a first and final dividend on 19th February 2021 for the year ended 31st December 2020 (2019 - final dividend Rs. 6.00 per share) which is subject to the approval of the shareholders at the Annual General Meeting to be held on 31st March 2021.

In accordance with Sri Lanka Accounting Standards LKAS 10 - Events after the Reporting Period, this proposed dividend has not been recognised as a liability as at 31st December 2020.

Under the Inland Revenue Act No. 24 of 2017, a withholding tax of 14% has been imposed on dividends declared from 1st April 2018 to 31st December 2019. However, from 1st January 2020 onwards WHT on dividend income has been abolished.

46.3 Compliance with the Section 56 and 57 of the Companies Act No. 7 of 2007

As required by the Section 56 of the Companies Act No. 7 of 2007, the Board of Directors of the Company has satisfied the Solvency Test in accordance with the Section 57, prior to the recommendation of the final dividend for the year ended 31st December 2020. A Statement of Solvency completed and duly signed by the Directors on 19th February 2021 has been audited by M/S KPMG Sri Lanka.

46.4 Dividend Paid during the Year

For the Year Ended 31st December,	Group/Company	
	2020	2019
	Rs.'000	Rs.'000
First Interim Dividend for 2019, Rs. 2.00 per share	-	100,000
Dividend for 2019 (Interim and Final Dividend for 2018: Rs. 7.00 per Share)	300,000	350,000
Total	300,000	450,000

48. RELATED PARTY DISCLOSURES

The Group carries out transactions in the ordinary course of its business with parties who are defined as related parties according to the Sri Lanka Accounting Standard LKAS 24 - "Related Party Disclosures".

Transactions with related parties were made on the basis of the price in force with non-related parties, but subject to approved discounts. Outstanding balances with related parties other than balances relating to investment related transactions as at the reporting date are unsecured and interest free. Settlement will take place in cash. Such outstanding balances have been included under respective assets and liabilities together with balances arising from transactions with non-related parties.

48.1 Recurrent or non-recurrent related party transactions

There were no recurrent related party transactions which exceeds 10% of the gross revenue or non-recurrent related party transactions which exceeds 10% of the equity or 5% of the total assets which requires additional disclosures under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13(c) of the Securities and Exchange Commission Act.

Details of related party transactions are reported below;

48.1.a Transactions and Outstanding Balances with Immediate and Ultimate Controlling Party - Hatton National Bank PLC

For the Year Ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Transactions				
Insurance Premium	10,888	77,821	-	-
Claims Incurred	22,836	14,901	-	-
Investment Income	84,826	103,762	64,266	82,689
Administration Expenses	334,218	323,747	229,114	225,412
Rent	8,869	9,259	5,586	6,010
Other Operational Expenses	1,468	2,218	939	1,302
Dividends Paid	179,958	269,937	179,958	269,937

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Outstanding Balances				
Investments (Includes Deposits and Debentures)	893,788	558,291	664,043	409,023
Cash at Bank Balances	560,336	369,543	328,230	246,185
Insurance Premium Receivable	56	40,802	-	-
Administration Expenses Payable	54,063	73,828	41,653	61,763
Rent and Other Operational Expenses Payable	181	391	79	242

48.1.b Transactions and Outstanding Balances with the Subsidiary Company - HNB General Insurance Limited

For the Year Ended 31st December,	2020	2019
	Rs.'000	Rs.'000
Transactions		
Insurance Premium	48,196	43,056
Insurance Expenses	37,579	7,917
Claims Received	42	200
Claims Paid	3,600	4,000
Administrations Expenses Reimbursement		
- Reimbursement expenses relating to employees	100,729	100,839
- Other reimbursement expenses	171,091	195,087
Fund Management Fee Income	11,547	6,483
Profit Commission Expenses	19,610	15,978
Net Dividend Received	-	59,425

As at 31st December,	2020	2019
	Rs.'000	Rs.'000
Outstanding Balances		
Receivable from HNB General Insurance Ltd	7,286	21,344

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

48. RELATED PARTY DISCLOSURES (CONTD.)

48.1.c Transactions and Outstanding Balances with Subsidiary Companies and Joint Ventures of the Ultimate Parent Hatton National Bank PLC

For the Year ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
a) Sithma Development (Pvt) Ltd				
Transactions				
Insurance Premium	(2,783)	13,333	-	-
Claims Paid	-	395	-	-

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Outstanding Balances				
Insurance Premium Receivable	3,152	11,502	-	-

For the Year ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
b) HNB Finance PLC				
Transactions				
Insurance Premium	10,921	16,749	-	-
Claims Incurred	1,933	3,533	-	-
Administration Expenses	5,828	8,887	66	241
Interest Income	24,079	7,556	24,079	7,556

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Outstanding Balances				
Insurance Premium Receivable	397	63	-	-
Investment in Term Deposits	50,076	50,806	50,076	50,806
Investment in Debentures	125,090	125,045	125,090	125,045
Cash and Savings Account Balance	66	311	66	311
Administration Expenses Payable	928	732	4	49

For the Year ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
c) Acuity Partners (Pvt) Ltd				
Transactions				
Insurance Premium	991	1,112	297	272
Claims Incurred	313	303	-	-

As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Outstanding Balances				
Insurance Premium Receivable	305	360	-	-

For the Year ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
d) Acuity Stockbrokers (Pvt) Ltd				
Transactions				
Insurance Premium	537	647	-	-
Claims Incurred	209	772	-	-
As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Outstanding Balances				
Insurance Premium Receivable	83	59	-	-
For the Year ended 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
e) Acuity Securities Ltd				
Transactions				
Insurance Premium	618	675	-	-
Claims Incurred	609	460	-	-
Investment Income from REPO	114,089	87,174	75,843	61,867
As at 31st December,	Group		Company	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Outstanding Balances				
Insurance Premium Receivable	164	150	-	-
Investment in REPO	2,827,051	2,072,482	2,011,243	1,349,087

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

48. RELATED PARTY DISCLOSURES (CONTD.)

48.2 Transactions with Key Management Personnel of the Group or its Parent

According to Sri Lanka Accounting Standard LKAS 24 - "Related Party Disclosures", Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors (including Executive and Non-Executive Directors) of the Group have been classified as Key Management Personnel of the Group. In Addition, Chief Operating Officer - Life and the Chief Financial Officer have also been classified as Key Management Personnel of the Group. Further their immediate family members are also considered as related parties of the Group.

Immediate family member is defined as spouse or dependent. A dependent is defined as anyone who depends on the respective KMP for his/her financial needs.

Hatton National Bank PLC (Bank) is the ultimate parent of the Group, and the Board of Directors of the Bank has the authority and responsibility of planning, directing and controlling the activities of the Group. The Directors of the Bank and their immediate family members have also been identified as Key Management Personnel of the Group.

Fees and transactions carried out with the related parties are given below,

48.2.a Key Management Personnel Compensation

For the Year Ended 31st December,	2020	2019
	Rs.'000	Rs.'000
Directors Fee	24,560	20,015
Short -Term Employee Benefits	61,930	51,824
Post - Employment Benefits	6,581	5,047
Outstanding Loan Balance Granted to KMPs (Other than Directors)	8,783	5,400

In addition to salaries, the Group also provides non-cash benefits to Key Management Personnel and contributes to a defined benefit plan (Gratuity) on behalf of them.

No loans have been granted to the Directors of the Group.

48.2.b Other Transactions with Key Management Personnel

For the Year Ended 31st December,	2020	2019
	Rs.'000	Rs.'000
Insurance Premium - Life Insurance	930	2,053
Insurance Premium - General Insurance	1,629	1,094
Claims Paid - Life Insurance	-	30,500
Claims Paid - General Insurance	1,805	84

48.2.c Following Directors were Appointed to the Board of HNB Assurance PLC and HNB General Insurance Limited.

Name of the Director/Alternative Director	Effective Date of Appointment
Dr. Thalpwila Kankanange Don Aruna Prasad Samarasinghe	24th January 2020

Dr. Thalpwila Kankanange Don Aruna Prasad Samarasinghe was appointed as the Alternate Director to Mr. L.U.D. Fernando of the Boards of HNB Assurance PLC and HNB General Insurance Limited.

48.2.d Appointment of Chief Executive Officer

Name of the Chief Executive Officer	Effective Date of Appointment
Mr. Prasantha Fernando	20th July 2020

Mr. Prasantha Fernando was appointed as the Chief Executive Officer of HNB Assurance PLC and HNB General Insurance Limited.

48.2.e Following Directors were Retired and Resigned from the Board of HNB Assurance PLC and HNB General Insurance LTD

Name of the Director/Alternative Director	Effective Date of Retirement/Resignation
Mr. Deepthi Prasad Lokuarachchi*	20th July 2020
Mr. K L Wijesooriya**	17th October 2020.

* Mr. Deepthi Prasad Lokuarachchi retired from the positions of Managing Director and Chief Executive Officer of HNB Assurance PLC and HNB General Insurance Limited.

** Mr. K L Wijesooriya resigned from the Board of the HNB Assurance PLC and HNB General Insurance Limited having served as an Alternate Director to Mr D P N Rodrigo.

48.2.f Transactions with Entities which are Controlled by the KMP or their Close Family Members (CFM)

Other related entities are those which are controlled or significantly influenced, directly or indirectly by Key Management Personnel of the Group. Significant influence is presumed to be established if a Key Management Person of the Group has more than 20% shareholding in an entity, unless otherwise reported by the Key Management Personnel. Further Significant influence is also established if in the view of the respective Key Management Person, he/she has the ability to influence the operating and financial policies of an entity even in the absence of a 20% shareholding.

Name of the Company	Control, Joint Control or Significant Influence by Key Management Personnel	Transactions	Group		Company	
			2020	2019	2020	2019
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Lanka Walltiles PLC	Dr. S Selliah	Insurance Premium	3,933	4,494	-	-
	Mr. J A P M Jayasekara	Claims Incurred	275	852	-	-
Lanka Ceramic PLC	Dr. Selliah	Insurance Premium	1,227	849	-	-
	Mr. J A P M Jayasekara	Claims Incurred	340	667	-	-
Lanka Tiles PLC	Dr. S Selliah	Insurance Premium	4,904	6,006	-	-
	Mr. J A P M Jayasekara	Claims Incurred	587	661	-	-
M N Properties (Pvt) Ltd	Mr. J A P M Jayasekara	Insurance Premium	13	176	-	-
		Claims Incurred	141	2	-	-
Swissteck (Ceylon) PLC	Dr. S Selliah	Insurance Premium	1,396	1,280	-	-
	Mr. J A P M Jayasekara	Claims Incurred	2	5	-	-
Swissteck Aluminium Ltd	Dr. S Selliah	Insurance Premium	-	151	-	-
	Mr. J A P M Jayasekara	Claims Incurred	15	42	-	-
Lanka Financial Services Bureau	Mr. A J Alles	Insurance Premium	11	11	-	-
A K K Engineers (Pvt) Ltd	Dr. L R Karunaratne	Insurance Premium	143	30	-	-
CIC Holdings PLC	Mr. R S Captain	Insurance Premium	1,474	1,496	-	-
Arunodhaya Industries (Pvt) Ltd	Dr. S Selliah	Insurance Premium	209	193	-	-
		Claims Incurred	-	289	-	-
Andysel (Pvt) Ltd	Dr. S Selliah	Insurance Premium	78	-	-	-
Arunodhaya Investments (Pvt) Ltd	Dr. S Selliah	Insurance Premium	199	199	-	-
Tokyo Cement Company (Lanka) PLC	Dr. L J S H Cabral	Insurance Premium	742	701	-	-
JAT Holdings (Pvt) Ltd	Dr. Sivakumar Selliah	Insurance Premium	698	-	-	-
Commercial Credit & Finance PLC	Mr. E D P Soosai pillai	Insurance Premium	4,806	4,503	-	-
		Claims Incurred	-	1,114	-	-
Ministry of Megapolis	Dr. L R Karunaratne	Insurance Premium	-	218	-	-

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

48. RELATED PARTY DISCLOSURES (CONTD.)

48.3 Transactions with the Government of Sri Lanka/Entities Controlled, Jointly Controlled, significantly influenced by the Government of Sri Lanka

The Government of Sri Lanka indirectly holds more than 25% of the voting rights of the Ultimate parent Company Hatton National Bank PLC as at 31st December 2020 and thus has significantly influenced over its operation and thereby holds an indirect control over the Group. Accordingly, the Group has considered the Government of Sri Lanka and other entities which are controlled, jointly controlled or significantly influenced by the Government of Sri Lanka (Government related entities) as Related Parties according to LKAS 24 - Related Party Disclosures.

During the year ended 31st December 2020, the Group has carried out transactions with the Government of Sri Lanka and other Government related entities in the ordinary course of its business where the aggregate amount of transactions has exceeded 10% of the Gross Written Premium. Details of transactions with the Government of Sri Lanka and its related entities are given below as per the Section 9.3.2b of the listing rules - "Related Party Transactions". All the transactions are carried out under the normal course of business at prevailing market prices.

Name of the Company/Entity	Government and Government Related Financial Institutes	Transactions and Outstanding Balances	Group		Company	
			2020	2019	2020	2019
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Government of Sri Lanka		Investment balances as at 31st December	10,014,045	8,318,186	8,308,811	6,935,124
		Investment Income	780,208	823,926	661,140	703,400
Bank of Ceylon	Government Related Entity	Investment balances as at 31st December	218,355	98,231	40,044	45,329
		Investment Income	18,479	9,012	5,315	6,110
National Development Bank PLC	Government Related Entity	Investment balances as at 31st December	2,093,205	1,775,927	1,760,510	1,503,735
		Investment Income	180,941	193,484	157,255	163,599
People's Bank	Government Related Entity	Investment balances as at 31st December	1,890,438	1,641,486	1,742,902	1,390,130
		Investment Income	164,190	160,880	145,782	134,687
National Savings Bank	Government Related Entity	Investment balances as at 31st December	1,694,298	883,490	1,491,939	705,381
		Investment Income	152,508	28,469	127,608	22,173
Sri Lanka Telecom PLC	Government Related Entity	Investment balances as at 31st December	148,112	148,062	148,112	148,062
		Investment Income	18,459	18,408	18,459	18,408

Apart from the transactions listed above the Group has carried out transactions with other Government related entities in the form of premium income, reinsurance premium, claims, taxes, utility bills, regulatory charges etc. The total of such payments made during the year ended 31st December 2020 and 2019 are as follows;

For the Year Ended 31 December,	2020	2019
	Rs.'000	Rs.'000
Transactions		
Premium Income from Government Related Entities	6,341	1,000
Claims Paid to Government Related Entities	1,918	26
Reinsurance Premium Net of Commission to Government Related Entities	342,836	411,046
Taxes Paid	409,653	785,004
Regulatory Charges	178,732	134,127
Utility Expenses	53,915	49,628
Media Expenses	504	199

49. EVENTS OCCURRING AFTER THE REPORTING DATE

ACCOUNTING POLICY

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. Two types of events can be identified as events occurring after the balance sheet date:

- those that provide evidence of conditions that existed at the end of the reporting period.
- those that are indicative of conditions that arose after the reporting period.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the Financial Statements.

49.1 PROPOSED DIVIDEND

The Board of Directors has recommended a payment of Rs. 2.80 per share as a first and final dividend on 19th February 2021 for the Year ended 31st December 2020. The proposed dividend is subject to the approval of shareholders at the Annual General Meeting and to be paid on or before 27th April 2021.

Other than mentioned above there have been no material events occurred after the reporting date that require adjustments or disclosure in those financial statements.

50. COMMITMENTS

50.1 The Group and Company has committed an expense of Rs. 24.1 Million for the purchase of computer software and equipment. As at end of the financial year, other than the disclosed above no material capital expenditure approved by the Board of Directors and contracted for which no provision has been made in the annual Financial Statements.

51. COVID-19 PANDEMIC AND RELATED IMPLICATIONS

As of the reporting date COVID 19 pandemic has affected businesses globally as well as locally. Following this outbreak, the business operations and activities of the Company/Group were temporary impacted.

In the backdrop of the developments which followed by various challenges faced by many sectors in the economy and the restrictions brought on people's movements due to COVID 19, the Group's operations were also affected considerably. The Group carried out an exercise to identify and ascertain the emerging risks attributable to COVID 19, its impact and consequences. Accordingly, a response plan has been activated intensifying the work from home concept aimed at maintaining the financial impact at a minimal level. The Company has taken various precautionary measures to protect employees, their families, and the eco system in which they interact based on instructions issued by the Government, while at the same time ensuring business continuity. The Group is regularly monitoring the situation.

The Group operations will continue in compliance with health and safety guidelines issued by the Government of Sri Lanka. The Company and the subsidiary both being licensed insurance companies are amenable to the jurisdiction of the Insurance Regulatory Commission of Sri Lanka (IRCSL). The IRCSL in response to difficulties faced by the insuring public has mandated the insurance companies to implement relief measures to mitigate the adverse impact faced by policyholders through its letter dated 11th April 2020 (referenced IRCSL/DG/2020/04/507) and subsequent amendments. Among the key relief measures and other directions are;

1. Extension of the period of grace for payment of premiums up to 90 days in respect of policies where the premium becomes due payable for the period 1st March 2020 to 30th June 2020 applicable for both Life and General Insurance policyholders.
2. Hitherto to the above insurers are required to ensure that all benefits under the policies are applicable during the said extension period.
3. All registered insurance companies shall refrain from declaring or distributing dividends not already declared for the financial year 2019 and any interim cash dividends for financial year 2020.
4. Monthly monitoring of solvency related ratios by the IRCSL

The Board carried out an assessment of the potential implications of COVID 19 on profitability and liquidity of the Company/Group and incorporated the required adjustments in the revised budget for the year ending 31st December 2020. Based on this assessment the Board is of the view that the Company/Group has adequate liquidity position considering the cash in hand and other liquid investments. Accordingly, the Company/Group will not have any limitations in meeting the future obligations and ensuring business continuity.

The Board therefore is confident that COVID 19 will not impact the going concern ability of the Company/Group and will continue to monitor any material changes in future economic conditions and amend the business projections accordingly, if required.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

52. CONTINGENCIES

52.1 Assessment on Value Added Tax (VAT) on Reinsurance Claims

The Company received an Assessment on Value Added Tax (VAT) on Reinsurance Claims on 26th April 2013 from the IRD in respect of the Year of Assessment 2010/2011 for which the Company filed responses in consultation with our Tax Consultant to IRD and upon the receipt of determination from IRD, the Company made an appeal to the Tax Appeals Commission (TAC) of Sri Lanka. The TAC has granted their final determination confirming the determination made by IRD and dismissed the appeal made by the Company. The Company has filed a case in the Court of Appeal with the consultation of Tax Consultant and Company's Lawyers and the Court of Appeal is yet to fix for argument. As the Company is of the strong view that no additional Tax liabilities will arise due to this assessment, no provision is made in the Financial Statements for the tax in dispute and penalty which amounts to Rs. 21.99 Million.

52.2 Assessment on VAT and NBT on Financial Services

The Company received three Notices of Assessment on VAT and NBT on Financial Services for the taxable periods 01.01.2014 to 31.12.2014, 01.01.2015 to 31.12.2015 and 01.01.2016 to 31.12.2016. The Company has duly appealed for all three assessments as the Company's stance is that, it is in the business of Insurance hence it is not liable for VAT or NBT on FS. Other insurers have also received similar assessments and have appealed against them. The status of each assessment is provided in the table below.

Taxable Period	Date of Assessment	Status of Assessment	Tax Type	Measurement of Contingent Impact to the Company		
				Tax in Default (Rs. Mn)	Penalty (Rs. Mn)	Total (Rs. Mn)
2014.01.01-2014.12.31	2018.07.10	Pending decision from Tax Appeals Commission	VAT	21.06	10.53	31.59
			NBT	N/A	N/A	N/A
2015.01.01-2015.12.31	2019.04.08	Pending decision from IRD	VAT	17.55	12.98	30.53
			NBT	2.83	1.41	4.24
2016.01.01-2016.12.31	2019.04.08	Pending decision from IRD	VAT	24.86	12.43	37.29
			NBT	4.01	2.00	6.01
Total				70.31	39.35	109.66

52.3 Assessment on VAT

The Company and its Subsidiary have received VAT notice of assessments. The Company has duly appealed against these Assessments in consultation with Tax Consultants on the basis that no proper reasons were communicated as to why the penalty and default notices were raised against the Company. However, we have not received any communication from IRD yet. As such no provision is made in the Financial Statements for the tax in dispute and penalty which amounts to Rs. 1.56 Million. Further, the subsidiary, HNB General Insurance Limited, has received a tax assessment and penalty amounting to Rs. 11.24 Million on VAT returns filed and the subsidiary has duly appealed against the assessment. As such no provisions are made in these the Financial Statements.

52.4 Assessments for Income Tax on Life Insurance Taxation

The Company has received Income Tax Assessments for Life Insurance Taxation for the years of assessments 2011/2012, 2012/2013, 2013/2014, 2014/2015, 2015/2016, 2016/2017 and 2017/2018. In the view of the Company and its Tax Consultants, these Assessments do not conform to the description of requirements stated under the Section 92 of Inland Revenue Act No. 10 of 2006. Further, these Income Tax Assessments have been common Assessments for all Life Insurance companies in the insurance industry. However, the management and the Company's Tax Consultant are of the view that the company has followed the due process and acted in accordance with the prevailing laws in its tax submissions. Therefore, the probability of the Company having to settle any of these tax assessments are very low. Therefore, no additional provision has been made in the Financial Statements.

The Company has duly appealed against these assessments in consultation with Tax Consultants and the status of each Assessment is provided in the table below.

Year of Assessment	Date of Assessment/ Intimation	Status of Assessment	Measurement of Contingent Impact to the Company	Total Additional Liability (Rs. Million)
2011/2012	2014.11.20	Pending decision from Tax Appeals Commission	Brought forward Tax loss of Life Insurance business will be reduced by Rs. 310 Million	-
2012/2013	2015.11.30	Pending decision from Tax Appeals Commission	Brought forward Tax loss of Life Insurance business will be reduced by Rs. 278 Million	-
2013/2014	2016.05.30	Pending decision from Tax Appeals Commission	An additional Tax Liability will arise	132
2014/2015	2017.05.30	Pending decision from Tax Appeals Commission	An additional Tax Liability will arise	136
2015/2016	2018.05.31	Pending decision from Commissioner General of Inland Revenue	An additional Tax Liability will arise	164
2016/2017	2019.01.29	Pending decision from Commissioner General of Inland Revenue	An additional Tax Liability will arise	290
2017/2018	2020.05.19	Pending decision from Commissioner General of Inland Revenue	An additional Tax Liability will arise	434
Total				1,156

53. LITIGATIONS AND CLAIMS

In the opinion of the Directors and in consultation with the Company lawyers, litigation currently pending against the Group and Company will not have a material impact on the reported Financial results or future operations. All pending litigations for claims have been evaluated and adequate provisions have been made in these Financial Statements where necessary.

54. COMPARATIVE INFORMATION

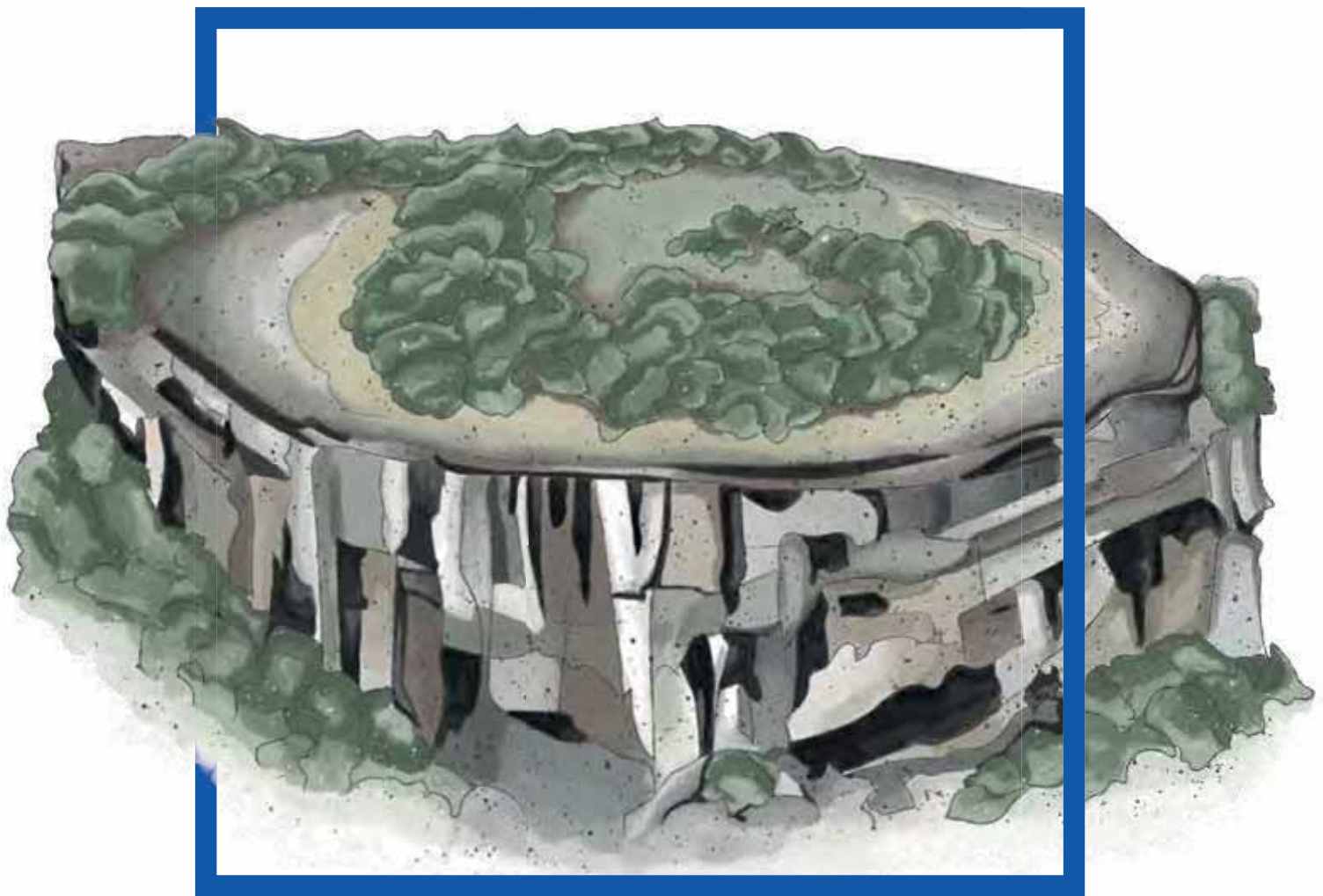
The presentation and classification of following items in these Financial Statements are rearranged to ensure comparability with the current year information.

As Presented in the Statement of Profit or Loss and Other Comprehensive Income	After Rearrangement		Amount Rearranged		Prior to Rearrangement	
	Group Rs. '000	Company Rs. '000	Group Rs. '000	Company Rs. '000	Group Rs. '000	Company Rs. '000
For the Year Ended 31st December 2019,						
Fee and Commission Income	121,510	42,733	(49,482)	(49,482)	170,992	92,215
Other Operating and Administration Expenses	2,336,042	1,342,591	(49,482)	(49,482)	2,385,524	1,392,073

Fund management fee income of prior year has been rearranged to net off with the respective expense recognised to be consistent with the current year presentation. These rearrangements had no effect on the reported profit of the Group/Company. An adjustment has been made to the Fee and Commission Income and Other Operating and Administration Expenses for financial year ended 31st December 2019 to eliminate the income and expense of Rs 49.5 million. The reason for this elimination is both income and expense were generated within the Company.

55. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for these Financial Statements. Please refer to pages 186 to 187 of the Statement of Directors' Responsibility for Financial Reporting.




Danigala, Polonnaruwa.

Possessing a unique circular formation, Danigala in Polonnaruwa is an area rich in resources and abounding in diversity, exemplifying wealth creation and prosperity in more ways than one.

SUPPLEMENTARY INFORMATION

A SOURCE OF WEALTH



Here at HNB Assurance, we believe in defining wealth creation through a holistic, 360° focus. Our widespread impact continues to inspire positivity and prosperity in the life of every stakeholder we serve - even as we hold fast to the promise of meeting their needs and expectations above all.

This section illustrates how we have lived up to this pledge during the year under review - delivering sustainable stakeholder wealth year on year, with the promise of abundance in the years to come.

STATEMENT OF FINANCIAL POSITION OF THE LIFE INSURANCE FUND - SUPPLEMENTAL

As at 31st December,			2020	2019
	Note	Page No.	Rs.'000	Rs.'000
Assets				
Financial Investments	A	333	17,690,083	14,391,366
Loans to Life Policyholders	B	337	379,736	325,307
Reinsurance Receivables	C	338	172,699	144,715
Premium Receivables	14	276	4,988	9,458
Other Assets	D	338	95,009	87,754
Cash and Cash Equivalents	E	338	319,267	325,754
Total Assets			18,661,782	15,284,354
Equity and Liabilities				
Life Policyholders' Available For Sale Reserve Fund	22	284	757,933	177,228
Total Equity			757,933	177,228
Liabilities				
Insurance Contract Liabilities - Life Insurance	24	286	17,064,089	14,464,534
Reinsurance Creditors	F	338	290,916	125,151
Other Liabilities	G	338	375,793	324,817
Bank Overdrafts	E	338	53,904	31,050
Payable to Life Shareholders			119,147	161,574
Total Liabilities			17,903,849	15,107,126
Total Equity and Liabilities			18,661,782	15,284,354

The Notes to the Supplemental Statement of Financial Position as set out on pages 333 to 338 form an integral part of these Financial Statements.

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS - LIFE INSURANCE FUND

A. FINANCIAL INVESTMENT

As at 31st December,	Note	2020 Rs.'000	2019 Rs.'000
Loans and Receivable	A.1	11,002,659	8,864,157
Available For Sale	A.2	6,147,274	5,449,385
Fair Value Through Profit or Loss	A.3	540,150	77,824
Total Financial Investments		17,690,083	14,391,366

The table below shows the carrying values of these Financial Instruments together with their fair values.

As at 31st December,	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Loans and Receivable	11,002,659	11,951,982	8,864,157	9,185,548
Available For Sale	6,147,274	6,147,274	5,449,385	5,449,385
Fair Value Through Profit or Loss	540,150	540,150	77,824	77,824
Total Financial Investments	17,690,083	18,639,406	14,391,366	14,712,757

As at 31st December,	Note	2020		2019	
		Carrying value	Fair value	Carrying value	Fair value
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
A.1 Loans and Receivable					
Repos		1,311,326	1,311,326	1,021,250	1,021,250
Term Deposit	A.4	5,518,031	5,878,662	4,002,468	4,090,724
Corporate Debt	A.5	4,169,558	4,758,250	3,840,439	4,073,574
Sri Lanka Development Bond		3,744	3,744	-	-
Total		11,002,659	11,951,982	8,864,157	9,185,548
A.2 Available for Sale					
Treasury Bonds		6,096,674	6,096,674	5,401,325	5,401,325
Treasury Bills		-	-	-	-
Equity Shares	A.6	50,600	50,600	48,060	48,060
Total		6,147,274	6,147,274	5,449,385	5,449,385
A.3 Fair Value Through Profit or Loss					
Investment in Units	A.7	441,564	441,564	-	-
Equity Shares	A.8	98,586	98,586	77,824	77,824
Total		540,150	540,150	77,824	77,824

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS - LIFE INSURANCE FUND

A. FINANCIAL INVESTMENT (CONTD.)

As at 31st December,

	Note	2020		2019	
		Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
A.4. Term Deposits					
Long-Term and Medium-Term Deposits with,					
Licensed Commercial Banks	A.4.1.	3,181,337	3,274,075	2,264,213	2,288,501
Licensed Specialised Banks		706,875	760,047	251,744	253,111
Licensed Finance Companies	A.4.2.	1,629,819	1,844,540	1,486,511	1,549,112
Total		5,518,031	5,878,662	4,002,468	4,090,724
A.4.1. Licensed Commercial Banks					
Term Deposits with Related Parties - Hatton National Bank PLC		316,493	316,493	144,865	144,865
Other Banks		2,864,844	2,957,582	2,119,348	2,143,636
Total		3,181,337	3,274,075	2,264,213	2,288,501
A.4.2. Licensed Finance Companies					
Term Deposits with Related Parties - HNB Finance PLC		50,076	55,215	50,806	54,130
Other Finance Companies		1,579,743	1,789,325	1,435,705	1,494,982
Total		1,629,819	1,844,540	1,486,511	1,549,112
A.5. Corporate Debt					
Debentures - Quoted	A.5.1	3,822,471	4,381,952	3,840,439	4,073,574
Debentures - Unquoted	A.5.2	347,087	376,298	-	-
Total		4,169,558	4,758,250	3,840,439	4,073,574

As at 31st December,	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
A.5.1 Debentures - Quoted				
Access Engineering PLC	-	-	96,147	96,609
Bank of Ceylon	40,044	42,503	45,329	42,347
Commercial Bank of Ceylon PLC	174,643	207,605	174,643	185,751
Commercial Credit and Finance PLC	-	-	81,298	81,098
Commercial Leasing and Finance PLC	164,511	180,748	43,900	41,740
DFCC Bank PLC	912,189	1,083,286	766,123	845,590
Hatton National Bank PLC	226,975	244,228	222,557	228,197
Hayleys PLC	307,638	343,907	307,580	322,027
HNB Finance PLC	100,072	117,052	100,036	106,732
LOLC Holdings PLC	207,808	254,450	207,808	235,805
LB Finance PLC	9,066	9,977	9,092	9,533
National Development Bank PLC	212,367	236,394	166,686	177,182
Nations Trust Bank PLC	434,199	494,943	434,049	460,251
People's Leasing & Finance PLC	89,990	97,311	105,161	109,860
Sri Lanka Telecom PLC	148,112	186,424	148,062	160,211
Sampath Bank PLC	473,344	532,790	562,488	591,971
Seylan Bank PLC	218,060	240,653	250,677	255,891
Singer (Sri Lanka) PLC	72,186	75,177	72,163	74,276
Siyapatha Finance PLC	31,267	34,504	31,257	33,075
Vallibel Finance PLC	-	-	15,383	15,428
Total Investment in Quoted Debentures	3,822,471	4,381,952	3,840,439	4,073,574

As at 31st December,	2020		2019	
	Carrying value	Fair value	Carrying value	Fair value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
A.5.2 Debentures - Unquoted				
DFCC Bank PLC	190,958	211,226	-	-
People's Bank	156,129	165,072	-	-
Total Investment in Unquoted Debentures	347,087	376,298	-	-

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS- LIFE INSURANCE FUND

A. FINANCIAL INVESTMENT (CONTD.)

As at 31st December,	2020			2019		
	No. of Shares	Cost Rs.'000	Carrying/ Fair Value Rs.'000	No. of Shares	Cost Rs.'000	Carrying/ Fair Value Rs.'000
	A.6. Equity Shares - Available For Sale					
Banks, Finance and Insurance						
Seylan Bank PLC - (Non-Voting)	278,710	11,827	9,783	278,710	11,548	9,420
Sampath Bank PLC	41,382	7,220	5,611	41,382	7,220	6,720
Central Finance Company PLC	140,201	16,921	11,637	138,104	16,756	14,363
Sector Total (a)			27,031			30,503
Diversified Holdings						
Melstacorp PLC	39,532	2,343	2,056	39,532	2,343	1,720
Sector Total (b)			2,056			1,720
Manufacturing						
Tokyo Cement Company (Lanka) PLC	71,002	886	5,410	71,002	886	3,408
Royal Ceramics Lanka PLC	50,000	6,067	8,855	50,000	6,067	4,425
Sector Total (c)			14,265			7,833
Beverage, Food and Tobacco						
Distilleries Company of Sri Lanka PLC	11,713	-	240	11,713	-	217
Sector Total (d)			240			217
Land and Property						
Overseas Realty (Ceylon) PLC	486,679	12,453	7,008	486,679	12,453	7,787
Sector Total (e)			7,008			7,787
Total Investment in Quoted Shares (a+b+c+d+e)			50,600			48,060

As at 31st December,	2020		2019	
	No. of Units	Carrying/ Fair Value Rs.'000	No. of Units	Carrying/ Fair Value Rs.'000
	A.7. Investment in Units Unquoted			
NDB Wealth Money Plus Fund	4,734,335	111,024	-	-
JB Vantage Money Market Fund	4,015,147	110,160	-	-
Capital Alliance Investment Grade Fund	5,581,749	110,183	-	-
Capital Alliance Income Fund	5,381,752	110,196	-	-
Total Investment in Unquoted Units		441,564		-

As at 31st December,	2020			2019		
	No. of Shares	Cost Rs.'000	Carrying/ Fair Value Rs.'000	No. of Shares	Cost Rs.'000	Carrying/ Fair Value Rs.'000
A.8. Equity Shares - Fair Value Through Profit or Loss						
Banks, Finance and Insurance						
National Development Bank PLC	-	-	-	3,594	384	358
Sampath Bank PLC	64,634	12,527	8,764	64,634	12,527	10,496
Nations Trust Bank PLC	91,471	6,258	5,488	91,471	6,258	7,318
Peoples Leasing & Finance PLC	513,583	9,067	6,368	490,414	8,773	8,778
Seylan Bank PLC (Non-Voting)	368,673	11,994	12,535	357,116	11,637	12,071
Sector Total (a)			33,155			39,021
Diversified Holdings						
John Keells Holdings PLC	29,670	3,679	4,439	29,670	3,679	4,973
Richard Pieris and Company PLC	312,851	4,351	4,661	312,851	4,351	3,692
Vallibel One PLC	200,000	3,600	5,200	200,000	3,600	3,500
Melstacorp PLC	55,000	3,260	2,860	55,000	3,260	2,393
Sector Total (b)			17,160			14,558
Beverage Food and Tobacco						
Distilleries Company of Sri Lanka PLC	22,222	-	456	22,222	-	411
Sector Total (c)			456			411
Manufacturing						
Royal Ceramic Lanka PLC	28,000	4,318	4,959	28,000	4,318	2,478
ACL Cables PLC	95,200	3,016	7,292	95,200	3,016	5,474
Tokyo Cement Company (Lanka) PLC	320,869	11,938	24,450	330,869	12,278	15,882
Dipped Products PLC	32,000	9,921	11,114	-	-	-
Sector Total (d)			47,815			23,834
Total Investment in Quoted Shares (a+b+c+d)			98,586			77,824

As at 31st December,	2020	2019
	Rs.'000	Rs.'000
B. LOANS TO LIFE POLICYHOLDERS		
Balance as at 1st January	269,579	200,951
Loans Granted during the Year	120,711	148,357
Repayments during the year	(86,809)	(79,729)
	303,481	269,579
Interest Receivable	76,255	55,728
Balance as at 31st December	379,736	325,307

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS- LIFE INSURANCE FUND

As at 31st December,		2020 Rs.'000	2019 Rs.'000
C. REINSURANCE RECEIVABLES			
Reinsurance Receivable on Outstanding Claims		35,129	65,275
Reinsurance Receivable on Settled Claims	C.1	137,570	79,440
Total Reinsurance Receivable		172,699	144,715
C.1 Reinsurance Receivable on Settled Claims			
The Age Analysis of the Reinsurance Receivable on Settled Claims is as Follows:			
Up to 30 days		9,049	6,392
31 to 60 days		2,865	9,237
61 to 90 days		24,407	29,439
91 to 180 days		26,098	25,442
181 to 365 days		30,081	8,930
Over 365		45,070	-
Total Reinsurance Receivable on Settled Claims		137,570	79,440
D. OTHER ASSETS			
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	D.1	83,607	82,408
Other Receivables		11,402	5,346
Total Other Assets		95,009	87,754
D.1 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)			
Withholding Tax Recoverable (WHT)		83,607	82,408
Total Taxes Recoverable		83,607	82,408
E. CASH AND CASH EQUIVALENTS			
Cash in Hand		1,532	1,410
Cash at Bank with Licensed Commercial Banks		9,625	1,347
Cash at Bank with Related Parties		308,110	222,334
		319,267	225,091
Short - Term Deposits	E.1	-	100,663
Cash and Cash Equivalents		319,267	325,754
Bank Overdrafts		(53,904)	(31,050)
Total Cash and Cash Equivalents		265,363	294,704
E.1 Short - Term Deposits			
Licensed Commercial Banks		-	100,663
Total Short - Term Deposits		-	100,663
F. REINSURANCE CREDITORS			
Foreign Reinsurer		290,916	125,151
G. OTHER LIABILITIES			
Policyholders Advance Payments		198,587	133,572
Acquisition Cost Payable		107,722	140,142
Taxes and Government Levies		15,459	19,012
Others		54,025	32,091
Total Other Liabilities		375,793	324,817

INSURANCE REVENUE ACCOUNT

For the Year Ended 31st December,	2020 Rs.'000	2019 Rs.'000
Life Insurance		
Gross Written Premium	5,487,039	5,175,044
Premium Ceded to Reinsurers	(265,164)	(240,974)
Net Written/Earned Premium	5,221,875	4,934,070
Net Benefits Expense	(1,494,181)	(1,338,015)
Net Commission	(904,213)	(975,445)
Expenses Attributable to Policyholders	(1,455,645)	(1,429,739)
Fees and Commission Income	23,398	36,249
Underwriting Surplus	1,391,233	1,227,120
Change in contract Liabilities - Life Fund	(2,576,169)	(2,173,251)
Interest and Dividend Income	1,739,030	1,568,168
Net Realised Gains	44,909	70,000
Net Fair Value Gain/(Losses)	12,586	(6,370)
Other Income	613	1,749
Surplus from Life Insurance Business	612,203	687,416
Shareholder Fund		
Expenses not Attributable to Policyholders	(16,253)	(19,361)
Total Other Revenue from Shareholders Fund	403,413	438,480
Profit Before Taxation (a)	999,363	1,106,535
General Insurance		
Gross Written Premium	4,997,728	4,818,686
Premium Ceded to Reinsurers	(1,042,814)	(1,071,907)
Net Written Premium	3,954,914	3,746,779
Net Change in Reserves for Unearned Premium	(164,257)	(156,216)
Net Earned Premium	3,790,657	3,590,563
Net Claims Incurred	(2,064,502)	(2,282,960)
Net Commission	(584,507)	(554,442)
Decrease/(Increase) in Deferred Acquisition Expenses	24,997	(1,864)
Expenses	(1,063,179)	(887,270)
Fees and Commission Income	137,055	101,239
Underwriting Deficit	240,521	(34,734)
Interest and Dividend Income	367,955	358,884
Net Realised Gains	8,725	19,901
Net Fair Value Gain/(Losses)	4,709	(2,456)
Other Income	9,223	13,231
Operating Profit from General Insurance Business (b)	631,133	354,826
Reconciliation of Statement of Income and Insurance Revenue Accounts		
Surplus from Life Insurance Business (a)	999,363	1,106,535
Operating Profit from the Subsidiary (b)	631,133	354,826
Profit Before Taxation	1,630,496	1,461,361
Consolidated adjustments		
Dividend received from subsidiary	-	(59,425)
Realised Gains on sale of AFS investments	-	2,955
	1,630,496	1,404,891
Income Tax Expense	(455,273)	(394,663)
Profit for the Year	1,175,223	1,010,228

TAKAFUL BUSINESS ANALYSIS - PROFITABILITY

For the Year Ended 31st December,	Family-Takaful	
	2020	2019
	Rs.'000	Rs.'000
Gross Written Contribution (Premium)	2,003	4,401
Contribution (Premium) Ceded to Retakaful Companies (Reinsurers)*	(1,873)	(1,651)
Net Earned Contribution (Premium)	130	2,750
Other Income	1,567	1,507
Net Income	1,697	4,257
Total Benefits, Loss (Claims) and Other Expenses	(1,379)	(787)
Transfer to Family Takaful Fund	318	3,470

For the Year Ended 31st December,	Non Life -Takaful	
	2020	2019
	Rs.'000	Rs.'000
Gross Written Contribution (Premium)	422,268	549,004
Contribution (Premium) Ceded to Retakaful Companies (Reinsurers)*	(75,529)	(96,387)
Unearned Takaful Contribution (Premium)	64,687	(929)
Net Earned Contribution (Premium)	411,426	451,688
Other Income	25,635	33,060
Net Income	437,061	484,748
Total Benefits, Loss (Claims) and Other Expenses	(368,527)	(456,226)
Profit for the Year	68,534	28,522

* Reinsurance may be obtained from conventional entities in the absence of Retakaful arrangements.

Shari'ah Audit Reports of HNB Assurance PLC Takaful Unit and HNB General insurance Limited Takaful Unit are given on Pages 341 and 342 respectively.

SHARI'AH AUDIT REPORT OF HNBA TAKAFUL UNIT

We have examined the accompanying financial statement of HNBA Takaful Unit for the year ended 31st December 2020. We have also conducted our review to form an opinion as to whether HNBA Takaful Unit has complied with Shari'ah Rules and principles and also with the specific regulations and guidelines issued by us.

Managements Responsibility for the Financial Statements

HNBA Takaful unit's management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic Shari'ah rules and principles. Our responsibility as the Shari'ah committee is to form an independent opinion, based on our review of the operations of HNBA Takaful Unit, and to report to you.

Scope of Audit and Basis of Opinion

The scope of our audit primarily involves the review of HNBA Takaful Unit's compliance with the Shari'ah Regulations and Guidelines. Our review also includes examining, on a test basis, each type of product in relation to issuance, compensations and accountings.

Opinion

In our opinion and to the best of our information and belief and according to the explanations given to us:

- a) The financials transactions undertaken by HNBA Takaful Unit, during the year ended 31st December 2020, were in accordance with the guidelines prescribed by the Shari'ah Supervisory Board and in conformity with the requirements of Takaful regulations.
- b) HNBA Takaful Unit was, in operational respect, in compliance with the Shari'ah principles. Further, we also concur with the accounting policies adopted for incorporation of participant Takaful Fund into the accompanying financial statements.



ASH – SHEIKH FAZIL M. FAROOK
Chairman
Shari'ah Supervisory Board



ASH – SHEIKH MURSHID M. MULAFFER
Member
Shari'ah Supervisory Board



ASH – SHEIKH HUZAIFA HUSSAIN
Member
Shari'ah Supervisory Board

SHARI'AH AUDIT REPORT OF HNB GENERAL TAKAFUL UNIT

We have examined the accompanying financial statement of HNBG Takaful Unit for the year ended 31st December 2020. We have also conducted our review to form an opinion as to whether HNBG Takaful Unit has complied with Shari'ah Rules and principles and also with the specific regulations and guidelines issued by us.

Managements Responsibility for the Financial Statements

HNBG Takaful unit's management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic Shari'ah rules and principles. Our responsibility as the Shari'ah committee is to form an independent opinion, based on our review of the operations of HNBG Takaful Unit, and to report to you.

Scope of Audit and Basis of Opinion

The scope of our audit primarily involves the review of HNBG Takaful Unit's compliance with the Shari'ah Regulations and Guidelines. Our review also includes examining, on a test basis, each type of product in relation to issuance, compensations and accountings.

Opinion

In our opinion and to the best of our information and belief and according to the explanations given to us:

- a) The financials transactions undertaken by HNBG Takaful Unit, during the year ended 31st December 2020, were in accordance with the guidelines prescribed by the Shari'ah Supervisory Board and in conformity with the requirements of Takaful regulations.
- b) HNBG Takaful Unit was, in operational respect, in compliance with the Shari'ah principles. Further, we also concur with the accounting policies adopted for incorporation of participant Takaful Fund into the accompanying financial statements.


ASH – SHEIKH FAZIL M. FAROOK
Chairman
Shari'ah Supervisory Board


ASH – SHEIKH MURSHID M. MULAFFER
Member
Shari'ah Supervisory Board


ASH – SHEIKH HUZAIFA HUSSAIN
Member
Shari'ah Supervisory Board

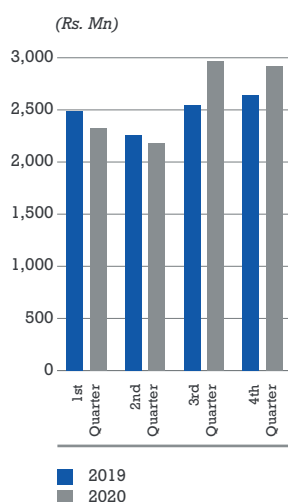
QUARTERLY ANALYSIS 2020 AND 2019 - GROUP

Statement of Profit or Loss

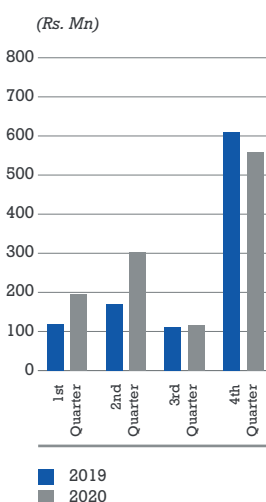
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Jan - March		Apr - June		Jul - Sep		Oct - Dec		Jan - Dec	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	2,328,934	2,492,178	2,177,953	2,259,765	2,971,996	2,550,103	2,920,109	2,640,711	10,398,992	9,942,757
Premium Ceded to Reinsurers	(319,684)	(346,661)	(290,794)	(332,408)	(297,434)	(286,797)	(400,066)	(347,015)	(1,307,978)	(1,312,881)
Net Written Premium	2,009,250	2,145,517	1,887,159	1,927,357	2,674,562	2,263,306	2,520,043	2,293,696	9,091,014	8,629,876
Net Change in Reserves for Unearned Premium	(43,846)	(102,877)	25,914	(4,618)	(131,590)	(82,721)	(14,735)	34,000	(164,257)	(156,216)
Net Earned Premium (a)	1,965,404	2,042,640	1,913,073	1,922,739	2,542,972	2,180,585	2,505,308	2,327,696	8,926,757	8,473,660
Other Revenue										
Interest and Dividend Income	615,078	525,317	614,033	552,442	629,129	575,247	635,077	595,920	2,493,317	2,248,926
Net Realised Gains	188	4,311	12,206	18,513	13,597	6,028	27,643	64,004	53,634	92,856
Net Fair Value (Losses)/Gains	(17,924)	(23,335)	6,229	(14,560)	11,865	16,793	17,526	12,276	17,696	(8,826)
Fee and Commission Income	51,298	57,995	45,915	33,935	65,279	41,747	23,729	23,633	186,221	157,310
Other Income	1,560	4,753	6,604	10,824	5,392	6,565	1,414	(5,946)	14,970	16,196
Total Other Revenue (b)	650,200	569,041	684,987	601,154	725,262	646,380	705,389	689,887	2,765,838	2,506,462
Net Income (c=a+b)	2,615,604	2,611,681	2,598,060	2,523,893	3,268,234	2,826,965	3,210,697	3,017,583	11,692,595	10,980,122
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims	(841,732)	(937,628)	(707,524)	(857,195)	(1,072,754)	(973,020)	(936,631)	(852,932)	(3,558,641)	(3,620,775)
Change in Contract Liabilities - Life Fund	(611,475)	(691,644)	(610,501)	(541,684)	(970,927)	(667,653)	(383,266)	(272,270)	(2,576,169)	(2,173,251)
Other Operating and Administration Expenses	(605,372)	(486,490)	(596,384)	(588,841)	(678,587)	(646,640)	(711,244)	(649,871)	(2,591,587)	(2,371,842)
Underwriting and Net Acquisition Costs	(272,042)	(304,339)	(238,518)	(273,945)	(371,054)	(358,028)	(353,832)	(351,756)	(1,235,446)	(1,288,068)
Finance & Other Insurance Related Costs	(19,975)	(27,790)	(24,183)	(31,067)	(19,261)	(32,241)	(36,837)	(30,197)	(100,256)	(121,295)
Total Benefits, Claims and other Expenses (d)	(2,350,596)	(2,447,891)	(2,177,110)	(2,292,732)	(3,112,583)	(2,677,582)	(2,421,810)	(2,157,026)	(10,062,099)	(9,575,231)
Profit Before Taxation (c+d)	265,008	163,790	420,950	231,161	155,651	149,383	788,887	860,557	1,630,496	1,404,891
Income Tax Expense	(69,034)	(44,657)	(116,958)	(62,144)	(39,200)	(38,256)	(230,081)	(249,606)	(455,273)	(394,663)
Profit for the Period	195,974	119,133	303,992	169,017	116,451	111,127	558,806	610,951	1,175,223	1,010,228

Note 1: To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2019 annual report, and the comparative figures published in first, second, third and fourth quarters of 2020 have been reclassified where necessary.

Gross Written Premium - Group



Profit for the Period - Group



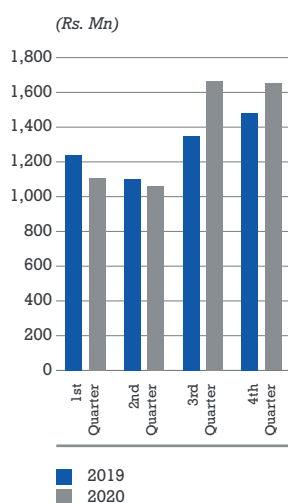
QUARTERLY ANALYSIS 2020 AND 2019 - COMPANY

Statement of Profit or Loss

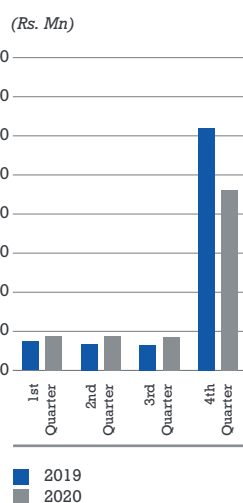
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Jan - March		Apr - June		Jul - Sep		Oct - Dec		Jan - Dec	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	1,106,940	1,239,820	1,062,643	1,104,074	1,666,774	1,349,467	1,650,682	1,481,683	5,487,039	5,175,044
Premium Ceded to Reinsurers	(68,085)	(58,779)	(59,088)	(58,448)	(66,359)	(60,645)	(71,632)	(63,102)	(265,164)	(240,974)
Net Earned Premium(a)	1,038,855	1,181,041	1,003,555	1,045,626	1,600,415	1,288,822	1,579,050	1,418,581	5,221,875	4,934,070
Other Revenue										
Interest and Dividend Income	522,463	442,505	523,557	465,547	536,975	482,035	542,367	559,380	2,125,362	1,949,467
Net Realised Gains	-	3,485	7,558	11,531	9,794	5,974	27,557	49,010	44,909	70,000
Net Fair Value (Losses)/Gains	(24,183)	(13,513)	9,077	(14,263)	12,663	9,915	15,430	11,491	12,987	(6,370)
Fee and Commission Income	24,921	39,563	19,675	16,209	23,263	17,439	12,464	5,321	80,323	78,532
Other Income	86	1,147	1,480	3,237	3,953	1,259	228	(2,678)	5,747	2,965
Total Other Revenue (b)	523,287	473,187	561,347	482,261	586,648	516,622	598,046	622,524	2,269,328	2,094,594
Net Income (c=a+b)	1,562,142	1,654,228	1,564,902	1,527,887	2,187,063	1,805,444	2,177,096	2,041,105	7,491,203	7,028,664
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims	(283,989)	(347,180)	(368,653)	(354,211)	(412,838)	(371,799)	(428,701)	(264,825)	(1,494,181)	(1,338,015)
Change in Contract Liabilities - Life Fund	(611,475)	(691,644)	(610,501)	(541,684)	(970,927)	(667,653)	(383,266)	(272,270)	(2,576,169)	(2,173,251)
Other Operating and Administration Expenses	(351,253)	(277,546)	(301,733)	(334,008)	(402,996)	(386,659)	(420,138)	(380,177)	(1,476,120)	(1,378,390)
Underwriting and Net Acquisition Costs	(185,762)	(223,249)	(159,887)	(191,700)	(273,961)	(273,439)	(268,917)	(271,162)	(888,527)	(959,550)
Finance & Other Insurance Related Costs	(11,879)	(16,818)	(10,786)	(18,137)	(14,800)	(19,482)	(19,378)	(18,486)	(56,843)	(72,923)
Total Benefits, Claims and other Expenses(d)	(1,444,358)	(1,556,437)	(1,451,560)	(1,439,740)	(2,075,522)	(1,719,032)	(1,520,400)	(1,206,920)	(6,491,840)	(5,922,129)
Profit Before Taxation (c+d)	117,784	97,791	113,342	88,147	111,541	86,412	656,696	834,185	999,363	1,106,535
Income Tax Expense	(28,445)	(23,839)	(26,711)	(20,992)	(25,235)	(20,431)	(195,027)	(214,564)	(275,418)	(279,826)
Profit for the Period	89,339	73,952	86,631	67,155	86,306	65,981	461,669	619,621	723,945	826,709

Note 1: To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2019 annual report, and the comparative figures published in first, second, third and fourth quarters of 2020 have been reclassified where necessary.

Gross Written Premium - Company



Profit for the Period - Company



DECADE AT A GLANCE

HNB ASSURANCE PLC - GROUP Statement of Financial Position

As at 31st December,	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets										
Property, Plant and Equipment	169,788	162,371	151,559	169,620	161,362	136,279	133,942	137,009	118,447	121,568
Right of use Assets	394,437	343,737	-	-	-	-	-	-	-	-
Intangible Assets	68,858	51,787	61,087	57,841	60,882	45,185	51,622	53,807	61,068	48,876
Deferred Tax Assets	738,721	1,009,711	1,304,882	64,098	52,922	49,394	-	2	-	-
Financial Investments	26,366,608	21,202,074	17,579,131	15,054,910	11,544,575	9,751,611	8,277,895	6,656,438	5,703,866	4,884,262
Loans to Life Policyholders	379,736	325,307	243,113	162,285	120,441	91,992	71,082	53,656	29,888	20,097
Reinsurance Receivables	771,776	645,411	415,773	569,778	494,726	141,354	162,260	105,390	162,715	130,867
Premium Receivables	1,111,594	946,650	798,213	786,319	623,294	345,916	364,051	301,182	247,417	231,385
Other Assets	864,414	933,633	823,101	1,036,846	770,674	625,985	683,149	575,180	482,216	397,385
Insurance Contract - Deferred Expenses	163,619	138,622	140,486	105,287	74,951	65,935	52,072	32,912	19,968	20,059
Cash and Cash Equivalents	711,111	865,843	761,871	641,950	625,527	386,929	173,245	144,087	209,293	190,355
Total Assets	31,740,662	26,625,146	22,279,216	18,648,934	14,529,354	11,640,580	9,969,318	8,059,663	7,034,878	6,044,854
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875
Retained Earnings	5,841,032	4,965,809	4,405,581	2,381,427	1,721,675	1,174,262	1,196,546	941,820	690,197	444,057
Available for Sale Reserve	93,754	24,801	(8,025)	30,685	(7,152)	(4,748)	3,590	1,427	6,209	-
Other Reserves	(51,520)	(6,525)	(4,406)	(10,760)	1,790	(1,093)	1,177	2,172	-	-
Life Policyholders' AFS Reserve Fund	757,933	177,228	(201,867)	223,272	(191,131)	(56,350)	40,748	(4,182)	(1,191)	(22,526)
Restricted Regulatory Reserve	381,156	381,156	381,156	-	-	-	-	-	-	-
Total Equity	8,194,230	6,714,344	5,744,314	3,796,499	2,697,057	2,283,946	2,413,936	2,113,112	1,867,090	1,593,406
Liabilities										
Insurance Contract Liabilities - Life	17,064,089	14,464,534	12,261,472	10,915,858	8,747,856	7,007,080	5,562,648	4,348,490	3,626,239	3,021,331
Insurance Contract Liabilities - General	3,309,149	2,871,416	2,525,095	2,384,906	1,921,567	1,546,265	1,279,138	1,011,102	969,443	944,321
Employee Defined Benefit Liabilities	254,438	167,118	140,356	126,083	90,433	81,001	71,493	56,637	42,360	34,129
Current Tax Liabilities	151,093	112,031	22,541	34,598	3,300	-	12,012	35,143	42,950	25,998
Deferred Tax Liabilities	-	-	-	-	-	-	8,845	-	-	-
Reinsurance Creditors	700,105	540,652	369,853	353,042	287,895	131,905	110,778	100,881	83,253	103,256
Lease Creditor	393,145	350,089	-	-	-	-	-	-	-	-
Other Liabilities	1,550,108	1,274,326	1,092,809	896,288	781,246	590,383	510,468	394,298	403,543	322,413
Bank Overdraft	124,305	130,636	122,776	141,660	-	-	-	-	-	-
Total Liabilities	23,546,432	19,910,802	16,534,902	14,852,435	11,832,297	9,356,634	7,555,382	5,946,551	5,167,788	4,451,448
Total Equity and Liabilities	31,740,662	26,625,146	22,279,216	18,648,934	14,529,354	11,640,580	9,969,318	8,059,663	7,034,878	6,044,854

Statement of Profit or Loss

For the year ended 31st December,	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	10,398,992	9,942,757	8,724,696	7,821,468	6,656,694	5,447,164	4,665,618	3,877,730	3,211,232	2,984,710
Net Earned Premium	8,926,757	8,473,660	7,448,439	6,392,077	5,597,879	4,725,403	3,845,510	3,269,181	2,697,024	2,349,619
Income from Investments and Other Income	2,720,460	2,470,663	2,178,559	1,911,857	1,298,327	1,049,152	1,167,910	937,417	736,810	466,956
Net Claims and Benefits	(3,558,641)	(3,620,775)	(3,236,489)	(2,293,406)	(1,947,645)	(2,117,789)	(1,573,104)	(1,568,208)	(1,154,521)	(865,130)
Change in Contract Liabilities - Life Fund	(2,576,169)	(2,173,251)	(1,707,149)	(2,166,427)	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)
Change in Contract Liability due to - Transfer of One-off Surplus	-	-	381,156	-	-	-	-	-	-	-
Underwriting and Net Acquisition Costs Expenses	(1,235,446)	(1,288,068)	(1,125,418)	(1,028,872)	(922,886)	(699,679)	(474,826)	(381,259)	(348,108)	(288,059)
Profit Before Taxation	1,630,496	1,404,891	1,580,654	927,027	705,521	169,773	438,583	425,093	393,866	271,840
Income Tax (Expense)/Reversal	(455,273)	(394,663)	1,124,656	(17,275)	(58,108)	27,571	(20,857)	(35,970)	(42,726)	(25,772)
Profit for the Year	1,175,223	1,010,228	2,705,310	909,752	647,413	197,344	417,726	389,124	351,140	246,068
Basic and Diluted Earnings per Share (Rs.)	7.83	20.20	54.11	18.20	12.95	3.95	8.35	7.78	7.02	5.14
Basic and Diluted Earnings per Share (Rs.) - Adjusted for Subdivision	7.83	6.73	18.04	6.07	4.32	1.32	2.78	2.59	2.34	1.64
Dividend per Share (Rs.)	2.80*	8.00	7.00	6.00	5.00	2.00	3.75	3.25	2.75	2.10

* Dividend per share of year 2020 presents after the subdivision.

DECADE AT A GLANCE

HNB ASSURANCE PLC/LIFE INSURANCE - COMPANY Statement of Financial Position

As at 31st December,	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets										
Property, Plant and Equipment	116,740	111,202	104,487	119,078	112,151	94,107	-	-	-	4,276
Right of use Assets	380,105	325,572	-	-	-	-	-	-	-	-
Intangible Assets	62,240	49,830	58,782	57,841	60,882	45,185	-	-	-	22,203
Deferred Tax Assets	725,255	1,000,673	1,280,499	-	-	-	-	-	-	-
Financial Investments	22,075,265	17,777,410	14,679,706	12,741,015	9,642,596	7,849,625	5,545,833	4,270,216	3,527,422	2,935,487
Investment in Subsidiary	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	-	-	-	-
Loans to Life Policyholders	379,736	325,307	243,113	162,285	120,441	91,992	71,082	53,656	29,888	20,097
Reinsurance Receivables	172,699	144,715	75,926	65,010	54,814	34,269	23,446	23,626	40,716	27,848
Premium Receivables	4,988	9,458	8,046	7,488	6,805	5,592	6,943	6,710	9,573	-
Other Assets	582,321	625,499	575,154	764,256	575,676	493,571	195,023	169,032	137,795	129,223
Cash & Cash Equivalents	393,522	632,712	502,561	352,307	476,572	258,222	88,482	74,705	129,916	62,468
Total Assets	26,042,871	22,152,378	18,678,274	15,419,280	12,199,937	10,022,563	5,930,809	4,597,945	3,875,310	3,201,602
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	-	-	-	-
Retained Earnings	4,968,314	4,544,369	4,167,660	2,373,601	1,897,936	1,397,806	-	-	-	-
Available for Sale Reserve	15,626	9,881	1,451	17,415	(1,465)	53	-	-	-	-
Other Reserves	(33,916)	(6,514)	(4,395)	9,884	(1,886)	(2,039)	(18,780)	928	-	-
Life Policyholders' AFS Reserve Fund	757,933	177,228	(201,867)	223,272	(191,131)	(56,350)	40,748	(4,182)	(1,191)	(22,526)
Restricted Regulatory Reserve	381,156	381,156	381,156	-	-	-	-	-	-	-
Total Equity	7,260,988	6,277,995	5,515,880	3,776,279	2,875,329	2,511,345	21,968	(3,254)	(1,191)	(22,526)
Liabilities										
Insurance Contract Liabilities - Life	17,064,089	14,464,534	12,261,472	10,915,858	8,747,856	7,007,080	5,562,648	4,348,490	3,626,239	3,021,331
Employee Defined Benefit Liabilities	150,729	100,076	84,840	73,875	50,883	44,008	31,508	6,747	4,943	4,565
Current Tax Liabilities	12,301	16,175	14,708	-	-	-	-	-	-	-
Reinsurance Creditors	290,916	125,151	116,268	90,650	39,395	37,547	30,921	24,849	29,928	28,106
Lease Creditor	377,746	334,832	-	-	-	-	-	-	-	-
Other Liabilities	832,198	802,565	642,470	529,862	486,474	422,583	283,764	221,113	215,391	170,126
Bank Overdraft	53,904	31,050	42,636	32,756	-	-	-	-	-	-
Total Liabilities	18,781,883	15,874,383	13,162,394	11,643,001	9,324,608	7,511,218	5,908,841	4,601,199	3,876,501	3,224,128
Total Equity and Liabilities	26,042,871	22,152,378	18,678,274	15,419,280	12,199,937	10,022,563	5,930,809	4,597,945	3,875,310	3,201,602

Statement of Profit or Loss

For the year ended 31st December,	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	5,487,039	5,175,044	4,420,513	3,963,642	3,554,078	2,788,716	2,342,867	2,014,547	1,500,028	1,290,367
Net Earned Premium	5,221,875	4,934,070	4,204,883	3,774,549	3,395,028	2,680,753	2,215,404	1,912,749	1,371,952	1,187,671
Income from Investments and Other										
Income	2,223,950	2,058,795	1,736,629	1,564,967	1,031,606	783,126	707,444	578,890	428,630	297,566
Net Claims and Benefits	(1,494,181)	(1,338,015)	(1,066,574)	(575,551)	(401,677)	(280,495)	(412,383)	(679,136)	(261,771)	(62,760)
Change in Contract Liabilities - Life Fund	(2,576,169)	(2,173,251)	(1,707,149)	(2,166,427)	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)
Change in Contract Liability due to -										
Transfer of One-off Surplus	-	-	381,156	-	-	-	-	-	-	-
Underwriting and Net Acquisition Costs	(888,527)	(959,550)	(847,968)	(822,715)	(748,051)	(544,673)	(386,651)	(327,858)	(294,456)	(247,379)
Expenses	(1,487,585)	(1,415,514)	(1,403,129)	(1,049,158)	(911,979)	(719,583)	(703,519)	(578,327)	(523,220)	(444,773)
Profit Before Taxation	999,363	1,106,535	1,297,848	725,665	656,642	457,028	228,022	181,489	165,226	172,000

HNB GENERAL INSURANCE LTD./GENERAL INSURANCE - SUBSIDIARY

Statement of Financial Position

As at 31st December,	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets										
Property, Plant and Equipment	53,048	51,169	47,072	50,542	49,211	42,172	133,942	137,009	118,447	117,292
Right of use Assets	14,332	18,165	-	-	-	-	-	-	-	-
Intangible Assets	6,618	1,957	2,305	-	-	-	51,622	53,807	61,068	26,673
Deferred Tax Assets	13,466	9,038	24,383	64,098	52,922	49,394	-	2	-	-
Financial Investments	4,291,343	3,424,664	2,899,425	2,313,895	1,901,979	1,901,986	2,732,062	2,386,222	2,176,444	1,948,775
Reinsurance Receivables	599,077	500,696	339,847	504,768	439,912	107,085	138,814	81,764	121,999	103,019
Premium Receivables	1,106,606	937,192	790,167	778,831	616,489	340,324	357,108	294,472	237,844	231,385
Other Assets	289,379	329,478	270,915	278,711	208,118	141,431	488,126	406,148	344,421	268,162
Insurance Contract - Deferred Expenses	163,619	138,622	140,486	105,287	74,951	65,935	52,072	32,912	19,968	20,059
Cash and Cash Equivalents	317,589	233,131	259,310	289,643	148,955	128,707	84,763	69,382	79,377	127,887
Total Assets	6,855,077	5,644,112	4,773,910	4,385,775	3,492,537	2,777,034	4,038,509	3,461,718	3,159,568	2,843,252
Equity and Liabilities										
Equity										
Stated Capital	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	1,171,875	1,171,875	1,171,875	1,171,875
Retained Earnings	872,718	421,440	240,876	10,781	(173,306)	(220,589)	1,196,546	941,820	690,197	444,057
Available for Sale Reserve	78,128	14,920	(12,431)	10,315	(8,642)	(7,756)	3,590	1,427	6,209	-
Other Reserves	(17,604)	(11)	(11)	(876)	3,676	946	19,957	1,244	-	-
Total Equity	2,083,242	1,586,349	1,378,434	1,170,220	971,728	922,601	2,391,968	2,116,366	1,868,281	1,615,932
Liabilities										
Insurance Contract Liabilities - General	3,309,149	2,871,416	2,525,095	2,384,906	1,921,567	1,546,265	1,279,138	1,011,102	969,443	944,321
Employee Defined Benefits Liabilities	103,709	67,042	55,516	52,208	39,550	36,993	39,985	49,890	37,417	29,564
Current Tax Liabilities	138,792	95,856	7,833	34,598	3,300	-	12,012	35,143	42,950	25,998
Deferred Tax Liabilities	-	-	-	-	-	-	8,845	-	-	-
Reinsurance Creditors	409,189	415,501	253,585	262,392	248,500	94,358	79,857	76,032	53,325	75,150
Lease Creditor	15,399	15,257	-	-	-	-	-	-	-	-
Other Liabilities	725,196	493,105	473,307	372,547	307,892	176,817	226,704	173,185	188,152	152,287
Bank Overdraft	70,401	99,586	80,140	108,904	-	-	-	-	-	-
Total Liabilities	4,771,835	4,057,763	3,395,476	3,215,555	2,520,809	1,854,433	1,646,541	1,345,352	1,291,287	1,227,320
Total Equity and Liabilities	6,855,077	5,644,112	4,773,910	4,385,775	3,492,537	2,777,034	4,038,509	3,461,718	3,159,568	2,843,252

Statement of Profit or Loss

For the year ended 31st December,	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	4,997,728	4,818,686	4,340,575	3,906,503	3,141,559	2,698,176	2,322,751	1,863,183	1,711,204	1,694,343
Net Earned Premium	3,790,657	3,590,563	3,279,948	2,666,205	2,241,794	2,084,378	1,630,106	1,356,432	1,325,072	1,161,948
Income from Investments and Other Income	527,667	490,799	459,800	360,174	273,805	279,041	460,466	358,527	308,180	169,390
Net Claims and Benefits	(2,064,502)	(2,282,960)	(2,170,792)	(1,718,847)	(1,546,601)	(1,837,294)	(1,160,721)	(889,072)	(892,750)	(802,370)
Underwriting and Net Acquisition Costs Expenses	(366,529)	(344,496)	(289,873)	(214,898)	(177,847)	(160,979)	(88,175)	(53,401)	(53,652)	(40,680)
	(1,256,160)	(1,099,080)	(996,277)	(891,272)	(742,272)	(649,446)	(631,115)	(528,882)	(458,210)	(388,448)
Profit/(Loss) Before Taxation	631,133	354,826	282,806	201,362	48,879	(284,300)	210,561	243,604	228,640	99,840

DECADE AT A GLANCE

HNB ASSURANCE PLC - GROUP

Statement of Cash Flows

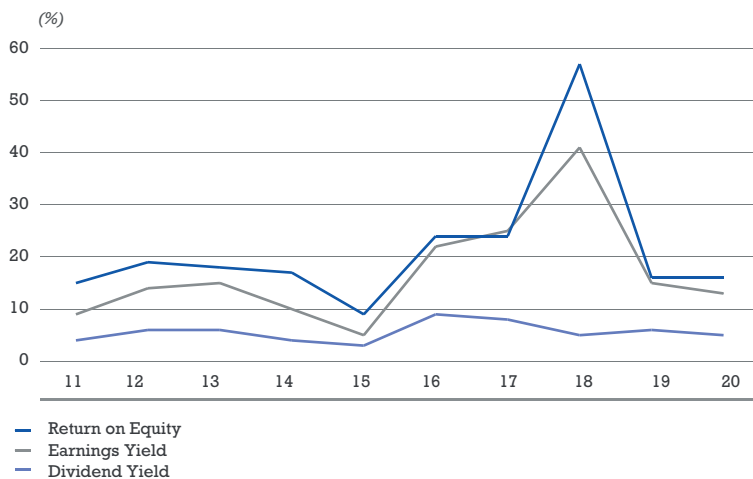
For the year ended 31st December,	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Profit Before Tax	1,630,496	1,404,891	1,580,654	927,027	705,521	169,773	438,583	425,093	393,866	271,840
Net Adjustments and net change in Operating Assets and Liabilities	728,895	255,026	(61,603)	582,782	586,677	999,997	348,864	(188,697)	(90,905)	389,970
Net Cash Generated from Operating Activities	2,359,391	1,659,917	1,519,051	1,509,809	1,292,198	1,169,770	787,447	236,396	302,961	661,810
Net Cash Used in Investing Activities	(2,046,474)	(965,285)	(1,080,246)	(1,385,046)	(953,600)	(767,836)	(595,289)	(164,102)	(179,023)	(871,645)
Net Cash Used in Financing Activities	(461,318)	(598,520)	(300,000)	(250,000)	(100,000)	(188,250)	(163,000)	(137,500)	(105,000)	318,746
Net Increase/(Decrease) in Cash and Cash Equivalents	(148,401)	96,112	138,805	(125,237)	238,598	213,684	29,158	(65,206)	18,938	108,911
Cash and Cash Equivalents at the beginning of the Year	735,207	639,095	500,290	625,527	386,929	173,245	144,087	209,293	190,355	81,444
Cash and Cash Equivalents at the end of the Year	586,806	735,207	639,095	500,290	625,527	386,929	173,245	144,087	209,293	190,355

Investor Information

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Return on Equity	15.77%	16.22%	56.71%	24.09%	24.00%	8.64%	17.30%	18.41%	18.79%	15.23%
Market Price per Share as at 31st Dec (VVA) (Rs.)	58.20*	138.00	132.00	72.50	58.80	74.60	83.50	52.50	49.00	56.90
Price Earning Ratio (Times)	7.43	6.83	2.44	3.98	4.54	18.89	10	6.75	6.98	11.07
Earnings Yield	13.45%	14.64%	40.99%	25.10%	22.02%	5.29%	10.00%	14.82%	14.33%	9.03%
Dividend Yield	4.81%	5.80%	5.30%	8.28%	8.50%	2.68%	4.49%	6.19%	5.61%	3.69%
Market Capitalisation (Rs. Mn)	8,730	6,900	6,600	3,625	2,940	3,730	4,175	2,625	2,450	2,845
Employee Information										
Number of Employees	1,145	1,076	992	947	903	836	829	804	723	662
GWP per Employee (Rs. Mn)	9.08	9.24	8.80	8.26	7.37	6.52	5.63	4.82	4.44	4.51
Net Profit per Employee (Rs. '000)	1,026.40	938.87	2,727.13	960.67	716.96	236.06	503.90	483.98	485.67	371.70
Life Insurance Operation										
Net Claims Ratio (With Maturity)	29%	27%	25%	15%	12%	10%	19%	36%	19%	5%
Expense Ratio	45%	49%	49%	49%	48%	46%	48%	47%	59%	56%
Combined Ratio	74%	76%	74%	64%	60%	56%	67%	83%	78%	61%
General Insurance Operation										
Net Claims Ratio	55%	64%	66%	64%	69%	88%	72%	66%	68%	69%
Expense Ratio	39%	37%	36%	38%	38%	35%	38%	39%	34%	34%
Combined Ratio	94%	101%	102%	102%	107%	123%	110%	105%	102%	103%

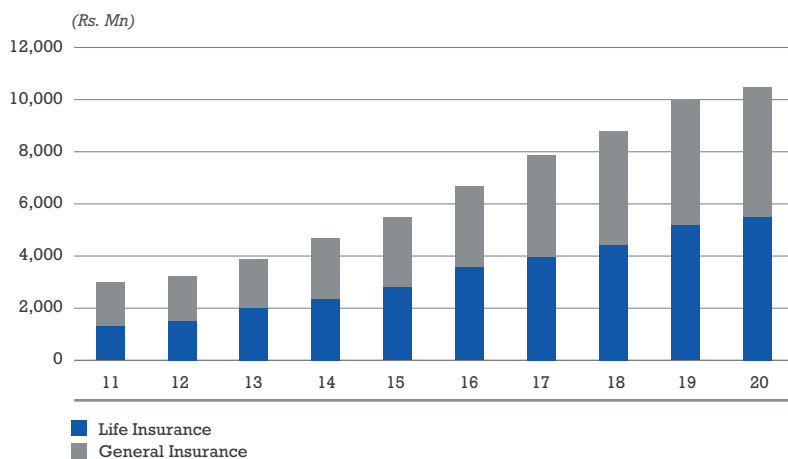
*Market price per share of year 2020 presents after the subdivision.

Investor Information - Graphical Presentation (Group)

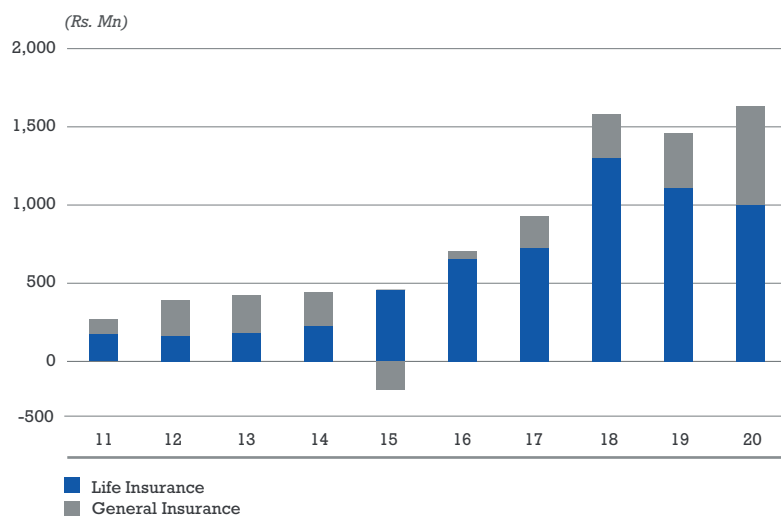


HNB ASSURANCE PLC - GROUP
 GRAPHICAL PRESENTATION

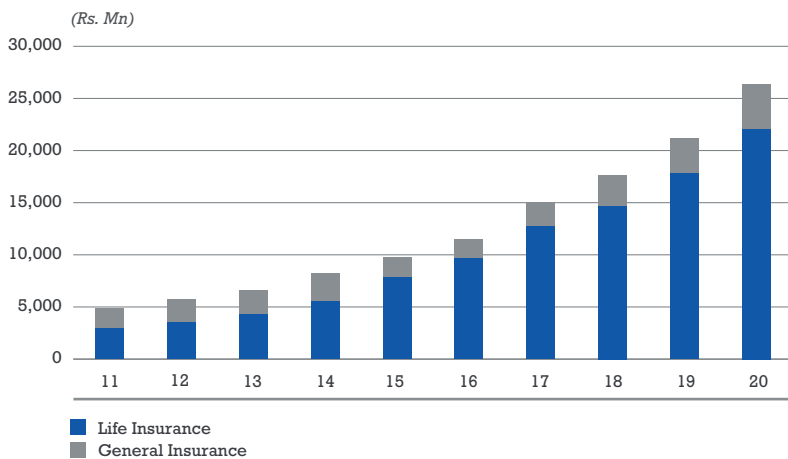
Gross Written Premium - Group



Profit Before Tax - Group



Investments/Financial Investments - Group



GLOSSARY

Acquisition Expenses

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

Actuarial valuation

A determination by an actuary at a specific date of value of the value of life Insurance Company's assets and its liabilities. The purpose of a valuation is to determine if the company holds adequate assets to fund the company's liabilities.

Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto.

Claims

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

Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by Claims Outstanding provisions at the beginning and end of the accounting period.

Claims Incurred But Not Reported (IBNR)

At the end of the period of account a reserve in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but not yet been reported to the insurer.

Claims Incurred But Not Enough Reported (IBNER)

A reserve made in respect of property, liability and pecuniary insurances to cover the expected cost of losses that have occurred but no comprehensive information is available to make adequate provisions as at the reporting date.

Claims Outstanding Reserve – General Insurance Business

The amount provided to cover the estimated cost of settling claims arising out of events which have occurred by the Balance Sheet date, including Incurred But Not Reported

(IBNR), Claims Incurred But Not Enough Reported (IBNER) claims and claims handling expenses, less amounts already paid in respect of those claims.

Deferred Acquisition Cost – General Insurance Business

Under the annual basis of accounting, acquisition costs relating to the unexpired period of risk of contracts in force at the Balance Sheet date which are carried from one accounting period to subsequent accounting periods.

Earnings Per Share

Profit of the company after Tax divided by the number of issued ordinary shares.

Ex-Gratia Payment

A payment made to an insured where there is no liability to pay under the terms of the policy, in some cases insurer may feel there has been a mistake or a misunderstanding and it may pay claim, even though he does not appear to be liable.

Lapsed policy

A policy terminated at the end of the grace period because of non-payment of premiums.

Liability Adequacy Test

An annual assessment of sufficiency of insurance and/or investment contact with, liabilities, to cover future insurance liabilities.

Net Written Premium

The balance of the Gross Written Premium after deduction of any premium paid or payable by the insurer for reinsurance ceded. Commonly identifies as Net Premium.

Policy Loan

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

Reinsurance

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

Subdivision of Shares

A subdivision is when a company divides the existing shares of its stock into multiple new shares to boost the stock's liquidity. Although the number of shares outstanding increases by a specific multiple, the total Rupee value of the shares remains the same compared to pre-subdivision amounts.

Surrender

Termination of an insurance policy by the insured before the expiry of its term (more common in Life insurance).

Premium Ceded to Reinsurers

The premium paid by the ceding Company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

Reinsurance Commission

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

Unearned Premium

It represents the portion of premiums already entered into the accounts as due but which relates to a period of risk subsequent to the reporting date.

Unearned Premium Reserve

A fund kept by a Non - Life insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

Key Insurance Ratios

$$\text{Net Claims Ratio} = \frac{\text{Net claims incurred} \times 100}{\text{Net earned premium}}$$

$$\text{Expense Ratio} = \frac{\text{Net Expense incurred} \times 100}{\text{Net earned premium}}$$

$$\text{Combined Ratio} = \frac{(\text{Net claims incurred} + \text{Expenses}) \times 100}{\text{Net earned premium}}$$

GRI CONTENT INDEX

GRI 102-55

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GRI CONTENT INDEX

GRI [102-55](#)

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NOTICE OF MEETING

Notice is hereby given that the Nineteenth (19th) Annual General Meeting of HNB Assurance PLC is convened on Wednesday the Thirty First (31st) day of March 2021, at the Auditorium on Level 22 of "HNB Towers", at No: 479, T. B. Jayah Mawatha, Colombo 10 at 10.00 in the forenoon when the following business will be transacted.

- i. To receive and consider the Annual Report of the Board of Directors along with the Financial Statements of the Company for the year ended 31st December 2020, the Auditors' Report thereon.
- ii. To declare a final dividend of Rs. 2.80 per share for the year 2020, to the shareholders as recommended by the Directors.
- iii. To re-elect Dr. Sivakumar Selliah, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 27(7) of the Articles of Association of the Company.
- iv. To re-appoint Mrs. Mirihana Arachchige Rose Chandralatha Cooray who retires at the Annual General Meeting, having attained the age of 70 years, as a Director of the Company and to adopt the following resolution :-

Ordinary Resolution - "That Mrs. Mirihana Arachchige Rose Chandralatha Cooray who has attained the age of 70 years on 23rd May 2019, be and is hereby re-appointed as 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".
- v. To re-appoint Messrs. KPMG Sri Lanka Chartered Accountants, as the Auditors for the ensuing year and to authorise the Directors to fix their remuneration.
- vi. To authorise the Directors to determine payments for the year 2021 for charitable and other purposes.

By Order of the Board
HNB ASSURANCE PLC



SITARI JAYASUNDARA
BOARD SECRETARY
Colombo, Sri Lanka.
19th February 2021

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 Corporate Office of the Company at Legal & Company Secretarial Division, "Iceland Business Centre", No: 30, Sri Uttarananda Mawatha, Colombo 3, not less than 48 hours before the time appointed for holding the meeting.

FORM OF PROXY

I/We
of being *a member/members of
the HNB Assurance PLC, hereby appoint
..... of
..... or
failing him/her Mirihana Arachchige Rose Chandralatha Cooray, or failing her Jayasekera Arachchige Panduka Mahendra Jayasekera,
or failing him Dilshan Peter Nirosh Rodrigo, or failing him Siromi Noelle Wickramasinghe, or failing her Sivakumar Selliah, or failing
him Darshan Ravindra Abeyesuriya, or failing him Lintotage Udaya Damien Fernando, or failing him Stuart Anthony Chapman, 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 Nineteenth (19th) Annual General Meeting of the Company to be convened on Wednesday the Thirty First (31st) day of March
2021 at 10.00 in the forenoon at the Auditorium on Level 22 of "HNB Towers" at No: 479, T. B. Jayah Mawatha, Colombo 10 and at any
adjournment thereof and at every poll which may be taken in consequence thereof:

To declare a final dividend of Rs. 2.80 per share	In favour	
	Against	
To re-elect Dr. Sivakumar Selliah, as a Director of the Company	In favour	
	Against	
To re-appoint Mrs. Mirihana Arachchige Rose Chandralatha Cooray, as a Director of the Company	In favour	
	Against	
To re-appoint Messrs. KPMG Sri Lanka Chartered Accountants, as the Auditors for the ensuing year/authorise the Directors to fix their remuneration	In favour	
	Against	
To authorise the Directors to determine payments for charitable and other purposes	In favour	
	Against	

Mark your preference with "✓"

Signed this day 2021.

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 Corporate Office of the Company at Legal & Company Secretarial Division, "Iceland Business Centre", No: 30, Sri Uttarananda Mawatha, Colombo 3, not less than 48 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
 - (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
 - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the Constitution of that Company or corporate body.

The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer.
 - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder, signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.
5. Kindly be informed that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

STAKEHOLDER FEEDBACK FORM

To request information or submit a comment / query to the company, please complete the following and return this page to,

Board Secretary,
HNB Assurance PLC,
Legal and Company Secretarial Division
Iceland Business Center
No.30, Sri Uttarananda Mawatha,
Colombo 03,
Sri Lanka.
Fax : 0112337423
E-mail : board.secretariat@hnbassurance.com

Name :

Permanent Mailing Address :

Contact Numbers (Tel) :
Country Code Area Code Number

(Fax) :
Country Code Area Code Number

E-mail :

Name of Company :
(If Applicable)

Designation :
(If Applicable)

Company Address :
(If Applicable)

Comments/Queries :

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CORPORATE INFORMATION

COMPANY

HNB Assurance PLC (HNBA)

FULLY OWNED SUBSIDIARY

HNB General Insurance Limited (HNBGI)

	HNB Assurance PLC	HNB General Insurance Limited
Legal Form	Public Limited Liability Company	Limited Liability Company
Date of Incorporation	23rd August 2001	30th January 2014
Company Registration No.	PQ 108	PB 5167
Taxpayer Identification No. (TIN)	134009373	139051670
VAT Registration No.	134009373-7000	139051670-7000
Principal Activities	Life Insurance Business	General Insurance Business
Telephone	+9411 4793700	+9411 4676700
Facsimile	+9411 4793728	+9411 4501166
E-mail	info@hnbassurance.com	info@hnbgeneral.com
Web	www.hnbassurance.com	www.hnbgeneral.com

FISCAL YEAR-END

31st December

REGISTERED OFFICE

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

PRINCIPAL OFFICE

No.30, Iceland Business Centre, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka.

BOARD OF DIRECTORS

Rose Cooray	Chairperson Non-Executive Director (HNBA/HNBGI)
Mahendra Jayasekera	Independent/Non-Executive Director (HNBA)
Dilshan Rodrigo	Non-Independent /Non-Executive Director (HNBA/HNBGI)
Siromi Wickramasinghe	Non-Independent /Non-Executive Director (HNBA)
Dr. Sivakumar Selliah	Independent/Non-Executive Director (HNBA)
Ravi Abey Suriya	Independent/Non-Executive Director (HNBA)
Damien Fernando	Non-Independent /Non-Executive Director (HNBA/HNBGI)
Stuart Chapman	Non-Independent /Non-Executive Director (HNBA)
Faizal Salieh	Independent/Non-Executive Director (HNBGI)
Marina Tharmaratnam	Independent/Non-Executive Director (HNBGI)
Sanjaya Wijemanne	Non-Independent /Non-Executive Director (HNBGI)
Arjuna Abeygunasekara	Non-Independent /Non-Executive Director (HNBGI)

ALTERNATE DIRECTOR

Dr.Prasad Samarasinghe	Non-Independent/ Non-Executive Director (HNBA/HNBGI)
------------------------	--

EXECUTIVE COMMITTEE

Prasantha Fernando	Chief Executive Officer (HNBA/HNBGI)
Lasitha Wimalaratne	Chief Operating Officer (HNBA)
Sithumina Jayasundara	Chief Operating Officer (HNBGI)
Nilesh Amarasinghe	Chief Investment & Strategy Officer (HNBA/HNBGI)
Jude Benjamin	Chief Business Officer Personal Lines & Branch Network (HNBGI)
Dinesh Udawatta	Chief Technical Officer (HNBA)
Dinuka Pattikiriarachchi	Chief Human Resource Officer (HNBA/HNBGI)
Sitari Jayasundara	Chief Legal Officer, Board Secretary and Compliance Officer (HNBA/HNBGI)
Punsirini Perera	Chief Financial Officer (HNBA/HNBGI)
Suneth Jayamanne	Chief Information Officer (HNBA/HNBGI)
Lasantha De Alwis	Chief Technical Officer (HNBGI)

CORPORATE INFORMATION

PRINCIPAL OFFICERS

HNB Assurance PLC	Lasitha Wimalaratne
HNB General Insurance Limited	Sithumina Jayasundara

SPECIFIED OFFICERS

HNB Assurance PLC	Lasitha Wimalaratne
HNB General Insurance Limited	Sithumina Jayasundara

COMPANY SECRETARY

Sitari Jayasundara

REGISTRARS

Central Depository Systems (Pvt) Limited
Ground Floor, M & M Centre,
341/5, Kotte Road,
Rajagiriya.

CONSULTANT ACTUARIES

Life Insurance

Actuarial Partners Consulting Sdn Bhd
Suite 17.02 Kenanga International,
Jalan Sultan Ismail,
50250 Kuala Lumpur, Malaysia.

General Insurance

NMG Financial Services Consulting Pte Ltd.
109 north Bridge Road, #05-21, Singapore 179097.

Gratuity

Smiles Global (Pvt) Limited
14A, Boyd Place,
Colombo 03, Sri Lanka.

AUDITORS

External Auditors

KPMG
Chartered Accountants
32A, Sir Mohamed Macan Markar Mawatha,
P.O. Box 186,
Colombo 03,
Sri Lanka.

Internal Auditors

Ernst & Young
Chartered Accountants,
201, De Saram Place,
Colombo 10,
Sri Lanka.

CREDIT RATING (FITCH) - HNBA & HNBGI

Insurer Financial Strength Rating A (Ika)

BANKERS

Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Sampath Bank PLC
Bank of Ceylon
National Savings Bank
HDFC Bank
DFCC Bank PLC
Pan Asia Banking Corporation PLC
National Development Bank PLC
Seylan Bank PLC
Nations Trust Bank PLC

REINSURANCE PANEL

Life Insurance

Munich Re
RGA
Hannover Re

General Insurance

General Insurance Corporation - India
Echo Reinsurance Ltd
Santam Ltd
XL Insurance Company SE - India
National Insurance Trust Fund (NITF)
Saudi Re
Lancashire Syndicates Limited (9329 at Lloyds)
Antares Syndicate 1274 (AUL 1274 at Lloyds)

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No.30, Iceland Business Centre,
Sri Uttarananda Mawatha,
Colombo 03, Sri Lanka.



www.hnbassurance.com