



EVERY STEP OF YOUR LIFE

From the moment our life on earth begins, we face countless decisions, challenges and opportunities. No matter how daunting the future may seem, through joy and sorrow, achievement and adversity, at HNB Assurance we find our true purpose in strengthening every step you take; helping you take on tomorrow with confidence and certainty none can match.

As we continue to uphold our reputation for strength and stability, we look back on a year of excellent performance - having truly delivered on our promise to every stakeholder; enhancing and uplifting lives, providing consistent returns and winning your trust, above all.

We're with you always, every step of your life.

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Please scan the QR Code to view our report online

ABOUT THIS REPORT

This is our 08th Integrated Report prepared in accordance with the IR Framework and our 11th report using the applicable GRI Guidelines/Standards as we continue our quest to achieve excellence in corporate reporting. We have adopted an approach of reporting on the capitals to provide readers with insights of how these tangible and intangible assets are managed.

SCOPE AND BOUNDARY

We present financial and non-financial information of HNB Assurance PLC and our fully-owned subsidiary HNB General Insurance Limited. The report spans from 1st January 2019 to 31st December 2019. The last Annual Report was for the twelve-month period ended 31st December 2018.

Improvements in Annual Report 2019



- ↓ Reduced 52 pages from previous report.
- ↑ Improved connectivity to Vision 2020 with icons throughout the report.
- + Included quantitative information in the Risk Report.
- ↔ Balanced use of visuals and narrative for a better reading experience.

GUIDING FRAMEWORKS AND PRINCIPLES



Integrated Reporting

- ✓ International Integrated Reporting (IIRC) framework



Financial Reporting

- ✓ Companies Act, No. 7 of 2007
- ✓ Listing Rules of the Colombo Stock Exchange (CSE)
- ✓ Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (SLAS) 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 subsequent amendments



Corporate Governance Reporting

- ✓ Code of Best Practices on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka (CASL)
- ✓ Companies Act No. 7 of 2007
- ✓ Listing Rules of the Colombo Stock Exchange (CSE)



Sustainability Reporting

- ✓ Global Reporting Initiative (GRI) Sustainability Reporting Standards
- ✓ Sustainable Development Goals (SDGs) of United Nations

SOURCES OF INFORMATION

The information for this report was collated from relevant departmental officials and management information systems such as Oracle EBS, HRIS and TCS bancs and other reports. External information has been obtained from the IRCSL reports, weekly and monthly publications of the Central Bank of Sri Lanka and other reliable source which have been quoted.

QUALITY AND CREDIBILITY OF THE REPORT

The information is verified as applicable by the Board of Directors, Audit Committee, Other Sub-Committees of the Board and Group Executive Committee.

EXTERNAL ASSURANCE

The Financial Statements and the resulting Notes are audited by Messers, Ernst & Young, the independent Auditors of the Group.

AVAILABLE FORMS OF THE ANNUAL REPORT



CD-Rom

Posted to all Shareholders



Print

Available on request



Online

Available as PDF at www.hnbassurance.com



Sinhala and Tamil translation of Chairperson's Message, Managing Director's Review and Financial Statements are available

Print – Available on request

Online – Available as PDF at www.hnbassurance.com

Any feedback to;

Email - boardsecretariat@hnbassurance.com

Website - www.hnbassurance.com

Tel - +94 114 793732 and +94 112 337423

Company Secretary - HNB Assurance PLC, 4th Floor, Iceland Business Centre, No.30, Sri Uttarananda Mawatha, Colombo 03, Sri Lanka

Stakeholder feedback form is given on pages 325-326

ABOUT THIS REPORT

MATERIALITY

Materiality assessments enables our Group to identify and prioritise various factors, both internal and external influencing performance and value creation. Discussions with multiple stakeholders and closely monitoring trends in our operating environment helps us identify the material aspects in our business model. These aspects are prioritised by considering the level of impact to stakeholders and the Group and presented on a materiality map as below. During the year, we emphasised on the aspects which are important to achieve our corporate goals and Vision 2020. These topics have been reported fully in the Annual Report along with relevant Global Reporting Initiatives (GRI) indicators. The corporate strategy focused on effectively managing these material concerns while exploiting emerging opportunities. Various metrics were used to measure and monitor these material topics.

GRI Standard	GRI Coverage	Importance to HNBA	Importance to External Stakeholders
Economic			
201	Economic Performance	●	●
202	Market Presence	●	●
203	Indirect Economic Impacts	●	●
204	Procurement Practices	●	●
205	Anti-Corruption	●	●
206	Anti-Competitive Behaviour	●	●
Environmental			
301	Materials	●	●
302	Energy	●	●
303	Water	●	●
304	Bio-Diversity	●	●
305	Emissions	●	●
306	Effluents and Waste	●	●
307	Environmental Compliance	●	●
308	Supplier Environmental Assessment	●	●
Social			
401	Employment	●	●
402	Labour/Management Relations	●	●
403	Occupational Health and Safety	●	●
404	Training and Education	●	●
405	Diversity and Equal Opportunity	●	●
406	Non-Discrimination	●	●
407	Freedom of Association and Collective Bargaining	●	●
408	Child Labour	●	●
409	Forced or Compulsory Labour	●	●
410	Security Practices	●	●
411	Rights of Indigenous Peoples	●	●
412	Human Rights Assessment	●	●
413	Local Communities	●	●
414	Supplier Social Assessment	●	●
415	Public Policy	●	●
416	Customer Health and Safety	●	●
417	Marketing and Labelling	●	●
418	Customer Privacy	●	●
419	Socioeconomic Compliance	●	●

● High ● Medium ● Low

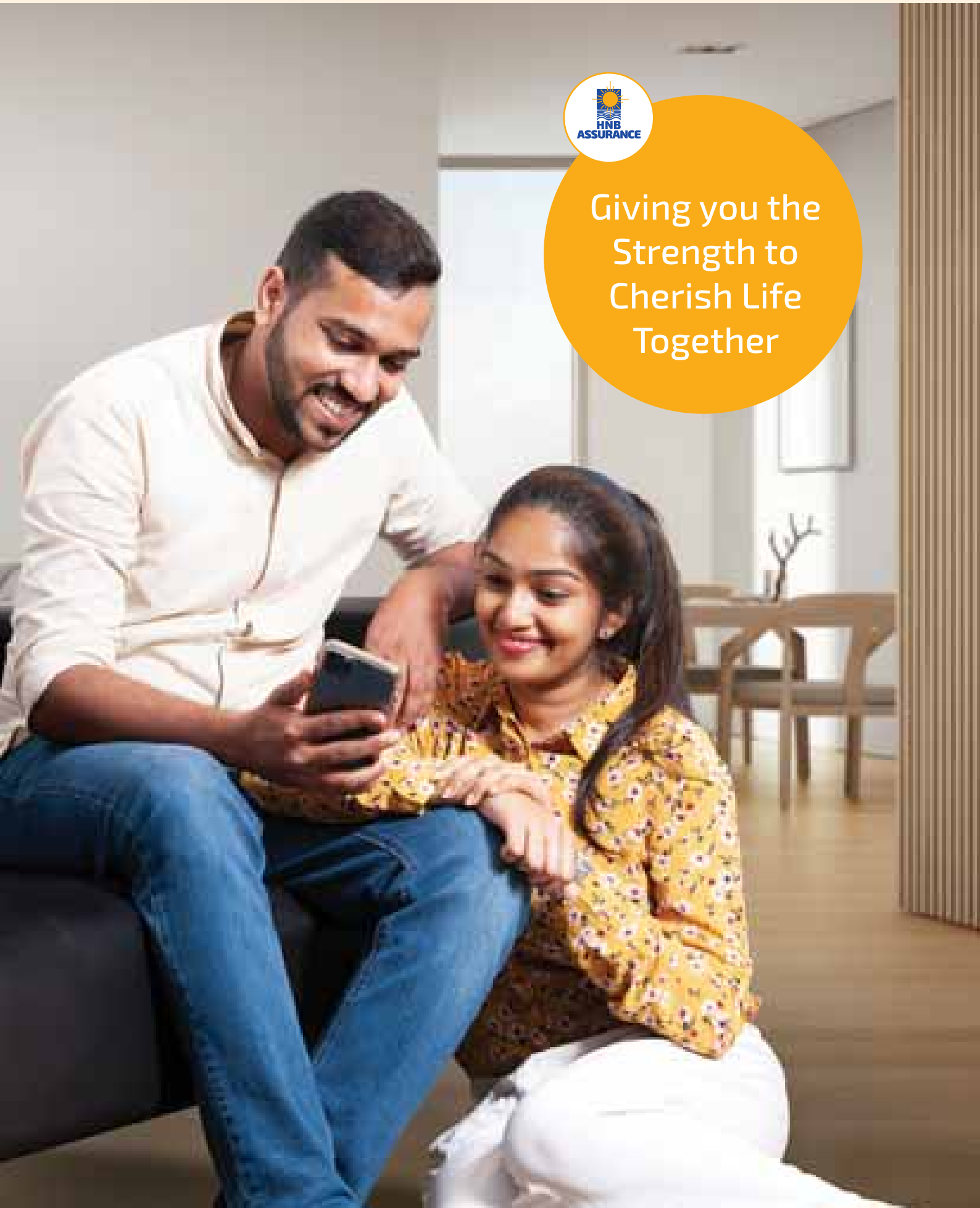
02

ABOUT US

At HNB Assurance, we believe in providing solutions that help you live life as you have envisioned it; reassuring your future with a service that's fully dedicated to you.



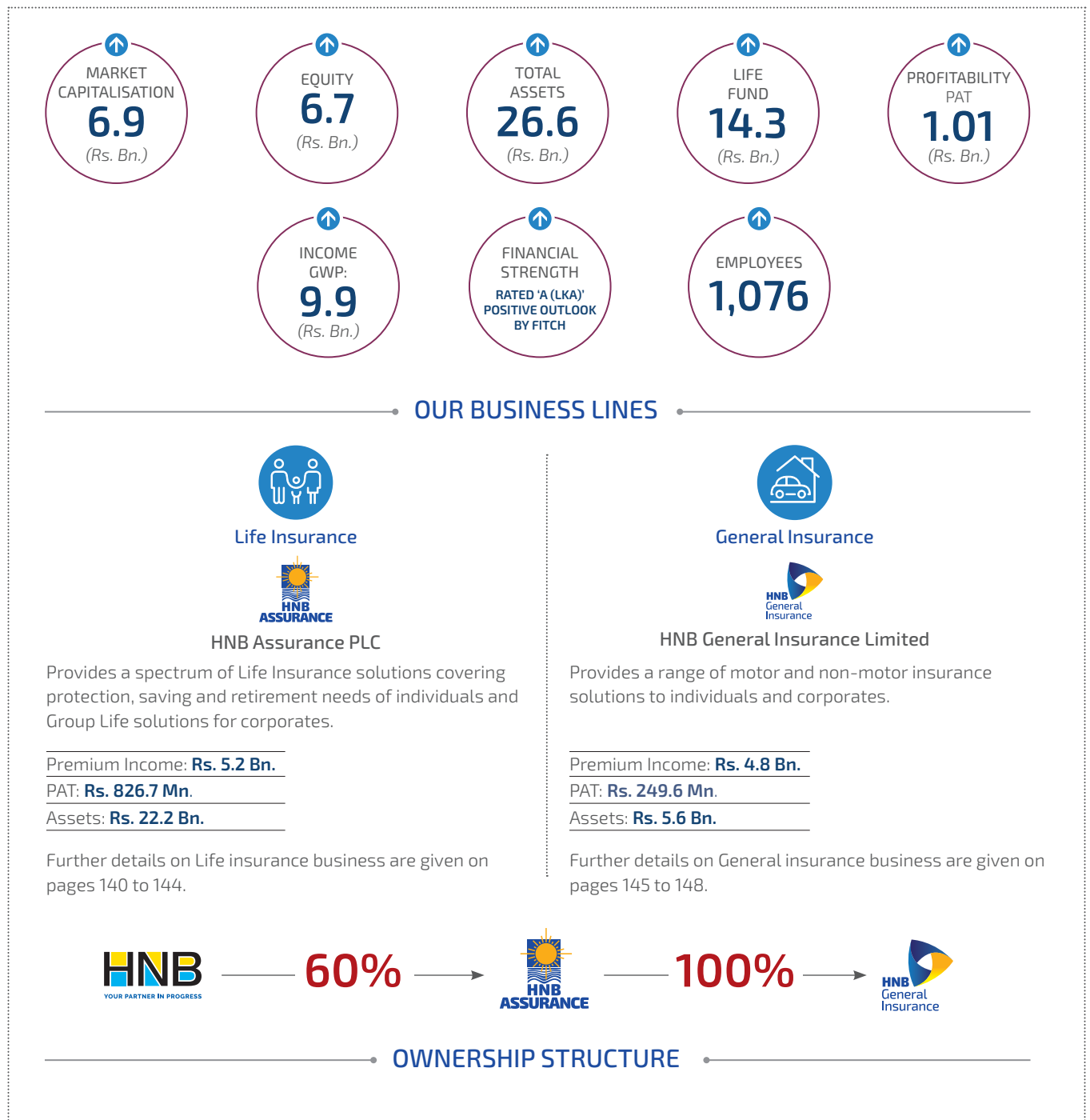
Giving you the
Strength to
Cherish Life
Together



ABOUT US

MARKET POSITIONING AND OVERVIEW

HNB Assurance PLC, incorporated in 2001, is a leading provider of insurance solutions backed by the financial powerhouse, Hattton National Bank PLC. Our passion lies in 'Strengthening Every Step of Your Life' by partnering with businesses and individuals to cope with uncertainty through diverse insurance policies. Our business segments, namely Life Insurance and General Insurance, support customers by strengthening their resilience to risks, thereby improving quality of lives and enabling inclusive economic expansion. Our success is built on trust. We seek to be a trusted partner by delivering high-quality, innovative and expert insurance solutions through a committed team aligned to our corporate values. Today, HNB Assurance is among the top 100 brands according to Brand Finance Lanka and have been accredited with national and international awards within 18 years in operation. HNBA was also included in the prestigious S&P Top 20 in 2019.



VISION, MISSION AND VALUES



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

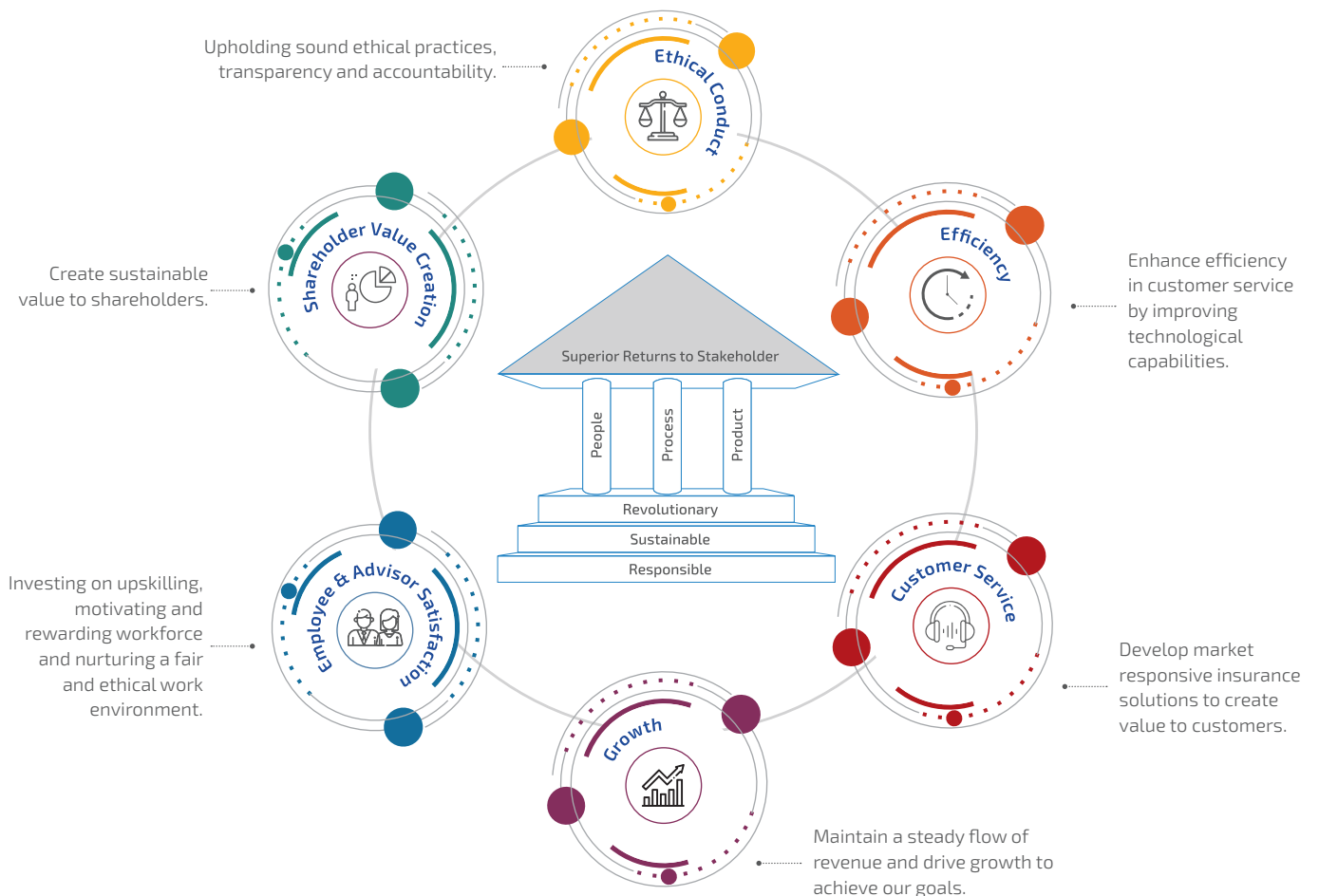


Working together with a passion for excellence and a team spirit none can match, to provide innovative, customised solutions, exploring opportunities beyond conventional boundaries.



- 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

VISION 2020



CONNECTING WITH OUR CUSTOMERS

Our Products

Life Insurance

Protection Plans

Protection products covering, individuals, families, children and corporates.



Investment Plans

Products covering a diverse array of investment needs.



Retirement Plans

Products to meet the retirement needs of individuals.



General Insurance

Motor Insurance

Motor insurance product to meet individual and corporate needs.

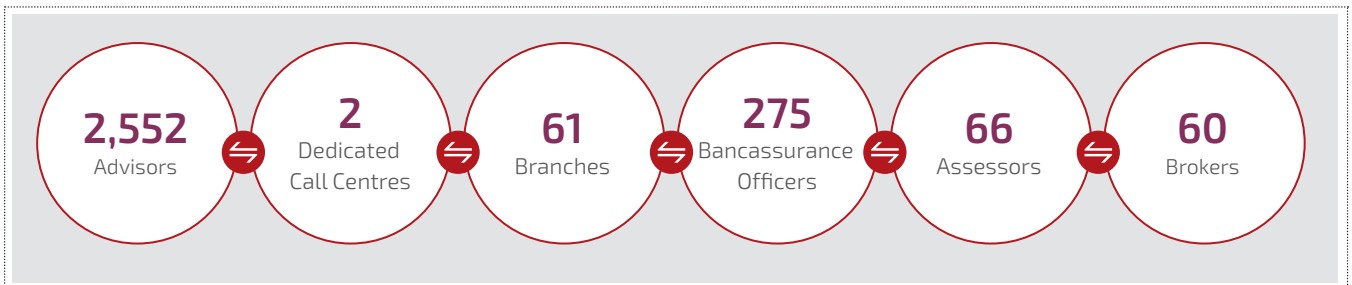


Non-Motor Insurance

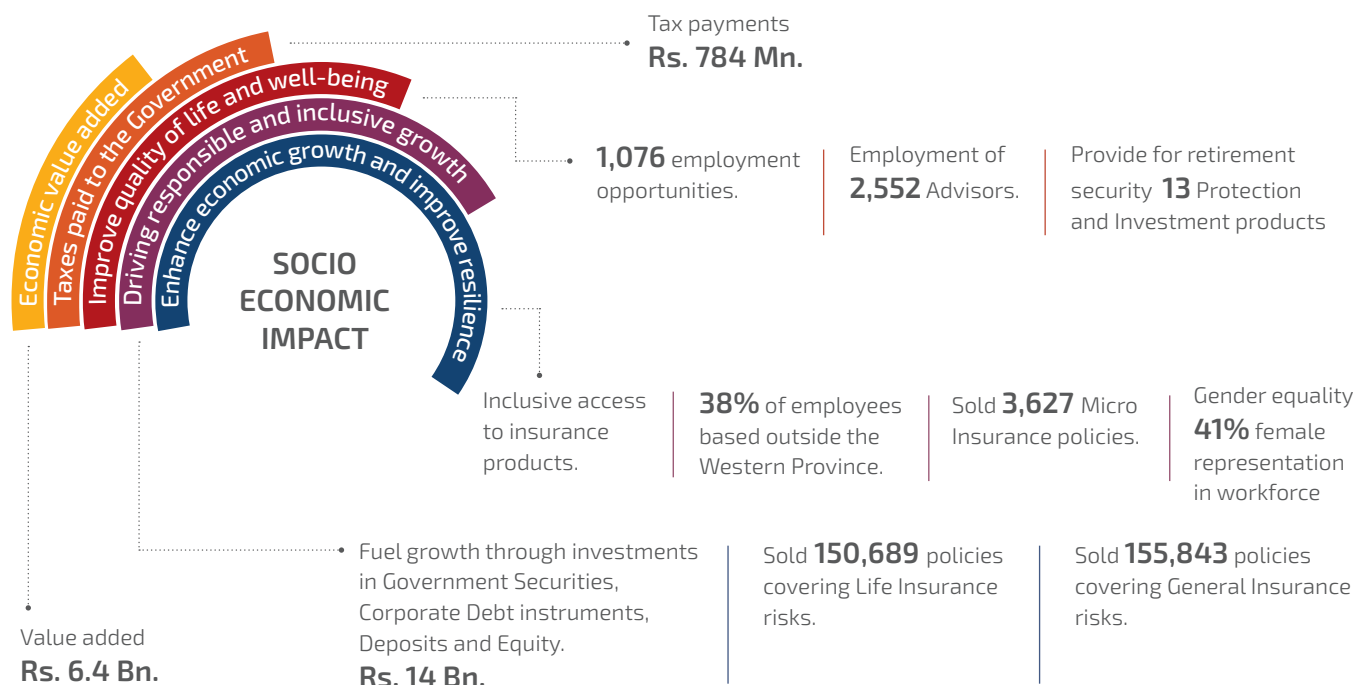
Products covering Home, Health, Travel, Construction, Marine, Fire, and Employees insurance needs.



HOW WE CONNECT



SOCIO ECONOMIC IMPACT



CONTRIBUTION TO SUSTAINABILITY DEVELOPMENT GOALS



- Medical insurance covers and cancer and dengue protection policies
- Investment plans
- Claim settlements of Rs. 3.6 Bn.
- 3,628 employment opportunities
- Weekly medical clinics and promotion of recreational activities
- Healthy living symposiums
- Blood donation camps for 14 consecutive years
- Sold 3,627 Micro Insurance policies

- 156 Training programmes for employees with 12,895 training hours
- Succession and talent management programmes
- Study leave, Education Policy promoting professional and academic exams, honorarium payments upon completion of exams

- Environmentally-friendly policies such as Motorguard Eco
- Use of solar energy of 20,520 kWh
- Recycle paper through Neptune (Pvt) Ltd.
- Membership in Bio-Diversity Sri Lanka contributing towards protecting the Bio-Diversity of Mother Nature



- Reinsurance partners with 'A' and above ratings
- 60 Brokers
- 66 Assessors
- 2,552 Advisors

- Develop robust and modern infrastructure
- Sound technological capabilities
- Efficient claim settlements
- ISO 9001: 2015 Certification for HNBA New business and claims units

- Invested Rs. 2.62 Mn. on 7 water projects benefiting over 2,300 individuals. Over the years we have completed 60 projects in total
- Contributing to agriculture through contributing to Crop Insurance Levy

- 7 water projects
- Ethical work practices
- 41% female representation in workforce

OUR MILESTONES

WE TAKE PRIDE IN OUR HISTORY OF 18 YEARS. WE HAVE ALWAYS BEEN WITH YOU 'IN EVERY STEP OF YOUR LIFE'.



2001

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



2003

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



2007

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



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)



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



2019

In 2019, marking another milestone in our history we opened our fully fledged Customer Relations Management Centre to serve our customers better



2018

HNB Assurance obtained 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



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



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



2013

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



STATEMENT OF VALUE CREATION

Key Performance Indicators	Units	Group			Company		
		2019	2018	Change	2019	2018	Change
Financial Performance							
GWP	Rs. Mn.	9,943	8,725	14%	5,175	4,421	17%
Investment Income	Rs. Mn.	2,333	1,970	18%	2,013	1,643	23%
Profit After Tax	Rs. Mn.	1,010	2,705	(63%)	827	2,475	(67%)
Funds Under Management	Rs. Mn.	21,937	18,218	20%	18,379	15,140	21%
Market Capitalisation	Rs. Mn.	6,900	6,600	5%	6,900	6,600	5%
Returns to Investors							
Shareholders' Funds	Rs. Mn.	6,714	5,744	17%	6,278	5,516	14%
Return on Equity	%	16%	57%	(41%)	14%	53%	(39%)
Earnings Per Share	Rs.	20.20	54.11	(63%)	16.53	49.50	(67%)
Net Asset Value Per Share	Rs.	134.29	114.89	17%	125.56	110.32	14%
Dividends Per Share	Rs.				8	7	14%
Market Price Per Share	Rs.				138	132	5%
P/E Ratio	Times				8.35	2.67	213%
Human Capital							
Number of Employees		1,076	992	8%	583	549	6%
GWP Per Employee	Rs. Mn.	9.24	8.80	5%	8.88	8.05	10%
Profit Per Employee	Rs. Mn.	0.94	2.73	(66%)	1.42	4.51	(69%)
Training Hours Per Employee*	Hrs.	11.98	15.1	(21%)			
Employee Turnover	%	20%	23%	3%	21%	27%	6%
Business Partners							
Number of Advisors		2,552	2,265	13%	2,067	1,817	14%
Commissions Paid	Rs. Mn.	1,110	1,045	6%	626	595	5%
Number of Brokers		60	59	2%	18	14	29%
Number of Assessors		66	91	(27%)	-	-	-
Acquisition Cost as a % of GWP	%	11%	12%	(1%)	12%	13%	(1%)
Customers							
Claims and Benefits	Rs. Mn.	3,621	3,236	12%	1,338	1,067	25%
Customer Complaints Settled	%	98%	86%	12%	99%	86%	13%
Number of Policies		306,532	295,411	4%	150,689	147,234	2%
Bonus for Policyholders	Rs. Mn.	116	105	10%	116	105	10%
Rate of Dividend for Non-Participatory Policyholders	%	8.0%	8.5%	(0.5%)	8.0%	8.5%	(0.5%)
Community							
Number of Micro Insurance Policies		3,627	3,436	6%	3,627	3,436	6%
Number of School Water Projects Completed		7	5	40%	7	5	40%
Manufactured Capital							
Capital Expenditure	Rs. Mn.	60	34	76%	40	22	83%
Number of New Products		2	4	(50%)	2	4	(50%)
Natural Capital							
Electricity Consumption	Units	1,835,217	1,771,248	4%			
Water Consumption	Litres	12,881,560	12,992,854	(1%)			
Paper Recycled	kg	2,154	100	2054%			

* Monitored at a Group level

	Units	2019	2018	Change
Life Insurance				
Life Fund	Rs. Mn.	14,269	12,112	18%
Lapse Ratio	%	44%	48%	(4%)
Premium Persistency Ratio	%	81%	78%	3%
Claims Ratio (With Maturities)	%	27%	25%	2%
Claims Ratio (Without Maturities)	%	9%	8%	1%
Expense Ratio	%	49%	49%	0%
Capital Adequacy Ratio	%	309%	319%	(10%)
No. of Branches		61	58	5%
General Insurance				
General Fund	Rs. Mn.	2,871	2,525	14%
Claims Ratio	%	64%	66%	(2%)
Expense Ratio	%	37%	36%	1%
Combined Ratio	%	101%	102%	(1%)
Capital Adequacy Ratio	%	223%	200%	23%
No. of Branches		53	53	0
Economic Value Added				
Employees	Rs. Mn.	1,176	1,103	7%
Business Partners Fees and Commission	Rs. Mn.	1,339	1,217	10%
Policyholders	Rs. Mn.	2,173	1,707	27%
Shareholders	Rs. Mn.	400	350	14%
Government	Rs. Mn.	106	108	(2%)
Communities	Rs. Mn.	4	4	0%
Retained in Business	Rs. Mn.	1,180	1,040	13%

CHAIRPERSON'S MESSAGE

“ HNBA GROUP DELIVERED STRONG TOP LINE GROWTH OF 14% IN 2019 WITH GWP TOTALLING RS. 9.9 BILLION



Profit After Tax

Rs. 1,010 Mn.



Return on Equity

16%



Investment Income

Rs. 2,333 Mn.



Dividends Per Share

Rs. 8



Dear Shareholders,

It is my pleasure to welcome you to the 18th Annual General Meeting of HNB Assurance PLC and present to you the Annual Report of the Company which provides a balanced view of the performance of the Company for the financial year ended 31st December 2019. I am pleased to report that HNB Assurance Group recorded a Profit Before Tax of Rs. 1.4 Billion for the reporting period and asset growth of 20% to Rs. 26.6 Billion. This performance is commendable as the year under review was marked by the convergence of multiple challenges which we strategised to overcome, focusing on building resilience and agility to deliver long-term value to stakeholders. The success of our strategies is reflected in the market capitalisation of the Company which increased by 5% to Rs. 6.9 Billion, delivering enhanced value to our shareholders in a year when many lost value.

UNCERTAINTY IS THE NORM

Whether it is the global outlook or the country's outlook, uncertainty is and will be the norm as moderating economic growth, climate change, geopolitical challenges, terrorism, technology and social unrest converge to paint an uncertain outlook. 2019 serves to demonstrate this point. Forecasts for global growth in 2019 were revised downwards from 3.5% in January 2019 to an estimate of 2.9% by January 2020 by the IMF as downside risks became more elevated and the upside potential receded. Trade tensions between US and China remained a key topic of discussion throughout the year with a significant impact on global trade which is showing

some signs of easing as the January 2020 forecast reflects intermittent favourable news on the trade negotiations. Tightening financial conditions saw 20 central banks, including our own, cut policy rates and adopt a more accommodative stance on Monetary Policy which added a stimulus of 0.5% to the 2020 forecast of 3.3% by IMF. Brexit happened on 31st January 2020 and the ramifications will unfold in 2020 as UK seeks to negotiate a new trade deal with the EU. Geopolitical tensions between US and Iran emerged during the year to quickly become a key risk as it could disrupt oil supply with negative impacts on early and tentative signs of stabilisation, key to the forecast of an improved growth rate.

Sri Lanka's experience was also marked by uncertainty. Political and policy uncertainty had a significant impact on economic growth as Presidential Election and trade and budget deficits and rising interest rates combined to stress the operating environment for businesses. Several Monetary Policy measures were initiated to curb the widening trade and budget deficits and consequent impacts on exchange and interest rates. This included restrictions on import of motor vehicles and non-essential consumer goods which were eased in September 2019 and setting caps on deposit rates which was later replaced by measures to reduce lending rates. Easter Sunday terror attacks served to remind us that complacency in any aspect of national security would have dire consequences on social and economic stability as GDP growth dropped sharply from 3.8% in Q1 to 1.5% in Q2 of 2019. This set back the promising growth of the tourism sector with knock on effects on SMEs and other sectors which were given some relief by way of moratoriums on loans. Like the global outlook for 2020, we also see early signs of stabilisation with tourist arrivals for November and December rebounding to 2018 levels and GDP for 3Q 2019 increasing to 2.7%.

Dividend to Shareholders
Rs. 400 Mn.

(2018: Rs. 350 Mn.)

↑ 14%

INDUSTRY OVERVIEW

Despite these challenges, the insurance industry demonstrated healthy growth in 2019 as Gross Written Premium growth was well above GDP growth. Insurance penetration, which was 1.5% of GDP in 2018, is expected to remain relatively flat due to lower disposable incomes. Investment income increased during the year due to high interest rates and minimal asset allocations for equity investments. However, profitability of the industry declined due to the reduced profitability of the Life Insurance sector largely attributable to overcrowding of the market and consequent pressure on margins.

Total assets of the Insurance sector increased to Rs. 690 Billion by 3Q 2019 with the Life sector accounting for 70% of assets. However, the decline in equity gives cause for concern for the industry as a whole.

Regulation of the sector continues to evolve in line with global developments. The proposed adoption of IFRS 17 commencing January 2022 globally will be a significant change which will require proactive action by players and the regulator to ensure market awareness of the impacts. Corporate Governance was also strengthened with the mandating of the Code of Best Practice on Corporate Governance for all players.

AGILE GROWTH

I am pleased to report that HNBA Group delivered strong top line growth of 14% in 2019 with GWP totalling Rs. 9.9 Billion in an extremely challenging operating environment, growing well above industry growth rates realising our aspiration to be the fastest-growing insurance company in the country.

Net Assets Value
per Share

Rs. 134.29

(2018: Rs. 114.89)

↑ 17%

“ THE SUCCESS OF OUR STRATEGIES IS REFLECTED IN THE MARKET CAPITALISATION OF THE COMPANY WHICH INCREASED BY 5% TO RS.6.9 BILLION, DELIVERING ENHANCED VALUE TO OUR SHAREHOLDERS IN A YEAR WHEN MANY LOST VALUE.

Life Insurance top line growth was 17% while General Insurance also turned in a healthy 11% growth, with GWP amounting to Rs. 5.2 Billion and Rs. 4.8 Billion respectively. New Business Premium in the life company registered a growth of 28% over last year which led the Company to produce 75 MDRT qualifiers, the highest number since its inception. Agility and innovation were key to delivering growth as we sought segments with opportunities for value creation, both to the customer and to HNBA. A focus on deriving synergies from the strong domestic franchise of our parent supported growth as the Bancassurance channel was a key contributor to our growth.

Profit Before Tax amounted to Rs. 1.4 Billion which is commendable as it represents a growth of 17% over 2018 PBT excluding the one-off surplus of Rs. 381 Million. Careful risk selection was key to driving profitability and this has been achieved despite an increase of 12% in claims and benefits paid which amounted to Rs. 3.6 Billion. Profit After Tax declined from Rs. 2.7 Billion to Rs. 1.01 Billion in 2019 mainly due to the significant change in tax charge which increased from the negative charge for Income tax of Rs. 1.12 Billion in 2018 to a charge of Rs. 395 Million in 2019.

BUILDING RESILIENCE

Building resilience with strong balance sheet growth, sound Governance and prudent risk management were key goals for the Board. HNBA's Balance Sheet or Total Assets grew by 20% to Rs. 26.6

Billion in 2019 supported by strong equity growth of 17% to Rs. 6.7 Billion. The Capital Adequacy Ratio of HNBA stood at 309% to while the same for HNBGI was 223% at the year end, well above industry norms reflecting prudent risk management. This is affirmed by the National Insurer Financial Strength Rating issued by Fitch Ratings Lanka Ltd., A(lka) with a Positive outlook.

Strong Governance was key to building resilience with regular oversight by the Board and its Sub-Committees on key aspects of performance. High levels of engagement between Board members and senior leadership of the Group paved the way for clear communication. A review of the policy framework facilitated the clear connectivity to rewards and compensation, aligning the objectives of the Company to personal growth aspirations to create a conducive culture throughout the Group.

VALUE TO STAKEHOLDERS

I am proud to report that we have distributed a cash interim dividend of Rs. 2 per ordinary voting share to our shareholders amounting to Rs. 100 Million in view our improved normalised profits which marks another milestone in our annals. The Board has also recommended a final dividend of Rs. 6 per share which has been included in the Notice of Meeting for your approval which will place a further Rs. 300 Million in the hands of our shareholders. As stated previously, our market capitalisation also increased by Rs. 300 Million adding to the cash dividends. It is

noteworthy that HNBA's price per share is Rs. 138 at the close of the year, trading above the Net Asset Value per share of Rs. 134.3 reflecting the intrinsic value added to shareholders, underscoring the value added by the careful management of non-monetised capitals. Our brief inclusion in the S&P SL 20 during the year serves to highlight the value delivered to our shareholders and note that the subsequent removal from the list was due to insufficient liquidity as our shareholders maintained their holdings, acknowledging their trust in our ability to deliver value in the future.

OUTLOOK

As uncertainty becomes the norm, our strategy needs to remain agile as we build resilience within the Group to withstand sudden shocks or cope with a convergence of downside risks. Our aspirations continue to move higher as we prove our ability to deliver on ambitious goals. HNBA aspires to be the 'Best in Class' insurer in 2020, focusing on Service Excellence, Stakeholder Value Creation, Employee Happiness, Digital Transformation, Innovative Excellence and Social Stewardship based on the determination to deliver value to all our stakeholders. The theme allows flexibility to have an open mind about emerging market opportunities, challenges and trends which are necessary for an agile strategy. We start off on a solid foundation having delivered solid value to our stakeholders and built resilience in our staff, portfolios and balance sheet.

We are also preparing for the impact of SLFRS 17, Insurance Contracts and have commissioned an impact assessment of the same as it will be the most transformative reform of the industry. I am confident that we will be able to manage the transition minimising potential shocks as we have an early start.

APPRECIATIONS

I commend the two teams of HNBA led by the MD/CEO Deepthi Lokuarachchi, who I consider as a great asset to the Company, for their tireless work throughout the year and delivered a balanced performance in line with the corporate values, building stakeholder trust. I thank our customers who have placed their trust in us to provide safety nets for the future and assure them of our constant vigilance over our ability to meet their legitimate claims. I also wish to thank our business partners who have supported our growth over the years and count on their continued support. I also thank the members of the Boards of Directors in HNB Assurance PLC and HNB General Insurance Limited for the unstinted support extended, valuable contributions made and always standing by me in taking this Company to greater heights.

I express my sincere appreciation of the assistance and guidance provided by the regulator, Insurance Regulatory Commission of Sri Lanka. The Board joins me in thanking our shareholders for the confidence placed in us to take HNB Assurance PLC to new heights as we seek to be the Best in Class insurer in 2020.

Yours sincerely,



Rose Cooray
Chairperson

Colombo, Sri Lanka
13th February 2020

MANAGING DIRECTOR'S REVIEW



“ STRENGTHENING
EVERY STEP OF YOUR LIFE,
WINNING YOUR TRUST
ABOVE ALL



Funds Under Management

Rs. 21,937 Mn.



Market Capitalisation

Rs. 6,900 Mn.



Share Price

Rs. 138



Profit Before Tax

Rs. 1,405 Mn.

It is with great pleasure I present to you the eighth Integrated Annual Report of HNB Assurance PLC for the financial year ended 31st December 2019. I am pleased to report that HNB Assurance PLC Group has delivered Rs. 1.4 Billion as Profit Before Tax reflecting a growth of 17% excluding the one-off surplus reported as at end 2018. Solid and stable growth in Group Gross Written Premiums of 14% was a key contributor noting that the Group continued to outperform 11% and 5% of Life and General industry growths respectively by end 2019. Total Assets of the Group increased by 20% to Rs. 26.6 Billion with both Life and General Insurance business demonstrating strong growth. Funds Under Management increased to Rs. 22 Billion which opened additional avenues of investments. National Insurer Financial Strength ratings of both HNB Assurance PLC and HNB General Insurance Limited were affirmed at 'A (Ika)' with the outlook moving from Stable to Positive based on satisfactory ability of meeting claim obligations. I believe we have upheld the trust of our stakeholders and the promise to deliver long-term value in what proved to be an extremely challenging year for the country.

PEOPLE DRIVEN GROWTH

A multi-pronged strategy to strengthen our distribution channels was key to success. We focused on delivering value to our 2,500+ Agency personnel to substantially develop capacity to enhance their performance while motivating them to aspire higher levels of achievement, supporting their livelihoods. Our efforts were rewarded as the Advisor channel delivered GWP

Total Assets
Rs. 26.6 Bn.
(2018: Rs. 22.3 Bn.)
↑ 20%

growth in double digits despite the challenging business environment which prevailed throughout 2019. We also worked together with our parent Hatton National Bank PLC to grow our Bancassurance channel in identified segments in line with our long-term strategy. We now have 275 Bancassurance officers stationed across the network, enabling higher levels of penetration and offering customer convenience. This combined sales force drove our growth, sustaining momentum during the entire year amidst some temporary setbacks experienced during April and May 2019 reflecting on the security situation which followed the attacks on Easter Sunday. The capacity building initiatives also reflected with the Company producing 75 MDRT Winners in 2019.

VALUE TO CUSTOMERS

Our customer value proposition continues to evolve as technological advances disrupting established models of personal selling. The digital layer augmented our customer touch-points enabling customers to transact through our website enabling interactions at their convenience. This will continue to further evolve in 2020 as strengthening the digital offerings is very much on our agenda. At the core of HNBA's value proposition is trust as we support your growth to strengthen your journey with a safety net for the tough times. Nurturing trust is evident in our prudent risk profiles and the strong Governance framework that has seen our rating outlook improve during the year.

Trust is also built through honouring legitimate claims and efficiency of the claims process. The claims paid serve as testimony to the trust we have upheld. This is supported by the Customer Relationship Centres which also handles customer complaints and we are pleased to note the decline in customer complaints during the year. The turnaround times of claims processes have also decreased to ensure that you get the related payments as fast as possible. We will continue to enhance

Capital Adequacy Ratio
Life: 309%
General: 223%

our customer value proposition as we sincerely believe that this is our strongest differentiator in an intensely competitive market.

LIFE INSURANCE

HNBA recorded strong growth in Gross Written Premiums of 17% to Rs. 5.2 Billion, well above industry growth rate of 11% as we pursued an aggressive strategy to deliver ambitious goals. Profit Before Tax of life operations excluding one-off surplus, improved by 17% as HNBA recording Rs. 1.1 Billion as Profit Before Tax during the year. Investment income growth of 23% cushioned the operating performance during 2019. The Life Fund grew from Rs. 12 Billion to Rs. 14 Billion representing a growth of 18%. The Expense Ratio remained flat at 49% as we absorbed the increased activity with higher levels of productivity within existing capacity.

HNBA is well positioned for growth with a relevant portfolio of products, a highly motivated sales force, strong Governance and risk management processes and a resilient balance sheet with a Capital Adequacy Ratio (CAR) of 309%.

GENERAL INSURANCE

General Insurance also had good year recording 8% growth in profitability recording Profit After Tax of Rs. 250 Million. Gross Written Premium amounted to Rs. 4.8 Billion reflecting growth of 11%, well above industry growth of 5%. Growth of General insurance was impacted by declining registrations of motor vehicles. Profitability was supported by 15% increase in Investment Income and careful risk selection through improved controls on underwriting although there were no deviations in risk taking and pricing. We were able to manage the

MANAGING DIRECTOR'S REVIEW

Claims Ratio which declined from 66% to 64% due to the growth of GWP despite large pay-offs due to normal risk events. The Expense Ratio moved up marginally by a mere 1% reflecting high levels of cost consciousness.

A strong balance sheet supported our strategy to stay true to our charted course as we watched market movements with healthy skepticism to deliver enhanced performance in an extremely challenging year. HNBGI CAR reflects our prudent approach to risk, standing at 223% at the close of the year.

VALUE TO SHAREHOLDERS

I am pleased to report that we have increased the value to shareholders in a year when we experienced multiple challenges. Our market capitalisation increased by 5% to Rs. 6.9 Billion as our share price increased from Rs.132 to Rs. 138 reflecting favourable market perception of HNBA's prospects. It reflects Rs. 3.70 above the Net Asset Value per share of Rs. 134.30 at the close of the year which increased by 17% in line with equity reflecting the non-monetised assets of the Group. Additionally, we declared an interim dividend of Rs. 2 per share which is in your hands now and we are proposing a final dividend of Rs. 6 to add to this.

The inclusion of HNBA in the S&P 20 served to highlight the value delivered to shareholders. Inclusion affirmed compliance with all the criteria which range from Governance to financial performance and liquidity. Unavailability

of shares on offer for trading purposes resulted in the Company exiting the S&P 20 during late 2019 and I believe the commitment and desire of the Shareholders to hold on to HNBA shares in the long-term was the cause for not being able to maintain an adequate share trading float which resulted in this position.

TEAMWORK

Whilst admitting this is a cliché, I find no better word to describe the successful performance of the year. Clear communication of our vision and goals, comprehensive training and development programmes together with better alignment of corporate and personal goals through fair remuneration policies have served to build a high-performing team. The camaraderie and respect for each other's contribution towards our progress creates a conducive work environment to live our corporate values and deliver long-term value to our external stakeholders.

We continue to strengthen our talent made up of Sri Lankan people and as a Company we are indeed proud that Human Resources so developed have excelled in delivering exponential results despite every adversity which prevailed in the operating environment in the year under review. This sends a strong message to the market about the ability of local talent be it the matter of sales performance or achieving operational efficiency. Our Finance and IT teams have been acknowledged by Oracle for having achieved the fastest Oracle

implementation in the country amidst very challenging periods. This provides ample testimony of the capability of our people.

OUR VISION FOR 2020

Our theme for 2020 is to be the Best in Class Insurer anchored on Service Excellence, Stakeholder Value Creation, Employee Happiness, Digital Transformation, Innovative Excellence and Social Stewardship. Strong foundations laid in 2019 for each of these pillars will enable us to further develop and offer key differentiators to maintain sustainable growth and accomplishments.

APPRECIATIONS

I take this opportunity to thank our Board of Directors, the Executive Committee, the Management teams and everyone else in the two companies including members of our sales force for the higher level of professionalism they have demonstrated to achieve commendable performance during the year under review. I would also like to place my deepest appreciation and gratitude to our parent company HNB PLC and other Shareholders for having the highest level of trust and confidence in the Company. Further, I would also like to thank the Regulators, Insurance Brokers, Reinsurance companies, our network partners, customers and the general public for standing tall with us to conclude a very successful year during 2019.



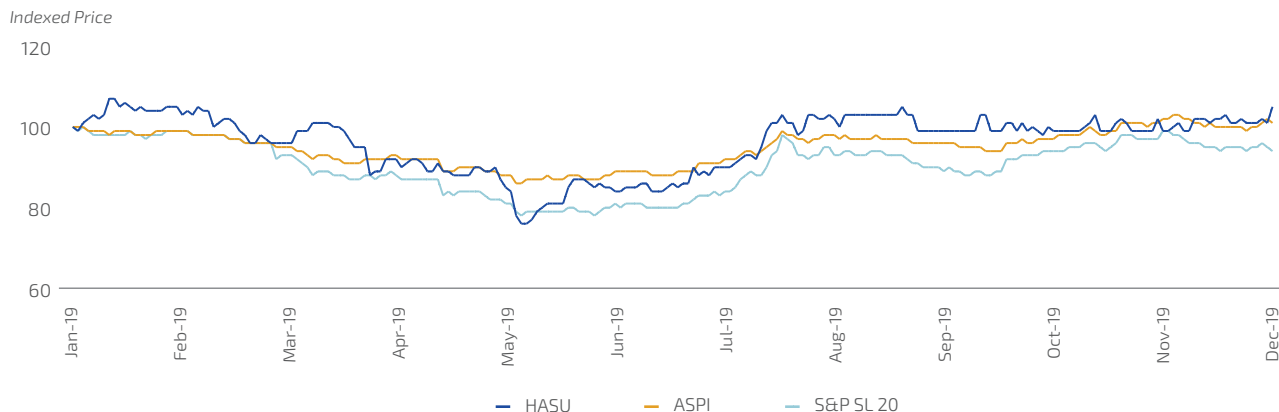
Deepthi Lokuarachchi
Managing Director/CEO

Colombo, Sri Lanka
13th February 2020

“ A STRONG BALANCE SHEET SUPPORTED OUR STRATEGY TO STAY TRUE TO OUR CHARTED COURSE AS WE WATCHED MARKET MOVEMENTS WITH HEALTHY SKEPTICISM TO DELIVER ENHANCED PERFORMANCE IN AN EXTREMELY CHALLENGING YEAR.

TO OUR INVESTORS

HNB Assurance PLC Performance vs Market



GWP Growth

HNBA 17% ↑
(Industry 11%)

HNBDGI 11% ↑
(Industry 5%)

Our Strengths

- ✓ Extensive Point-of-Sale Network
- ✓ HNB Brand and Network
- ✓ Strong Governance Framework
- ✓ Diverse Product Portfolio
- ✓ Strong Balance Sheet Position

Fitch Rating – HNBA and HNBGI

National Insurer Financial Strength

'A (lka)'

Positive



Stable

Market Capitalisation

Rs. 6.9 Bn.

(2018: Rs. 6.6 Bn.)

↑ 5%

HNB ASSURANCE PLC HAS ALWAYS DELIVERED CONSISTENT AND ATTRACTIVE RETURNS TO OUR SHAREHOLDERS OVER THE PAST 18 YEARS

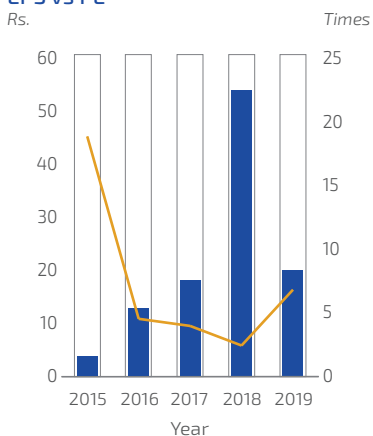
Group Assets

Rs. 26.6 Bn.

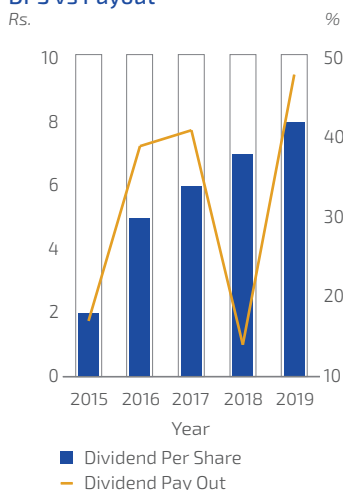
(2018: Rs. 22.2 Bn.)

↑ 20%

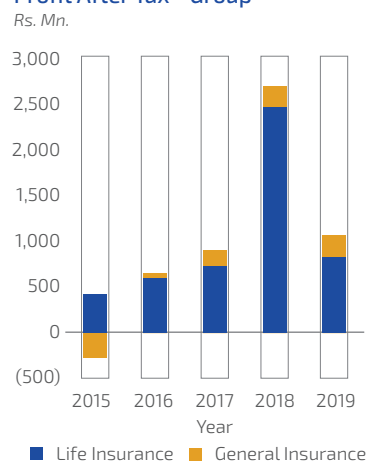
EPS vs PE



DPS vs Payout

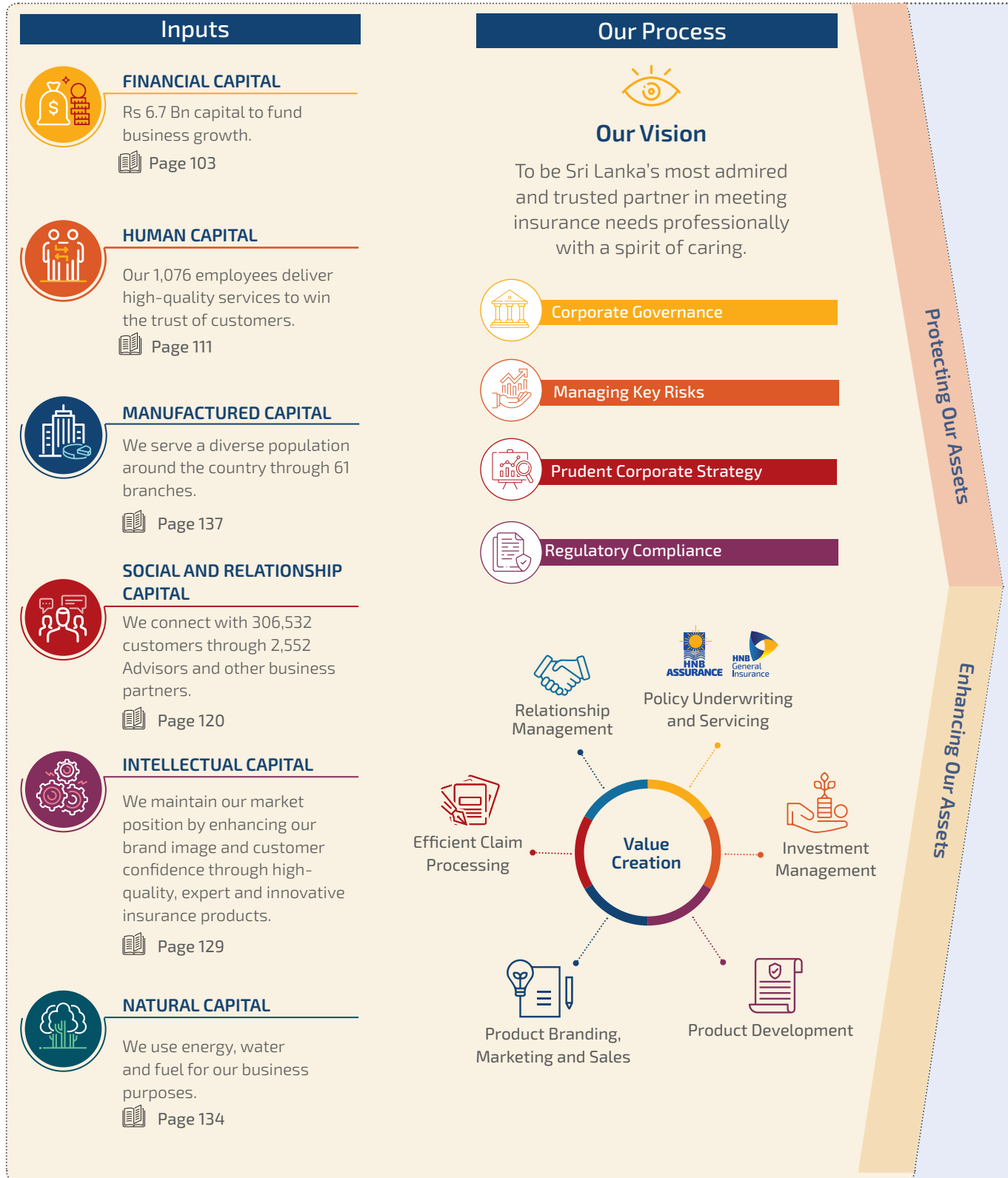


Profit After Tax - Group



VALUE CREATION MODEL

We optimise capital allocation by maintaining a balance between growth, profitability and resource efficiency. While growth and profitability are important to maintain our competitiveness and deliver attractive returns to our investors, we recognise that sharing value creation, strict regulatory compliance and sound Governance are key to sustain our value creation in the long-term.



Our Outputs

Number and Value of Insurance Policies

Policyholders
150,689
Life Policyholders

Premium Collections
Rs. 5,175 Mn.
in Life Insurance

155,843
General Policyholders

Rs. 4,819 Mn.
in General Insurance

Settlement of Claims and Benefits

Rs. 2,200 Mn.
Claims paid in General
Insurance

Rs. 1,325 Mn.
Claims paid in Life
Insurance

Investment Income

20%
Growth in Funds Under
Management

Rs. 2,333 Mn.
Investment Income

Customer Relations Management

2
New products

2
Customer Relations
Management Centres

Value Delivered



Shareholders

- > 16% ROE
- > 5% Share Price Appreciation
- > 6% Dividend Yield



Policyholders

- > Rs. 3,621 Mn. Benefits and Claims
- > Rs. 2,333 Mn. Investment Income



Employees

- > Rs. 1,156 Mn. Employee Benefits
- > Rs. 10.8 Mn. Investment in Training and Development
- > 41% Female Representation



Business Partners

- > Rs. 1,110 Mn. Commissions Paid
- > Rs. 1,313 Mn. Premium Ceded to Reinsurers



Regulator

- > Compliance with all Regulatory Requirements



Communities

- > Rs. 4 Mn. Investment in CSR
- > 60 Water Projects

Business Facilitators



Customer Relations

Investing in improving customer service



Human Resource Management

Rewarding performance and investing in attracting, developing and training our people



Intermediary Management

Building strong relationships with our business partners



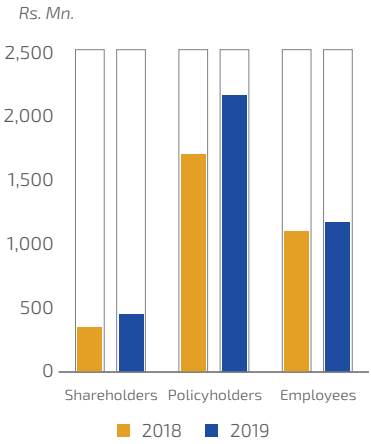
Support Services

Investing in actuarial, finance, data analytics expertise, marketing and infrastructure

PARTNERING WITH STAKEHOLDERS

Relationships are a key part of our eco-system. We use several mechanisms to connect with our stakeholders, understand their needs and obtain feedback. These findings are used in formulating the corporate strategy of the Group

Economic Value Delivered



Managing Stakeholder Concerns

Financial Stability

What we did

- > Compliance
- > Effective risk management
- > Adequate capital buffers

Attractive Returns

What we did

- > Dividends to Shareholders
- > Attractive returns to Policyholders
- > Recognition and rewards to employees and business partners

Business Growth

What we did

- > Consistent GWP growth
- > Strategic portfolio management
- > Enhance efficiency
- > Expansion plans

High-Quality Products and Services

What we did

- > Product innovation
- > Invest on digitisation
- > Certified business processes
- > Efficient customer service

Connecting with Stakeholders



Shareholders

- Annual Report
- AGM
- Interim reports
- Corporate website
- Press articles



Customers

- Online help desk and 24-hour customer hotline
- Branch network
- Customer service centres
- Media advertisements
- Customer surveys
- Corporate website



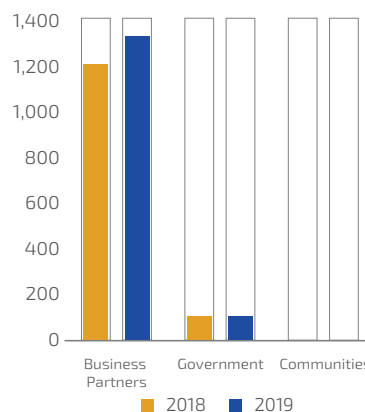
Employees

- Staff conference
- Management meetings
- Distribution management meetings
- Intranet and social media platforms
- Performance reviews
- Training programmes
- Surveys

We adopt various mechanisms to engage and interact with our stakeholders based on the importance they play in our value creation model. We focus on using the most effective mode of engagement to ensure satisfaction of the stakeholders

Economic Value Delivered

Rs. Mn.



Managing Stakeholder Concerns

Grievance Management

What we did  

- > Evaluate employee satisfaction
- > Dedicated customer service centres

Sustainable Growth

What we did   

- > Environmental protection
- > Community development through CSR and employment opportunities

Ethical Work Practices

What we did    

- > Sound policies and procedures
- > Value-driven culture
- > Confidentiality of customer information
- > Compliance with stipulated rules, directives and Code of Conduct

Stakeholder Development

What we did   

- > Career development
- > Training and development
- > Work-life balance

Connecting with Stakeholders



Business Partners

- Sales clinics for Advisors
- Award ceremony for HNB channel
- Annual conference for Advisors
- Advisor and broker trainings
- E-mail communications
- Meetings



Regulator

- Submission of periodical returns
- Press releases
- Responses to queries and information requirements








Communities

- CSR progress
- Press releases
- Corporate website
- Delivery channels

STRATEGY

We strive to deliver superior returns to our stakeholders by growing through revolutionary, sustainable and responsible means. This is our vision for 2020 as described in page 7.

Our people, products and processes are the core value drivers of our organisation, and we seek to energise and optimise our resources by implementing an inclusive corporate strategy.

Enablers	Our priorities	Initiatives
 <p>Profitable Growth</p>	Consistent GWP growth	<ul style="list-style-type: none"> Improve market share Acquire new customers Maintain a prudent customer mix Innovate new products
	Efficiency	<ul style="list-style-type: none"> Minimise claim exposure Lean management Expense management
	Increase Investment Income	<ul style="list-style-type: none"> Grow size of investment fund Strategic portfolio management
	Infrastructure	<ul style="list-style-type: none"> Upgrade digital infrastructure Expand physical infrastructure
 <p>Financial Stability</p>	Minimise risks and volatility	<ul style="list-style-type: none"> Healthy Claims Ratio Prudent underwriting Asset and Liability management Maintain strong Life Fund
	Regulatory compliance	<ul style="list-style-type: none"> Maintain capital at well above stipulated level Adhere to rules and regulations applicable
 <p>Strong Relationships</p>	Empower customers	<ul style="list-style-type: none"> Meet claim obligations High-quality service Improve customer confidence Digitisation
	Strengthen ties	<ul style="list-style-type: none"> Active engagement Ethical business practices
	Increase income	<ul style="list-style-type: none"> Commissions to business partners Bonuses to Policyholders Attractive returns to Shareholders
 <p>Empowered Team</p>	Create experts	<ul style="list-style-type: none"> Training and development Recruit and retain talents Active engagement Conducive work environment A balanced workforce Manage grievances
	Build capacity	
	Maintain a diverse mix	
	Ethical business practices	
 <p>Sustainable Performance</p>	Deliver environmental commitments	<ul style="list-style-type: none"> Measure energy and water consumption Enhance social well-being through CSR projects Provide insurance to micro entrepreneurs
	Develop local communities	

KPI	Measuring Ourselves	Vision 2020
<ul style="list-style-type: none"> Growth in insurance premiums Reinsurance costs Expense Ratio Growth in Investment income Growth in Funds Under Management New branches Revamped corporate websites 	<p>Gross Written Premium Rs. Mn.</p> <p>Legend: Life Insurance (Orange), General Insurance (Blue)</p>	
<ul style="list-style-type: none"> Capital Adequacy Ratio Claims Ratio Investment asset mix Total Available Capital Life Fund 	<p>Capital Adequacy Ratio %</p> <p>Legend: Life Insurance (Orange), General Insurance (Blue)</p>	
<ul style="list-style-type: none"> Customer satisfaction Number of customer complaints Length of relationships Product innovations 	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>98% Customer Complaints Settled</p> </div> <div style="text-align: center;"> <p>Rs. 3.6 Bn. Claims and Benefits Paid</p> </div> <div style="text-align: center;"> <p>2 New Products</p> </div> </div>	
<ul style="list-style-type: none"> Productivity Training spend per employee Employee satisfaction Number of grievances 	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>21% Employee Turnover</p> </div> <div style="text-align: center;"> <p>Rs. 1.2 Bn. on Employee Benefits</p> </div> <div style="text-align: center;"> <p>12,895 Training Hours</p> </div> </div>	
<ul style="list-style-type: none"> Measure energy consumption Enhance social well-being through CSR projects Provide insurance to micro entrepreneurs 	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;"> <p>1,835,217 Units Electricity Consumption</p> </div> <div style="text-align: center;"> <p>3,627 Micro Insurance Policies</p> </div> <div style="text-align: center;"> <p>Rs. 4 Mn. CSR Spend</p> </div> </div>	

AWARDS AND ACCOLADES



Bronze Award Insurance Sector

HNB Assurance Group won the Bronze Award for its 2018 Integrated Annual Report themed 'Evolution' at the 55th Annual Report Awards Ceremony, organised by the Institute of Chartered Accountants of Sri Lanka.



10 Best Integrated Report

HNB Assurance Group won '10 Best Integrated Report' Award at the CMA Integrated Reports Awards 2019.

03

RESPONSIBLE LEADERSHIP

Here at HNB Assurance, we empower you to reach for the pinnacle of achievement; providing a solid path for the leaders of the future, enabling a spirit of transformation and growth.



Giving You the
Strength to
Pursue Your
Goals



BOARD OF DIRECTORS



➡ Standing Left to Right

- Mahendra Jayasekera
- Dilshan Rodrigo
- Damien Fernando
- Rose Cooray
- Dr. Sivakumar Selliah
- Ravi Abeysuriya
- Stuart Chapman
- Siromi Wickramasinghe



● Kalum Wijesooriya ● Faizal Salieh ● Deepthi Lokuarachchi ● Sanjay Wijemanne ● Marina Tharmaratnam ● Arjuna Abeygunasekara ● Sitari Jayasundara ● Dr. Prasad Samarasinghe

BOARD OF DIRECTORS



**ROSE
COORAY**

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

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

Appointed as the Chairperson on 06th July 2015. Mrs. Rose Cooray, having served the Central Bank of Sri Lanka for over 35 years retired as the Deputy Governor and counts over 45 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 upto 2019. During this period, she also functioned as a Director of HNB Finance Limited and as the Chairperson of Sithma Development (Pvt) Limited for five years.

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 six years and represented the Government on the Boards of DFCC Bank, Sri Lanka Institute of Information Technology, Sri Lanka Telecom, Ceylon Electricity Board, De La Rue Currency and Security Print (Pvt) Ltd., Export Development Board, National Housing and Development Authority and the Monetary Board on West Coast Power (Pvt) Ltd. Mrs. Cooray has been extensively involved in policy making in the financial sector and implementing development projects. She has wide experience in negotiating facilities with multilateral donors/bilateral trade agreements. She has contributed papers to professional journals.



**DEEPTHI
LOKUARACHCHI**

Managing Director/CEO – HNB Assurance PLC and HNB General Insurance Limited

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

Deepthi is a career insurance professional with over 25 years of experience having served both Life and General insurance sectors in his career, heads the management of HNBA and HNBGI while also serving as a Board member. He is also the immediate past President of Insurance Association of Sri Lanka and had also served as the President of Sri Lanka Insurance Institute (SLII). Deepthi was recently inducted to the Hall of Fame of the SLII for his outstanding contribution to insurance industry. Further in recognition of his laudable contribution and for achievements of life, Deepthi was recognised as a recipient of one of the five awards in the Annual Recognitions extended to former graduates of the University of Colombo during 2019.



**MAHENDRA
JAYASEKERA**

Independent/Non-Executive Director – HNB Assurance PLC

FCA, BSc Special Hons - University of Sri Jayawardenapura

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

Director of LWL Development (Pvt) Limited, Beyond Paradise Collection Limited, Uni Dil Packaging Limited and Uni Dil Packaging Solutions Limited.



**DILSHAN
RODRIGO**

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

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

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



**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 34 years of multi-functional and progressive experience in the Sri Lankan Banking sector including 13 years

in the Corporate Management level of Hatton National Bank PLC. Previously held the position of Chairperson of HDFC Bank, General Manager/CEO of Lankaputhra Development Bank, Chairperson of Ceybank Asset Management Company (a subsidiary of Bank of Ceylon), Director of Commercial Bank of Ceylon PLC, Commission Member of the SEC and a Director of Sri Lanka Banks' Association Gitee Ltd.



**DR. SIVAKUMAR
SELLIAH**

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

MBBS, M.Phil

Was appointed to the board in 2014, Dr. Selliah holds an 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 listed companies; Lanka Tiles PLC, Softlogic Holdings PLC, ODEL PLC, Lanka Walltiles PLC, ACL Cables PLC, Lanka Ceramic PLC, Swisstek (Ceylon) PLC.

Dr. Selliah is also the Chairman of JAT Holdings (Pvt) Ltd., Cleanco Lanka (Pvt) Ltd, Greensands (Pvt) Ltd. and Vydexa (Lanka) Power Corporation (Pvt) Ltd and Swisstek Aluminium 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 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 Strategy Review Committee.



**RAVI
ABEYSURIYA**

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

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

Ravi Abeysuriya is the Group Director of Candor Group, Director of Seylan Bank PLC, and Bio Foods (Pvt) Limited. He is also the Advocacy Chair and Board Director of CFA Society Sri Lanka. Formerly, he was the Head of Strategic Business Development at Hayleys Group, Managing Director of Amba Research Lanka and Managing Director of Fitch Ratings Lanka. He functioned as a permanent member of the Financial Sector Reforms Committee (FSRC) and was twice appointed as a commission member of the Securities and Exchange Commission of Sri Lanka and was a Director of Sri Lanka Insurance (SLIC). He is the President of the Association of Alternative Financial Institutions and a member of the National Agenda Committee of the Ceylon Chamber of Commerce. Mr. Abeysuriya has also functioned as a member of Board Risk Oversight Committee and Financial System Stability Consultative Committee of the Central Bank of Sri Lanka 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.



**DAMIEN
FERNANDO**

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

MBA (University of Sri Jayawardenapura),
FCMA (UK)

Mr. Fernando is a Fellow Member of Chartered Institute of Management Accountants of United Kingdom. He

has been awarded a Masters Degree in Business Administration from the Postgraduate Institute of Management, University of Sri Jayawardenapura in 1992.

He served as the Executive Director of Sri Lanka Insurance Corporation Limited from 2003 to 2009. He is serving as a Non-Executive Director of HNB PLC. He has also held Board positions in companies in sectors of Food and beverage, Manufacturing, Healthcare, Telecommunications, Finance, Asset management, and in Unit Trusts.

Mr. Fernando is also a Director, Addison (Pvt) Ltd. and HealthCey (Pvt) Ltd.



**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 and 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.

BOARD OF DIRECTORS

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 Ceylinco Life Insurance Limited.

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 and Cosmetics Steering Committee of the Ceylon Chamber of Commerce.



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, The Distance Learning Centre Limited, and is a Council Member and Financial sector Consultant at Gerson Lehrman Group, USA.



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 and 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 and 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 the Employers Federation and served on the main committee of the Ceylon Chamber of Commerce.



SANJAY WIJEMANNE

Non-Independent/Non-Executive Director – HNB General Insurance Ltd

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

➤ Mr. Sanjay Wijemanne is the Deputy General Manager – Retail and SME Banking at Hatton National Bank PLC and manages the areas of Personal Financial Services (Leasing, Pawning, Personal and Housing Loans), SME/Microfinance, Credit Cards, Sales and Business Development, Network Management, Deposit Mobilisation, Marketing Communications, Customer Service, Club and Priority Banking, Inward Remittances and Exchange House Relationships and Bancassurance. He has a B.Sc in Business and 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 and 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 and Clearing, Head of Sales, Head of Branches including Premier Banking, Branch Manager – Kollupitiya Branch/Manager Premier Centre.

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



**ARJUNA
ABEYGUNASEKARA**

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

MBA (University of Colombo), B.Sc. (University of Colombo), ACMA (UK), CGMA, ACI

Mr. Arjuna Abeysunasekara counts over 20 years of experience in the Banking sector including branch banking and treasury management in four leading banks in the country. He currently holds the position of Deputy General Manager – Treasury and Markets of Hatton National Bank PLC.

Mr. Abeysunasekara 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 Chartered Management Accountant. In addition, he serves the Centre for Banking Studies of the Central Bank of Sri Lanka as a recourse person.



**KALUM
WIJESOORIYA**

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

LL.B (Sri Lanka)

Mr. Kalum Wijesooriya is the Assistant General Manager-Deposits and Remittances and Chief Employee Experience Officer (CEEEO) of Hatton National Bank PLC (HNB) and is overall responsible for the Deposits, Remittances and Bancassurance portfolios of the Bank.

He started his career with Sampath Bank in 1989 and thereafter joined HNB in 1991. He counts over 29 years of experience with HNB and has an overall experience of 31 years in the Banking Sector.

Being an Old Boy of Royal College, Colombo 7, he holds a Bachelor of Law Degree from the University of Colombo. He holds expertise of over two decades in Marketing, Media, Public Relations and Remittances and have held many senior positions in the Bank's International and Retail Banking Departments.



**DR. PRASAD
SAMARASINGHE**

*Alternate Director-Non-Independent/
Non-Executive Director-HNB Assurance
PLC and 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. In addition, he holds the position of Managing Director of Bell Active (Pvt.) Ltd. and Bell Solutions (Pvt.) Ltd, Director of DCSL Brewery (Pvt) Ltd of and the Directorships of three non-profit organisations, LK Domain registry, TRACE and Information and Communication Technology Industry Skills Council (ICTSC).

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 Honors 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.



**SITARI
JAYASUNDARA**

*Chief Legal Officer, Board Secretary and
Compliance Officer*

*HNB Assurance PLC and HNB General
Insurance Limited*

Attorney-at-Law and Notary Public, MBA (PIM-USJ), Pg. Adv. Dip (Finance, Banking and 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 and 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 current Chairperson of the Legal Advisory Forum (LAF) of Insurance Association of Sri Lanka (IASL).

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

GROUP EXECUTIVE COMMITTEE



01

DEEPTHI LOKUARACHCHI

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

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



02

PRASANTHA FERNANDO

Chief Operating Officer – HNB Assurance PLC

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



03

NILESH AMARASINGHE

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

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



04

SITHUMINA JAYASUNDARA

*Chief Operating Officer – HNB General
Insurance Limited*

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



05

JUDE BENJAMIN

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



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



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)



08

SITARI JAYASUNDARA

Chief Legal Officer, Board Secretary and Compliance Officer – HNB Assurance PLC and HNB General Insurance Limited

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



09

LASITHA WIMALARATHNE

Deputy Chief Operating Officer – HNB Assurance PLC

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

GROUP EXECUTIVE COMMITTEE

DEEPTHI LOKUARACHCHI

Refer Page 32

PRASANTHA FERNANDO

➤ Prasantha joined HNB Assurance in 2012 and he served as General Manager - Life Insurance for three years prior to being promoted as Chief Operating Officer of HNB Assurance PLC. Prior to joining HNB Assurance, he held the position of Assistant General Manager, Life Operations at Aviva NDB Insurance PLC. He counts over 24 years of experience in the Life Insurance Industry. 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. He also serves as the Principal Officer and Specified Officer of HNB Assurance PLC.

NILESH AMARASINGHE

➤ Nilesh counts to 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 and Strategy prior to assuming the role as the Chief Investment and Strategy Officer. As the CIO, he is responsible for the performance of more than Rs. 20 Billion funds of the HNB Assurance Group. Nilesh, who has been a member of the Executive Committee of the HNBA Group for more than six years, also serves as the Secretary to the Strategy Review Committee of the Company.

SITHUMINA JAYASUNDARA

➤ Joined HNB General Insurance in July 2014. Appointed to the Group Executive Committee in 2015, subsequently promoted as the Chief Operating Officer of HNB General Insurance Ltd.

He counts over 23 years' experience in different capacities in several companies in the Insurance Industry and was appointed as Specified Officer since

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 to the Chartered Insurance Institute of the UK. A member of the Ceylon Chamber of Commerce "Young Member's Forum" and is a founder Council Member of The Association of Chartered Insurance Professionals (ACIP) in Sri Lanka.

JUDE BENJAMIN

➤ Jude is a charismatic and a dynamic personality hailing from S. 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 2016.

DINESH UDAWATTA

➤ 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 17 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.

DINUKA PATTIKIRIARACHCHI

➤ An old boy of De Mazenod College, Dinuka holds a Master of Business Administration Degree specializing 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

SITARI JAYASUNDARA

Refer Page 35

LASITHA WIMALARATHNE

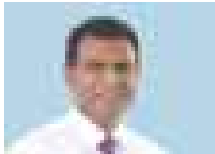
➤ Lasitha's professional career spans over 22 years, with 19 years in Life Insurance Operations and Sales including seven years at AIA Insurance Sri Lanka and three years of Marketing and Sales exposure in London. Prior to joining HNB Assurance he was functioning as the General Manager – Life Operations 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).

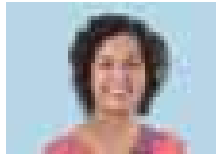
He is the current President of the Sri Lanka Insurance Institute (SLII) and has been serving as a council member since 2011. He is also a Council Member of the Association of Chartered Insurance Professionals (ACIP) of Sri Lanka and was the Founder Secretary General of ACIP.

MANAGEMENT TEAM

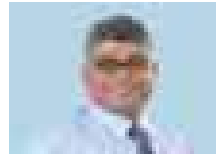
HNB ASSURANCE PLC



Hiran Fernandopulle
Zonal Head - North Western,
Central and Metro



Geethani Saram
Head of Support Services



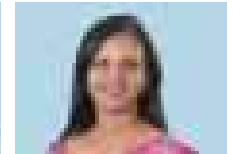
Dinesh Yograthnam
Head of Marketing



Harindra Ramasinghe
Zonal Head - Southern &
South Western



Punsirini Perera
Head of Finance



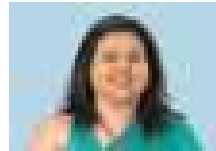
Padma Dahanayake
Senior Manager - Life Claims



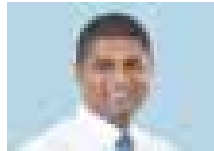
Salinda Perera
Senior Manager -
Administration



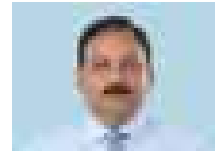
Shiran Fernando
Senior Manager - Sales
Training and Development



Sanjeewani Pitadeniya
Senior Manager - Customer
Experience & Investigations



Sanesh Fernando
Senior Manager -
Partnerships



Nadaraja Sugunan
Senior Zonal Manager -
North & East



Ravindra Rathnayake
Senior Manager - IT



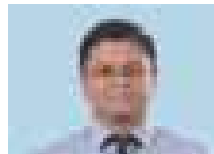
Jagath Gaspe
Acting Senior Zonal Manager
- Central



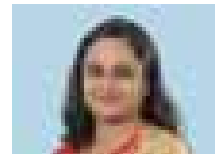
Kamini Gunawardene
Manager - Marketing



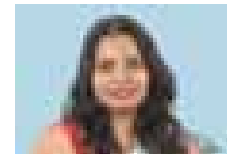
Prasad Thambawita
Manager - Life Servicing



Sameera Gamage
Project Manager - IT



Anuradha Ranasinghe
Manager - MRP



Ayanthi Wettasinghe
Manager - Human Resources



Waruna Peiris
Manager - Actuarial



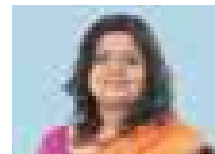
Tharuka Jayasekera
Manager - Finance



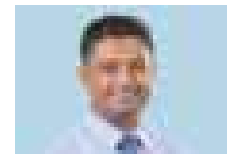
Harshana Aponsu
Manager - Finance



Kulunu Herath
Manager - Finance
Operations



Yoga Gunadasa
Manager - Legal



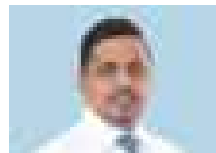
Isuru Wickramaratne
Manager - MIS



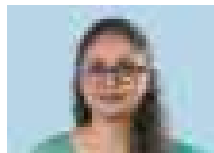
Ranesh Silva
Manager - Finance



H P Asanka
Manager - Risk and
Compliance



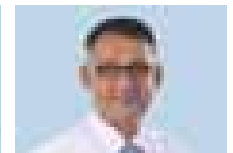
P Kugesan
Manager - Risk & Control



Nishadini Perera
Manager - Customer Service



Hemantha Liyanage
Zonal Manager - Metro



R M K G Harischandra
Zonal Manager - Southern



Michael Joseph
Zonal Manager - East



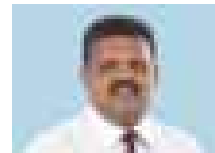
Chaminda De Zoysa
Regional Manager



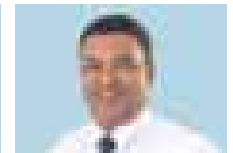
B G Dhanawardena
Regional Manager



Kapila Jayarathne
Regional Manager



Saman Kumara
Regional Manager



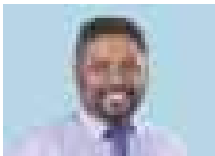
W A Priyantha
Regional Manager



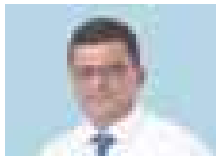
Pathum Fernando
Regional Manager

MANAGEMENT TEAM

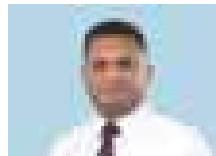
HNB GENERAL INSURANCE LIMITED



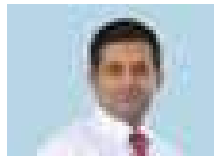
Chitparan Vivekanandan
Head of Finance & Support Services



A R Bazlin Salih
Zonal Head - Southern



Sajeewa Chandrasena
Zonal Head - Central



Sampath Wickramaarachchi
Head of Corporate and Alternate Channels



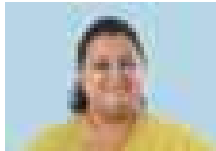
Hifly Huzair
Head - Takaful



T Rizapan
Zonal Head - North & East



Nalaka Madhurange
Zonal Head - Metro



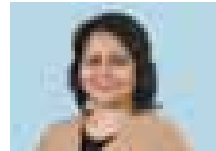
Hazana Caffoor
Senior Manager - Motor



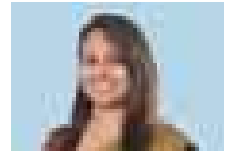
Thameera Walpita
Senior Manager - Motor Claims



Sanath Ranaweera
Chief Engineer



Poornima Nazeem
Senior Manager - Bancassurance



Ayodhya Perera
Senior Manager - Non Motor Claims



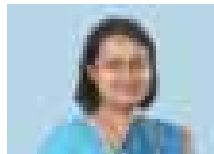
Devaka Jayasinghe
Senior Manager - Broker Development



Asanka Seneviratne
Senior Manager - Broker Management



Dharshana Maldeniya
Senior Manager - Agency Channel Development



Samantha Liyanage
Manager - Non Motor Underwriting



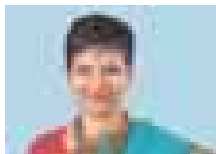
Anushika Wickramasinghe
Manager - Motor Processing



Dilum Medahinna
Manager - Title Insurance



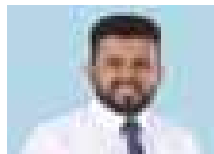
Kalhara Kariyawasam
Manager - Motor Claims Assessment



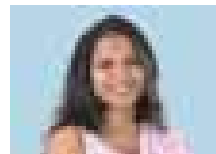
Subashini Duraiswamy
Manager - Re-Insurance



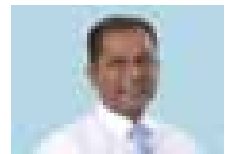
Rukmal Ravindra
Manager - Broker Business Development



Roshan Kularathne
Manager - Finance



Nadeesha Wickramaarachchi
Manager - Customer Relations



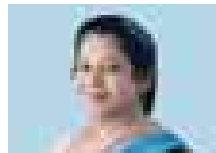
Gayan Ranasinghe
Zonal Manager - North Western



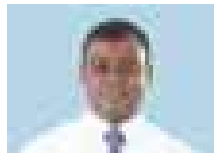
Samudra Jayawardena
Cluster Manager



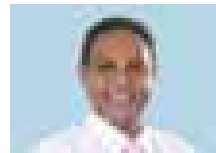
Anuruddha Wickremasinghe
Assitant Zonal Manager



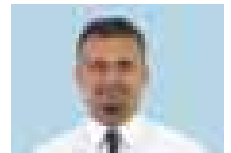
Damayanthi Nelumdeniya
Cluster Manager



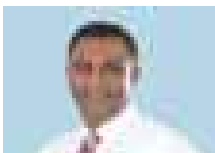
Vishnu Vishnuvarthan
Cluster Manager



Shiraj Nadarajah
Cluster Manager



Suranga Rosa
Cluster Manager



Udayanga Karunarathna
Cluster Manager

CORPORATE GOVERNANCE



CHAIRPERSON'S MESSAGE

Dear Shareholder,

Sound Corporate Governance has been the foundation for our growth in the 18 years since incorporation in an industry where trust is key to success. The Company's strong links with the 130+ year old Hatton National Bank PLC ushered in a culture of professionalism and risk awareness with a ready appreciation of the benefits of strong governance frameworks, controls systems and efficient processes. Nurturing our heritage, HNBA's governance frameworks and processes have evolved as we benchmarked industry and international best practice through voluntary adoption of standards and codes.

Leading with responsibility requires one to move beyond mere compliance with regulatory requirements. It requires that the leadership understands the issues that affect delivery of value to different stakeholders and maintains a sustainable equilibrium between their competing concerns. The 4th Industrial Revolution will see the emergence of new opportunities and issues that will shape Corporate Governance frameworks and it is important to understand that there will be time lags and pain points before matters get codified and included in governance frameworks.

As we move forward, it is my sincere belief that Responsible Leadership will be the pivot for sound Corporate Governance and why we have used this as the theme for our Governance report. This simple yet powerful

concept has been perhaps the one truism that has linked the sustained growth of corporates and the evolution of Corporate Governance.

At HNB Assurance, we strive to balance our stakeholder interests, reviewing their concerns ascertained from our stakeholder engagements and reviewing value derived and value delivered to maintain equilibrium. Active involvement of a competent Board, policy framework, effective controls, organisation culture and accountability were five key pillars that supported maintenance of this equilibrium and we have used these as key topics to provide insights in to our governance processes.

Ensuring that we have the diverse skills, experience and perspectives required to realise our vision is the starting point. The Board also relies on structured meetings, a flow of relevant information and other board processes that support the directing and oversight of the affairs of the Company. Similarly, a comprehensive policy framework communicates our philosophy and provides guidance for the day-to-day management of the business. Effective internal control systems provide necessary information for performance measurement and serve as a barometer to the effective implementation of policy. Organisation culture is perhaps the most powerful of the five pillars as it is pervasive and requires a fine balance to drive performance while upholding high standards of conduct. Accountability to stakeholders for

both the regulatory and the social licenses to operate effectively enabled us to define success in a holistic manner using financial and non-financial criteria, building trust.

On behalf of the Board of 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 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. Furthermore, the Company fully complies with the Corporate Governance requirements of Rule No. 7.10 of the Listing Rules of the Colombo Stock Exchange and the Corporate Governance Framework issued by the Insurance Regulatory Commission of Sri Lanka. It must be also noted that during the year all Directors and the Management team carried out their activities in accordance with the applicable Codes of Conduct. Therefore, as mandated by the above Codes, I hereby confirm that I am not aware of any material violations of the provisions of the Code of Conduct and Ethics by any Director or any member of the Corporate Management team of the Company.

Rose Cooray
Chairperson

Colombo, Sri Lanka
13th February 2020

RESPONSIBLE LEADERSHIP

In a long-term business to provide safety nets to support financial security of our customers, the Board is committed to upholding high levels of Corporate Governance, carefully balancing interests of Shareholders. In challenging years, increasing divergence among stakeholder interests underscores the need for deliberation from multiple perspectives, fostering greater understanding of issues to facilitate discharge of obligations with responsibility. That's why we have themed this year's Corporate Governance report as Responsible Leadership as we fine-tuned our governance structures, policy frameworks and processes to create sustainable value to our stakeholders, viewing matters set before us through multiple lenses and timelines.

OUR COMPLIANCE FRAMEWORK

We draw from regulatory sources, other authoritative pronouncements and industry best practice to compile a Corporate Governance framework that is fit for purpose.

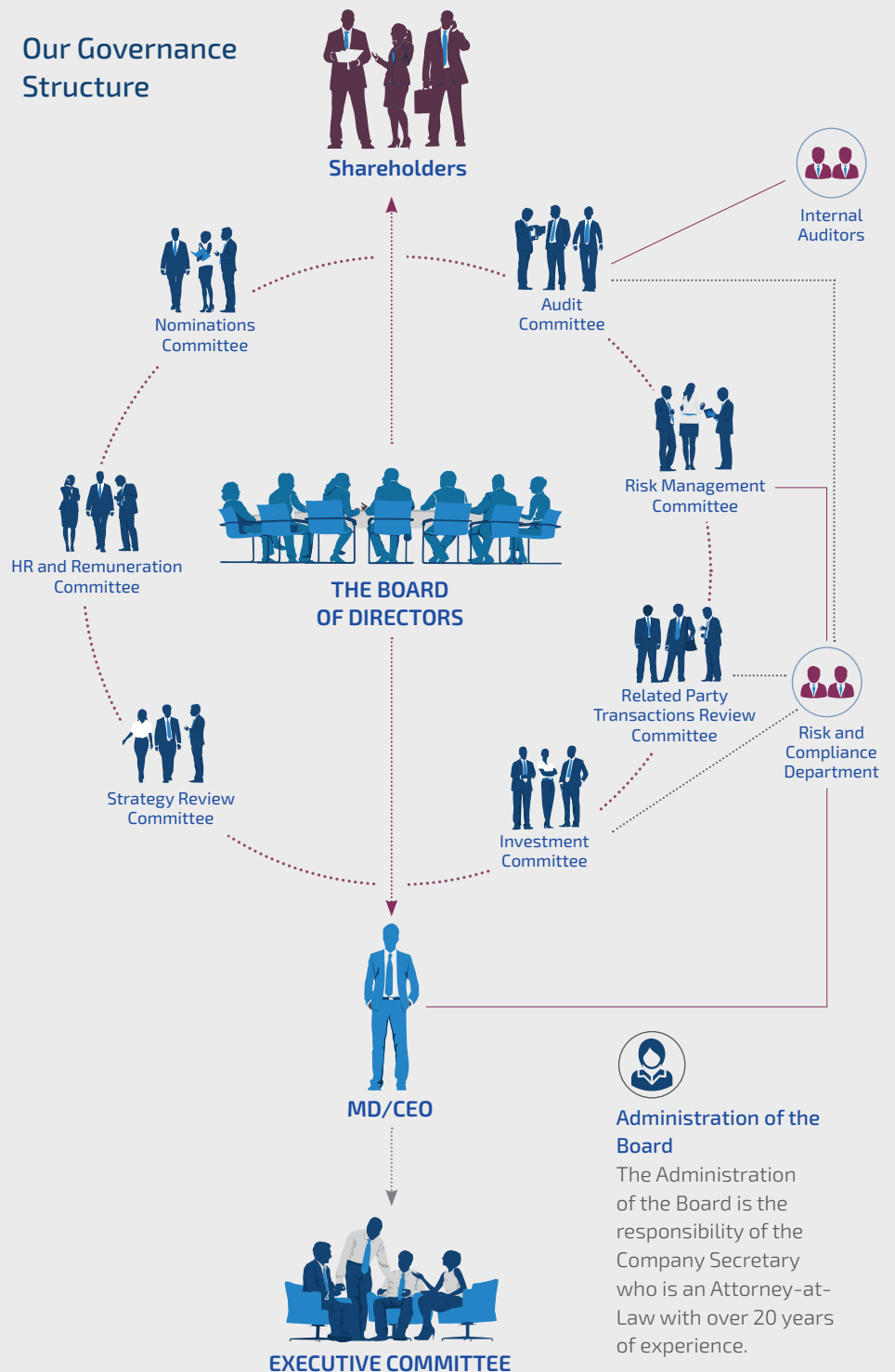
Mandatory

- 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
- Motor Traffic Act No.14 of 1951 and subsequent amendments thereto
- Listing Rules of the Colombo Stock Exchange
- Central Depository System Rules
- Securities and Exchange Commission Rules
- Inland Revenue Act No.24 of 2017

Voluntary

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

Our Governance Structure



This report has been structured along the following governance priorities.



Composition HNBA	
Chairperson	
Independent Non-Executive Directors	
Non Independent, Non-Executive Directors	
Executive Director	

Composition HNBGI	
Chairperson	
Independent Non-Executive Directors	
Non Independent, Non-Executive Directors	
Executive Director	

Statement of Compliance

HNB Assurance PLC fully complies with the Corporate Governance requirements of Rule No. 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE) Refer pages 63 and 64

Further, the Company is substantially compliant with the Code of Best Practice on Corporate Governance issued by CA Sri Lanka refer page 51 to 62 and Fully compliant with the Corporate Governance Framework for Insurers requirements of Direction No.17 issued by IRCSL refer page 65.

HNB General Insurance

HNB GI has its own Board which has four directors from HNBA's Board including the Chairperson. HNB GI's Board has two independent Non-Executive Directors facilitating board balance.

HNBA Board Sub-Committees have oversight of the relevant functions of HNB GI.

The MD/CEO serves as the MD/CEO of both institutions. There are dedicated KMP who are responsible for matters specific to HNB GI. Common functions such as Finance, Marketing, Actuarial, HR, Legal, Investments, Risk and Compliance, Internal Audit are common to both entities.

A COMPETENT BOARD

Shareholders appoint the Directors at the Annual General Meeting to provide leadership to the Company to create long term value to its stakeholders in compliance with the regulatory framework. Accordingly, the Board of directors set the vision, strategic goals, policy frameworks, internal controls and reporting mechanisms that facilitate effective oversight of the operations of the HNBA Group.

It is necessary that the Directors have a combined pool of skills, and experience that enables them to discharge their duties effectively. There must also be a balance of power within the Board and accordingly, the Board has eight Non-Executive Directors of whom three are independent. The Nominations Committee is charged with the task of ensuring that candidates proposed to fill Board vacancies have the requisite skills and competencies to facilitate effective functioning of the Board.

Changes to Board Composition

Mr. Sarath Ratwatte who served as a Non-Independent Non-Executive Director retired with effect from 6th February 2019.

Mr. Rajive Dissanayake who served as a Non-Independent Non-Executive Director resigned with effect from 12th February 2019.

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

- Mr. Stuart Chapman and Mr. Damien Fernando were appointed during the year as Non Independent Non-Executive Directors and their profiles are given on page 33.
- Mr. Kalum Wijesooriya was appointed as an alternate director to Mr. Dilshan Rodrigo which was the first time such as appointment was made although the Articles provide for such appointment.
- Mr. Prasad Samarasinghe was appointed as an Alternate Director to Mr. Damien Fernando in January 2020.

These changes resulted in an expansion of the Board Expertise compared to the beginning of the year reflecting the growing business needs of the HNBA Group. Directors appointed during the year stood for election by Shareholders at the 17th Annual General Meeting on 28th March 2019 which is the first AGM since their appointments to fill casual vacancies that occurred during the year in line with the provisions of the Articles of Association.

Board Composition

Skills*	
Insurance	
Accounting and Finance	
Banking	
Legal	
Economics/Investments	
Information Technology	

* Inclusive of Alternate Directors

Experience (Years)	
15 - 20	-
20 - 25	-
25 - 30	
> 30	
Gender	
Male (78%)	
Female (22%)	
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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 and 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 AND 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 MD/CEO's responsibility to manage the Company's business establishing a balance of power and authority. The Board Secretary also plays a key role in ensuring the Board functions effectively. Key aspects of their roles are summarised below.

Role of Chairperson	Role of MD/CEO	Role of Company Secretary
<ul style="list-style-type: none"> • 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 the good corporate practices are followed. 	<ul style="list-style-type: none"> • Developing, recommending and implementing 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 continue dialogue with the Chairperson and other Directors. • Representing the Company and managing the Company's day-today business. • Monitoring operational and financial results closely in accordance with plans and budgets. • Establishing adequate operational, planning and financial control systems. 	<ul style="list-style-type: none"> • 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 advise 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 is assisted by seven Sub-Committees of the Board in charge of specific areas of oversight as stated in their respective Charters. The minutes of the Sub-Committee meetings are tabled at the Board meeting immediately following the Sub-Committee meeting and the Chairpersons of the Committees ensure that the Board is updated on relevant matters. Changes to the Board necessitated changes to the Board Sub-Committees as well to ensure that the expertise of the Directors are effectively channelled to support the Group's strategic goals. The Board Audit Committee, Related Party Transactions Review Committee and the Risk Management Committee carried out self-evaluations of their performance during the year. The current composition of the Board Sub-Committees, meetings and their roles and activities are given in the respective committee reports.

Mandatory	Nominations Committee	Page 159
	Audit Committee	Page 151
	Human Resources and Remuneration Committee	Page 155
	Related Party Transactions Review Committee	Page 157
Voluntary	Investments Committee	Page 161
	Risk Management Committee	Page 163
	Strategy Review Committee	Page 165

APPOINTMENT, RE-ELECTION AND RESIGNATION

Shareholders appoint Directors at the Annual General Meeting and separate resolutions for the election/re-election 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. The Nominations Committee plays a key role in ensuring that all new appointments of Independent Directors to the Board are made following a formal and transparent process.

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.

Directors other than the Chairperson and the Managing Director/CEO are required to retire by rotation and seek re-election at least once every three years. Accordingly, Mr. Ravi Abeyesuriya retires by rotation at the Annual General Meeting to be held on the 27th March 2020 as set out in the Notice of Meeting on page 320.

Directors who wish to retire are required to give notice in writing for acceptance by the Board together with the reasons for doing so.

Prompt disclosure of appointments and resignations are made to the Colombo Stock Exchange by the Company Secretary for dissemination to the investing public.

INDUCTION AND TRAINING

All newly appointed Directors go through an induction programme which includes 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 Directors, Board Charter, Board Sub Committee Charters, Share Dealing Policy and Code, and the Insurance Act and regulations.

Directors are updated on changes to regulations and industry trends by the Senior Management on a regular basis. Opportunities are provided to all Directors 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 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.

A Summary of the Company's Code of Conduct and Ethics for Directors

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 Behavior	Directors are expected to promote ethical behavior 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 disinterested members of the Board) will review and investigate any allegation of a breach of this policy by a Director, with or without the participation of any Director who may be the subject of such report.

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

BOARD MEETINGS AND INFORMATION

The Board meets on a monthly basis while Sub-Committees meet less frequently. The Board Secretary prepares the agenda in consultation with the Chairperson. Directors are provided with the agenda and information relating to the agenda at least one week prior to the meeting to enable familiarisation with items scheduled for discussion. They also have access to Senior Management for clarification or to request further information. Senior Management are also available for clarification during Board meetings and are frequently invited to make presentations on matters set before the Board.

Attendance of Board members at Board and Sub-Committee Meetings are given on page 170 of the Annual Report of the Board of Directors.

BOARD EVALUATION

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 achievement of the Company's objectives.

REMUNERATION

HNB Assurance maintains a formal and a transparent mechanism with regard to developing remuneration policies in accordance with the Code of Best Practice on Corporate Governance issued 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 MD/CEO attend meeting by invitation. The Charter of the Human Resources and Remuneration Committee has set out provisions to obtain professional advice from within and outside the Company as may be required by the Committee.

The Human Resources and Remuneration Committee and the Board ensures that the MD/CEO, who is the only Executive Director on the Board, is provided with an appropriate remuneration package. The Human Resources and Remuneration Committee compares the remuneration levels of the Company with such packages of comparable companies. It also reviews reports of salary surveys periodically to get an indication of comparable industry standards. The Human Resources and Remuneration Committee considers remuneration levels of the Group as well, when deciding on the remuneration packages.

The performance-related elements of the remuneration package of MD/CEO and other Executive employees are linked to corporate and individual performance. Objectives for the MD/CEO, are set at the beginning of the year to align his interests with those of the Company. Accordingly, his remuneration including the performance bonus is decided based 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 are also determined by the HR and Remuneration Committee and are not eligible for performance-based remuneration schemes. 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 and Other Non-Executive Directors are remunerated in line with market practices.

Please refer page 256 for the details on Directors' remuneration.

PERFORMANCE EVALUATION OF MANAGING DIRECTOR/CEO

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

POLICY FRAMEWORK

The policy framework of the Group provides guidance for the Management of day to day operations of the Group. Collectively, they set out the expected conduct, processes and procedures and provide thresholds and boundaries where deemed necessary. The policy framework is graphically set out below.

Governance and Conduct	Specific Matters	Performance and Talent Management
Articles of Association	Shareholders' Communication Policy	Total Reward Policy
Board Charters	Share Dealing Policy	Training Policy
Board Sub-Committee Charters	Risk Management Policy	Education
Code of Ethics for Directors	Compliance Policy	Reimbursement Procedure
Code of Business Conduct	Investment Policy	Overseas Training Procedure
Whistleblowing Policy	Financial Authority Manual	Performance Management Procedure
Anti-Bribery and Corruption Policy	Procurement Policy	Remuneration and Benefits Guideline
Procedure Manuals	IT Security Policy	Talent Calibration Guideline
Guidelines	Anti-Money Laundering Policy	
Circulars	Credit Policy	

EFFECTIVE CONTROLS

Overview

The Board relies on the effective operation of a comprehensive system of internal controls for the transmission of information, regulatory compliance and safeguarding assets and reputation of the Group. The Audit and Risk Management Committees of the Board assist the Board in ensuring the adequacy, effectiveness and efficient operation of the internal control processes in place. The Board has established a Three Lines of Defense 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 provides assurance to the Audit Committee on 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 on a monthly basis from MD/CEO and relevant Key Management Personnel which serves a checklist for regulatory and prudential matters.

Internal Audit

Internal Audit plays a key role in ensuring sound governance of the Group as this function provides assurance on compliance with the regulatory and policy frameworks and the effective functioning of internal controls set in place by the Board. Internal Audit has been outsourced to Messrs KPMG 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 bi-monthly meetings. The Audit Committee meets the Internal Auditors 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 upon 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. Moreover, steps are 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 the fees paid to External Auditors is appears on page 256. The Audit Committee holds "in camera" meeting with the External Auditors at least once each year.

ORGANISATION CULTURE

The organisation culture is arguably the most vital component of Corporate Governance as proven by high profile corporate scandals which happen despite strong regulatory and policy frameworks and robust systems of internal controls established by eminent Boards. Factors that play a key role include the pressure for performance, structures of remuneration schemes, commitment to corporate values and example set by the leadership of the organisation. Although an overused phrase, the "Tone at the Top" is perhaps the single most important factor shaping the organisation culture as it delivers clear signals of tolerance or appetite for making judgements and on consequences of departures from values, policies and processes. 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 and the overall Whistleblowing Policy reinforces the culture as actions taken from these mechanisms send clear signals to employees on standards of conduct that as expected and acceptable.

ACCOUNTABILITY

The Board is accountable to the 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
- Communicate effectively and timely with Shareholders in order to inform them of the affairs of the Company.

The 'Shareholders' Communication Policy' ensures that Shareholders have ready, equal and timely access to balanced and understandable 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. We use multiple channels for communicating with Shareholders including our own 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.

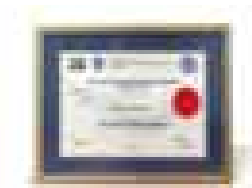
We strive to uphold high standards of accountability in the conviction that accountability also drives better performance, strengthening our culture and governance mechanisms. Consequently, significant efforts are taken to ensure that our communications provide a balanced review of the subject matter.

The Annual Report

This is a key communication to Shareholders and we go far beyond mere legal requirements to ensure that it provides a comprehensive review of our performance during the reporting year. We benchmark international best practice in corporate reporting and have been at the forefront of the ESG (Environment, Social and 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. The awards won in this regard stand testimony to our efforts.



Bronze Award - Insurance Sector
55th Annual Report Awards conducted by CA Sri Lanka



10 Best Integrated Report
Institute of Certified Management Accountants of Sri Lanka - Excellence in Integrated Reporting Awards 2019

Submission of quarterly returns

Quarterly returns were submitted to CSE as given below:

Quarter Ending	Date of Submission to CSE
31st December 2018	14th February 2019
31st March 2019	8th May 2019
30th June 2019	13th August 2019
30th September 2019	14th November 2019

ANNUAL GENERAL MEETING

The Annual General Meeting is the most important Shareholder engagement event in 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.

MATTERS DISCUSSED AT THE AGM

During the AGM, members of the Board answered questions raised by the shareholders. The questions/concerns so raised and a comprehensive set of updated answers for the same are given below for the benefit of all shareholders and particularly for those shareholders who were unable to attend the AGM.

A shareholder whilst expressing his gratification towards the exceptional performance of the Company inquired the reason for not publishing the market share pertaining to Life Operations in the Financial Statements.

Response

Responding to the queries made by the Member, Mr. Deepthi Lokuarachchi stated that the Company was not in a position to make an official statement on market share since no official figure was published by the regulator to that effect.

Shareholder whilst referring page no: 283, stated that gratuity liability of the Company is externally funded and inquired whether said liability could be covered up with an insurance policy. Having made the said statements, the member also requested free Life Insurance for the shareholders of HNBA as provided in another insurer.

Response

Answering to the questions raised, Mr. Deepthi Lokuarachchi Managing Director/CEO went on to state that in order to cover the gratuity liability with an insurance policy, there must be a product available in the first place and in the second place, it should be tax efficient.

A shareholder whilst expressing his satisfaction towards the excellent performance of the Company, mentioned that the premium income has been increased when compared with the previous year. He also thanked the Board of Directors and the Management for their extraordinary commitment towards the Company and wished that Board be in a position to increase the dividend in year 2020.

Having noted the progress, he also appreciated the numerous awards won by Company during the year and commended on the Corporate Social Responsibility aspect whilst reminding his previous suggestion on building an irrigation tank. Moreover, he also revealed that building an irrigation tank would enrich the brand image of the Company. Further he also warmly welcomed the newly appointed Directors and stated that he honorably believes that the Company would record remarkable growth in the next year with the said appointments to the Board.

COMPLIANCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE

The table below summarises HNBA'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		
A.1	The Board		
A.1.1	Board Meetings	The Board meets monthly to discharge its responsibilities as described on page 45. Attendance at Board meetings and Board Committee meetings is given on page 170 of the Annual Report of the Board of Directors on the affairs of the company	☑
A.1.2	Role of the Board	Refer A Competent Board on page 44	☑
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.	☑
A.1.4	Access to advice from the Company Secretary	The Directors have access to 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.	☑
	Indemnifying the Board, Directors and Key Management Personnel	HNBA has obtained indemnity for the Board, Directors and Key Management Personnel.	☑
A.1.5	Independent judgement of the Directors	Directors of HNBA exercise independent judgement on all matters set before the Board without bias.	☑
A.1.6	Dedicating adequate time and effort	Directors devote sufficient time to the affairs of the Company in order to discharge of their duties effectively. Board papers are circulated at least one week prior to the meeting providing sufficient time for familiarisation with matters included in the agenda and to call for any further information.	☑
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.	☑
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, MD/CEO and the Company Secretary.	☑

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How we Comply	Compliance Status
A.2	Chairman and the Chief Executive Officer (CEO)		
A.2.1	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 MD/CEO on page 45.	☑
A.3	Chairman's Role	Please refer Role of Chairperson on page 45 in the Corporate Governance Report.	☑
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 a sufficiency of financial acumen as given in their Board profiles while five are members of professional finance or accounting organisations.	☑
A.5	Board Balance		
A.5.1	Include Non-Executive Directors of sufficient calibre and number	All Directors other than the MD/CEO are Non-Executive. The composition is given on page 43.	☑
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 to 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.	☒
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.	☑
A.5.4	Annual Declaration by Non-Executive Directors	Each Non-Executive Director submits a signed declaration annually with regard to his independence/non-independence against specified criteria which is in line with Schedule K of the Code.	☑
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 3 Directors are independent in accordance with the criteria set out in section 5.5 of the Code.	☑
A.5.6	Alternate Director to a Non-Executive Director	Mr. Kalum Wijesooriya was appointed as an alternate director to Mr. Dilshan Rodrigo who serves as a Non-Independent Non-Executive Director. Mr. Kalum Wijesooriya is also a Non-Independent Non-Executive Director. Mr. Prasad Samarasinghe was appointed as an alternate director to Mr. Damien Fernando who is an Non-Independent Non-Executive Director. Mr. Prasad Samarasinghe is also a Non-Independent Non-Executive Director.	☑
A.5.7	Appoint a Senior Independent Director	When the Chairman and the CEO is the same, or the Chairman is not an Independent Director or the Chairman is the immediately preceding CEO, the Board should appoint an Independent Non-Executive Director to be the Senior Independent Director and disclose this appointment in the Annual Report. The Chairman of the Board is a Non-Independent Non-Executive Director. The Company has not appointed a Senior Independent Director.	☒

Reference to ICASL Code	Corporate Governance Principle	How we Comply	Compliance Status
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 MD/CEO present at least once a year. There had been instances where the Board held discussion without the presence of Executive Director.	<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"/>
A.6.	Supply of Information		
A.6.1	Obligation of the Management to provide appropriate and timely information	All Board members receive information regarding operations and performance of the Group on a monthly basis.	<input checked="" type="checkbox"/>
A.6.2	Board papers to be provided 7 days prior to Board Meeting	Board papers are provided one week prior to 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 159.	<input checked="" type="checkbox"/>
A.7.2	Nomination Committee to assess composition of Board annually	The Nominations 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 44.	<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 Managing Director/CEO are required to retire by rotation and seek re-election at least once every three years. Accordingly, Mr. Ravi Abeysuriya retires by rotation at the Annual General Meeting to be held on the 27th March 2020 as set out in the Notice of Meeting on page 320. 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. His resume is given on pages 33	<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 resignation of Mr. Rajive Dissanayake and Mr. Sarath Ratwatte.	<input checked="" type="checkbox"/>

CORPORATE GOVERNANCE

Reference to ICASL Code	Corporate Governance Principle	How we Comply	Compliance Status
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 achievement of the Company's objectives.	☑
A.9.2	Appraisals of the Board and the Sub-Committees		☑
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 prior to recommending for re-election.	☑
A.9.4	State the evaluation process in the Annual Report	Complied with above disclosures and information on page 47.	☑
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 32 to 35.	☑
A.11	Appraisal of MD/CEO		
A.11.1	Setting of the annual targets and the appraisal of the CEO	The performance evaluation of the Managing Director/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.	☑
A.11.2	Performance of the CEO should be evaluated by the Board.		☑
B.	Directors' Remuneration		
B.1	Remuneration Procedure		
B.1.1	Establishment of Remuneration Committee	The Board has established a HR and Remuneration Committee with an agreed Terms of Reference which includes matters covered in Schedule C of the Code including remuneration of Executive Directors.	☑
B.1.2	Composition of Remuneration Committee	The HR and Remuneration Committee comprises Non-Executive Directors of whom the majority are independent. The Chairman is Dr. S. Selliah who is an Independent Director.	☑
B.1.3	Names of Directors to be given in Annual Report	Names of the members of the HR and Remuneration Committee are given in the Report of the HR and Remuneration Committee on page 155.	☑
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 does not include any variable component.	☑
B.1.5	Consultation with the Chairman and the CEO	The HR and Remuneration Committee determines the MD/CEO's remuneration. The Committee consults the MD/CEO on proposals regarding executive remuneration. No director is involved in determining his/her own remuneration.	☑

Reference to ICASL Code	Corporate Governance Principle	How we Comply	Compliance Status
B.2	The Level and 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 and Remuneration Committee is responsible for determining Remuneration Policy including that of the MD/CEO, who is the only Executive Director, 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.	☑
B.2.2	Executive Directors' compensation should be designed to long term success of the Company	Refer Remuneration section on page 47.	☑
B.2.3	Remuneration Committee to judge where to position remuneration relative to other companies	The HR and Remuneration Committee compares 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.	☑
B.2.4	Remuneration Committee to be sensitive to employment and remuneration conditions within the Group	The HR and Remuneration Committee considers the remuneration levels of the HNB Group when deciding on remuneration levels for the HNBA Group.	☑
B.2.5	Performance based remuneration	Performance based remuneration of employees, including MD/CEO, is directly linked to the achievement of agreed targets and goals by the Company and the individual	☑
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 the Report of the HR and Remuneration Committee on page 155.	☑
B.2.8 and B.2.9	Early Termination of Directors	The HR and Remuneration Committee will determine the remuneration of MD/CEO who is the only Executive Director in the event of early termination with reference to the contract of employment.	☑
B.2.10	Levels of remuneration for Non-Executive Directors	All Non-Executive Directors other than HNB employed Nominee Directors are remunerated in line with market practices. HNB employed nominee Directors are paid a nominal fee only on their attendance at meetings.	☑
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 155. • Notes 39 in the Financial Statements on page 256 provide information on the remuneration of the Board as a whole. 	☑
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.	☑
C.1.2	Separate resolution for substantially separate issues.	A separate resolution is proposed for substantially separate issues to provide Shareholders the opportunity to deal with each significant matter separately and the proxy form reflects this.	☑

Reference to ICASL Code	Corporate Governance Principle	How we Comply	Compliance Status
C.1.3	Accurate recording and counting valid proxy appointments received for General Meeting	<p>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.</p> <p>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.</p>	☑
C.1.4	Availability of Chairmen 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.	☑
C.1.5	Summary of Notice of General Meetings and procedures governing voting at General Meetings	The procedures involved in voting will be circulated in the event that 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.	☑
C.2	Communication with Shareholders		
C.2.1	Channel to reach all Shareholders for timely dissemination of information	<p>HNBA has multiple channels of communication to Shareholders which include the following:</p> <ul style="list-style-type: none"> • Notifying CSE in a timely manner for price sensitive information which is disseminated to the investing public including Shareholders • Press releases • Website 	☑
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.	☑
C.2.3	Disclose how the policy is implemented	The MD/CEO is responsible for administering the policy and obtains the support of the Company Secretary in implementation of the same. Accordingly, 18 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 in a timely manner to the CSE.	☑
C.2.4 and 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 3.	☑
C.2.5	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.	☑

Reference to ICASL Code	Corporate Governance Principle	How we Comply	Compliance Status
C.2.7	Formulate and disclose 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.	☑
C.3	Major and Material Transactions		
C.3.1 and C.3.2	Disclosure of Major Transactions	<p>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.</p> <p>In the unlikely event that the net assets of the Company fall below half of 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.</p>	☑
D.	Accountability and Audit		
D.1	Financial and Business Reporting		
D.1.1	Present a fair and balanced Annual Report prepared in accordance with the laws and regulation with explanation of deviations	HNBA continues to strive for high standards of corporate reporting, going beyond compliance of regulatory requirements to adopt international best practice in reporting.	☑
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 discharge of this duty by the Audit Committee who review the interim Financial Statements and routine regulatory reporting. The Board reviews other price sensitive communications prior to release to ensure it presents a balanced view of the relevant matter.	☑
D.1.3	Board to obtain declarations from CEO and CFO regarding Financial Statements, financial records, effective operation of systems of internal controls and risk management.	The Audit Committee and Board obtain declarations from the MD/CEO and CFO/HOF 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.	☑

Reference to ICASL Code	Corporate Governance Principle	How we Comply	Compliance Status
D.1.4	Declarations by Directors	<p>The following information has been declared in the Annual Report of the Board of Directors from pages 168 to 174.</p> <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 172. • Declaration that the Directors have declared all material interests in contracts involving the Company is given on page 171. • Declaration that the Company has made all endeavors to ensure the equitable treatment of Shareholders is given on page 172. • Directors have complied with best practices of Corporate Governance is given on page 173. • Property, Plant and Equipment are reflected at fair value and, where they differ from fair value, adequate disclosures are made as given on page 169. • 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 172. • Declaration that the business is a going concern is given on page 168. 	☑
D.1.5	Statements by Directors and Auditors	<p>Pages 176 and 177 contains the statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements</p> <p>The Auditors' Report is provided on pages 181 to 183.</p>	☑
D.1.6	Annual Report should include Management Discussion and Analysis	<p>The Management Discussion and Analysis is given on pages 95 to 148 of this Annual Report Which covers the Disclosure requirements under this code.</p> <ul style="list-style-type: none"> • Business Model – pages 22 and 23 • Industry Structure and Developments – pages 140 to 148 • Opportunities and Threats – page 102 • Risk Management – pages 71 to 85 • Internal Control Systems and their Adequacy – pages 100 and 101 • Governance – page 112 • Stakeholder Relationships - pages 121 to 123 • Social and Environmental Protection Activities Carried Out by the Company – pages 124 to 126 • Financial Performance – pages 104 to 110 • Investment in Physical and Intellectual Capital - pages 137 and 138 • Human Resource/Industrial Relations Activities Carried Out by the Company – pages 112 to 119 • Prospects for the Future – pages 130 to 132 	☑
D.1.7	Summon EGM if net assets value fall below 50% of Shareholders' funds	<p>As capital adequacy is well above the regulatory requirements, the issue does not arise.</p>	☑

Reference to ICASL Code	Corporate Governance Principle	How we Comply	Compliance Status
D.1.8	Adequate and accurate disclosure of related party transactions	<p>HNBA has in place the following mechanisms to facilitate disclosures of Related Party Transactions:</p> <ul style="list-style-type: none"> • A Related Party Transactions Committee to review the related party transactions on a quarterly basis • 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 45 of the Financial Statements on page 270 sets out the information on Related Party Transactions. 	☑
D.2	Risk Management and Internal Control		
D.2.1	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	<p>The Board is assisted in this duty by the Audit Committee and the Risk Management Committee whose reports are given on page 151 and 163. They are supported by the Internal Auditors and the Risk and Compliance Department respectively who carry out their functions under guidance of these two Committees, The Committee are provided regular reports on related matters to facilitate assessment of the effectiveness of the Internal Controls and Risk Management systems.</p> <p>The Directors' Statement of Internal Control on pages 166 and 167 provides further information in this regard.</p>	☑
D.2.2	Directors to confirm assessment of principal risks and provide information on the same	<p>This is provided in the Risk Management Committee Report.</p> <p>(Refer pages 163 and 164 for further details)</p>	☑
D.2.3	Internal Audit function	<p>The Company's internal audit function is outsourced to Messrs. KPMG. Further, Risk and Compliance carries out periodic verifications.</p> <p>(Refer Directors Statement of Internal Control on pages 166 and 167 for further details)</p>	☑
D.2.4	Audit Committee to carry out reviews of the process and effectiveness of risk management and internal controls	<p>The Audit Committee is responsible for ensuring that the Company has an effective internal control system. It reviews the effectiveness of the internal control system through the Internal Auditors and the Risk and Compliance Department. The minutes of the Risk Management Committee meetings are tabled at the Audit Committee meetings for review, since the Audit Committee carries the responsibility over the Company's Risk Management practices.</p> <p>Minutes of both Audit Committee and the Risk Management Committee meetings are tabled at Board meetings for review.</p> <p>Extended Disclosure on the Internal Control Process of the Company Internal Controls at HNBA</p> <p>(Refer Report of the Audit Committee on page 151 to 154 for further details)</p>	☑
D.2.5	Statement of Internal Control	<p>The Directors' Statement on Internal Control is given on pages 166 and 167.</p>	☑

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.	☑
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 page 151 to 154 provides further information regarding the same.	☑
D.3.3	Disclosures	The Audit Committee Report on page 151 to 154 provides the information required.	☑
D.4	Related Party Transactions Review Committee		
D.4.1	Definition	Related party transactions are defined in accordance with LKAS 24	☑
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.	☑
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 Annual Report of the Board of Directors on page 168 and the Report of the Related Party Transactions Review Committee on page 157 and 158 for further information.	☑
D.5	Code of Business Conduct and 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	☑
D.5.2	Price sensitive information	Material and price sensitive information is promptly disclosed to the CSE by the Company Secretaries.	☑
D.5.3	Monitor Share purchase by Directors/KMPs	Refer the Related Party Transactions Committee Report on page 157.	☑
D.5.4	Chairman's statement	Refer the Chairperson's Message on Corporate Governance on page 41 and The Annual Report of the Board of Directors on the affairs of Company on pages 168 to 174.	☑
D.6	Corporate Governance disclosures		
D.6.1	Corporate Governance disclosures	Refer the Corporate Governance Report on pages 42 to 62 to complies with this requirement.	☑

Reference to ICASL Code	Corporate Governance Principle	How we Comply	Compliance Status
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 the Board at the AGM, on conclusion on formal proceedings or by prior appointment.	☑
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 evaluation of the same.	☑
F. Other Investors			
F.1	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.	☑
F.2	Encouraging Shareholder participation	Refer Shareholder Relations on page 50.	☑
G. Internet of Things and Cybersecurity			
G.1	Internet of things and cybersecurity	Refer IT Governance on page 66.	☑
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 implementation of the Cybersecurity Policy and the Data Classification Policy of the Group which have been adopted by the Board and is 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 Senior Manager IT on matters related to security of the Group's information assets.	☑
G.3	Cyber risk management to be a regular item on the Board agenda	The Board reviews cyber risk on a regular basis and they are assisted in this by the Board Risk Management Committee.	☑
G.4	Independent periodic review and assurance	The Board also carried out a review of the Company's information security environment through an external firm of specialised 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.	☑

Reference to ICASL Code	Corporate Governance Principle	How we Comply	Compliance Status
G.5	Process to identify and manage cybersecurity risks	Refer IT Governance on page 66	<input checked="" type="checkbox"/>
H.	Environment, Society and Governance		
H.1	Environment, society and governance reporting	<p>This report has been prepared in accordance with the GRI Standards, the Integrated Reporting Framework and the Code of Best Practice on Corporate Governance which facilitate voluntary reporting of ESG matters.</p> <p>The following reports provide further information:</p> <ul style="list-style-type: none"> • Environmental Reporting <ul style="list-style-type: none"> - Natural Capital Report on page 134 • Social Reporting <ul style="list-style-type: none"> - Human Capital Report on page 111 - Social and Relationship Capital Report on page 120 • Governance <ul style="list-style-type: none"> - Corporate Governance Report on page 42 - Annual Report of the Board of Directors on page 168 	<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 43 for the Statement of Compliance
7.10.1	Non-Executive Directors	Two or one-third of the total number of Directors, whichever is higher, shall be Non-Executive Directors	Compliant	Eight out of nine 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 2019
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 170 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 32 to 35.
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 Mr. Damien Fernando and Mr. Stuart Chapman were informed to the CSE on 12th February 2019, including their brief resumes.
7.10.5	Remuneration Committee	A listed entity shall have a Remuneration Committee.	Compliant	Details of the Human Resources and Remuneration Committee is given on pages 155 and 156
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.

Rule No.	Subject	Requirement	Compliance Status	Remarks
7.10.5 (b)		The Remuneration Committee shall recommend the remuneration of the Managing Director/Chief Executive Officer.	Compliant	Please refer the functions of the Human Resources and Remuneration Committee on page 156.
7.10.5 (c)		The Annual Report should set out names of the Directors serving in the Remuneration Committee	Compliant	Please refer pages 155 and 156 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 155 and 156.
		Aggregate remuneration paid to Executive and Non-Executive Directors	Compliant	Please refer Note 39 on page 256.
7.10.6	Audit Committee	A listed entity shall have an Audit Committee.	Compliant	Details of the Audit Committee are given on pages 151 to 154.
7.10.6 (a)		The Audit Committee shall comprise Non- Executive Directors, a majority of whom shall be independent.	Compliant	The Audit Committee comprises three Non-Executive Directors, two of whom are independent.
		One Non-Executive Director shall be appointed as the Chairman of the Committee by the Board of Directors.	Compliant	Mr. J A P M Jayasekera (Independent Non-Executive Director) functions as the Chairman of the Committee.
		Chief Executive Officer (CEO) and Chief Financial Officer (CFO) shall attend Audit Committee meetings.	Compliant	Both the MD/CEO and the CFO/HOF 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 32 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 152 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 151 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 151 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 153 for the Report of the Audit Committee

COMPLIANCE WITH THE CORPORATE GOVERNANCE FRAMEWORK FOR INSURERS

In year 2018, the 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 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	HNB Assurance Compliance Status
A	Insurers are recommended to adhere to the Code of Best Practice on Corporate Governance issued in 2017.	The Company's status of compliance with the relevant Corporate Governance Code is given from pages 51 to 62.
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.	All Directors of the Company are citizens and residents of Sri Lanka.
2	The total period of service of a Director of an insurer, other than Executive Directors, shall not exceed nine years.	As at the date of this report no Director has served on the Board for more than nine years.
3 (a)	The age of a person who serves as a Director shall not exceed 70 years.	No Directors have exceeded the age of 70 years except Chairperson.
3 (b) (ii)	In this context following general exemption apply. A Director who is between 70 to 75 years of age as at July 2019, such Director may continue to serve as a Director till 30th June 2021.	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.	The Company's compliance status with rule number 7.10 is given on pages 63 and 64.
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.	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.

IT Governance Policies

The Board has adopted an Information Technology Policy to provide the direction to the Management in handling the risks relating to information and cyber security. During the year, the Group revised its Information Technology Policy and ensured that it is in line with the Group information security. The Group also developed a policy on Super user access management and usage of Internet, thereby further strengthening the information security environment of the Company.

IT Governance Structure

The Company has established an IT Steering Committee headed by the Chief Operating Officer and comprising Officers from different work units to monitor the implementation of IT activities.

The Company has appointed an IT Security Administrator who reports to the Senior Manager IT 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. This Officer carries out the functions relating to the Chief Information Security Officer.

IT Governance Monitoring

The Company has identified the risks relating to information and cyber security and has included in the Company's risk register with the existing and proposed risk mitigating steps. The implementation of the control measures is monitored by the Risk and Compliance Department.

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

The Board also carried out a review of the Companies information security environment through an external firm specialised 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 IT security matters.

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 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 12 and 13.

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/HOF
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"> Manual of Financial Authority 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"> Information Technology 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 120 to 126.

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 Business Conduct • Share Dealing Policy • Whistleblowing 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

RISK MANAGEMENT

The Group identifies the importance of comprehensive risk management in every phase of our business and for all stake holders. For our policy holders it provides security for knowing that we will always be there for them. For investors it is key to protecting and enhancing long-term value for their investment. Finally, for regulators sound risk management supports industry growth and enhances the public's trust in the industry.

Insurance business highlights the fact that risk and opportunity are two sides of the same coin and it is necessary to clearly define, measure, monitor and manage the risks that can be managed within defined parameters to support sustainable growth.

RISK CULTURE

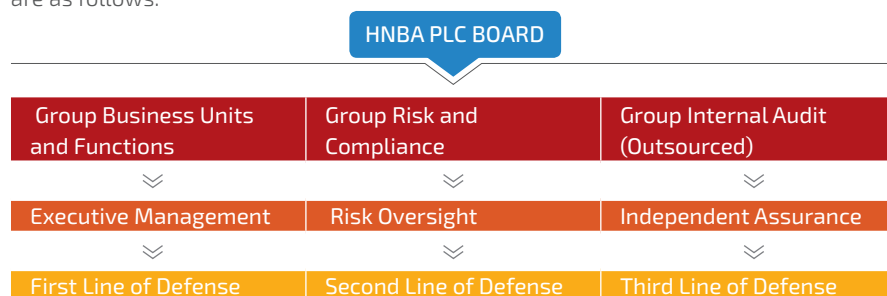
The Group Risk Management Framework (RMF) acknowledges the importance of risk culture in the effective management of risks. Risk Culture defines set of encouraged and agreeable behaviors, discussions, decisions and attitudes toward taking and managing risk within a Group.

Risk Management at HNBA is an evolving function as we constantly seek to balance risk and reward, building resilience while adapting to find solutions to emerging market needs. Significant resources are allocated to managing risk for each business line and for the Group as it is a strategic differentiator as reflected in our strategy.

RISK GOVERNANCE

Three Lines of Defense

The Group risk governance structure is based on the three lines of defense model. This is reflected in the risk governance structure set in place by the Board as set out below together with areas of responsibility for managing risk. Their roles and responsibilities are as follows:



The Board of Directors - Approve the Risk Management Framework and determine the risk appetite of the Group, providing guidance for management of risk in the day-to-day operations of the Group. The Board also monitors the risk profile of the Group as a regular item of the Board agenda. Oversight of Risk Management is delegated to the Risk Management Committee of the Board.

Risk Management 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 MD/CEO, COO and CFO/HOF are regular invitees as well as the Group Chief Risk Officer of the parent company. The Manager Risk and Control serves as the Secretary to the Committee who meet bi-monthly on a regular basis with additional meetings scheduled as needed.

Risk Management Objectives

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

Audit Committee - The Audit Committee plays a key role in management of risk by monitoring the effective function and adequacy of the internal controls in place to ensure reliability of information and the financial reporting processes, safeguarding of assets and compliance with regulatory requirements. This encompasses oversight of the effective functioning of the first and second lines of defense which is done through review of the internal audit program and findings of internal audits. They obtain assurance from the external audit process as well through the processes established for monitoring the external audit process.

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.

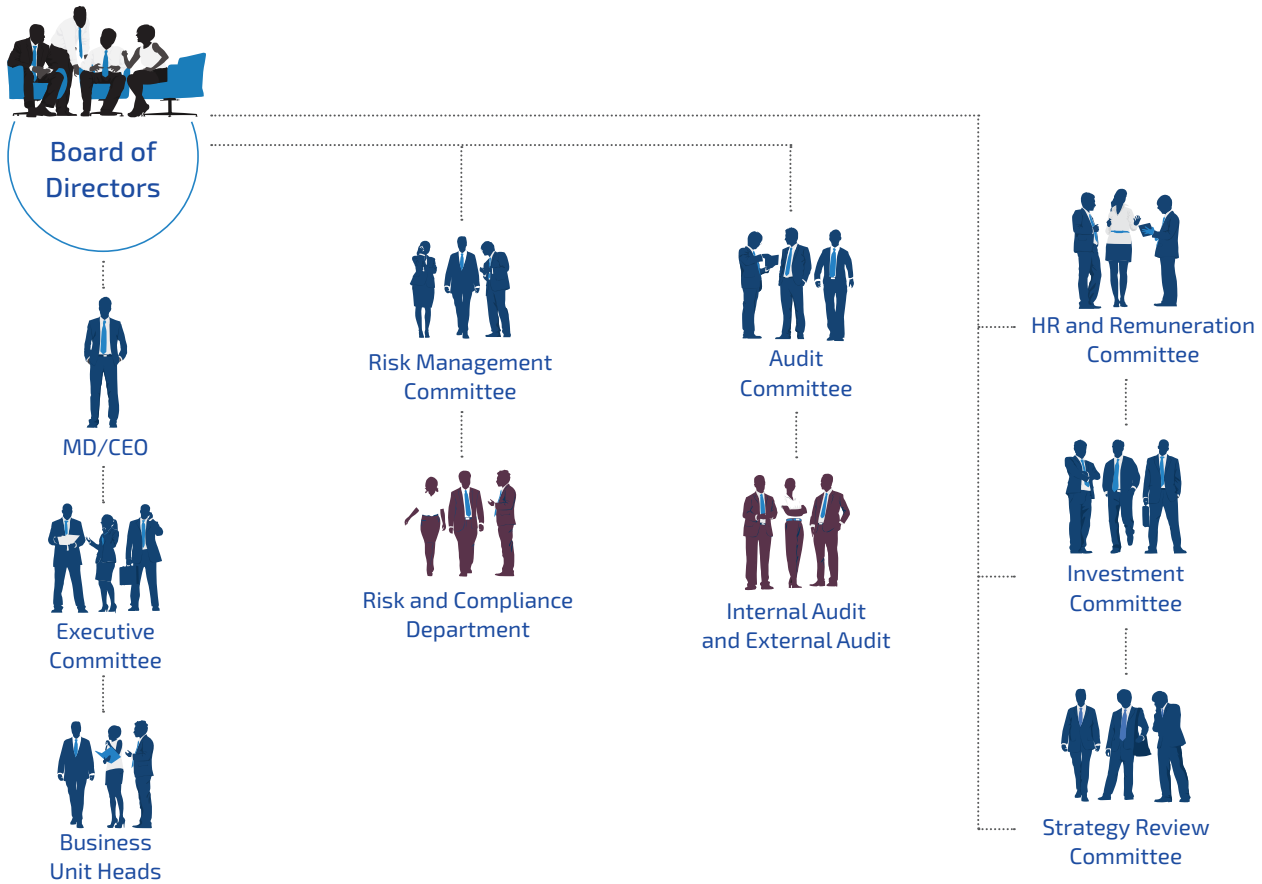
HR and Remuneration Committee - The HR and Remuneration Committee plays a key role in shaping the risk behaviors and culture through appropriate

RISK MANAGEMENT

remuneration and incentive structures, balancing the need to retain people of ability with attractive remuneration schemes with the need to drive the desired behaviors that 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.

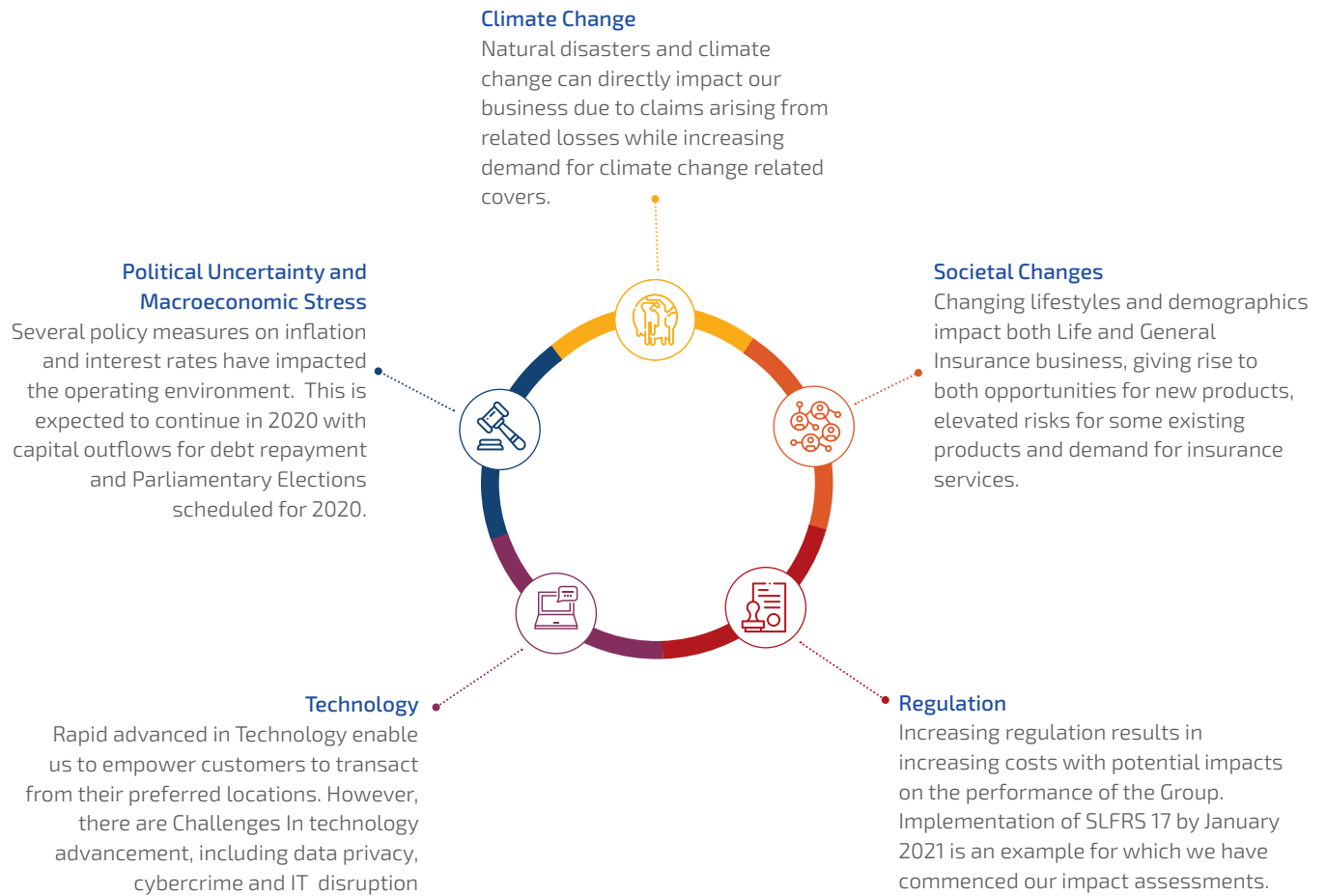
GROUP RISK GOVERNANCE STRUCTURE



1st Line of Defense	2nd Line of Defense	3rd Line of Defense
Executive Management <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 	Risk Oversight <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 	Independent Assurance <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 ENVIRONMENT 2019

Our operating environment is dynamic and continues to increase in complexity as a confluence of risk factors such as climate change, economic, technological, social, market and regulation elevate risks globally and locally. Key factors/drivers affecting the risk landscape for the Insurance industry are summarised below.



In addition to the above risk drivers that impacted our business, major risk events had a high impact on our operations due to the magnitude of the impact. The Easter Sunday Terror attacks resulted in a sharp decline in the country's growth prospects for 2019 as evinced by the sharp decline in GDP growth from 3.5% in 1st Quarter to 1.6% in 2nd Quarter 2019 which then increased to 2.7% in 3rd Quarter reflecting the resilience of the country.

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK (RMF) AT HNBA

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

Risk Register

The Risk and Compliance 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 crucial 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 and 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 in to 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 our 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.

Risk Management Framework (RMF)

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





INSURANCE RISKS - LIFE

Insurance 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



Definition

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 underpriced policies in current use.



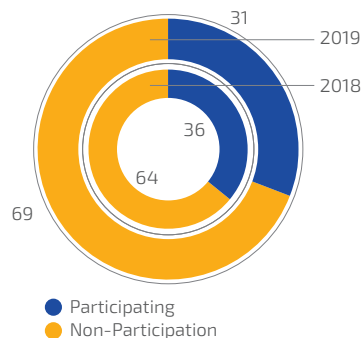
Mitigation

- Diversification across a large portfolio of insurance contracts and geographical areas
- Segregation of duties between underwriting and sales with underwriting centralised 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.
- Further details on Underwriting Risk Management are given in Note 46.3.2.1.2 on page 280.



Key Risk Indicator(s)

Participating vs Non-Participation (%)



HNBA is gradually increasing the proportion of Non-Participating funds by selling more Non-Participating products such as "My Fund" and "Ranmaga".

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.



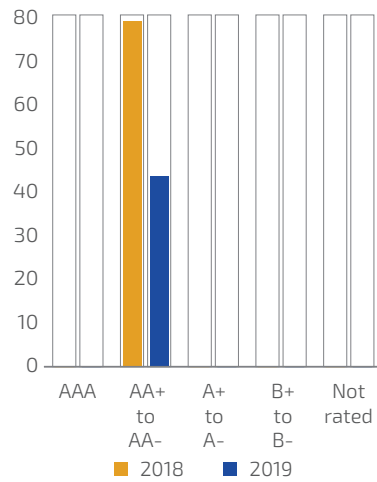
Mitigation

- 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.
- Further details on Reinsurance Risk Management are given in Note 46.3.2.1.3 on page 281.

Key Risk Indicator(s)

HNBA RI Receivables Based on Credit Rates

Rs. Mn.



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.

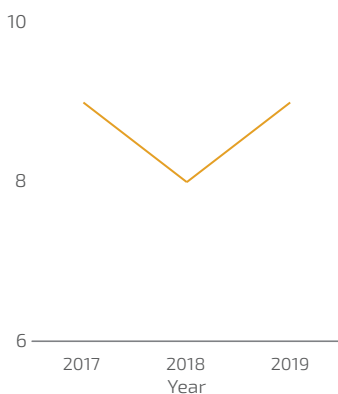
Mitigation

- An Independent Actuary is engaged to carry out a valuation of the Life Fund twice a year.
- An in-house Actuarial Department headed by a qualified actuary monitors the Life Insurance business more closely and guide the Management to make more informed decisions.
- Claims are reserved immediately at the intimation or on the availability of information on the death, injury or illness of an insured.
- 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.
- Independent investigators are used to investigate claims to ensure fraudulent claims are identified
- 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.
- Further details on Claims Risk Management is given in Note 46.3.2.1.4 on page 281.

Key Risk Indicator(s)

Claims Ratio Without Maturities

%



Life insurance has managed claims without maturities within the limit of company Risk appetite and Reinsurance Limit. Claims ratio is average 9% comparing with last three years.

INSURANCE RISKS - GENERAL

General Insurance risks stem from the operations of the subsidiary, HNB General Insurance Limited (HNBGI). 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 spare parts 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



Mitigation

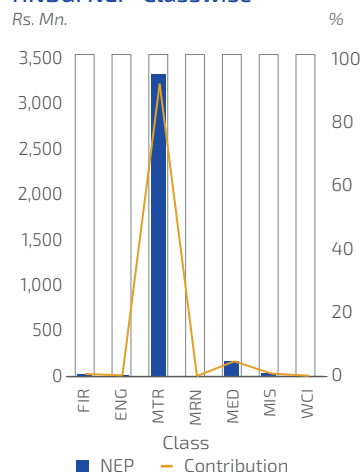
- Diversification across large portfolio of insurance contracts and geographical areas
- Segregation of duties between sales and underwriting. The underwriting function is centralised at Head Office for both Motor and Non-Motor.
- Training and development of underwriting staff and distribution network team with the establishment of the General Insurance Academy which seeks 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 on a daily basis to identify any changes in the business on an ongoing basis.

Further details on Underwriting Risk Management are given in Note 46.3.2.2.2 on page 283.

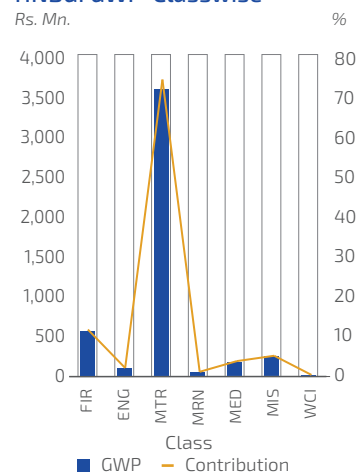


Key Risk Indicator(s)

HNBGI NEP-Classwise



HNBGI GWP-Classwise



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.



Mitigation

- 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.

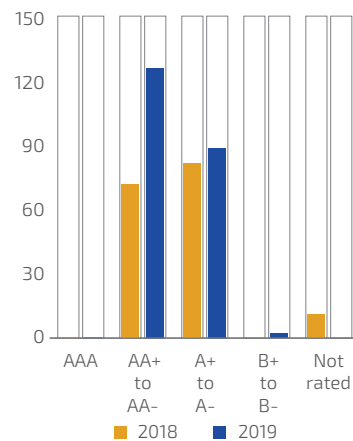
Further details on Reinsurance Risk Management are given in Note 46.3.2.2.3 on page 283.



Key Risk Indicator(s)

HNBGI RI Receivables Based on Credit Rates

Rs. Mn.



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.



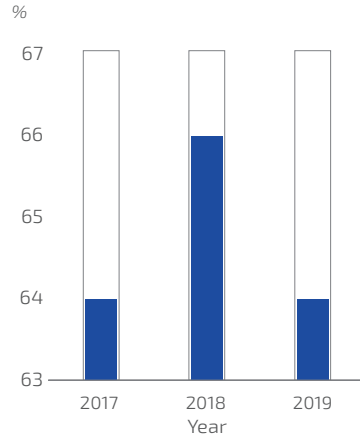
Mitigation

- 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 limit giving the maximum limit to the Claims Panel which is involved in.
- 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.

Further details on Claims Risk Management is given in Note 46.3.2.2.4 on page 284.



HNBGI Claims Ratio



HNBGI were able to manage the claims ratio which is declined from 66% to 64% and this is due to the growth of GWP despite large payoffs due to the normal risk events.

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. Please refer pages 285 to 296 for Financial Risk section.

Credit Risk



Definition

Uncertainty of the debtors' ability to meet obligations due to the Company.



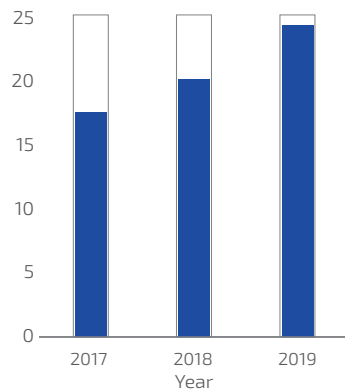
Mitigation

- 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, MD/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 in order 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.

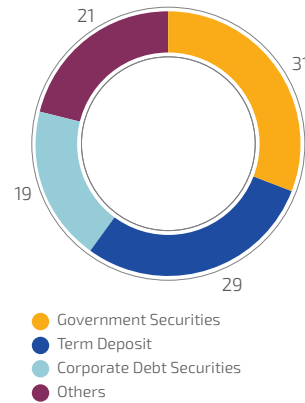
Key Risk Indicator(s)

Exposure to Credit Risk

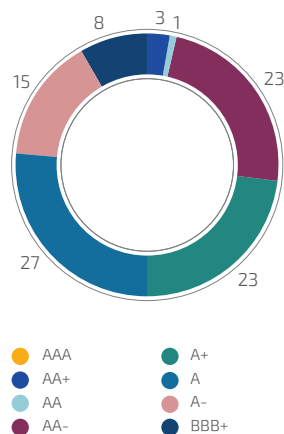
Rs. Bn.



Concentration of Credit Risk (%)

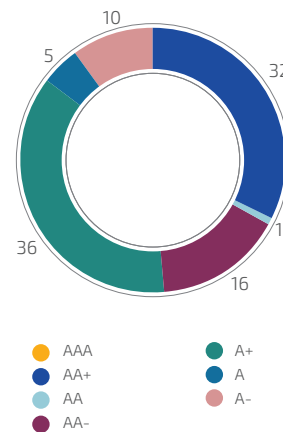


Corporate Debt Securities by Credit Rating (%)



Others comprise premium receivable, cash and cash equivalents, Staff and Advisor Loans, Reinsurance Receivables, Loans to Life Policyholders, Equity Shares and Unit Trusts.

Term Deposit Credit Rating (%)



Liquidity Risk

Definition

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.

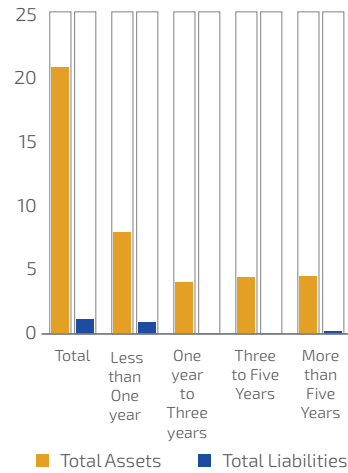
Mitigation

- 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.

Key Risk Indicator(s)

Maturity Profile of Assets & Liabilities

Rs. Mn.



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 been elaborated further, except for the sensitivity disclosed below.

Rs.000's	Interest Rate Risk		Equity Price Risk		Currency Risk	
	2019	2018	2019	2018	2019	2018
Assets	22,770	19,024	126	148	254	304
Liabilities	333	334				

Sensitivity

	Yield Curve		ASPI		Exchange Rate		Total	
	100% bps		10%		5%			
	PBT	Equity	PBT	Equity	PBT	Equity	PBT	Equity
Increase/ Strengthening	-	(250)	7.8	10.4	(12.7)	(9.1)	(4.9)	(249)
Decrease/ Weakening	-	270	(7.8)	(10.4)	12.7	(9.1)	4.9	269

Interest Rate Risk

Definition

The risk of fluctuations in the fair value or future cash flows of investments due to a change in market interest rates. This may result in under achievement of investment income, fall in fund value and inability to meet solvency standards as a result of a fall in bond prices due to a rise in interest rates.

Mitigation

- 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 Indicator(s)

Exposure	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Rs. Mn.
				Total
Assets	-	22,131	639	22,770
Liabilities	202	131		333

Sensitivity

	Impact on PBT	Impact on Equity
100 bps Parallel Increase in All Yield Curves	-	-250
100 bps Parallel Decrease in All Yield Curves	-	270

Equity Price Risk

 Definition

The risk of fluctuations in equity investments due to change in equity market prices

 Mitigation

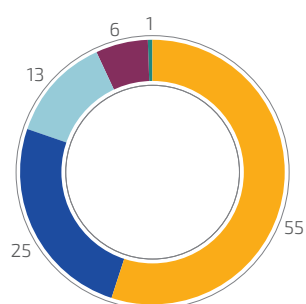
- Total exposure to equity investments is made strictly within the agreed target asset allocation and sectorial equity limits.
- Investments are mostly made in fundamentally sound stocks which are identified after an in-depth research and evaluation process by the internal investment management team.
- 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 MD/CEO and CFO/HOF of high impact volatilities.

 Key Risk Indicator(s)

% Change in Benchmark Index (ASPI)

	Impact on PBT	Impact on OCI
10% increase in equity prices	7.8	4.8
10% decrease in equity prices	(7.8)	(4.8)

Portfolio Diversification (%)



- Banks, Finance and Insurance
- Manufacturing
- Diversified Holdings
- Chemicals and Pharmaceuticals
- Land and Property
- Closed/Open End Funds
- Beverage, Food and Tobacco

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.

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 unauthorized 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 presenting to the Board Risk Committee on a continuous basis. • The Group has a business continuity plan and annual tests are carried out.

Human Resource Risk

	Definition	An 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.

Reputational 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

- 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.

SHARE INFORMATION

COMPLIANCE WITH DISCLOSURE REQUIREMENTS AS PER THE LISTING RULES ISSUED BY THE COLOMBO STOCK EXCHANGE (CSE)

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

1. Stock Exchange Listing

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

2. Submission of Financial Statements to the CSE

As required by the Listing Rules, the audited Financial Statements for the year ended 31st December 2018 were submitted to the CSE on 28th February 2019. The Interim Financial Statements of the 4th Quarter, for the year/quarter ended 31st December 2019, was submitted to the CSE on 14th February 2020. The Audited Financial Statements for the year ended 31st December 2019 will be submitted to the CSE within three months of the Reporting Date in line with the requirements of the CSE.

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

The names of persons who held the position of Directors during the financial year are given in the Annual Report of the Board of Directors on page 170.

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

The principal activities of the Company and its subsidiary during the year are given in the Annual Report of the Board of Directors and Note 1.3 in Accounting Policies on pages 168 and 189 respectively.

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

The 20 largest shareholders as at 31st December 2019 together with their Shareholding as at 31st December 2018 are given below.

Name of the Shareholder	2019		2018	
	Shareholding	% on Issued Shares	Shareholding	% on Issued Shares
1. Hatton National Bank PLC A/C No.1	29,993,000	59.99	29,993,000	59.99
2. The Ceylon Guardian Investment Trust PLC A/C No.2	1,892,800	3.79	1,892,800	3.79
3. Mr. S.N.P. Palihena	1,500,000	3.00	1,718,677**	3.44
4. People's Leasing & Finance PLC/Hi Line Trading (Pvt) Ltd	800,000	1.60	260,795	0.52
5. Mr. P.H.D. Waidyatilaka	549,860	1.10	272,683	0.55
6. Mr. Mohamed Faizer Hashim	510,000	1.02	510,000	1.02
7. Mrs. Arunthathi Selliah	500,000	1.00	500,000	1.00
8. Mrs. Abiramipillai Kailasapillai	500,000	1.00	500,000	1.00
9. Arunodhaya Investments (Pvt.) Ltd.	450,000	0.90	450,000	0.90
10. Arunodhaya Industries (Pvt.) Ltd.	450,000	0.90	450,000	0.90
11. Arunodhaya (Pvt.) Ltd.	450,000	0.90	450,000	0.90
12. Ceylon Investment PLC A/C No.2	380,561	0.76	380,561	0.76
13. Suktam Holdings (Pvt) Ltd.	279,434	0.56	234,434	0.47
14. Andysel Private Limited	250,000	0.50	250,000	0.50
15. Corporate Holdings (Pvt.) Ltd A/C No.01	245,103	0.49	245,103	0.49
16. Commercial Bank of Ceylon PLC/Janashakthi Ltd.	212,334	0.42	* -	-
17. Mr. Vikas Sharda	203,000	0.41	203,000	0.41
18. Mr. K. Aravinthan	200,000	0.40	* -	-
19. Mr. A.A.A. Rifkee	200,000	0.40	* -	-
20. Dr. Sivakumar Selliah	200,000	0.40	* -	-
	39,766,092	79.54		

* Note: Not included in the top 20 shareholder list in year 2018

** Note: Stated as 'Mr. S.N.P. Palihena and Mrs. A.S. Palihena' in year 2018

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

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

	2019		2018	
	No. of Shares	% on Total No. of Shares	No. of Shares	% on Total No. of Shares
Public Shareholding	19,152,242	38.30	19,137,462	38.27

	2019		2018	
	Shareholders	% on Total No. of Shareholders	Shareholders	% on Total No. of Shareholders
Number of Shareholders	3,389	99.76	3,398	99.71

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

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

Name of the Director	No. of Shares as at 31st December 2019	No. of Shares as at 31st December 2018
Mrs. M A R C Cooray - Chairperson	18,035	18,035
Mr. J A P M Jayasekera	83,057	83,057
Mr. D P N Rodrigo	180	180
Mrs. S N Wickramasinghe	52,500	52,500
Dr. S Selliah	200,000	200,000
Mr. D P Lokuarachchi - Managing Director/Chief Executive Officer	Nil	Nil
Mr. D R Abeysuriya	1,000	1,000
Mr. L U D Fernando (Appointed w.e.f 11th February 2019)	166	Not Applicable
Mr. S A Chapman (Appointed w.e.f 11th February 2019)	Nil	Not Applicable
Mr. S C Ratwatte (Resigned w.e.f 06th February 2019)	Not Applicable	14,666
Mr. A G R Dissanayake (Resigned w.e.f 12th February 2019)	Not Applicable	100

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

Information pertaining to material foreseeable risk factors is given on the Risk Management Report from pages 71 to 85.

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

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

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

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

11. Stated Capital (Rule 7.6 (IX))

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

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

12. Shareholdings

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

There were 3,397 registered shareholders as at 31st December 2019 (2018-3,408). The distribution and Composition of shareholders as per the above rule are given as follows:

Shareholding	Resident			Non-Resident			Total		
	No. of Shareholders	No. of Shares	% on Total No. of shares	No. of Shareholders	No. of shares	% on Total No. of shares	No. of Shareholders	No. of shares	% on Total No. of shares
1-1,000 Shares	2,118	616,486	1.23	9	2,415	0.00	2,127	618,901	1.24
1,001-10,000 Shares	1,089	3,844,374	7.69	11	46,163	0.09	1,100	3,890,537	7.78
10,001-100,000 Shares	128	3,410,527	6.82	8	230,477	0.46	136	3,641,004	7.28
100,001-1,000,000 Shares	29	8,061,644	16.12	2	402,114	0.80	31	8,463,758	16.93
Over 1,000,000 Shares	3	33,385,800	66.77	0	0	0.00	3	33,385,800	66.77
Total	3,367	49,318,831	98.64	30	681,169	1.36	3,397	50,000,000	100.00

b) Analysis of Shareholders

i. Resident/Non-Resident

	31st December 2019			31st December 2018		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident	3,367	49,318,831	98.64	3,375	49,041,988	98.09
Non-Resident	30	681,169	1.36	33	958,012	1.91
Total	3,397	50,000,000	100.00	3,408	50,000,000	100.00

ii. Individual /Institutional

	31st December 2019			31st December 2018		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individual	3,276	12,323,760	24.65	3,298	12,597,837	25.19
Institutional	121	37,676,240	75.35	110	37,402,163	74.81
Total	3,397	50,000,000	100.00	3,408	50,000,000	100.00

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

The details relating to the share performance are given below.

	2019	2018	2017	2016	2015
Number of Transactions	3,535	6,024	2,433	1,288	1,808
Number of Shares Traded	3,100,694	8,076,234	2,507,543	1,587,252	1,201,027
Value of Shares Traded (Rs.)	401,941,060	786,616,771	167,015,023	98,598,781	103,016,431
Market Capitalisation (Rs. Mn.)					
HNB Assurance PLC	6,900	6,600	3,625	2,940	3,730
CSE	2,851,310	2,839,450	2,899,291	2,745,406	2,937,998
Dividend per share (Rs.)	8.00	7.00	6.00	5.00	2.00
Dividend payment (Rs. Mn.)	400	350	300	250	100
Dividend payout (%)	48	14	41.38	41.67	23.39
Basic Earnings per share (Rs.) Group	20.20	54.11	18.20	12.95	3.95
Basic Earnings per share (Rs.) Company	16.53	49.50	14.50	12.00	8.55
Net Asset Value per share (Rs.) Group	134.29	114.89	75.93	53.94	45.68
Market Price per share (Rs.) Company					
Highest	143.90	135.00	74.40	72.90	93.50
Lowest	98.60	72.60	52.00	53.00	69.40
Year end (VWA)	138.00	132.00	72.50	58.80	74.60
P/E Ratio (Times)	6.83	2.44	3.98	4.54	18.89

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

The Company uses the cost method as the accounting policy for maintaining records of Property, Plant and Equipment and the market value of such assets is considered not materially different to the book value. Details relating to the changes in the Company's fixed assets are given on Note 4 to the Financial Statements on pages 210 to 213

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

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

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

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

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

Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c, and 7.10.6 c of Section 7 of the rules are given in the Corporate Governance Report on pages 63 and 64.

18. Related Party Transactions (Rule number 7.6 (XVI))

There were no individual transactions exceeding the limit of 10% of the Equity or 5% of the total assets during the year with any related party of the Company. However, all related party transactions at aggregate level have been disclosed under Note 45 to the Financial Statements on pages 270 to 274.

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

There were no non-recurrent related party transactions exceeding the aggregate limit of 10% of the Equity or 5% of the Total Assets. All related party transactions at aggregate level have been disclosed under Note 45 to the Financial Statements on pages 270 to 274.

20. Recurrent Related Party Transactions (Rule Number 9.3.2 (B))

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

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. The Government of Sri Lanka is 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 pages 274 under Note 45.4 to the Financial Statements.

21. Report by the Related Party Transactions Review Committee (Rule Number 9.3.2 (C))

Please refer the Related Party Transactions Review Committee report on pages 157 and 158.

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

Please refer page 171 for the confirmation by the Directors on compliance with the rules pertaining to Related Party Transactions.

23. Implementation of SLFRS 9 - Financial Instruments, SLFRS 17 – Insurance Contracts

Details of the implementation process and the impact to the Group from SLFRS 9 - Financial Instruments, SLFRS 17 – Insurance Contracts are given on page 195 and 199 under Note 3 to the Financial Statements.

COMPLIANCE SUMMARY

ANNUAL REPORT DISCLOSURE REQUIREMENTS AS PER THE COMPANIES ACT NO. 07 OF 2007

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Relevant section in this Annual Report
Nature of the business of the Company and its subsidiary	Section 168 (1) (a)	Please refer page 168
Signed Consolidated Financial Statements of the Group for the accounting period completed	Section 168 (1) (b)	Please refer page 184
Auditors' Report on Consolidated Financial Statements of the Group	Section 168 (1) (c)	Please refer pages 181 to 183
Changes in Accounting Policies made during the accounting period - Group and the Company	Section 168 (1) (d)	Please refer page 168
Particulars of entries in the Interests Register of the Company during the accounting Period	Section 168 (1) (e)	Please refer page 171
Remuneration and other Benefits paid to the Directors of the Company and its subsidiary during the accounting period	Section 168 (1) (f)	Please refer page 171
Total amount of Donations made by the Company	Section 168 (1) (g)	Please refer page 173
Information on the Directorate of the Company during and at the end of the accounting period	Section 168 (1) (h)	Please refer page 170
Amounts payable to the Auditor as audit fees and fees for other services rendered to the Company and its subsidiary during the accounting period as a separate disclosure	Section 168 (1) (i)	Please refer page 172
Auditors' relationship or any interest with the Company and its subsidiary	Section 168 (1) (j)	Please refer page 172
Annual Report of the Board signed on behalf of the Board by two Directors and the Company Secretary	Section 168 (1) (k)	Please refer page 174

COMPLIANCE SUMMARY

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	Relevant section in this Annual Report
A. Annual Report	Chairman and CEO	A.2.1 and A.5.7	Please refer pages 52 and 53
	Board Balance	A.5.5	Please refer page 52
	Nomination Committee	A.7.1	Please refer page 53
	Appointment of New Directors	A.7.3	Please refer page 53
	Appraisal of Board Performance	A.9.4	Please refer page 54
	Board Related Disclosures	A.10.1	Please refer page 54
	Disclosure of Remuneration	B.3 and B.3.1	Please refer page 55
	Major and Material Transactions	C.3 and C.3.1	Please refer page 57
	Audit Committee	D.3.3	Please refer page 60
	Code of Business Conduct and Ethics	D.5.1 and D.5.4	Please refer page 60
	Communication with shareholders	C.2.2, C.2.3,C.2.4,C.2.5, C.2.6,C.2.7	Please refer pages 56 and 57
B. Remuneration Committee Report	Members of Remuneration Committee	B.1.3	Please refer page 54
C. Directors' Report	Directors' Report	D.1.4	Please refer page 58
D. Financial Statements	Financial Statements	D.1.5	Please refer page 58
	Related Party Transactions	D.1.8	Please refer page 59
E. Management Report	Management Report	D.1.6	Please refer page 58
F. Corporate Governance Report	Corporate Governance Report	D.6.1	Please refer page 60
G. Audit Committee Report	Audit Committee Report	D.3.2	Please refer page 60
H. Related Party Transactions Review Committee Report	Related Party Transactions Review Committee Report	D.4.3	Please refer page 60
I. Statement on Internal Control	Statement on Internal Control	D.1.5 and D.2.4	Please refer pages 58 and 59
J. Internet of Things and Cybersecurity	Disclose the process to identify and manage cybersecurity risks	G.5	Please refer page 62
K. Sustainability Reporting	Sustainability Reporting	H.1	Please refer page 62

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	✓
CESS Payment	Quarterly	✓
Colombo Stock Exchange (CSE)		
Listing Fee	Annually	✓
Department of Inland Revenue		
Income Tax Payment and Return	Annually	✓
PAYE Tax Payment	Monthly	✓
PAYE Tax Return	Annually	✓
Value Added Tax (VAT) Payment	Every 15 days	✓
Value Added Tax (VAT) Return	Quarterly	✓
Stamp Duty Payment and Return	Quarterly	✓
Nation Building Tax (NBT) Payment	Monthly	✓
Nation Building Tax (NBT) Return	Quarterly	✓
Economic Service Charge (ESC)	Quarterly	✓
With Holding Tax (WHT) Payment	Monthly	✓
Central Bank of Sri Lanka (CBSL)		
EPF Payment and Return	Monthly	✓
Employees' Trust Fund Board		
ETF Payment and Return	Monthly	✓
Registrar General of Companies		
Annual Accounts	Annually	✓
Annual Returns	Annually	✓
Change of Directors and Company Secretary (Form 20)	As required	✓
National Council for Road Safety		
Contribution to Road Safety Fund Payment	Monthly	✓
Commissioner of Motor Traffic		
Luxury and Semi Luxury Tax Payment	Monthly	✓
National Insurance Trust Fund (NITF)		
Crop Insurance Levy	Quarterly	✓

✓ - Complied × - Not Complied

COMPLIANCE SUMMARY

REGULATORY REPORTS SUBMITTED TO IRCSL DURING 2019 ARE GIVEN BELOW

Submissions to IRCSL	Date of Submission		Deadline set by IRCSL
	HNB Assurance PLC	HNB General Insurance Limited	
Annual Audited Financial Statement for the year ended 31st December 2018	28th February 2019	30th April 2019	30th April 2019
Annual Statutory Returns for the year ended 31st December 2018	30th April 2019	30th April 2019	30th April 2019
Circular 29 Auditor's Compliance Certificate	30th April 2019	30th April 2019	30th April 2019
Risk Assessment Report	30th April 2019	30th April 2019	30th April 2019
Quarterly Returns and Compliance Certifications			
31st December 2018 (4th Quarter)	15th February 2019	15th February 2019	15th February 2019
31st March 2019 (1st Quarter)	15th May 2019	15th May 2019	15th May 2019
30th June 2019 (2nd Quarter)	15th August 2019	15th August 2019	15th August 2019
30th September 2019 (3rd Quarter)	15th November 2019	15th November 2019	15th November 2019
Statement of Reinsurance Arrangements	30th January 2019	31st January 2019	31st January 2019
Certified Copies of all Cover Notes in respect of Reinsurance Treaties	30th January 2019	15th February 2019	15th March 2019
Actuarial Report and Abstracts	30th April 2019	30th April 2019	30th April 2019
Management Letter issued by the External Auditors for year ended 31st December 2018	30th April 2019	30th April 2019	30th April 2019
Information on Complaints handling and related performance (bi-annual basis submission)	30th January 2019 30th July 2019	30th January 2019 30th July 2019	30th January 2019 30th July 2019

The security and assurance we provide has become synonymous with our brand promise; as we continue to fulfil our pledge of protecting people from all walks of life.



Giving You the
Strength to
Give Life



OPERATING ENVIRONMENT

ECONOMIC PERFORMANCE

“ Global growth fell sharply to 2.9% in 2019 from 3.6% in 2018 with stagnating global trade activities, reduced investment spending and lower manufacturing output. Growth in advanced economies declined to 1.7% in 2019 from 2.3% in 2018 and emerging and developing markets, growth subdued to 3.9% from 4.5% last year

GLOBAL ECONOMIC PERFORMANCE

Stagnating Trade Activity

Geopolitical tensions continued to broaden since January 2018 with US -China trade wars, political conflicts between US-Iran and the Gulf crisis, severely affecting global trade flows and business confidence. Although several economies including the US benefited from accommodative monetary policies with interest rate cuts throughout 2019, the emergence of high-risk geopolitical tensions, hindered economic growth. The impact was more pronounced in emerging and developing markets as few economies in the region also faced financial stress.

Manufacturing Output and Investments

Industrial production too declined during 2019 with reduced investment spending, intense social unrest, tightening regulations and several natural disasters such as hurricanes and forest fires.

Outlook for 2020 - Global

Global growth is expected to rebound to 3.3% in 2020 supported by decreasing fears of a no-deal Brexit and positive news of easing trade conflicts between US and China. The currency movements between September 2019 and January 2020, notably the appreciation of the British pound indicates an easing of risk sentiments.

Global economic growth in 2020 is expected to be driven by Emerging Markets and developing economies as growth in advanced economies are expected to level off. A 4.4% growth is expected in Emerging Markets and developing Asia, aided by monetary and fiscal stimulus, subdued oil prices and improving US-China economic relations.

Nevertheless, various downside risks including escalating political turmoil, intensifying social unrest and the outbreak of the Corona Virus in China, undermine the outlook on Emerging Markets and developing Asia.

ANNUAL % CHANGE	2018	2019F	2020F	2021F
Global Output	3.6	2.9	3.3	3.4
Advanced Economies	2.1	1.7	1.7	1.6
United States	2.9	2.3	2.0	1.7
Europe	1.9	1.2	1.3	1.4
Emerging Markets and Developing Economies	4.5	3.9	4.4	4.8
Emerging and Developing Asia	6.4	5.6	5.8	5.9
China	6.6	6.1	6.0	5.8

Source - International Monetary Fund

SRI LANKA ECONOMIC PERFORMANCE

Year at a glance - 2019

The economic growth of Sri Lanka subdued to 2.6% during the first nine months of the year compared to 3.3% in the corresponding period last year. The slowdown was primarily an aftermath of the Easter Sunday attacks and the impact exacerbated with political turmoil and spill-over effects of weaker global economic activity. Unemployment rates increased to 5.1% as at the end of the 3Q2019 (3Q2018:4.1%) with subdued economic performance. Overall economic slowdown impacted all most all the sectors throughout the year. Interest rates came down sharply by more than 200bps on average during the year with two downward revisions of policy rates.

Outlook For 2020 - Sri Lanka

Economic growth for 2020 is projected at 4% by CBSL compared to 2.7% expected in 2019 with the revieval of economic activities and possible FDI attractions, coupled with political and economic stability.

However, challenges from both monetary and fiscal ends will remain throughout the year since reason changes will have a lag effect. Interest rates will have a downward pressure due to low economic growth until the business sentiment grows.

Sub-sector GDP Growth - First Nine Months	2019 %	2018 %
Agriculture, forestry and fishing	2.1	4.3
Industries	2.6	1.8
Services	2.8	4.4
Economic growth	2.6	3.3

KEY MACRO ECONOMIC VARIABLES IMPACTING THE INSURANCE INDUSTRY

Indicators	Movements	Impact on Us																																																				
<p>Decelerating Economic Growth and Per Capita Income</p> <p>For the first nine months of 2019, economic growth subdued to 2.6% from 3.3% in the corresponding period last year. Resent economic reforms and both fiscal and monetary policy changes will have an upward impact on GDP growth. Meantime political stability will boost investor confidence and that will possibly drive the FDI's in to the country.</p>	<p>Per Capita GDP at Current Market Price</p> <table border="1"> <caption>Per Capita GDP at Current Market Price</caption> <thead> <tr> <th>Year</th> <th>Per Capita GDP (US\$)</th> <th>GDP Growth (%)</th> <th>Per Capita GDP Growth (%)</th> </tr> </thead> <tbody> <tr><td>2015</td><td>3,600</td><td>7.5</td><td>5.5</td></tr> <tr><td>2016</td><td>3,850</td><td>7.5</td><td>4.5</td></tr> <tr><td>2017</td><td>3,850</td><td>5.0</td><td>3.5</td></tr> <tr><td>2018</td><td>3,950</td><td>3.5</td><td>3.5</td></tr> <tr><td>2019E</td><td>4,250</td><td>2.6</td><td>3.5</td></tr> </tbody> </table>	Year	Per Capita GDP (US\$)	GDP Growth (%)	Per Capita GDP Growth (%)	2015	3,600	7.5	5.5	2016	3,850	7.5	4.5	2017	3,850	5.0	3.5	2018	3,950	3.5	3.5	2019E	4,250	2.6	3.5	<p>Declining disposable incomes affect demand for insurance products.</p>																												
Year	Per Capita GDP (US\$)	GDP Growth (%)	Per Capita GDP Growth (%)																																																			
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2018	3,950	3.5	3.5																																																			
2019E	4,250	2.6	3.5																																																			
<p>Moderate Inflation</p> <p>The headline inflation increased up to May 2019 due to upward adjustments in administered prices such as domestic petroleum. However, after a slight decrease till August, there was a notable increase in inflation mainly due to low base effect in 2018. As at the year-end 2019, inflation increased to 4.8% in line with CBSL desired range of 4% to 6%.</p>	<p>Inflation - YoY</p> <table border="1"> <caption>Inflation - YoY</caption> <thead> <tr> <th>Month</th> <th>CCPI (%)</th> <th>NCPI (%)</th> </tr> </thead> <tbody> <tr><td>Jan-19</td><td>3.8</td><td>1.5</td></tr> <tr><td>Feb-19</td><td>4.0</td><td>2.5</td></tr> <tr><td>Mar-19</td><td>4.5</td><td>3.0</td></tr> <tr><td>Apr-19</td><td>4.8</td><td>3.8</td></tr> <tr><td>May-19</td><td>5.2</td><td>3.8</td></tr> <tr><td>Jun-19</td><td>4.0</td><td>2.2</td></tr> <tr><td>Jul-19</td><td>3.5</td><td>2.3</td></tr> <tr><td>Aug-19</td><td>3.5</td><td>3.5</td></tr> <tr><td>Sep-19</td><td>5.2</td><td>5.2</td></tr> <tr><td>Oct-19</td><td>5.5</td><td>5.8</td></tr> <tr><td>Nov-19</td><td>4.5</td><td>4.2</td></tr> <tr><td>Dec-19</td><td>4.8</td><td>6.5</td></tr> </tbody> </table>	Month	CCPI (%)	NCPI (%)	Jan-19	3.8	1.5	Feb-19	4.0	2.5	Mar-19	4.5	3.0	Apr-19	4.8	3.8	May-19	5.2	3.8	Jun-19	4.0	2.2	Jul-19	3.5	2.3	Aug-19	3.5	3.5	Sep-19	5.2	5.2	Oct-19	5.5	5.8	Nov-19	4.5	4.2	Dec-19	4.8	6.5	<p>Inflation would affect the purchasing power of customer and the demand for insurance products would be low.</p>													
Month	CCPI (%)	NCPI (%)																																																				
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Dec-19	4.8	6.5																																																				
<p>Recovering External Sector</p> <p>In 2019, the external sector showed some improved performance, supported by contracting import expenditure and consistent growth in export earnings. Merchandise exports grew by 0.4% in 2019 on YoY basis, while merchandise imports decreased by 10.3% for the same period. In 2019, trade deficit reduced to USD 7,997 Million compared to USD 10,343 Million in 2018.</p>	<p>External Sector</p> <table border="1"> <caption>External Sector (US\$ Mn)</caption> <thead> <tr> <th>Month</th> <th>Imports</th> <th>Exports</th> <th>Trade Deficit</th> </tr> </thead> <tbody> <tr><td>Jan-19</td><td>1,700</td><td>1,000</td><td>700</td></tr> <tr><td>Feb-19</td><td>1,400</td><td>1,000</td><td>400</td></tr> <tr><td>Mar-19</td><td>1,700</td><td>1,100</td><td>600</td></tr> <tr><td>Apr-19</td><td>1,600</td><td>800</td><td>800</td></tr> <tr><td>May-19</td><td>1,800</td><td>1,000</td><td>800</td></tr> <tr><td>Jun-19</td><td>1,400</td><td>1,100</td><td>300</td></tr> <tr><td>Jul-19</td><td>1,700</td><td>1,000</td><td>700</td></tr> <tr><td>Aug-19</td><td>1,600</td><td>1,000</td><td>600</td></tr> <tr><td>Sep-19</td><td>1,700</td><td>1,000</td><td>700</td></tr> <tr><td>Oct-19</td><td>1,800</td><td>1,000</td><td>800</td></tr> <tr><td>Nov-19</td><td>1,700</td><td>1,000</td><td>700</td></tr> <tr><td>Dec-19</td><td>1,800</td><td>1,000</td><td>800</td></tr> </tbody> </table>	Month	Imports	Exports	Trade Deficit	Jan-19	1,700	1,000	700	Feb-19	1,400	1,000	400	Mar-19	1,700	1,100	600	Apr-19	1,600	800	800	May-19	1,800	1,000	800	Jun-19	1,400	1,100	300	Jul-19	1,700	1,000	700	Aug-19	1,600	1,000	600	Sep-19	1,700	1,000	700	Oct-19	1,800	1,000	800	Nov-19	1,700	1,000	700	Dec-19	1,800	1,000	800	<p>External sector growth will boost the top line of the Company by generating new business opportunities and potentials.</p>
Month	Imports	Exports	Trade Deficit																																																			
Jan-19	1,700	1,000	700																																																			
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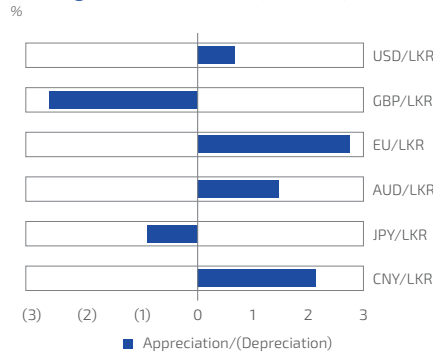
OPERATING ENVIRONMENT

Indicators	Movements	Impact on Us
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Improving Exchange Rate Stability

To ensure a competitive exchange rate, the CBSL has allowed the exchange rate to be determined by market forces. In 2019, the exchange rate showed greater stability recovering from sharp movements in 2018. Prior to the Easter Sunday attacks, the exchange rate appreciated by 4.3% supported by reducing trade deficits. Although, the trend reversed following the Easter Sunday attacks and worsening global uncertainties, for the FY2019, the exchange rate appreciated by 0.7% compared to 2018.

Exchange Rate Movement - (YTD 2019)

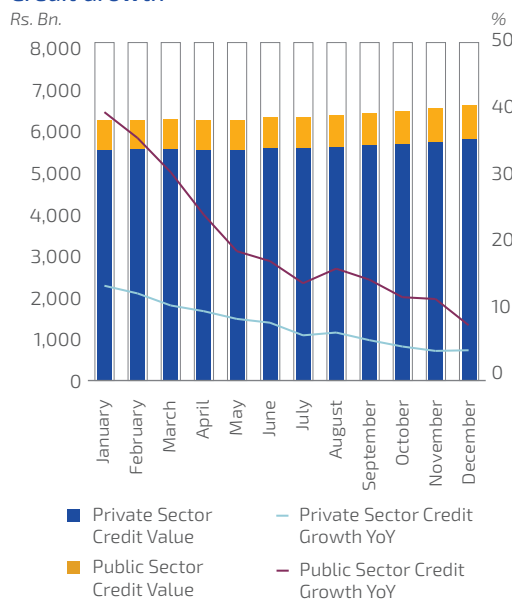


Exchange rate movement will directly impact the investment income. Any Depreciation of the rupee will improve the Investment income of the Company.

Supportive Monetary Policies Interest Rates

With declining economic growth and decelerating private sector credit growth, the Central Bank of Sri Lanka moved to an accommodative Monetary Policy stance. The Standard Lending Rate and Standard Deposit Rate was reduced by 50bps in May 2019 to 8.5% and 7.5% and further reduced by 50 basis points in August 2019. In addition, temporary caps on both deposit and lending rates were imposed to expedite the adjustments of market interest rates in line with recent policy decisions. With these measures, lending rates are expected to reduce in 2020 rebounding credit growth and driving economic expansion.

Credit Growth



Interest rate movements would affect;

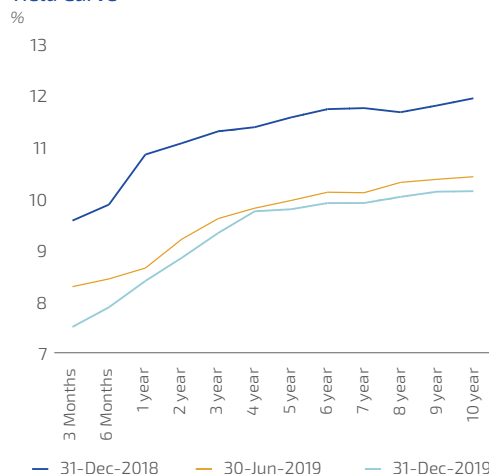
- Investment income
- Asset allocation strategy
- Valuation of financial investments
- Realised gains on sale of Government Securities
- CAR

In addition, bank deposits are considered as a competitive product with Life insurance investment and protection policies. As a result, the movements in interest rates will affect the demand for Life insurance products.

Rates on Government Securities

Responding to the statutory interest rate movements and down ward pressure on interest rates to support GDP growth, yields on Government Securities trended downward. For the FY2019, overall market decreased by about 200bps on average.

Yield Curve



Commercial Bank Rates

Average Weighted Lending Rates (AWLR) declined to 13.65% in December 2019 from 14.45% in January 2019, while Average Weighted Prime Lending Rate (AWPLR) declined to 9.74% in December 2019 from 12.1% in December 2018.

Indicators	Movements	Impact on Us
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Rebounding capital markets

Equity Market

After a struggled 2018, equity market performed positively towards end of the year 2019, in the sense of political stability and driven by local participation. ASPI improved by 1.27% and S&P SL 20 index slightly decreased by 6.32% as at the as at the year end. Recent tax changes will support the business confidence and will impact positively to the top line and the bottom line of the corporates.

ASPI & S&P SL 20 Performance



The performance of the capital market impacts the valuation of the equity portfolio held by the Company.

REGULATORY REVIEW

The Insurance industry plays an important role in the economic context of the country providing assurance to both individuals and corporates. Due to this inherent nature of the industry, the regulators ensure existence of an adequate regulatory framework to protect the customers, allowing them to receive benefits and also provide guidance for the insurers to operate with due care. Equally, we, HNB Assurance PLC, have understood the importance of adhering to regulations and protecting the interest of our Policyholders and other stakeholders whilst maintaining a good relationship with the regulators.

The Insurance Regulatory Commission of Sri Lanka (IRC SL) is the regulatory body that safeguards Policyholders through supervision of activities of the Insurance Industry and provision of rules, directions and guidance to be followed by insurers in the operations. The Insurance Industry of Sri Lanka is primarily governed by the provisions of the Regulation of Insurance Industry Act No. 43 of 2000 and subsequent amendments thereto. Apart from this Group/Company is mainly governed by following rules and regulations,

- Listing Rules and Regulations issued by the Colombo Stock Exchange (CSE)
- Regulations issued by the Securities and Exchange Commission of Sri Lanka (SEC)
- Inland Revenue Act and other regulations issued by the Department of Inland Revenue
- Auditing and Accounting Standard Monitoring Act, and
- Other Laws/Regulations applicable to a Sri Lankan corporate entity

CHANGES IN THE REGULATIONS THAT AFFECT THE COMPANY

The following table summarises details of the regulatory changes which came in to effect during the year.

Regulation	Summary of the Regulation
Amended Direction # 17 - Corporate Governance Framework for Insurers	<p>During the year the Regulator issued the amended Direction #17 on Corporate Governance Framework for Insurers which became effective from 1st July 2019. The key features of the Corporate Governance Framework are listed below.</p> <ul style="list-style-type: none"> • Insurers are recommended to adhere to the Code of Best Practice on Corporate Governance 2017, issued by the Institute of Chartered Accountants of Sri Lanka. • The Board of an Insurer must adhere to Section 7.10 of the Listing Rules of CSE pertaining to Corporate Governance • Guideline for directorships of insurance companies on areas covering, <ul style="list-style-type: none"> - Citizenship of Directors, - Period of service, - Age limit, - Limits on the number of Directorships held by a Director - Accordingly our compliance status of the same is stated in page 65 of the Annual Report
Direction # 18 – Unclaimed benefits of long-term Insurance Business	<p>The Direction prohibits insurers who carry on long-term insurance business from transferring any unclaimed benefits to Shareholders, with effect from financial year ended 31st December 2018, and further to record the same as a liability in the long-term Insurance Fund Balance Sheet. The Group is fully compliant in this requirement.</p>
Amended and Combined Direction # 2 – Supply of Policy Documents	<p>The Direction requires Life insurers to obtain an acknowledgement in writing from the Policyholder/insured/life assured within 14 days from the date of issue of the policy. Further a different arrangement is informed to General Insurers with regard to policies issued via brokers, leasing/finance companies and banks.</p>
Direction # 20 – Prohibition of payments to Parent, Related and/or Unrelated companies by insurers for usage of acronym and/or trade mark	<p>Through this Direction the Regulator prohibited all Insurance Companies from making payments to parent, related and/or unrelated companies for using the acronym and/or trade mark of the parent, related and/or unrelated companies. The Group has not made any payments of this nature.</p>

Regulation	Summary of the Regulation
Circular # 40 – Health Insurance Covers Underwritten by Insurers who carry on long-term Insurance Business	Guidance was provided on health insurance covers underwritten by long-term insurers through this circular. Accordingly, long-term insurance companies can issue permanent health insurance policies, subject to the restrictions provided in this circular.
Circular # 41 - Procedure for taking Enforcement Action by the IRCSL	The Circular sets out the IRCSL's enforcement procedures on violation and/or non-compliance with reporting requirements stipulated by the IRCSL and violation and /or non-compliance with provisions of the Regulation of Insurance Industry Act No. 43 of 2000, other than on reporting requirements.
Gazette No.2123/14 – Monday May 13, 2019 – The Insurers (Customer Due Diligence) Rules, No.1 of 2019	The Financial Intelligence Unit (FIU) issues rules regarding the customer due diligence requirements of the long-term Insurance business. Accordingly the Company has taken necessary steps to update the Company's Asset and Liability Management (ALM) Policy.

UPDATE ON ACCOUNTING STANDARDS

Category	Standard	Description
Standards adopted during the year	SLFRS 16 – "Leases"	SLFRS 16 came into effect from 01st January 2019 replacing LKAS 17 - "Leases". The standard introduced substantial changes to the definition of a lease and accounting for leases in the lessee's financial statements. The Group has implemented this Standard in 2019.
Standards issued but not yet adopted due to temporary exemptions	SLFRS 9 – "Financial Instruments"	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 04 (amended) provides a temporary exemption that permits, but does not require, an insurer to apply LKAS 39 - "Financial Instruments: Recognition and Measurement" rather than SLFRS 9 for annual periods beginning before 01st January 2021 due to adoption of SLFRS 17 - "Insurance Contracts". Company has used this exemption and will be implementing SLFRS 09 simultaneous to SLFRS 17.
Standards issued but not yet effective	SLFRS 17 – "Insurance Contract"	SLFRS 17 issued by the Institute of Chartered Accountants of Sri Lanka is in line with IFRS 17 issued by the International Accounting Standard Board and will come in to effect from 01st January 2021. SLFRS 17 will supersede SLFRS 4 - "Insurance Contracts". 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. The Group has commenced a gap analysis on the Standard in 2019.

KEY TAX CHANGES

During the year several tax amendments were introduced by the Inland Revenue Department (IRD). Key changes are as Follows;

- Value Added Tax (VAT) amendments
 - Increase in annual VAT registration threshold from Rs. 12 Million to Rs. 300 Million with effect from 01st January 2020
 - Reduction in VAT rates from 15% to 8% with Effect from 01st December 2019
- Abolishment of Nations Building Tax (NBT) with effect from 01st December 2019
- Abolishment of Economic Service Charge (ESC) with effect from 01st January 2020 (subject to formal amendment to be passed in Parliament)

Subsequent to the reporting date further tax amendments were introduced by IRD which are yet to be passed by the Parliament. Such key changes are as Follows;

- Removal of Withholding Tax (WHT) including Pay As You Earn (PAYE) on the payments for Resident Persons
- Revision of Income tax rates

RISKS AND OPPORTUNITIES

Identification of risks and opportunities arising through the external environment is vital for the successful operation of any organisation. Moreover, operating in a fast-evolving industry, our strategies need to be aligned to the changes for successful achievement of competitive advantage. Hence, identifying such changes in our operating environment in advance and responding to them effectively plays a vital role in our strategy formulation process.

Environment Factor	Risks and Opportunities	Our Response
Political and Legal Factors	● Frequent changes in Fiscal and Monetary policies	Strengthen our business acumen and technical knowledge to facilitate timely response to changes
	● Legalisation of Institutional agencies operating in the Insurance Industry	We strengthened our alternate distribution channels to capture the opportunities
	● Potential entry of foreign organisations in to the Insurance Industry	Strengthen the distribution channels and increase Group synergy
Economic Factors	● Low purchasing power of customers	Making our products more affordable to customers through strategic pricing decisions
	● Interest and exchange rate volatilities in the economy	Sound investment management practices in place to mitigate risks related to investments and investment income
	● Growth in middle - class income earning population	Introduce innovative products such as 'Privileged Life' to capture varying needs of customers
	● Growth in infrastructure development and construction activities	Competitive pricing and offering attractive benefits in General insurance products to capture the market
Social and Demographic Factors	● Under-penetrated insurance market	Increasing insurance awareness through propaganda activities, brand campaigns and other promotional activities
	● Growing urban population	Capturing the needs of the urban population with the introduction of new products such as 'PrivilegedLife'
	● Increase in demand for health and protection products	Introduction of Investments products such as 'Super 5 series' and 'Supreme Health' rider benefit
Technological Factors	● Customer needs and expectations becoming sophisticated with new technologies	Promoting the use of online products such as e-life, e-marines, e-home, e-travel and e-motor
	● Effects on the business model due to technological changes and advancements	Use technology to increase process efficiencies
	● Cyber security threats	Investing in necessary IT infrastructure to enhance security

● Opportunity ● Risk ● Risk and Opportunity



FINANCIAL CAPITAL



Operating in the Insurance industry, it is our duty to provide the financial security and stability sought by our Policyholders while ensuring attractive returns to our Shareholders. Financial Capital plays a vital role in this regard as it will enable us to generate attractive returns to our Shareholders, ensure the sustainability of the business and meet the interests of our Policyholders.

GOALS 2019



- Achieve a Gross Written Premium of Rs. 10.7 Billion
- Achieve a Return on Equity of 20%
- Maintain CAR above 200%
- Funds Under Management over Rs. 20 Billion

KEY PERFORMANCE INDICATORS



GWP



PAT



ROE



CAR



Funds Under Management

ACHIEVEMENTS DURING THE YEAR



GWP
Rs. 9.9 Bn.

PAT
Rs. 1.01 Bn.

ROE
16%

CAR
Life-309%
General-223%

Funds Under Management
Rs. 21.9 Bn.

GOALS FOR 2020



- Gross Written Premium of Rs. 12 Billion
- PAT growth in excess of 20%
- Maintain CAR above 200%
- Investment income of over Rs. 2 Billion

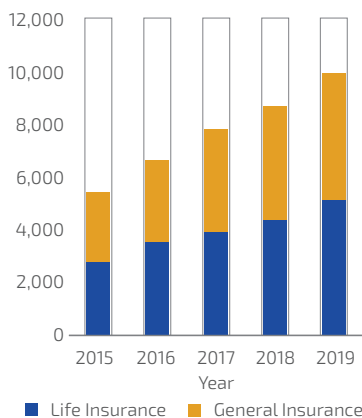
OUR PERFORMANCE

Gross Written Premium (GWP)

Despite subdued economic growth and intense rivalry, GWP of the Group grew by 14% in 2019 recording a value of Rs. 9,942.8 Million surpassing the industry growth rates recorded by the year end. Contributing to the top-line growth, the Life and General segments grew by 17% and 11% respectively. The focused strategies adopted by both segments are discussed in detail in respective reviews and these strategies were contributory in achieving such growth rates despite the tough economic conditions faced by the industry. Further analysis of GWP of Life and General insurance segments can be read on pages 141 to 142 and 146 to 147 respectively.

Gross Written Premium

Rs. Mn.



Premium Ceded to Reinsurers (RI)

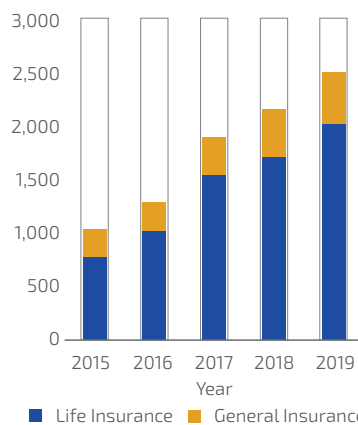
During 2019 we ceded Rs. 1,312.9 Million, approximately 13% of the GWP to reinsurers which was 24% higher than the amount ceded in 2018. The 27% increase in the Reinsurance cost in the General Insurance segment was the main contributor to the increase as General Insurance accounted for 82% of the total Reinsurance cost. A slight shift in the General insurance business mix from Motor insurance to Non-Motor insurance resulted in the increase in Reinsurance cost as Non-Motor insurance attracts more reinsurance. Reinsurance cost of Life Insurance only increased by 12% which is consistent with the 17% growth in the GWP.

Investment Income

Investment Income of the Group grew by a healthy 18% to reach Rs. 2,332.9 Million compared to Rs. 1,969.9 Million recorded in 2018. Group Interest and Dividend Income grew by 19% to Rs. 2,248.9 Million, supported by the growth in the Funds Under Management and effective asset allocation strategies to optimise gains from the interest rate movements. While increased interest rates during the first half of the year supported the increase in Interest Income, the downward movements during the latter half, enabled the Group to realise gains of Rs. 92.9 Million compared to Rs. 74.1 Million in 2018 mainly through sale of Treasury Bonds. Continuous monitoring and sound market intelligence enabled the Company to predict interest movements in advance and change the investment strategy to best exploit market opportunities.

Investment and Other Income

Rs. Mn.



Profitability

Profit Before Tax (PBT)

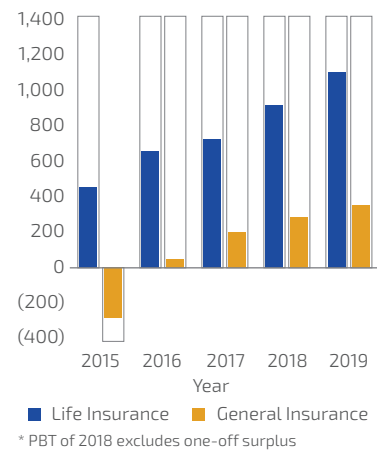
The Group posted Rs. 1,404.9 Million as Profit Before Tax in 2019 which marked a 11% decline compared to Rs. 1,580.7 Million recorded in 2018. The drop in profits is due to a one-off surplus of Rs. 381 Million being included in profits of 2018. PBT excluding the one-off surplus was Rs. 1,199.5 Million for 2018. When considering the performance of the Group on a comparable basis by excluding the impact from one-off surplus in 2018, 2019 PBT marks

a remarkable 17% growth amidst the challenging market conditions which prevailed in 2019. Growth in investment income, prudent underwriting practices and improvements in efficiency which resulted in better expense management were key to the performance.

The one-off surplus recorded in 2018 arose from change in valuation method from Net Premium Valuation (NPV) to Gross Premium Valuation (GPV) and was transferred as required by Direction 16 of Insurance Regulatory Commission of Sri Lanka (IRCSL).

Profit Before Tax - Group

Rs. Mn.



* PBT of 2018 excludes one-off surplus

Detailed below are the key factors affecting profitability of the Group.

Key cost categories	Analysis																								
<p>Net Claims and Benefits increased by 12% to Rs. 3,620.8 Million compared to Rs. 3,236.5 Million in 2018.</p>	<p>Key contributors The increase in Net Claims and Benefits was driven by the 25% growth in Claims and Benefits of Life Insurance segment. General insurance segment contributed with an increase of 5% during the year.</p> <p>Analysis During the year the Life insurance segment experienced Rs. 880 Million maturity claims, a 26% growth over last year. These claims arise as result of policy maturities and is a known element in Life insurance business. Higher maturity claims are expected with the growth and age of the insurance company.</p> <p>Surrender claim outflow of Rs. 270 Million, largely due to the prevailing economic conditions of the country, also contributed for the increase in net claims. Motor and Miscellaneous business segments were the highest contributors to the Claims and Benefits in General insurance segment which increased by 5% during the year.</p>																								
	<p>Net Claims and Benefits Rs. Mn.</p> <table border="1"> <caption>Net Claims and Benefits (Rs. Mn.)</caption> <thead> <tr> <th>Year</th> <th>Life Insurance</th> <th>General Insurance</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>~300</td> <td>~1,800</td> <td>~2,100</td> </tr> <tr> <td>2016</td> <td>~400</td> <td>~1,500</td> <td>~1,900</td> </tr> <tr> <td>2017</td> <td>~500</td> <td>~1,700</td> <td>~2,200</td> </tr> <tr> <td>2018</td> <td>~1,000</td> <td>~2,200</td> <td>~3,200</td> </tr> <tr> <td>2019</td> <td>~1,300</td> <td>~2,300</td> <td>~3,600</td> </tr> </tbody> </table> <p>■ Life Insurance ■ General Insurance</p>	Year	Life Insurance	General Insurance	Total	2015	~300	~1,800	~2,100	2016	~400	~1,500	~1,900	2017	~500	~1,700	~2,200	2018	~1,000	~2,200	~3,200	2019	~1,300	~2,300	~3,600
Year	Life Insurance	General Insurance	Total																						
2015	~300	~1,800	~2,100																						
2016	~400	~1,500	~1,900																						
2017	~500	~1,700	~2,200																						
2018	~1,000	~2,200	~3,200																						
2019	~1,300	~2,300	~3,600																						
<p>Underwriting and Net Acquisition Costs increased by 14% to Rs. 1,288.1 Million compared to Rs. 1,125.4 Million in 2018.</p>	<p>Key contributors Acquisition cost in Life insurance segment, which accounted for 74% of the total cost, marked a growth of 13%. General acquisition cost grew by 19% reflecting a higher growth than GWP.</p> <p>Analysis The increase in Net Acquisition Expenses in the Life segment is due to the higher business volumes generated while growth is lower than GWP growth of 17%.</p> <p>Changes made to the product mix and channel mix of Life insurance segment enabled to maintain a lower acquisition cost growth in Life insurance. The 19% increase in Underwriting and Net Acquisition Costs of General segment was a resultant of reserve movement of deferred expenses.</p>																								
<p>Operating and Administration Expenses increased by 5% to Rs. 2,385.5 Million compared to Rs. 2,282.5 Million in 2018.</p>	<p>Key contributors A 7% increase in staff expenses and 42% increase in selling expenses were the main contributors for the increase in cost.</p> <p>Analysis Employee related expenses have grown by 7% in 2019 which is in line with the growth in the employee cadre by 8%. Contribution of employee related expenses to the total in the category is 48% and this is an indication that developing human talent is a high priority of the Group strategy.</p> <p>Growth in selling expenses was a result of new strategies that were implemented during the year to achieve a higher GWP growth. This is evident through Life insurance recording the highest growth in new business among the top 10 Life insurance companies in the industry.</p>																								
<p>Change in Contract Liabilities – Life Fund</p>	<p>Key contributors The transfer to the Life Fund Increased by 27% to Rs. 2,173.3 Million compared to Rs. 1,707.1 Million in 2018.</p> <p>Analysis All strategies implemented to achieve a growth in Investment Income and Net Income while managing the Expense Ratio resulted in the high growth reported.</p>																								

FINANCIAL CAPITAL

Profit After Tax (PAT)

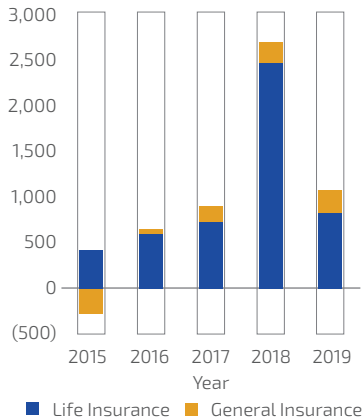
The Group recorded a remarkable Profit After Tax (PAT) of Rs. 1,010.2 Million in 2019, surpassing the Rs. 1 Billion mark.

Although this shows a decline of 63% compared to the Rs. 2,705.3 Million recorded in 2018, the performance is noteworthy due to the last year's PAT including a Rs. 381 Million one-off surplus and a Deferred Tax adjustment of Rs. 1,117.4 Million, which arose due to the recognition of brought forward tax losses in the Company.

The Company achieved a PAT of Rs. 826.7 Million (2018: Rs. 2,475.2 Million) which too marked a 67% negative growth due to the one-off items mentioned above. It is pertinent to note that Life Insurance business segment recorded a taxable income for the full year of 2019 compared to nine months of 2018 due to the change in the tax method as per the new Inland Revenue Act which came to effect on 01st April 2018. The Subsidiary recorded an 8% growth in PAT achieving Rs. 249.6 Million (2018: Rs. 230 Million).

Profit After Tax - Group

Rs. Mn.



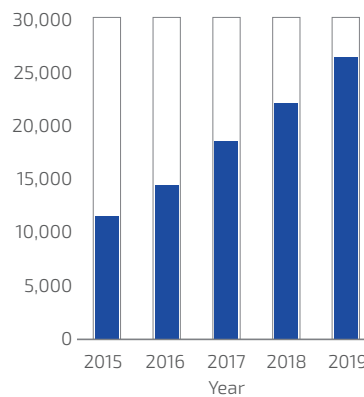
FINANCIAL POSITION

Total Assets

Total Assets of the Group increased by 20% to Rs 26.6 Billion in 2019 compared to Rs. 22.3 Billion in the previous year. Financial Investments accounted for 80% of the total assets of the Group which recorded a growth of 21%. Total asset base of the Company which accounts for 83% of the Group asset base grew by 19% recording a value of Rs. 22.3 Billion compared to Rs. 18.7 Billion previous year.

Total Assets - Group

Rs. Mn.

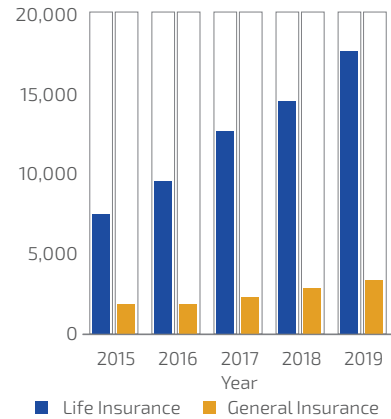


Financial Investments

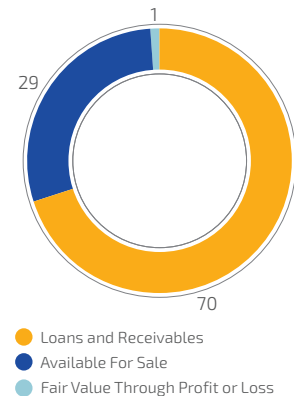
Financial Investments of the Group reached a value of Rs. 21.2 Billion recording a commendable growth of 21% compared to Rs. 17.6 Billion in 2018. The growth in investment assets was driven by the growth of business and the Investment Income. Investment portfolio of the Company grew by 21% to Rs. 17.8 Billion compared to Rs. 14.7 Billion previous year. Financial investments of General Insurance grew by 18% to Rs. 3.4 Billion compared to Rs. 2.9 Billion recorded by the end of 2018. Financial investments comprise Loans and Receivables, Available For Sale financial assets, Fair Value Through Profit and Loss assets and Held to Maturity financial assets. The Group had no assets categorised as Held to Maturity as of the end of the financial year and the comparative year.

Financial Investments - Group

Rs. Mn.



Composition of Financial Investments - 2019 (%)



Key Investment Categories	Impact
Loans and Receivables increased by 38% to Rs. 14.8 Billion compared to Rs. 10.7 Billion in 2018.	Loans and Receivables account for 70% of Financial Investments of the Group and include investments in Repos, Term Deposits and Corporate Debt. Investment in Deposits and Corporate Debt was increased during the year due to the lower interest rates in Government Securities.
Available For Sale (AFS) Instruments declined by 7% to Rs 6.3 Billion compared to Rs. 6.8 Billion previous year.	Available For Sale investment category mainly comprise of Treasury Bonds. As of the year end Rs. 6.2 Billion was invested in Treasury Bonds by the Group and relatively lower investments made due to falling interest rates.
Fair Value Through Profit and Loss (FVTPL) declined by 16% to Rs 77.8 Million compared to Rs. 93.0 Million in 2018.	Reduction in the equity investments undertaken by the Group in light of the poor performance of the equity market of Sri Lanka was the driving factor for the decline in investments made FVTPL instruments.

Group Liabilities

The liabilities of the Group increased by 20% to Rs. 19.9 Billion compared to Rs. 16.5 Billion. The increase is mainly driven by the 17% increase in contract liabilities which accounted for 87% of the total liabilities and amounted to Rs. 17.3 Billion.

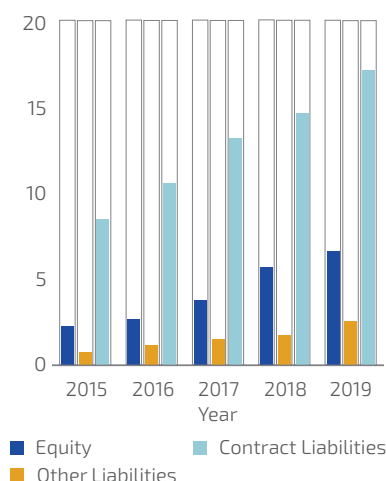
Contract Liabilities	Impact
Life Insurance Contract Liabilities increased by 18% to Rs. 14.5 Billion compared to Rs. 12.3 Billion in 2018.	<p>Contract liabilities maintained to meet the future claim obligations of the Policyholders and comprise of Life Fund and claims outstanding reserves. The 17% growth in Group is reflected in the growth in the Life Fund and a strong life fund underpins the stability of a life insurer.</p> <p>The Life Fund was valued by the consultant Actuary Mr. Hassan Scott Odeirno of Actuarial Partners Consulting Bnd as of 31st December 2019 and the valuation report is given on page 179. Following the valuation, Rs. 687.4 Million (2018: Rs. 637.9 Million) was transferred to Shareholders' Fund in 2019.</p> <p>The Company maintained a proper segregation of Assets and Liabilities for all three sub funds of the Life Fund, namely Participating, Non-Participating and Universal Life funds as per the Direction 15 issued by Insurance Regulatory Commission of Sri Lanka</p>
General Insurance Contract Liabilities increased by 14% to Rs. 2.9 Billion compared to Rs. 2.5 Billion previous year.	Contract liabilities of General Insurance comprise Claims Outstanding Reserve, Unearned Premium (UEP), Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER) Reserves. It was concluded by the consultant actuary Mr. Sivakumar of NMG Consulting that UEP, IBNR and IBNER reserves maintained are sufficient to meet future obligations of as well as future obligations of Policyholders'. The valuation report is given on page 180.

Group Equity

During 2019, Group Equity improved by 17% to Rs. 6.7 Billion compared to Rs. 5.7 Billion in 2018 supported by the increasing Retained Earnings and Life Policyholders' Available For Sale reserves. The Retained Earnings of the Group grew primarily due to the Profit After Tax of Rs. 826.7 Million in HNB Assurance and Rs. 249.6 Million from the subsidiary HNB General Insurance Limited.

Capital Structure - Group

Rs. Mn.



FINANCIAL STABILITY

Both HNBA and HNBGI maintained a sound capital base under the Solvency Margin Rules (Risk- Based Capital) issued by the IRCSL under the requirements of the Section 26 of the Regulation of Insurance Industry Act No 43 of 2000 (RII Act).

Indicator	Analysis										
Capital Adequacy Ratio (CAR)	HNBA										
Capital Adequacy Ratio % 	Profit growth in Life business segment and Life Shareholder segment contributed to the growth of Total Available Capital (TAC). The Company was able to maintain the CAR well above the stipulated ratio due to its prudent reserving, investment and sustainable growth in business. The decrease in the risk free interest rates by 200 basis points on average compared to the previous year end had a significant impact in increasing the market risk charge of the Company resulting in a higher risk based capital requirement. This was the main reason for the decrease in the CAR compared to last year.										
	<table border="1"> <thead> <tr> <th></th> <th>2019</th> <th>2018</th> </tr> </thead> <tbody> <tr> <td>Total available capital</td> <td>Rs. 7,596 Mn.</td> <td>Rs. 6,637 Mn.</td> </tr> <tr> <td>CAR</td> <td>309%</td> <td>319%</td> </tr> </tbody> </table>			2019	2018	Total available capital	Rs. 7,596 Mn.	Rs. 6,637 Mn.	CAR	309%	319%
	2019	2018									
Total available capital	Rs. 7,596 Mn.	Rs. 6,637 Mn.									
CAR	309%	319%									
	HNBGI										
	Growth in profit along with prudent Asset and Liability management strategies and selective underwriting which led to increased profitability resulted in an increase in TAC and CAR.										
	<table border="1"> <thead> <tr> <th></th> <th>2019</th> <th>2018</th> </tr> </thead> <tbody> <tr> <td>Total available capital</td> <td>Rs. 1,378 Mn.</td> <td>Rs. 1,172 Mn.</td> </tr> <tr> <td>CAR</td> <td>223%</td> <td>200%</td> </tr> </tbody> </table>			2019	2018	Total available capital	Rs. 1,378 Mn.	Rs. 1,172 Mn.	CAR	223%	200%
	2019	2018									
Total available capital	Rs. 1,378 Mn.	Rs. 1,172 Mn.									
CAR	223%	200%									

Approved Assets	Section 25 of Insurance Industry Act No. 43 of 2000 requires insurance companies to maintain Approved Assets equivalent to 100% of Long Term Insurance Fund/Technical Reserve. Both HNBA and HNBGI comfortably met the requirement throughout the year similar to previous years and reported the position to IRCSL according to the Determination 1 issued by the IRCSL in respect of the RII Act.
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EFFECT OF NEW ACCOUNTING STANDARDS

SLFRS 17

SLFRS 17- " Insurance Contracts" issued by CA Sri Lanka will come to effect from 01st January 2021. It is expected that the Group's financials will have a significant impact from the adoption of the standard. A gap and impact analysis was commenced in 2019 and is being carried out with the support of External Actuarial and Financial Consultants. Further, an internal team, consisting representatives from all key functional areas has been appointed to prepare for the implementation. Details of the Standard is given on page 199.

SLFRS 09

The Group has used a temporary exemption from SLFRS 09 "Financial Instruments" that permits insurers to apply LKAS 39 - "Financial Instruments: Recognition and Measurement" until the adoption SLFRS 17. Details of the Standard is give on page 197.

SLFRS 16

This Standard came into effect from 01st January 2019 replacing LKAS 17 - "Leases" was duly adopted by the Group/Company using modified retrospective approach. The Group and Company respectively recognised Rs. 362.1 Million and Rs. 350.8 Million as Right of Use Asset and Lease Creditor as of 01st January 2019. A Net Depreciation on Right of Use Assets of Rs. 139.5 Million and Rs. 73.4 Million were charged for the Group and Company respectively under Operating and Administration Expenses. Further, Rs. 53.6 Million and Rs. 29.5 Million are charged for Group and Company respectively under Finance and Other Insurance Related Costs. Further details are given in pages 215 and 246.

VALUE ADDED TO INVESTORS

Growth in the Intrinsic Value of HNBA

HASU continuously outperformed the market with a share price growth of 5% to reach Rs. 138 while ASPI and S&P SL20 performed at low levels respectively at 1.27% and (6.32%). Furthermore, HASU share value reached historically highest level of Rs. 143.9 during 2019 reflecting high levels of demand for the share.

Return on Equity (ROE) and Dividend Yield

The Group Profit After Tax declined by 63% to Rs. 1,010 Million during 2019 predominantly due to the impact of one-off factors in 2018. As a result, ROE declined to 16% from 57% last year. However, the dividend yield increased to 6% compared to 5% in 2018 and the change can be attributed to 14% increase in Dividend Per Share over the 5% increase in market price of the share.

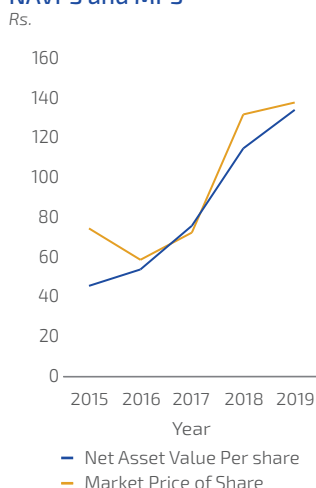
Dividend Pay Out

In 2019 the Company declared an interim dividend of Rs. 2 and a final dividend of Rs. 6 totalling the Dividend Per Share (DPS) to Rs. 8 and Dividend Payout ratio of the Company increased to 48% compared to 14% in 2018 and 41% in 2017. This is the highest Dividend Pay Out recorded after 2015.

Net Asset Value Per Share (NAV)

The NAV increased to Rs. 134.29 from Rs. 114.89 previous year reflecting a growth of 17%. The growth was primarily driven by the increase in Shareholder equity with increased levels of Retained Earnings and Available For Sale reserves. An illustration of our value creation to Shareholders is given on page 21.

NAVPS and MPS



Beyond Monetary Returns

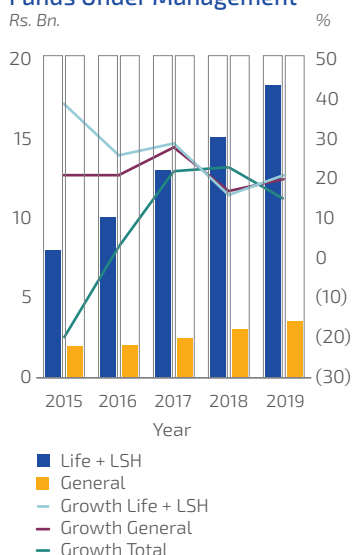
We at HNB Assurance PLC always work towards enhancing Shareholder value beyond monetary returns. We align our long-term corporate strategy, the Governance Framework and the Risk Management Framework of towards delivering sustainable value to our Shareholders over a long period of time enhancing the confidence they have placed on us. We truly work towards 'Wining Your Trust above all'.

INVESTMENT PORTFOLIO PERFORMANCE

Overview

Operating in the Insurance industry, fund management plays a vital role as it provides us with the necessary security to meet Shareholder obligations as well as increase investment returns. Therefore, the focus of investment management is to maximise risk-adjusted investment returns whilst meeting stipulated guidelines both internal and external. The Group was able to deliver attractive returns to both our Shareholders and Policyholders during the year amidst the challenging conditions in the external economic environment.

Funds Under Management



Funds Under Management

In 2019, Group Funds Under Management (FUM) grew by 20% to Rs. 21.9 Billion from Rs. 18.2 Billion last year, where the FUM of HNBA, represented 84% of the total recording a growth of 21%. Funds Under Management of HNBA reached Rs. 18.4 Billion in 2019 compared to Rs. 15.1 Billion in 2018. HNBA's FUM comprise Life Fund and Shareholder Fund. The FUM of HNBGI grew by 16% to Rs. 3.6 Billion in 2019 compared to Rs. 3.1 Billion in 2018.

How we exploited the opportunities during the year

- 1 Actively invested in highly rated Corporate Debt Investments
- 2 Captured capital gains on Fixed Income Securities
- 3 Reduced the Equity exposure and minimised the impact on Equity Investments

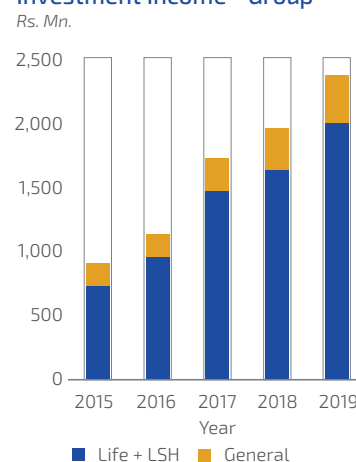
Investment Income

Investment Income of the Group reached a value of Rs. 2,333 Million with a notable growth of 18% over the Rs. 1,970 Million Investment Income reported in the year 2018. This is the first time that the Group was able to generate an Investment Income in excess of Rs. 2 Billion.

During the beginning of the year we were able to capture the benefit of increased interest rates by investing in longer tenure instruments with high interest rates. In spite of the external challenges faced by the Group with relation to investment income, we were able to maintain an average yield of 12.3% giving attractive returns to both our Shareholders and Policyholders.

Furthermore, as illustrated in the graph we were able to record consistent growth in Investment Income from both funds over the last five years.

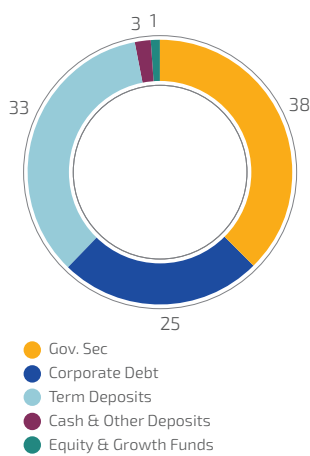
Investment Income - Group



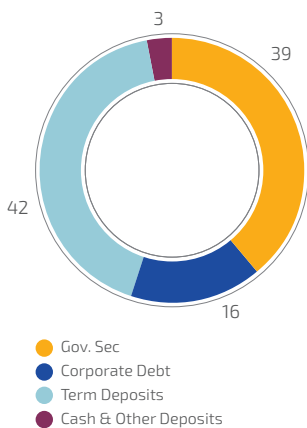
Asset Allocation

The Asset allocation strategy plays an integral role in maximising the returns of the Funds Under Management. We ensure strict compliance with the regulations, rules and guidelines and the internal investment guidelines of both HNBA and HNBGI, to ensure our asset allocations balance the risks and rewards of each asset in the investment portfolio.

Asset Allocation - HNBA (%)



Asset Allocation - HNBGI (%)

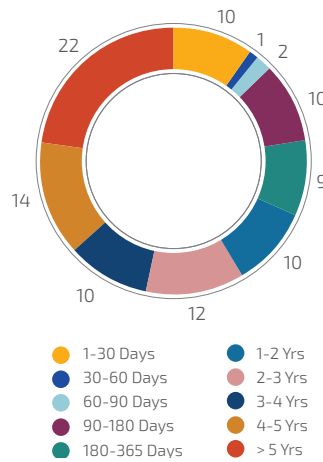


Maturity Mix

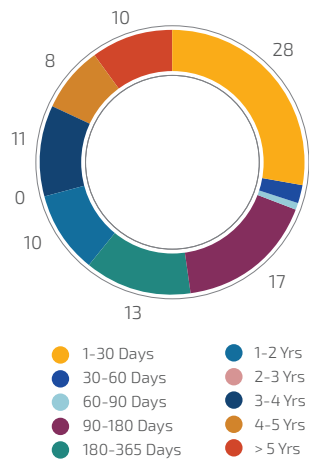
Asset and Liability Management (ALM) is integral to ensure the financial stability and manage the cash flows of the Group. Given the long-term nature of Life insurance liabilities, a predominant 68% of the life fund was invested on long-term investment products. In the meantime, 61% of the HNBGI funds was primarily invested in short-term investments.

Investment and ALM Committee also played a role by evaluating Asset and Liability matching strategies, CAR and profit sensitivity to external and internal variables and monitoring financial stability of the Group.

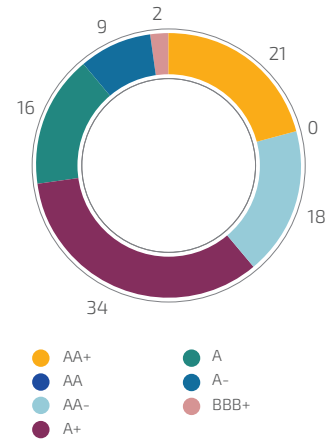
Maturity Mix - HNBA (%)



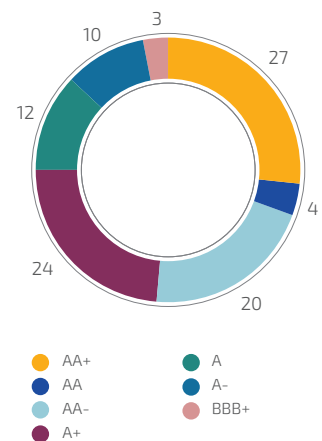
Maturity Mix - HNBGI (%)



Corporate Bond Rating - HNBA (%)



Corporate Bond Rating - HNBGI (%)



Risk Profiles

We always take measures to adhere to the risk management framework of the Group while maximising investment returns. Investments made by us have been done after a fundamental risk return analysis. The exposure limits of the investment portfolio are determined based on the credit ratings and the regulatory requirements applicable to the respective fund.



HUMAN CAPITAL



Our people are the value creators supporting our growth aspirations. We endeavour to create a better and conducive workplace that motivates employees to perform and progress in their careers.

GOALS 2019



- Reduce employee turnover
- Improve workforce productivity
- Build in the performance management process into HRIS
- 'Great Place to Work' Certification

KEY PERFORMANCE INDICATORS




GWP per Employee


Attrition Rate


Gender Balance


Training Hours and No. of Trainings


Investments on Training and Development

ACHIEVEMENTS DURING THE YEAR



GWP per Employee
Rs. 9.24 Mn.
↑ 5%

Attrition Rate
20%
↓ 3%

Gender Balance
Male – **59%**
Female – **41%**

Training Hours
12,895
156 Training Programmes

Investments
Rs. 10.8 Mn.
↑ 32%

GOALS FOR 2020



- Facilitate performance-driven culture
- Enhance employee engagement
- Simplify and automate HRM processes

ASSURANCE BEHAVIOUR FRAMEWORK (ABF)

At HNBA we promote and reward the right behaviours. Right Behaviours are defined by the ABF. These six behaviours remain fundamental to all that we do in relation to "HR".

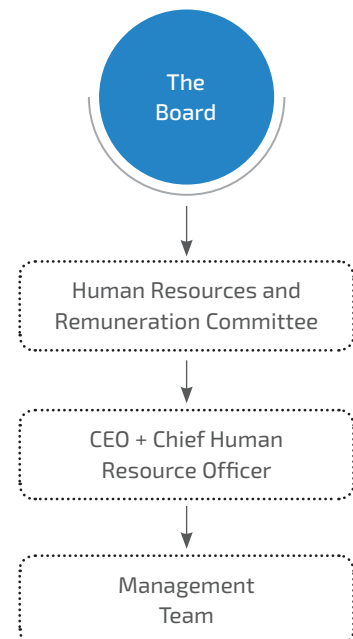


ABOUT OUR TEAM

Our team comprises 1,076 employees; 1,070 on permanent and 6 on fixed-term contracts. A healthy blend of expertise, genders, age groups, geographies and ethnicities underpin an inclusive organisation culture that has a shared vision of an inclusive society. We grow by recruiting aspiring professionals with talent and skills who are nurtured through comprehensive development programmes to build strong talent pipelines with minimal leakage. During the year, we made several changes to our HR Policy framework to help us develop a culture which fosters business acumen, collaboration, result focus, innovation and self-development.

GOVERNANCE

As Human Resources is a key strategic pillar which is also regulated, the Board approves HR strategy and policies and monitors compliance with regulation as part of its regular agenda. They are assisted by the Board Human Resources and Remuneration Committee who have oversight responsibility and make recommendations on the same to the Board on strategy and policy direction. The CEO is responsible for implementation of HR strategy within the approved policy framework and is assisted by a team of HR professionals led by the Chief Human Resources Officer.



Creating an ethical culture in which our people are inspired and empowered is core to our success. Accordingly, a suite of policies has been put in place to clearly communicate our culture, values and HR processes to facilitate a conducive work environment. Recognition of HNB Assurance as a 'Great Place to Work' serves as testimony to our commitment to upholding best practice in this key focus area.

Our focus in 2019 was to enhance clarity and transparency within the organisation by fine tuning policies, systems and procedures. We standardised the Human Resource Policy with clear guidelines under four core areas namely rewards, training, transfer and integrity. Various HR policies and procedures were clubbed under these four core areas of the broad HR Policy.

In 2019, with the introduction and improvements in policies, procedures and guidelines, we have been able to establish a comprehensive framework to support and strengthen the HR function.

BUILDING OUR TALENT PIPELINE

Maintaining strong talent pipelines is the core deliverable of the HR team as we are a service organisation.

Recruitments

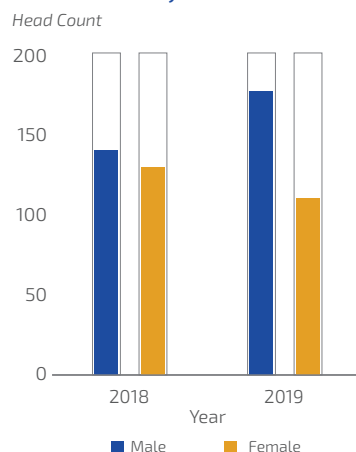
In 2019, we introduced a behaviour-based interviewing model to acquire the right fit by considering the behavioural traits of candidates which is important to drive a unique culture within HNB Assurance. The guidelines used were based on the newly introduced Assurance Behaviour Framework.

Our recruitment procedure consists of a series of assessments and interviews to ensure selection decisions are impartial. Opportunities are first presented to internal employees supporting progression and mobility within our workforce. Specialist skills are recruited externally if necessary skills are not found internally or when the business needs to be taken to a different direction with a fresh perspective.

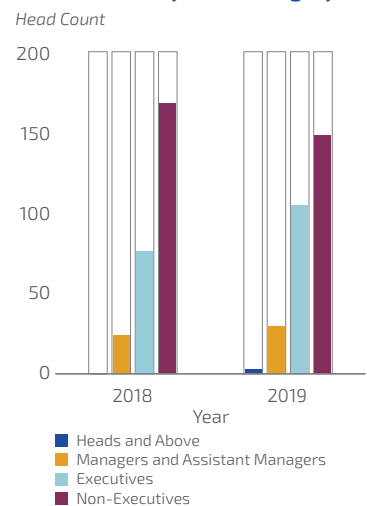


During the year, 289 employees were recruited of which 38% was of the female gender, further increasing gender diversity within our team. We also recruited 130 personnel within the age group 19-25 to create employment for youth and to incorporate their thinking patterns in to HNB Assurance to further strengthen our service to customers.

New Recruits by Gender

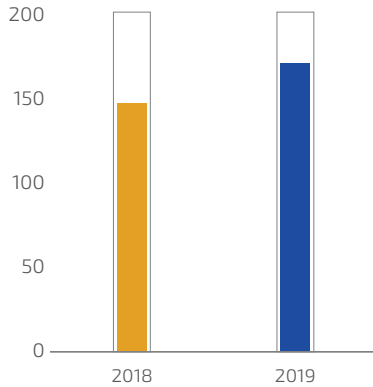


New Recruits by Staff Category



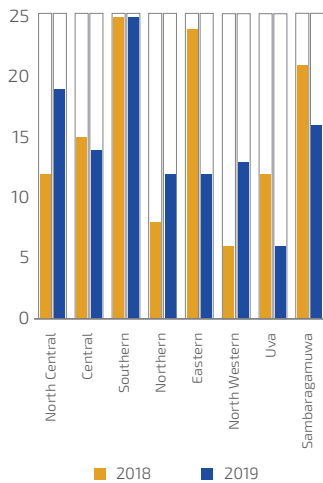
New Recruits in Western Province

Head Count



New Recruits in Other Provinces

Head Count



Progression

During the year we promoted 129 employees to a higher grade based on business needs and performance, skills and attributes of the employees. Every promotion request has to be justified by the relevant Department Heads and are thoroughly reviewed by the HR team. Senior level promotions are given after a rigorous interview process conducted by the Executive Committee of the Company. The succession plan was also reviewed and amended to reflect changes in our business needs and changes to our talent pools.

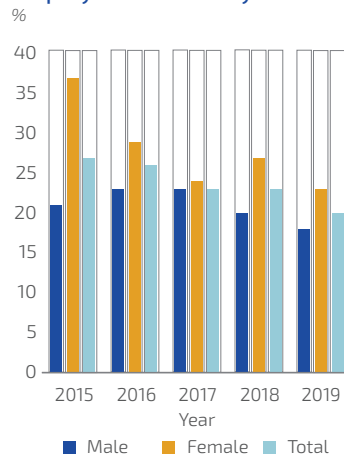
Employee Mobility

The Transfer Policy accommodates employee transfers between departments, branches or parent (HNB Assurance PLC) and Subsidiary (HNB General Insurance Limited) based on job availabilities and employee requests. All transfers were done either at the request of or with the full consent of employees.

Retention

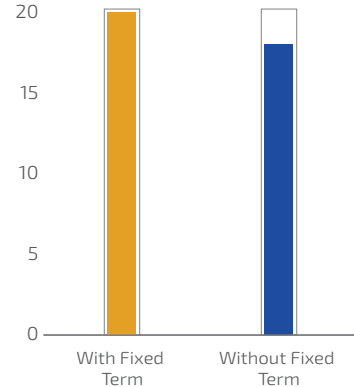
Long-standing relationships with employees help us build experience, expertise and inculcate a sense of belonging to the workplace. In the meantime, we are also conscious of the fact that some roles are transitional by nature and therefore not meant to be for long-term employment. However, managing attrition remain a priority to us and we strive to strengthen our bonds by engaging and creating value to our employees through compensation, benefits and learning opportunities. The Group maintained an attrition rate of 18% (2018:19%) excluding fixed term contracts and 20% (2018:23%) including fixed-term contract staff. The improvement in staff retention is mainly due to the increased levels of employee engagement, motivation and recognition activities carried out during the year. In addition, 21% of employees, completed more than eight years of service at HNB Assurance reflecting employee loyalty towards the Company.

Employee Turnover by Gender



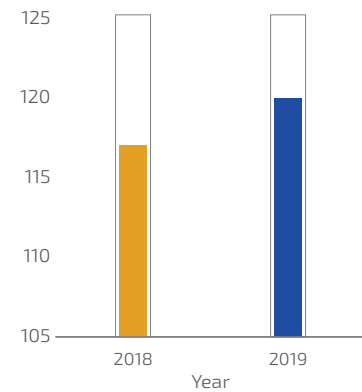
Employee Turnover by Contract

%



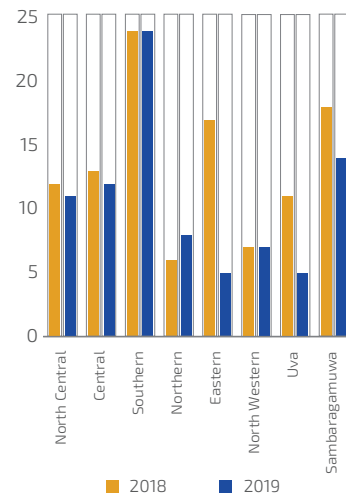
Employee Turnover - Western Province

Head Count



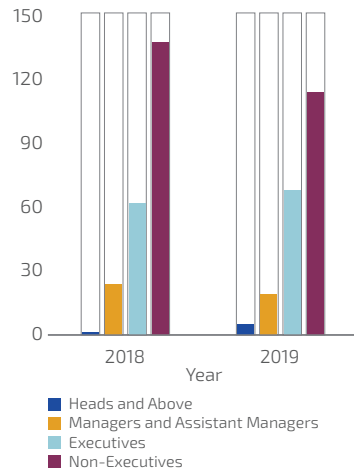
Employee Turnover - Other Province

Head Count



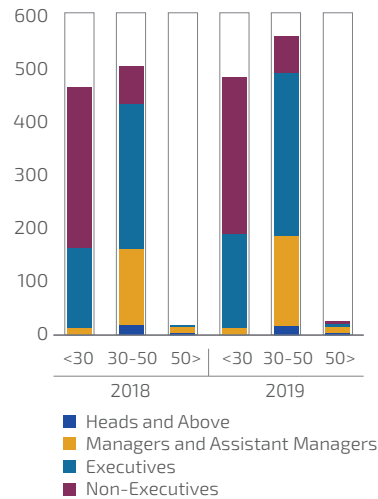
Employee Turnover by Staff Category

Head Count



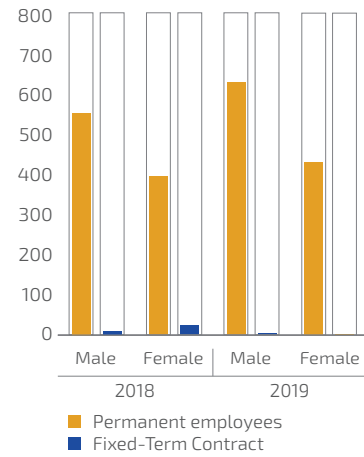
Employees by Staff Category and Age

Head Count



Employees by Employment Contract and Gender

Head Count

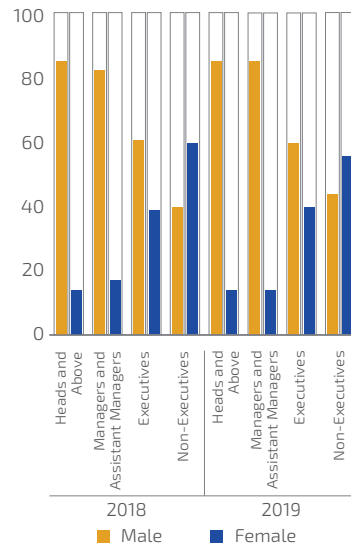


DIVERSITY AND INCLUSION

At HNB Assurance, we value inclusiveness and diversity as a business case. We cater to a diverse spectrum of customers scattered across all geographical locations, hence require a diverse team to cater the various customer segments. We also believe diversity denotes different talents, which make us more competitive in the talent market and more acceptable to our customers. And finally, we understand diversity will be short-lived if inclusion is neglected. While policies and practices provides the necessary framework, the organization culture we have built act as a guardian in promoting diversity and inclusion.

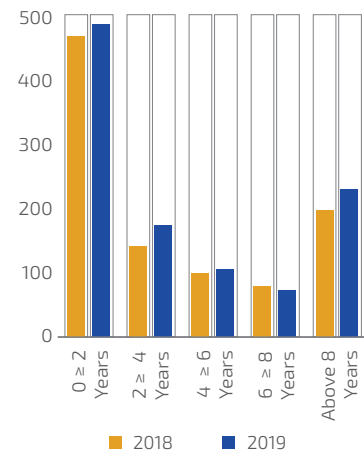
Employees by Staff Category and Gender

%



Employees by Service Range

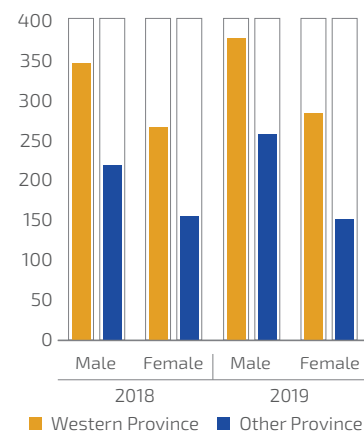
Head Count



Maternal leave	2019
Employees entitled to maternal leave	196
Employees on maternal leave	30
Employees who returned to work during the period after maternal leave	16
Employees who are still in employment 12 months after returning from maternal leave	12

Employee Head Count - Western and Other Province

Head Count



Supporting Policies

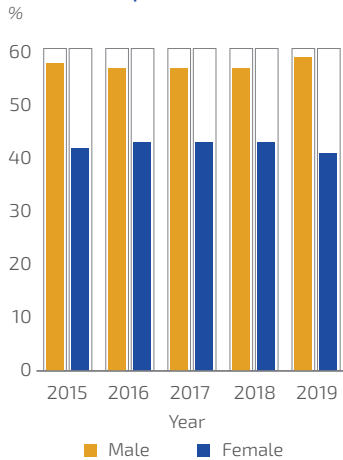
As an equal opportunity employer, we ensure an inclusive and non-discriminative workplace through structured and transparent recruitment, talent development and career progression processes. The Training Policy and the Assurance Behavioural Framework ensure inclusive access to learning opportunities by selecting employees based on pre-specified criteria and business needs.

In addition, other policies such as grievance, open door and whistle blowing, encourage all employees to report discrimination.

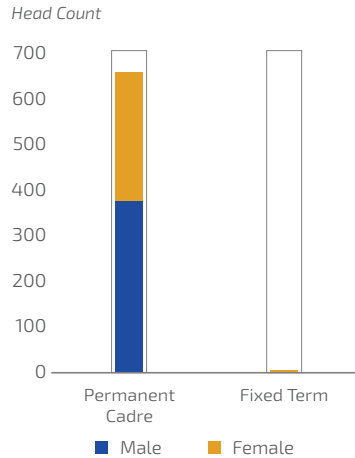
We also recognise that people of varied age and genders fundamentally differ, each contributing differently to our value creation. Nurturing our people by understanding their traits is a priority to us. Certain practices such as flexible working hours are provided to employees in time of need. During the year, 30 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 of giving birth.

Disclosures on Gender Parity		
Disclosure Requirement	Our Response	Page Reference
Strategies and Goals for Gender Parity	The Company's strategy embraces diversity and inclusiveness	Page 115
Diversity and Inclusion Policies	Our corporate culture promotes diversity and inclusiveness	Page 115
Gender Pay Equity Policy	Total Rewards Policy of the Company is designed to recognise talent and positive contribution	Page 118
Grievance Handling Mechanism for Sexual Harassment	We have a comprehensive Grievance Policy in place	Page 119
Work Place Practices to Promote Gender Parity	<ul style="list-style-type: none"> • 41% female representation in total workforce • 25% female representation in the Board of Directors • 26% female representation in middle management • 38% female new recruits • 43% females employed in the western province • 37% females employed in other provinces • 23% attrition in female workforce 	<ul style="list-style-type: none"> • Page 115 • Page 30 • Page 39 • Page 113 • Page 115 • Page 115 • Page 114
Proportion of Women at Work 12 Months After Maternity Leave	12 employees	Page 115
Proportion of Women in IT, Engineering and Production Related Activities	<ul style="list-style-type: none"> • 14% female representation in IT • 54% female representation in operation divisions • 30% female representation in technical and support service divisions • 31% female representation in distribution network 	Page 115

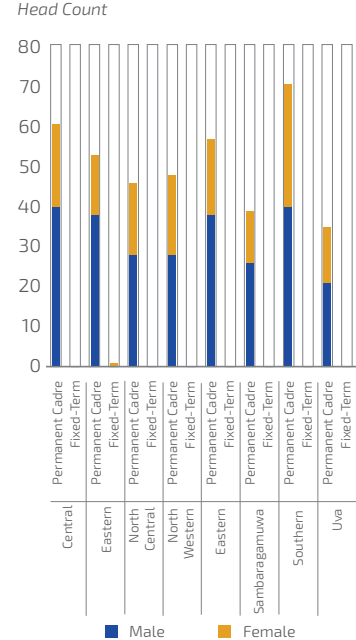
Gender Composition



Employees by Province, Gender and Contract - Western Province



Employees by Province, Gender and Contract - Other Province



FOSTERING TALENTS

Talent is positively correlated with business growth and hence we continuously work towards fostering talent within the organisation. We recognise the abilities of our people in delivering high-quality and expert customer services in an efficient and effective manner.

Value Delivered to Our Employees



Energising Our Talent Pipeline

As productivity and efficiency gains are backed by the effective utilisation of expertise, we spend time in assessing and energising our talents. In 2019, we introduced the Assurance Behavioural Framework to strengthen and connect our people practices.

Training programmes both local and overseas focused on bridging the identified skill gaps. During the year, we focused on first understanding training needs through performance appraisals, findings from the skill assessments and evaluation of customer feedbacks. Our training programmes were geared to meet the specific business needs and bridge skill gaps to achieve the corporate goals.

During 2019, we invested Rs. 10.8 Million an increase of 32% on training programmes covering 12,895 training hours. In addition, the orientation program familiarising the organisational values, policies and procedures was conducted for new recruits.

Types of Training Programmes

Type of Training Programmes	No. of Trainings 2019	No. of Trainings 2018
Internal	96	65
External	51	80
Overseas	9	8
Total	156	153

Grade	Total Training hours 2019	Total Training hours 2018
Heads and Above	823	513
Managers and Assistant Managers	3,452	1,859
Executives	2,798	4,238
Non-Executives	5,822	6,177
Total	12,895	12,787

During the year the Company provided many training programmes covering areas such as leadership and motivation, capacity building, technical knowledge and skill building and soft skill enhancements.



Training on Work-Life Balance for Women



Training on Leadership Development

Building Capabilities and Competencies

Capabilities and competencies of our employees drive the Company forward and we always take measures to build capabilities and competencies of the employees. The Training and Development Policy, succession planning and progression activities are also focused on the same. The Assurance Behaviour Framework introduced during the year also will play a vital role in enhancing employee capabilities and competencies.

Gung Ho ! Leadership Development Workshop

A focused leadership development programme was carried out for the members the Executive Committee in 2019. The training programme was conducted with the aim of developing and improving organisational culture and performance which will facilitate long-term growth of the business.

Lean Six Sigma Programme

The Company invested Rs. 13 Million in Lean Six Sigma programme and through this program 12 Black Belt holders were produced during 2019. The Black Belt

holders have the potential of contributing to increasing the efficiency levels of the Company significantly over the years. In 2020, in addition to the Black Belt holders, 18 Green Belt holders will also be trained to increase the efficiency and productivity levels of the operations.

Recognising Employees

At HNBA we are in the journey of developing a strong performance driven culture while staying true to our values. Our values are expressed through the Assurance Behaviour Framework and objectives are set based on the corporate plan which is the base of our performance management. Although formal appraisals are done periodically, we encourage our managers to provide and obtain feedback on more frequent intervals focusing on continuous improvement of our talent pool. Achievements are recognised through variable pay schemes as well as progression opportunities motivating our employees on a continuous basis. Succession planning is another major aspect of recognising the efforts of employees and every year, talent calibration leading to succession

planning is conducted taking into consideration the potential and sustained performance of key talent with the use of the Nine-Box Matrix and Assurance Behavioural Framework.

The best of performers were recognised with Chairman's Excellence Awards at the Annual Staff Conference and the best sales personnel at the Annual Sales Convention. Foreign tours and non-monetary rewards are also provided to top performers of Sales and Distribution teams.

Total Rewards

We consider fixed pay, variable pay, benefits, investment on development and working conditions all as part of the total rewards given to our employees recognising their talent and positive contribution towards the success of the Company. We have developed such scheme in full compliance to national labour laws and standards.

The variable component consists of varied monetary and non-monetary benefits including:

- Production incentives and bonuses
- Recreation facilities
- Loan facilities such as Vehicle loans at a concessionary rate
- Contributions such as death donations
- Welfare events
- Recognition through non-monetary awards such as foreign tours.
- Life and Medical Insurance cover and medical benefits.

During the year, we upgraded employee benefits by extending the limits and coverage of the education support provided to employees.

We encourage employees to obtain professional qualifications to enhance their skills and personal marketability within the group. We are an accredited training partner of CA Sri Lanka to provide mentoring to their students. We also provide benefits such as exam leave, reimbursement of exam fees to further support professional skills.

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 230 (2018: 374) outsourced personnel.

TRADE RELATIONS

There are no employees covered under collective bargaining agreements.

HEALTHY WORKPLACE

We maintain sound health and safety practices and provide health related benefits to our employees in the following forms;

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

LISTENING TO OUR TEAM

An open-door culture is encouraged within the Group to foster stronger bonds, collaboration and inclusivity. We value employee suggestions and feedback and consider it when formulating our corporate strategy.

Work-life balance is an important part of our culture. Social and welfare programmes were hosted during the year to encourage networking within the workforce.

GRIEVANCE MANAGEMENT

A formal Grievance Policy is available in all three language- English, Sinhala and Tamil. We promote and value employee suggestions while also encouraging employees to voice their concerns immediately. The Chief Human Resource Officer, heads of divisions and all managerial staff are assigned the responsibility to handle grievances effectively. During the year, all minor grievances raised were addressed by relevant parties.

STRENGTHENING BONDS

An active calendar of social and welfare events provides opportunities for our employees to build cross departmental relationships and come together forming friendships that last well beyond their tenure at HNBA.

Highlights of our social and welfare events held during 2019 are captured here to serve as a portrait of our team spirit.

Engagement Mechanism	How we Engage
Social Media	Employee engagement via 'Connect' our Facebook group
Intranet	Communicate the Group policies, standards with employees
Emails and SMS	Formal and informal communications
Meetings	Branch communication and management meetings
Staff Conference and other Company Events	Employee recognition and engagement
Notices and Banners	Communicate important notices
Welfare Events	Employee interaction



Jump Scare - Halloween 2019



HNBA & HNBGI Kiddies Christmas Party



Paduru Party at Ape Gama



Talent Show Winners at Annual Staff Conference 2019



Chairman's Awards Winners of HNBA & HNBGI - Annual Staff Conference 2019



Employee Long Service Award



SOCIAL AND RELATIONSHIP CAPITAL



We maintain strong stakeholder relationships with our parent company, regulator, suppliers, our customers, business partners and local communities. These ties help our business thrive in a responsible and sustainable way and build our corporate reputation. We value these ties and consider it as an important part of our eco-system.

GOALS 2019



- Enhance customer engagement
- Product innovations to meet diverse customer needs
- Create win-win partnerships with our business partners
- Empower communities via CSR activities

KEY PERFORMANCE INDICATORS



Premium Persistency



No. of New Products



CSR Spend



No. of Water Projects



No. of MDRT Winners

ACHIEVEMENTS DURING THE YEAR



Premium Persistency

81%

↑ 3%

New Products

2

Spent on CSR

4 Mn.

Water Projects Completed

7

(60 Total)

MDRT Winners

75

(2018:49)

GOALS FOR 2020



- Improve premium persistency to 82%
- Implement a systematic model for receiving feedback at every touch point to increase customer satisfaction
- Produce more than 125 MDRT winners

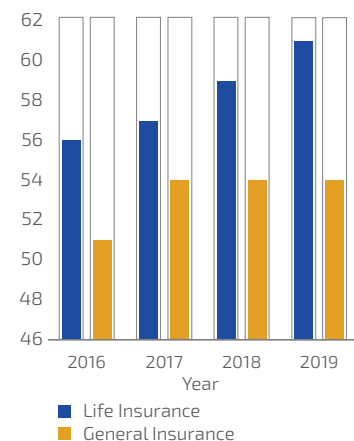
SUPPORTING OUR CUSTOMERS

How we build our relationships

- Create Awareness on the value of peace of mind through insurance.
- Connect using diverse channels.
- Understand needs/perform a need analysis.
- Customise solutions.
- Post sales customer care such as claim settlements and dedicated call centres.

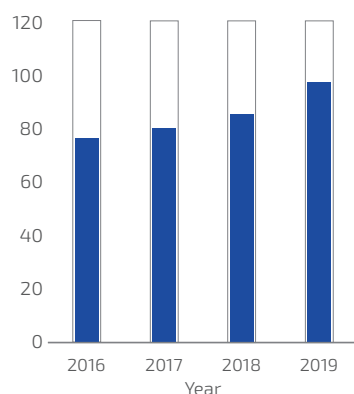
Number of Branches

Count



Customer Complaints Resolved

%



We are a customer-centric business striving to excel in service quality, experience and delivery. The satisfaction and trust of our customers underpin our success. We evolve our products, services and processes to become better in serving our customers.

UNDERSTANDING OUR CUSTOMER NEEDS

The changes in customer lifestyles are evolving and keeping abreast of these changes is crucial to meet customer needs. We connect with customers through our distribution network, understand their protection needs and obtain their feedback in catering to them. Customer social media too provides us the means by which we can ascertain customer sentiment and the ever-changing customer needs and wants. The findings from these various initiatives enable us to understand customer priorities and their evolving lifestyles to design relevant and impactful insurance policies. We also offer a wider choice of policies and provide customers the option to customise their insurance policies.

HOW WE ADD VALUE TO CUSTOMERS

Products

Our products enable customers to safeguard their future and that of their families and businesses by transferring specific risks to us. We hedge risks and uncertainties through our policies, managing insurable risk portfolios to provide relief in the event these risk events materialise. We also support our customers to grow their income through investment products and retirement pension schemes and other life insurance products. Within this array of policies, we provide the option for customers to customise their own insurance policy which is a best fit to meet their needs.

An Expanding Portfolio

New products ensure we cater to changing customer interests. An in-house product development team lead the way in innovation. In 2019, we introduced two products namely 'PrivilegedLife' and 'KeyPerson'. We also revised and redesigned our medical reimbursement rider and introduced it as 'Supreme Health Benefit' during the year. Further we introduced the Cancer Rider in 2019. These products are positioned to meet the customer needs of protection and investment.

VALUE DELIVERED TO CUSTOMERS



Settlement of Claims
Rs. 3,621 Mn.



Innovation
2 New products
Digital Channels



Customer Feedback
98% of Customer Complaints Resolved



Service Efficiency
99.7% of Policies Issued In Less Than 5 Days



Inclusive Success
We connect with 3,627 SME Customers



Ethical Conduct
Ensured Customer Privacy



Responsible Communication
All Necessary Product Information is Clearly Disclosed to Clients

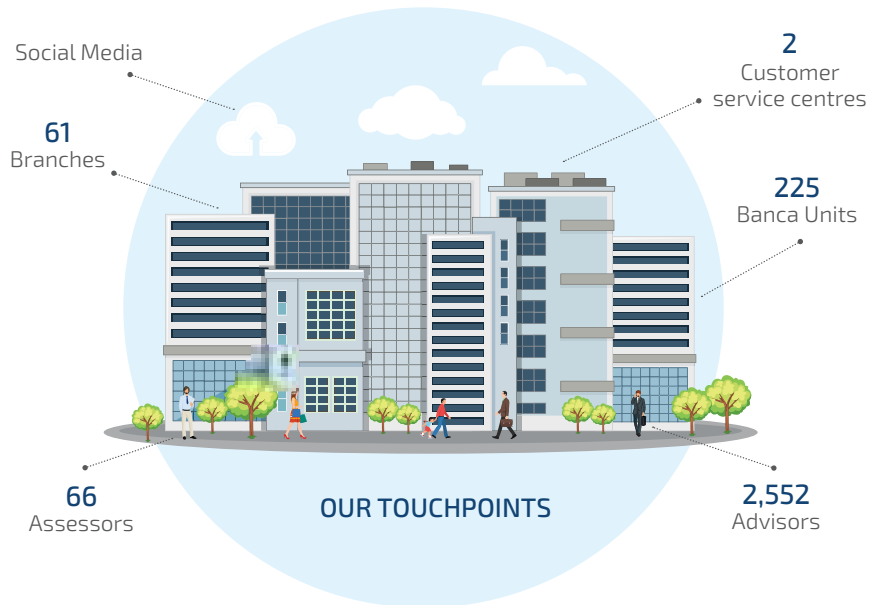
SOCIAL AND RELATIONSHIP CAPITAL

Convenient Access

Diverse touchpoints such as branches, Advisors, Bancassurance officers and other intermediaries such as brokers, conveniently connect our business with customers. Our physical presence is important to create an awareness of our brands and products. In 2019, we opened two new branches in Chavakachchari and Tangalle bringing the total number of branches to 61.

Access to information and customer interaction

Customers require information to make informed decisions and we consider it our duty to provide all necessary information to our customers. Our Corporate Website enables our customers obtain relevant information and interact with the Company. We also interact with our customers via our social media platforms meeting their information needs.



WEBSITE VIEWS



2019 : **122,334**
(2018: 112,279)

↑ 9%

WEBSITE USERS



2019 : **39,251**
(2018: 36,793)

↑ 7%

Customer Ease of pay

Availability of a wide array of payment options is a vital factor that affects the customer convenience. Keeping this in mind we have introduced many payment options to our customers over the years. We have also taken measures to increase payments via standing orders and during the year 39% of the premiums were paid via standing orders. This trend has also contributed to improve Premium Persistency Ratio to 81% in 2019 compared to 78% in 2018.

Service Excellence

Efficient and effective service delivery enhances customer experiences driving customer loyalty and enhancing our brand image. We have introduced fast track business processes in key areas such as claim settlement, policy servicing and new business to increase the turnaround time in business dealings. With the aim of increasing Life insurance service standards we deliver one-day servicing of policy, settlement simplified claims within two days and underwriting and claims processing is carried out as a centralised operation in Head Office. These initiatives improved service efficiency enabling us to issue 99% of policies and 97% of claims in less than five days. In General insurance with the aim of increasing efficiency in underwriting and claim settlement both processes are carried out centrally at Head Office and Customer Relationship Center (CRC) respectively.

Life Insurance Value Additions in 2019

- Automation of MRP cover note issuance process
- Implementation of Hospital Cash Benefit intimation follow up process
- ISO certification for HNBA's New Business and Claims processes
- Automation of claims decision process

Building Customer Trust

Securing customer trust is a priority to us. We maintain a strong balance sheet, adequate capital and reserves to meet claim obligations on time. During the year, we met claim payments of Rs. 3.6 Billion, a 12% increase from last year. Our sturdy balance sheet, insurer financial strength rating and brand, coupled with the strength of our parent HNB, provides an 'ease of mind' to our customers, a knowledge that we will be there to support them every step of their lives.

LIFE INSURANCE SERVICE BENCHMARKS



Policy Issuance
99.65%
Within 5 working days



Claim Settlement
96.59%
Within 5 working days



Endorsement Issuance
89.75%
Within 4 working days



MRP Cover Note Issuance
97.00%
Within 3 hours

Ensuring Ethical Conduct

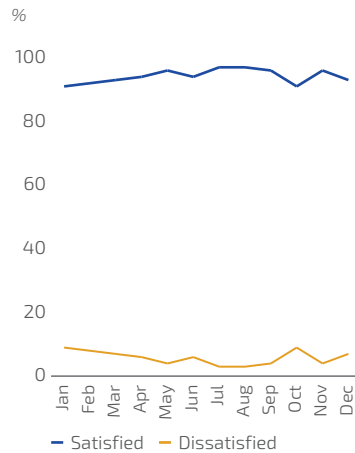
Customer privacy is of paramount importance in our business. We train our employees and Advisors on customer privacy protection. This is part of our employee code of conduct as explained on page 173 and our Corporate Governance. During the year, we did not receive any complaints on violation of customer privacy. We uphold the principle of 'utmost good faith' in Insurance and paid ex-gratia claims of Rs. 70 Million to 459 customers although the Group is not contractually liable to do so.

Product Information and Safety

All our insurance solutions adhere to applicable regulatory and voluntary codes of best practices. During the year, no monetary fines were imposed on us due to non-compliance of matters

General Insurance Customer Satisfaction

Customer Satisfaction - Motor Insurance



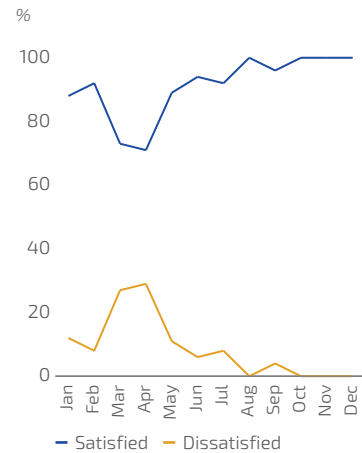
related to product safety. We disclose all necessary information to enable our customers to make informed decisions. Welcome calls made through our call centre to each new Life Insurance customer ensure that policyholders have understood the terms and conditions of the policies prior to purchase.

Post Sales Customer Care

Managing customer relationships is integral to sustain growth and value creation in our business. We engage with customers, evaluate their feedback and resolve complaints to build relationships that are sustainable in the long-term. We measure our success by the Premium Retention Ratio which stood at 81% compared to 78% last year.

Our General Insurance Customer Service Centre attends to customer inquiries on policies and have in place a 24/7 call centre for clients to report claims. In 2019, we further strengthened customer relations by establishing a dedicated Customer Relations Management Centre (CRMC) for Life insurance customers.

Customer Satisfaction - Non Motor Insurance



The newly established CRMC house a fully-fledged call centre facilitating both in-bound and out-bound calls enabling an increased level of customer interaction and satisfaction. The call centre also focuses on increasing persistency levels of the Company through follow-up on renewals.

In addition to the CRMC's ability to meet the requirements of all walk in customers, it is fully equipped to cater to high-networth individuals through Diamond Club members of our Advisor force.

In addition, the Policy Servicing Unit (PCSU) continued to play an integral role in customer care by communicating with clients, sending renewal notices and handling inquiries and complaints related to Life insurance.

SOCIAL AND RELATIONSHIP CAPITAL

Listening To Our Customers

We obtain customer feedback through several means including:

- Online satisfaction questionnaires
- Follow up calls from dedicated customer service centres
- Call centre operators
- Social media and other digital platforms

Any customer grievances are taken into consideration and handled by a dedicated customer grievance unit. In 2019, we handled 534 customer complaints of which 98% was resolved successfully. In addition, both business lines have separate claim panels headed by the Managing Director to handle any grievances related to claim settlement as this has a severe impact on customer trust and confidence.

EMPOWERING OUR COMMUNITIES

Uniting with our communities in which we operate is a means to deliver our commitment to grow responsibly. During the year, we invested Rs. 4 Million in CSR projects which covered various areas. Our CSR projects addressed some of the key challenges in the country such as water scarcity in rural schools and environmental protection while strengthening local talents such as arts, culture and sports.

HEALTH AND WELL-BEING

Healthy Living Symposiums

HNBA continued to grow its efforts in liaison with the College of Community Physicians of Sri Lanka for the fourth consecutive year, to advocate a spectrum of health symposiums conducted across the country. These health symposiums provided valuable insights and knowledge to the general public on a number of topics related to health and well-being such as child health and maternity care. Regional symposiums were held in Beruwala, Badulla and Kalutara.

Blood Donation Campaign



Annual Blood Donation Campaign

The Company organised the annual blood donation campaign for the 14th consecutive year where we witnessed the participation of 213 donors willing to donate their blood to save a life of another. We were able to collect 173 pints of blood from the qualified donors this year.

Sponsorship for 'Pibidena Kekulu' Fund

HNBA provided a cash sponsorship for the musical production "A Million Dreams" by Dimitri Gunaratne in aid of 'Pibidena Kekulu' Fund of the Cancer Care Association of Sri Lanka.

Sponsorship for Cancer Awareness of Women

HNBA offered a sponsorship for a Cancer Awareness Programme for women organised by the Memon Association of Sri Lanka. The event consisted of a workshop on cancer and medical check-ups.

Donation for World Thalassaemia Day

As a business built on the core pillars of taking care of the community and its people, HNB Assurance donated 150 school bags for the Thalassaemia Unit of the North Colombo (Teaching) Hospital on the World Thalassaemia Day Celebration 2019.

Water Projects around The Country

Kadayamotte Government Sinhala School - Madurankuliya

This is a school located in a rural village in Madurankuliya with more than 400 students. The school faced a scarcity of clean drinking water. The Company donated a water purification system and a distribution system to this school with aim of providing clean drinking water to the students of the school.

Muthaliyarkulam R C T M School - Cheddikulam

Located in a rural village in Cheddikulam, approximately 33 km away from the Vavuniya town, this is a school with 333 students and 20 teachers. The school face difficulties in obtaining a sufficient amount of clean drinking water as the water from the tube well contains high level of heavy minerals. The Company donated a water purification system and a water distribution system to the school.

B/Arawa Maha Vidyalaya – Arawa

Arawa Maha Vidyalaya is located in the Badulla District and the school provides education to more than 200 students up to Grade 13. The Company donated a water distribution system with a tube well helping them to fulfil their drinking water requirements.

KN/Iyanarpuram G.T.M School – Vannerikkulam

The Company contributed towards building a tube well and establishing a water purification system to this school which provides education to students up to Advanced Level. The students now have access to clean water to fulfilling their needs even during the dry seasons.

Mo/ Rathambalagama Junior School – Hambegamuwa

The school has more than 235 students and 25 teachers and most of the children and the residents of this village suffer from kidney diseases due to consumption of polluted water. We contributed towards establishing a water purification system and a distribution system for the school.

T/TN/Medawachchiya Vidyalaya – Bakmigama

Located in Trincomalee district, this school is approximately 40Km away from Horowpotana. Around 280 students are studying in the school with the aid of 20 teachers. However, the water consumed by them is highly concentrated with heavy minerals and the consumption of which has led to kidney diseases in the area. The Company donated a water purification system for the benefit of the school.

PU/Sindathri Matha Primary School – Kalpitiya

Sindathri Matha Primary School has difficulties in meeting drinking water requirements of more than 480 students and teachers of the school. The school lacks a proper water distribution system to circulate clean water around the school. Hence, the Company donated a water distribution system fulfilling the drinking water requirements of the children and teachers.



EDUCATION

Siyambalagoda Primary School Pitabaddera

Siyambalagoda Primary School is situated in a rural area in Pitabaddera in the Galle District and conducts classes up to Grade 5. With the aim of improving the infrastructure facilities of the school, the Company renovated their play area and donated a new projector, a laptop and other sound equipment.



Sponsorship for Sarasavi Mithuro Student Financial Assistance Programme of the University of Colombo.

Sarasavi Mithuro is an Alumni Organisation of the University of Colombo with the prime focus on the welfare of undergraduates of the Colombo University and to uplift the standards of the school children in Sri Lanka. Sarasavi Mithuro decided to continue the Financial Assistance Program for a 150 undergraduates who are facing financial difficulties. HNBA provided 05 scholarships considering the worthiness of this project.



Ensuring Access to Clean Water around the Country

SOCIAL AND RELATIONSHIP CAPITAL

ARTS AND CULTURE

HNBA rewards prominent artists annually at the HNBA Sales Convention. Three artists were rewarded with cash grants at the 14th Sales Convention of HNB Assurance as a special CSR initiative, and as a token of our appreciation for their contribution to the arts and culture of the country. This year we recognised Mr. Camilas Perera, Ms. Kusum Peiris and Mr. K A Piyakaru for their valuable contribution.



Felicitating Veteran Artist Mr. Camilas Perera



Felicitating Veteran Artist Ms. Kusum Peiris (Award accepted by a family member)



Felicitating Veteran Artist Mr. K A Piyakaru (Award accepted by a family member)

PLACES OF WORSHIP

Cash donations were made to places of worship the Company closely associates with and situated in close proximity to the organisation covering the four main religions.



Donations to Religious Places



ENVIRONMENT

HNB Assurance PLC continued to be a member of the Bio-Diversity Sri Lanka Association being a responsible citizen contributing towards the protection of the Bio-Diversity of Mother Lanka.



WIN-WIN PARTNERSHIPS WITH OUR BUSINESS PARTNERS

We work with several intermediaries to connect with customers, hedge our risk exposure and manage claims. We consider our business partners as a core part of our corporate success; engaging and supporting their growth is important to sustain our business excellence.



Advisor Force

About our key business partners

We partner with 2,552 Insurance Advisors from around the country to easily connect with a diverse customer base. During the year, activities were undertaken to increase the Advisor network and 287 new Advisors were added to the network.



Brokers

Our 60 Brokers are a vital part of General Insurance business. With the aim of maintaining customer credibility we only engage with brokers registered with the Insurance Regulatory Commission of Sri Lanka (IRCSL).

During the year we established a new counter at Reliance Insurance Broker's office to facilitate business and to improve the performance of the channel.



HNB Group

Our parent company gives us access to the large customer base of the Bank. To date, we have 195 Life insurance and 80 General insurance Bancassurance units located at HNB branches around the country.

Value Derived	Advisor Force	Brokers	HNB Group
	<ul style="list-style-type: none"> Rs. 4,147 Million GWP 7% growth 41% contribution 	<ul style="list-style-type: none"> Rs. 1,502 Million GWP 18% growth 15% contribution 	<ul style="list-style-type: none"> Rs. 2,906 Million GWP 24% growth 29% contribution

Value Delivered	Advisor Force	Brokers	HNB Group
	<p>Fair Compensation</p> <p>Our compensation package includes performance-based incentives and other benefits such as loan facilities and a terminal benefit scheme.</p>	<p>Every year we pay attractive commission to our brokers strengthening our relationship with them. During 2019, overriding commission was also introduced for few brokers providing them more opportunities to generate income.</p>	<p>HNB Group is compensated with attractive levels of fee income for the business direct to the HNBA Group</p>

Skill Development

We invested Rs. 2.9 Million on Advisor training and development activities in 2019 which is a 5% increment compared to previous year.

We conducted knowledge sharing sessions for the brokers ensuring they are fully updated on any internal product and process developments.

- Trainings for HNB Staff was organised with the aim of improving coordination with Bancassurance officers

Engagement

An outbound training programme was held during 2019 to improve the engagement level of the Advisor Force

- Fellowship event to enhance the relationship
- Medical camp to attract high profile customers and improve customer retention

- Frequent branch visits and sponsoring of HNB events further enhanced engagement with Bancassurance officers.
- 120 business launches around the country

SOCIAL AND RELATIONSHIP CAPITAL



Advisor Force

Recognition

- Top performing Advisors are recognised and rewarded at the Annual Sales Convention
- Company produced 26 MDRT winners in 2019
- Foreign tours to Bali, Bangkok and Spain were offered for top performing Advisors
- Inclusion of top performers into 'Diamond club' and 'MD's clubs'
- Creation of an enhanced image for the Advisors of Diamond Circle with the establishment of the new Customer Relations Management Centre



Reward and Recognition for Top Performing Advisors



Brokers



HNB Group

- We hosted mid-year and year-end awards ceremonies to recognise the contribution made by the management of HNB.



Recognition for HNB Staff Members



Reinsurers

Being in an industry with high risk, reinsurers play an important role in sharing these risks thereby ensuring our business stability. The healthy relationships maintained with our reinsurers have also enabled us to negotiate favourable terms and conditions in terms of reinsurance agreements and pass on the benefits of such to our customers.

All reinsurers that we have partnered with have an above 'A' rating from Standard & Poor, or equivalent rating from AM Best.



Financial Institutions

We network with many Banks, Finance companies and primary dealers to perform the business operations such as maintenance of Financial Investment Portfolios, Execute Settlement of payments, Fund Transfers, etc. We strictly adhere to the Group Internal Investment Policy and regulatory guidelines set by the Insurance Regulatory Commission of Sri Lanka when performing our business dealings with various financial institutions.

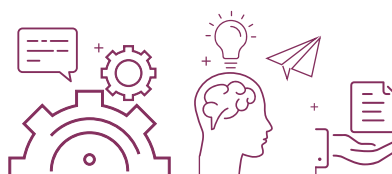


Other Suppliers

Our suppliers play a vital role in the operations of the Company and we maintain a healthy relationship with them. We require our suppliers to comply with local regulations and ensure, they meet our expected level of standards prior to registering them in our panel of suppliers. Our procurement process has well-established guidelines, procedures and committees to further strengthen relationships built with our suppliers. We also conduct a detailed review both technical and financial prior to short-listing our suppliers in addition to continuous monitoring of suppliers.



INTELLECTUAL CAPITAL



We continue to nurture our Intellectual Capital as we enhance our product portfolio, invest in efficient processes and build strong talent pipelines which are underpinned by a strong Governance Framework. These non-monetized assets are our key differentiator, setting us apart from other players in the Insurance industry.

GOALS 2019



- Strengthen the brand proposition of the Company
- ISO certification for business processes
- Promote product innovations
- Enhance operational excellence

KEY PERFORMANCE INDICATORS



Brand Value



No. of ISO Certified Processes



No. of New Products



Service Standards

ACHIEVEMENTS DURING THE YEAR



Brand Value
HNBA
Rs. 720 Mn.
HNBGI
Rs. 710 Mn.

2 Business Processes
- New Business
- Claims Processing

2 New Products

99.65% Policies issued within 5 days






96.6% claims settled within 4 days

GOALS FOR 2020



- Dispose 80% of medical claims using ATMs within one day
- Implement a Customer Relationship Management (CRM) model for customer retention
- Introduce customer mobile applications
- Work towards facilitating auto underwriting via Straight-Through-Processing (STP)

INTELLECTUAL CAPITAL

Differentiators	Nurturing activities	Outcomes	Vision 2020
A Trusted Brand	<ul style="list-style-type: none"> New brand campaign to articulate our purpose 	Value of our HNBA brand increased to Rs. 720 Mn. from Rs. 573 Mn. and HNBGI brand to Rs. 710 Mn. from Rs. 506 Mn. last year	
Our Capabilities	<ul style="list-style-type: none"> Introduced two new products High retention rate enhances the tacit knowledge of our team Continuous training and development programmes 	Improved customer services by providing innovative products and expert service	
Ethical Conduct	<ul style="list-style-type: none"> Living our values Strengthening Governance Framework 	Enhanced stakeholder trust	
Operational Excellence	<ul style="list-style-type: none"> Streamlined workflows Benchmark processes to global ISO standards 	The decline in Expense Ratio improves profitability and enhances customer satisfaction	
IT Software	<ul style="list-style-type: none"> Invested Rs. 9.6 Mn. on software 	Improved convenience and accessibility	

A TRUSTED BRAND

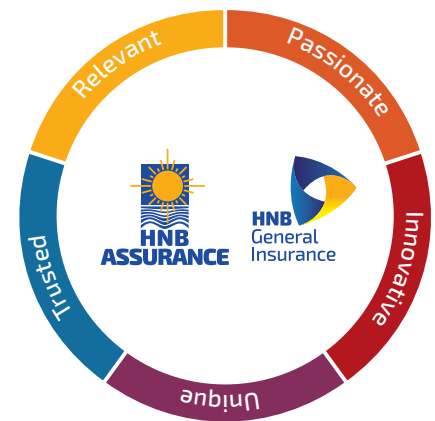
We believe that our brand value is the sum of our stakeholder experiences and our efforts are directed towards defining and upholding high standards in every aspect of our business. Accordingly, our brand has been built on the core pillars of assured trust and stability which are the prime concerns of our key stakeholders.

During the year, our Management Team brainstormed to articulate our purpose using Simon Sinek's Golden Circle Model. Through this exercise we agreed that we do what we do so that we could strengthen every step of the life of our customers. Accordingly, we unveiled our new customer proposition "Strengthening Every Step of Your Life" in September 2019 which reflects the role we play in the lives of our customers. This strengthens our brand proposition and enables us to communicate our purpose to our customers.

Also in 2019, the brand employed a 360 degree communication strategy to communicate and engage with the stakeholders of the Company. As such, carefully curated and well planned communication campaigns were run on traditional media mainly TV, Radio, Press as well as on Digital platforms. In addition, ground level promotional activities were organised across the country to engage customers at the branch level.

Our strong brand reputation is also backed by our parent company, a financial powerhouse in the Sri Lankan financial industry; Hatton National Bank PLC. We take pride in being ranked among the top 100 brands in Sri Lanka by Brand Finance Lanka.

Feedback from our consumers and the increasing Customer Retention Ratios tell us that consumers recognise our brand and ability, to create value to their lives. Our customer base has grown from 228,113 in 2014 to 306,532 in 2019,



a 6% Compound Annual Growth Rate (CAGR) over the last five years. Several factors contribute to this strong brand recognition including innovative policies, high-quality services and varied and widespread touch-points providing easy access to our products and services. During the year, we invested Rs. 56 Million on marketing campaigns to enhance brand awareness among potential customers.



Brand Value
Rs. 720 Mn.
 (2018: Rs. 573 Million)
 ↑ 26%

Source : Brand Finance Lanka



Brand Value
Rs. 710 Mn.
 (2018: Rs. 506 Million)
 ↑ 40%



Our Brand Campaign "Winning Your Trust above All"

OUR CAPABILITIES

Product Development

To compete successfully we need a portfolio of future ready products which enable us to deliver value to both the customer and the organisation. All our new products are developed through a comprehensive process under the guidance of our Product Development Committee consisting of senior members of Life Operations, Actuarial, Finance, IT, Marketing and Distribution teams. This ensures inputs from all key areas are taken into consideration in new product development processes.

Further, deep insights of customer needs developed over many years by listening to their needs gives us the knowledge to find the solutions and develop specialised products for defined customer segments. Many of these products contain options empowering customers to customise them to match their requirements. Accordingly, we introduced two new products namely PrivilegedLife and KeyPerson. Our product roll-out processes ensure that these reach our targeted customer segments and strong uptake of these new products serve as testimony to our innovation capabilities.

In addition, we focus on specialisation to win an attractive position in the marketplace. Our skills in underwriting, risk management and other areas drive business excellence in what we do while being operationally efficient. We develop these invaluable capabilities through coordinated activities which range from training and development to consultations with external experts as we continuously adopt international best practices to raise the bar in the industry. The culture of employees with specialised skills share their experiences and know-how with other employees. We also maintain process manuals consisting of tacit knowledge for various business functions and employees are mandated to use these manuals to maintain best practices.

Ethical Conduct

Our business model, ensures we create value to all our stakeholders in an ethical and inclusive manner. Up-to-date policies, Code of Ethics, reporting structures and authority lines and structured procedures are part of our strong Governance structure in place for over 18 years ensuring ethical conduct and transparency within our organization. More details of our Corporate Governance structure are included in pages 41 to 65.

In addition, we maintain strict IT and HR Governance and a sound Risk Management Framework to ensure business stability as explained in Risk Management in pages 71 to 85. IT systems in place are continually improved to cater to emerging requirements to ensure robustness and effectiveness.

We take a holistic approach in managing risks given the dynamic market environment in which we operate. This enables us to proactively mitigate any emerging risks while exploiting opportunities to the fullest. A sound Risk Management Framework and an expert risk team has always been the strength of our Group, ensuring business stability and value creation. Our process of risk management and its outcomes are discussed in further detail on page 59.

OPERATIONAL EXCELLENCE

Certifications

We fine-tune and benchmark our systems and processes to be in line with global best practices. In 2018, we took our first steps to comply with ISO 9001:2015 and by 2019 two key business processes, namely, Claim Processing and New Business, complied with the ISO standard. We are also working towards ensuring the compliance of our entire business processes including underwriting and after sales services.



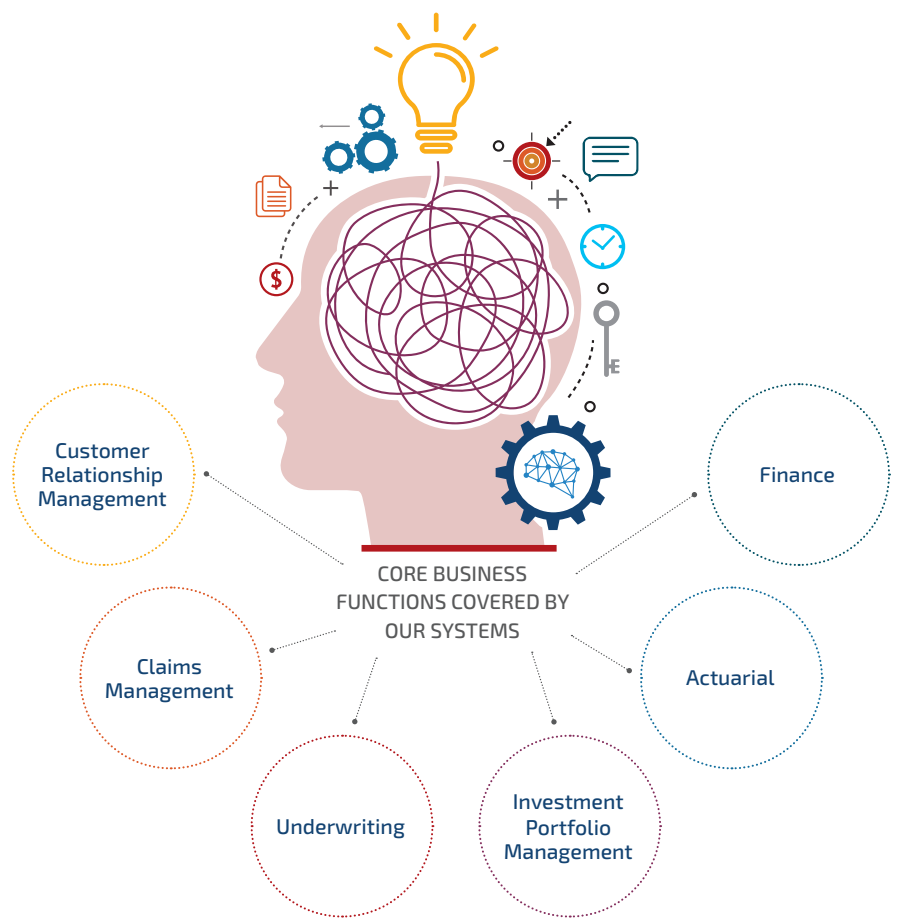
PrivilegedLife: A universal fund-based lifestyle product, is that one plan you've always been looking for to fulfill your Protection, Health, Savings and Retirement needs. Unique to this insurance plan is that you may protect the fund's value over time by opting for a Top-Up Premium Option whilst enjoying attractive dividends annually.

Process Improvements

We continued our initiatives to streamline our processes, thereby driving operational efficiency within the Group. During 2019, work flow improvements enhanced service efficiency and turnaround time especially in New Business. We also invested on technical training sessions to improve the technical know-how within the team, thereby enabling employees to handle more customers within a given time. These initiatives supported an improvement in cost efficiency and customer service within the group. Employee productivity, measured by the Gross Written Premium (GWP) per employee, increased by 5% to Rs. 9.2 Million. Policy issuance and servicing service standards improved by 2% each compared to 2018. A slight drop in claims settlement service standard was noted from 99% to 97% primarily due to a higher number of claims being referred for investigations.

IT software

In today's world, data analytics play a significant role in helping a business to thrive. Our comprehensive customer database and IT softwares provide valuable information and market intelligence to support decision making and optimise resource allocation within the Group. In late 2019, we also invested in Oracle ERP Cloud Platform with the intention of enhancing the efficiency levels of the finance processes in 2020.



Obtaining ISO Certification for HNBA's New Business and Claim Process



NATURAL CAPITAL



By following the 3R concept of Reduce, Reuse and Recycle, we have been successful in minimising the quantity of natural resources especially paper used in our business. Systems and processes have evolved at our workplace along with an environmentally conscious mind set to create a paper less environment. We are getting closer to our vision 2020; to grow in a responsible and sustainable way.

GOALS 2019



- Promote usage of renewable energy
- Increase recycling of waste paper
- Reduce the consumption of water
- Manage the electricity consumption

KEY PERFORMANCE INDICATORS



Greenhouse Gas Emission



Water Consumption



Electricity Consumption



Fuel Consumption

ACHIEVEMENTS DURING THE YEAR



Greenhouse Gas Emission

2,154 kg

↑ 2,054%

Water Consumption

12,881,560 l

↓ 1%

Electricity Consumption

1,835,217 kWh

↑ 3%

Fuel Consumption

547,095 l

↑ 3%

GOALS FOR 2020



- Further reduce the carbon footprint
- Reduce energy consumption and encourage renewable energy consumption
- Encourage recycling of all types of waste material

OVERVIEW

Our use of natural resources in providing financial services is mainly limited to energy, paper and water together with components of manufactured capital. Measuring our carbon footprint to assess our impact on the environment is integral in achieving our commitment to grow responsibly. These initiatives are linked to Vision 2020 through our commitment to Efficiency, Customer Service and Ethical Conduct.

OUR INITIATIVES



ENERGY UTILISATION

Electricity and fuel are the main sources of energy utilised by the Group. We source our electricity requirements from the National Grid and through solar power. We use energy efficient air conditioning equipment and bulbs across the entire branch network and Head Office and maintain strict control on air conditioning operating hours. In addition, 20,520 kWh of solar power catered to 1% of electricity consumption at the head office. These initiatives facilitated a 4% decrease in electricity consumed per employee from 1,786 kWh in 2018 to 1,706 kWh in 2019.

We use fuel for business travelling and business commuting of employees and sales force. During the year, we consumed 574,095 litres of fuel compared to 498,095 litres in 2018. A 15% increase in fuel consumption was noted largely due to the expansion of business activities. However, we are conscious of the impact and have taken steps to minimise fuel usage by:

- Using a cost reimbursement system to measure fuel usage and maintain a limit on the maximum fuel usage reimbursed.

- Promote use of services such as standing orders and online payments to reduce travelling of sales force and customers.



Total Electricity Consumed
1,835,217 kWh

2018 - 1,771,248 kWh

↑ 3%

NATURAL CAPITAL

WATER UTILISATION

The water used for daily consumption is obtained from an outsourced company, where water is sourced from tube wells. For sanitary purposes, water is sourced from the National Water Supply and Drainage Board. In 2019, we continued our initiative to collect and reuse rainwater to serve part of our water requirements at the Head Office. In 2019, we consumed 12,881,560 litres of water compared to 12,992,854 litres last year.



Total Water Consumed
12,881,560 Litres

2018 - 12,992,854 Litres

↓ 1%

EFFLUENT AND WASTE MANAGEMENT

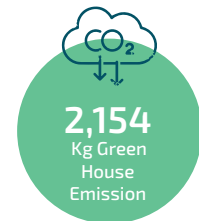
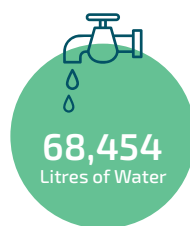
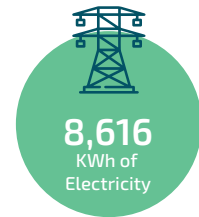
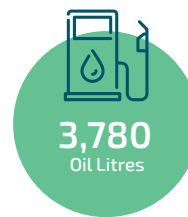
As paper is the main waste form in our organisation, we take measures to promote a 'paper-less environment'. Several initiatives were taken in this regard:

- Using online and digital platforms wherever possible. Assessors use mobile photo uploading facilities instead of photo printing for vehicle inspections and motor claim assessments.
- Paper used in the Head Office was recycled through an outsourced company.
- Employees were encouraged to minimise paper printing and use e-documents instead. Digital communication such as e-mails, SMS, etc. was used more frequently, thereby controlling paper consumption.
- We also encouraged our consumers to minimise paper usage by promoting the use of e-products such as e-travel, e-marine and e-motor, which require no printing.

OUR PLEDGE TO PROTECT THE BIO-DIVERSITY

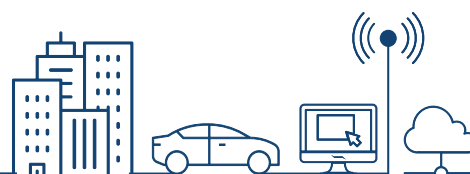
We are a member of 'Bio-Diversity Sri Lanka' a national platform created to promote a strong engagement of the corporate sector in biodiversity and environmental conservation in Sri Lanka. By being a member of this we contribute towards protecting the Bio-Diversity of Mother Earth and uphold values as a responsible corporate citizen.

TOTAL SAVINGS





MANUFACTURED CAPITAL



Manufactured Capital comprises our physical and digital architecture along with the equipment and software that facilitate functionality. Branch premises, equipment, IT hardware and software are all part of our Manufactured Capital. These assets connect our business with stakeholders, provide scalability of operations, drive operational efficiency and provide information for managing our performance.

GOALS 2019



- Upgrade and expand the branch network to enhance the brand image
- Invest in IT infrastructure to increase efficiency

KEY PERFORMANCE INDICATORS



New Branches



Branch Relocations



Branch Upgrades



Investment in IT Infrastructure

ACHIEVEMENTS DURING THE YEAR



2
New Branches

3
Branch Relocations

2
Branch Upgrades

Rs. 40 Mn.
Investments in IT

GOALS FOR 2020

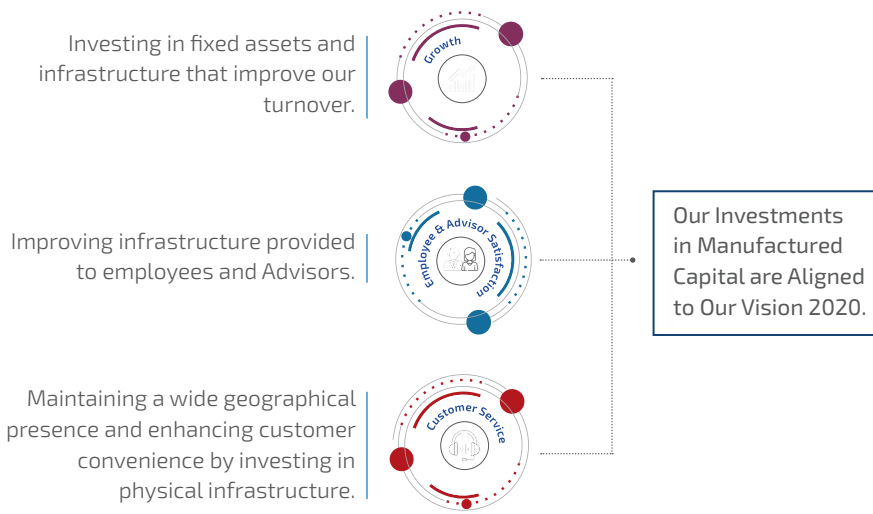


- Continue to upgrade the branch network
- Invest in IT infrastructure to facilitate long-term business growth

OVERVIEW

The monetised value of our Property, Plant and Equipment (PPE) amounted to Rs. 162 Million which is around 1% of total assets, facilitating an efficient allocation of resources for a service organisation. PPE includes computer equipment, office equipment, fixtures and furniture and fittings. During the year, we invested Rs. 60 Million on Property, Plant and Equipment (PPE) compared to Rs. 34 Million a growth of 74% compared to last year. Note 4 in page 210 provides details of the property, plant and equipment (PPE) of the Group/Company as at the end of 31st December 2019 along with the comparatives. In addition, the Group's entire branch network and Head Office operate on leased premises. As at 31st December 2019, the right to use such leased assets amounted to Rs. 344 Million.

MANUFACTURED CAPITAL



OUR PHYSICAL INFRASTRUCTURE

HNBA has an island-wide presence through a network of 61 branches and a sales force of 2,552 people, reaching every province of the country. Our branches are typically located in bustling towns in leasehold premises with customised interiors that enable building relationships and exteriors that reflect our brand. Bancassurance Officers at 275 locations belonging to our parent company, Hatton National Bank (HNB) enhances our customer touchpoints. Our salesforce and Bancassurance Officers operate through these physical locations to increase penetration of our services in their respective areas.

During the year we expanded HNB Assurance branch network by adding two more branches, enhancing our reach up North through the Chavakachchri branch and far South through the Tangalle branch. Presence through Bancassurance Officers also increased significantly for HNB General Insurance with 55 new Officers stationed in HNB branches island-wide to offer greater access to General Insurance customers.

A state-of-the-art Customer Relations Management Centre (CRMC) was established at No. 131, St. Michael's Road, Colombo 03 to offer a superior

experience to our walk-in Life insurance customers. The centre also houses a fully-fledged call centre focusing on both inbound and outbound calls focused on improving customer communications and a dedicated area for Diamond Club members in our financial advisor team to meet and engage with high net worth customers.

OUR IT INFRASTRUCTURE

IT infrastructure impacts many primary processes of the Group and it also enables us to provide a superior customer service and reduce turnaround time, a key factor in winning customers in the current agile business environment. Therefore, we consider IT as a key support function of the business and carry out proper maintenance and upgrades as necessary. A cross functional IT Steering Committee is appointed to overlook the requirements of IT infrastructure and the status of projects in progress.

During the year one such upgrade was carried out on the core finance system used in the Group where Oracle EBS was replaced with Oracle Cloud. This marked the fastest Oracle ERP implementation in the country. Apart from this, the core insurance system went through advancements to facilitate the launch of

a new Life Insurance product, regulatory changes and other improvements added to our existing product portfolio.

Initiatives were taken to enhance IT security by the IT department educate to employees on Cyber security.

CHALLENGES

The key challenge of building Manufactured Capital is evaluation cost vs benefit. All investment requirements of physical assets are made after a careful evaluation of costs and benefits with a long-term view.

CERTIFICATIONS

Verifications to ensure the existence and usability of fixed assets covering the Head Office and the branch network were carried out and the process was completed before the end of the year. Vulnerability of IT infrastructure was also audited and recommendations were addressed to ensure compliance.



OUR DISTRIBUTION NETWORK



LIFE INSURANCE

GENERAL INSURANCE

Province	Gross Written Premium	Employees	Bancassurance Units	Advisor
Central	Rs. 343 Mn.	35	18	208
Eastern	Rs. 279 Mn.	32	18	134
North Central	Rs. 120 Mn.	17	10	90
North Western	Rs. 420 Mn.	31	15	124
Northern	Rs. 584 Mn.	39	18	249
Sabaragamuwa	Rs. 296 Mn.	20	9	178
Southern	Rs. 539 Mn.	38	18	252
Uva	Rs. 235 Mn.	20	8	148
Western	Rs. 2,359 Mn.	351	81	683
Grand Total	Rs. 5,175 Mn.	583	195	2,066

Province	Gross Written Premium	Employees	Bancassurance Units	Advisor
Central	Rs. 559 Mn.	39	8	54
Eastern	Rs. 198 Mn.	22	9	49
North Central	Rs. 175 Mn.	16	5	40
North Western	Rs. 272 Mn.	17	6	18
Northern	Rs. 156 Mn.	18	3	29
Sabaragamuwa	Rs. 228 Mn.	19	3	33
Southern	Rs. 513 Mn.	36	9	83
Uva	Rs. 201 Mn.	15	4	43
Western	Rs. 2,517 Mn.	311	33	136
Grand Total	Rs. 4,819 Mn.	493	80	485

- Gross Written Premium
- Employees
- Bancassurance Units
- Advisor

PERFORMANCE OF BUSINESS SEGMENTS

LIFE INSURANCE

HNB Assurance PLC, the sixth largest player in the Life insurance industry, is also one of the fastest-growing, innovative Life insurance service providers in the country. The trust of our Policyholders' has always been the core driver of our performance and we build stronger and long-term bonds by offering high-quality services through knowledgeable distribution channels, and impactful products. Our ability to synergise with our parent company, Hatton National Bank enhances our ability to access and grow a loyal customer base through our Bancassurance channel. However, profitable growth and consistent returns to our stakeholders depend on our ability to create the right product mix, ensure effective pricing strategies and yield competitive returns on our investment funds and this is driven by the efforts of HNBA's expert crew of distributors, actuaries, investment managers and employees.



PERFORMANCE AGAINST STRATEGY FOR THE YEAR

Corporate strategy	Performance in 2019	Value delivered to stakeholders																		
Profitable growth	<p>Gross Written Premium</p> <table border="1"> <caption>Gross Written Premium and Growth Data (2015-2019)</caption> <thead> <tr> <th>Year</th> <th>GWP Life (Rs. Mn.)</th> <th>Growth (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>~2,800</td> <td>~18</td> </tr> <tr> <td>2016</td> <td>~3,500</td> <td>~25</td> </tr> <tr> <td>2017</td> <td>~4,000</td> <td>~12</td> </tr> <tr> <td>2018</td> <td>~4,500</td> <td>~12</td> </tr> <tr> <td>2019</td> <td>~5,200</td> <td>~18</td> </tr> </tbody> </table>	Year	GWP Life (Rs. Mn.)	Growth (%)	2015	~2,800	~18	2016	~3,500	~25	2017	~4,000	~12	2018	~4,500	~12	2019	~5,200	~18	<p>Policyholders Rs. 526 Mn. as dividends Rs. 116 Mn. as bonus to participating Policyholders Rs. 1.3 Bn. Claims and Benefits paid</p> <p>Shareholders Rs. 687 Mn. as surplus transfer to Shareholders</p> <p>Employees Rs. 362 Mn. as remuneration Rs. 5.3 Mn. training spend</p> <p>Business partners Rs. 826 Mn. commissions 75 MDRT winners</p> <p>Communities 2,067 indirect employment opportunities</p>
Year	GWP Life (Rs. Mn.)	Growth (%)																		
2015	~2,800	~18																		
2016	~3,500	~25																		
2017	~4,000	~12																		
2018	~4,500	~12																		
2019	~5,200	~18																		
Financial stability	Capital Adequacy Ratio (CAR) at 309% Rs. 7.6 Bn. Total Available Capital (TAC)	Government Rs. 153 Mn. taxes paid																		
Stronger relationships	Two new products to cater to customer needs Added 287 Advisors to the sales force Rs. 2.6 Mn. training spend invested on sales force.																			
Empowered team	GWP per employee increased by 10% to Rs. 8.9 Mn. PBT per employee was Rs. 1.9 Mn. compared to Rs. 2.4 Mn. last year.																			
Sustainable performance	Rs. 4 Mn. spent on CSR activities 60 water projects over the years																			

OPERATING ENVIRONMENT

The life insurance industry grew at a slower pace of 11% in 2019 compared to 12% in 2018, as several changes in the macro-economic environment affected the disposable income of customers. However, the number of policies sold during the period increased by 4% as consumers continued to consider insurance products as a competitive and safe form of investment to hedge some of the risks in lives such as health, retirement and death.

Opportunities	Challenges
<ul style="list-style-type: none"> Continued demand for life assurance products. Under penetrated insurance market. Ageing population requiring long term protection benefits. 	<ul style="list-style-type: none"> Subdued economic growth. Lower disposable income. Easter Sunday attacks. Fluctuating market interest rates. Intense competition.

PERFORMANCE OF HNBA

Revenue

The revenue of HNBA comprises of Insurance premiums, Fees, Investment income and fair value gains and losses.

Net income grew at 19% in 2019 to reach Rs. 7 Billion (2018: Rs. 6 Billion) primarily driven by Gross Written Premiums and Investment Income. Other income, fees and commissions increased by 16% while realised gains and other income declined compared to last year. The company realised Rs. 70 Million gains primarily through sale of treasury bonds by exploiting the opportunity created by falling interest rates (2018: Rs. 69 Million) while fair value losses on equity investments decreased by 65% compare to 2018 with the Company strategically reducing its equity portfolio due to the poor performance of the equity market.

Gross Written Premiums (GWP)

During the year, HNBA reported a 17% increase in GWP outperforming an industry growth of 11%. Despite a challenging and highly competitive environment, the industry showed a mediocre 5% growth in new business whereas HNBA grew its New Business Premiums by 28% (-2% in 2018) to Rs. 1,444 Million which accounts for 28% of total GWP.

The Company posted the highest growth in new business among the top 10 Life insurance companies in the industry which is a remarkable achievement during 2019. A new product launched in 2019, PrivilegeLife, contributed to the enormous growth in New Business while other high selling products such as Myfund, Ranmaga and Smart Five contributed to the growth in New Business as well as the 13% growth in Renewal premiums. The Company continued its focus on Endowment business recording a GWP of Rs. 4.6 Million marking a growth of 17% over the previous year. Single premium product GWP increased by 13% in 2019 while Group Life insurance premiums (41% growth over 2018) and Super Five investment product premiums (31% growth over 2018) made a higher contribution to the growth in Single Premium category. Both Mortgage Reducing Policies and Micro Insurance policies covering micro insurance loans showed a decline in due to the damped credit growth in the country.

GROSS WRITTEN PREMIUM

Rs. 5.2 Billion
(2018: Rs. 4.4 Billion)

↑ 17%

Industry growth : 11%

NEW BUSINESS

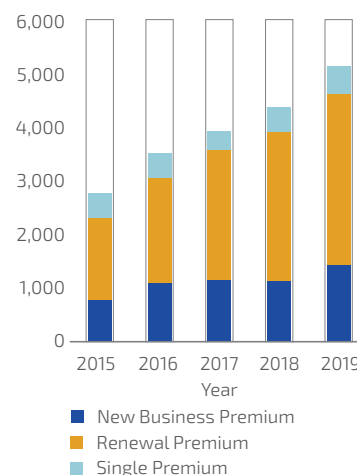
Rs. 1.4 Billion
(2018: Rs. 1.1 Billion)

↑ 28%

Industry growth : 5%

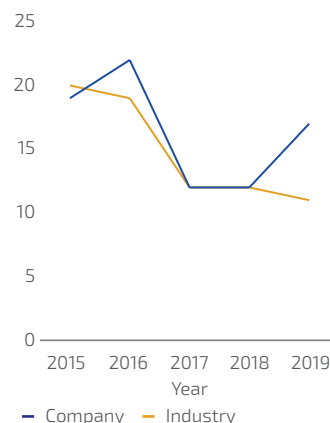
GWP Composition

Rs. Mn.



Growth in GWP

%



PERFORMANCE OF BUSINESS SEGMENTS

Life Insurance Business Mix

	HNBA				Industry			
	2019 (Rs.Mn.)	2018 (Rs.Mn.)	Growth	Contribution	2019 (Rs.Mn.)	2018 (Rs.Mn.)	Growth	Contribution
Endowment New Business	1,444	1,131	28%	28%	20,826	19,795	5%	23%
Endowment Renewal Business	3,201	2,822	13%	62%	54,616	48,637	12%	62%
Group Life	55	39	41%	1%	5,822	4,333	34%	7%
Single Premiums	476	429	11%	9%	7,445	7,511	(1%)	8%
Total	5,175	4,421	17%		88,709	80,276	11%	

The outstanding achievement of our distribution team together with several initiatives such as strict monitoring mechanisms at branch level enabled HNBA to sustain a healthy customer retention rate in 2019 as reflected by the higher contribution of renewals premiums and improving premium persistency (81% in 2019 from 78% in 2018). The Lapse Ratio which measures the percentage of policies that are not renewed, reduced to 44% in 2019 compared to 48% last year. We consider this, a commendable achievement enabling HNBA outpace industry growth.

Channel Mix

Our commendable growth in New Business Premiums was driven by HNBA's aggressive marketing strategy backed by a capable sales force and successful product innovations. The Bancassurance channel played a prominent role in driving new business premiums by growing NBP by 65% in 2019 compared to 18% last year. The other channels such as Advisors and Direct channels grew New Business Premiums by 10% in 2019. Since the inception of HNBA, we have relentlessly focused on building a strong sales force and succeeded. Results were evident in the year 2019 as well. The Company produced 75 MDRT (Million Dollar Round Table) winners including 49 Bancassurance Officers and 26 Advisors in 2019.

Channel	2019	2018	Growth	Contribution	
	(Rs. Mn.)	(Rs. Mn.)		2019	2019
Insurance Advisors	3,367	3,025	11%	65%	68%
Bancassurance	1,717	1,272	35%	33%	29%
Direct and Alternate Channels	91	124	(24%)	2%	3%

Increase in contribution from the Bancassurance channel was again a result of the far-sighted strategies adopted by the Company to acquire Group synergies as well as the support of the parent Hatton National Bank PLC.

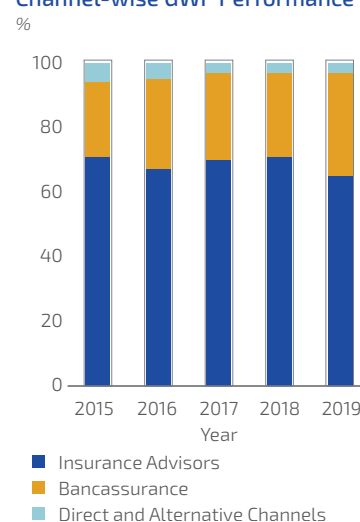
Net Earned Premiums

In 2019, the Company recorded Net Earned Premiums amounting to Rs. 4,934 Million, a 17% increase over last year. Premiums ceded to reinsurers grew by 12% to Rs. 241 Million and continued to represent an insignificant 5% of Gross Written Premiums.

Investment Income

During 2019, the value of our Life Funds Under Management increased by 21% to Rs. 18.4 Billion. We have consistently played an active role in the investment market through our in house fund management team to deliver competitive returns on the life business. In 2019, interest and dividend income amounted to Rs. 1,949 Million a 22% increase over last year despite volatilities in both capital markets and interest rates. Realised gains showed a 2% growth while losses on fair value designated investments reduced by 65%.

Channel-wise GWP Performance



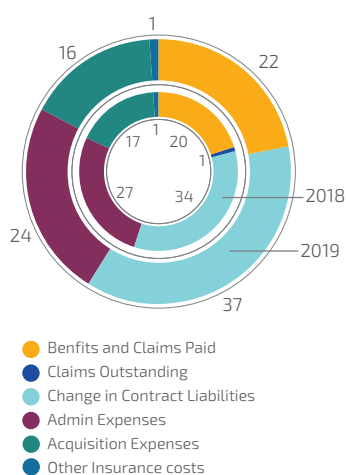
Profitability

Driving profitable growth is important to ensure we deliver value to our Shareholders and Policyholders who provide the funds for our business. Following the valuation by our Consultant Actuary Rs. 687 Million was transferred to Shareholders compared to Rs. 638 Million in 2018. The transfer to Life Policyholders' Fund during the year increased by 27% to Rs. 2,173 Million in 2019 driven by commendable growth in net income and management of expenses.

Key variables influencing profitability	Underlying reasons or drivers
Net Income Net Income grew at 19% compared to 11% last year.	17% increase in Net Earned Premiums. 28% increase in New Business Premiums - Customer retention as measured by the improvement in the Premium Persistency Ratio and Lapse Ratio of 81% (78% in 2018) and 44% (48% in 2019). - Incentivising sales force to increase productivity. 23% increase in Investment Income primarily supported by the increase in Life Fund and effective investment strategies capitalising on interest rate movements.

Expenses
 Total Benefits, Claims and Expenses increased by 28% in 2019 to Rs. 5,936 Million.

Total Benefits, Claims and Expenses (%)



Net Claims and Benefits increased by 25% to Rs. 1,338 Million. as a result of increase in Maturity and Surrender claims.

	2019 (Rs. Mn.)	2018 (Rs. Mn.)	Growth
Death and other claims	108	87	24%
Hospital claims	54	48	13%
Maturity claims	892	724	26%
Surrenders	270	196	38%
Annuities	14	13	6%
Total	1,338	1,067	25%

Transfer to the Life Fund recorded a value of Rs. 2,173 Million (2018: Rs. 1,707 Million)

Other Operating Expenses increased by 3% due to increase in Selling Expenses incurred by the Company

Underwriting and Net Acquisition Costs increased by 13% complementing revenue growth. In Life insurance, New Business GWP has higher commission rates than Renewals and Single Premiums. As GWP growth in 2019 was primarily driven by New Business, the Acquisition Costs increased at a faster pace compared to last year.

Claims Ratio with Maturities increased to 27% compared to 25% driven by 26% increase in Maturity Claims.

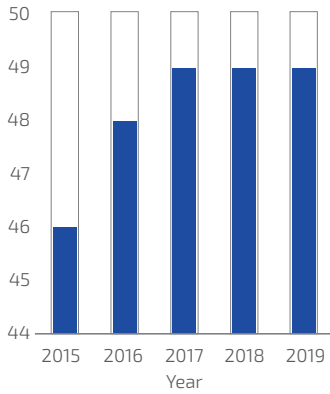
Claims Ratio without Maturities also increased by 1% reaching 9% compared to previous year and this was mainly driven by increase in Surrender claims which was expected in view of the lower disposable income of the general population.

PERFORMANCE OF BUSINESS SEGMENTS

Key variables influencing profitability	Underlying reasons or drivers
---	-------------------------------

Efficiency

Expense Ratio - HNBA
%



The Expense Ratio was managed at 49% with no change from previous year. Strict expense management activities undertaken by the Company enabled this achievement during the year. It must be noted that this was done by increasing the efficiency levels of operations and related sales activities rather than cost cutting activities.

LIFE FUND

Life Fund, which demonstrates the stability of a life insurer, reached Rs. 14.3 Billion (2018: Rs. 12.1 Billion) marking an 18% growth. During the year Rs. 2.2 Billion was transferred to the Life Fund compared to the Rs. 1.7 Billion in 2018. This was primarily supported by the 17% growth in GWP, sound underwriting practices, management of expenses as well as investment returns from the Life insurance funds. The Life Fund was valued by the Consultant Actuary Mr. Hassan Scott Ordierno of Actuarial Partners Consulting Sdn Bhd. as of 31st December 2019 and the report of the actuary is given on page 179.

The Company maintains three distinct funds within the Life Fund; Participating fund, Non-Participating Fund and Universal Life Fund. Strict segregation of assets and liabilities are maintained for each fund as per the Fund Segregation rules of the IRCSL.



OUR FOCUS IN 2020



Expand branch network



Broadbase products



Product innovation



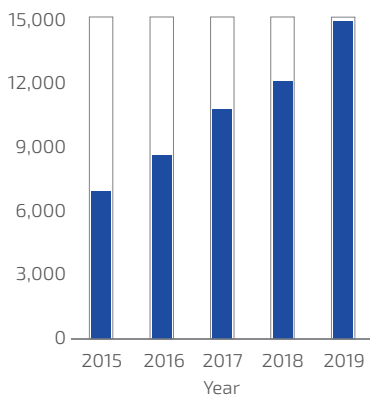
Digitisation



Upgrade systems to facilitate compliance with SLFRS 17

Life Insurance Fund

Rs. Mn.



GENERAL INSURANCE

HNB General Insurance Limited (HNBGI), provides General insurance solutions covering both Motor and Non-Motor insurance including Fire, Engineering and Medical. Operating in an intensely competitive landscape, HNBGI has steadily increased market share over the last 18 years backed by longstanding relationship with Insurance brokers and financial institution an active sales force, island-wide branch network and ability to synergise with our ultimate parent company, Hatton National Bank PLC. A challenging corporate strategy supported with sound risk management, process efficiencies and effective pricing policies drive profitable and sustainable performance of HNBGI. This is backed by a productive team of 493 employees, 66 Assessors and 485 Advisors, who build our competitive edge through high quality services.



PERFORMANCE AGAINST STRATEGY FOR THE YEAR

Corporate strategy	Performance in 2019	Value delivered to stakeholders												
Profitable growth	<p>Gross Written Premium - General Insurance Rs. Mn.</p> <table border="1"> <caption>Gross Written Premium - General Insurance (Rs. Mn.)</caption> <thead> <tr> <th>Year</th> <th>Gross Written Premium</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>2,700</td> </tr> <tr> <td>2016</td> <td>3,100</td> </tr> <tr> <td>2017</td> <td>3,900</td> </tr> <tr> <td>2018</td> <td>4,300</td> </tr> <tr> <td>2019</td> <td>4,800</td> </tr> </tbody> </table>	Year	Gross Written Premium	2015	2,700	2016	3,100	2017	3,900	2018	4,300	2019	4,800	<p>Policyholders 155,843 number of policies Paid claims of Rs. 2,504 Million Improved service efficiency by reducing process turnaround time</p> <p>Shareholders Rs. 249.6 Million Profit After Tax Dividend Rs. 69 Million</p> <p>Employees Rs. 366 Million remuneration Rs. 5.4 Million training spend</p> <p>Business partners Rs. 484 Million as commissions</p> <p>Communities 485 indirect employment opportunities</p> <p>Government Rs. 631 Million taxes paid</p>
Year	Gross Written Premium													
2015	2,700													
2016	3,100													
2017	3,900													
2018	4,300													
2019	4,800													
Financial stability	Capital Adequacy Ratio (CAR) of 223%. Total Available Capital (TAC) was Rs. 1,378 Mn, 18% increase from 2018													
Stronger relationships	74,616 new policies Number of customer complaints reduced by 21%													
Empowered team	Net income per employee maintained at Rs. 8 Million in 2019 and 2018 Profit Before Tax per employee was Rs. 0.72 Million compared to Rs. 0.64 Million last year													
Sustainable performance	Rs. 0.5 Million spent on CSR activities													

PERFORMANCE OF BUSINESS SEGMENTS

OPERATING ENVIRONMENT

A weakening macro landscape coupled with changes in monetary policies and regulations, subdued growth in the motor vehicle sector to 3% with overall contribution of 64% to the General insurance industry. Although premiums earned in the Non-Motor segment including Fire, Marine, Medical and General Accidents grew by 11%, the setback in demand for Motor insurance affected the overall performance of the General insurance industry. Growth rate of Gross Written Premiums was reduced to 5% compared to 8% in 2018. Premiums from Motor insurance grew at a much slower pace of 3% compared to 12% in the previous year.

Opportunities	Challenges
<ul style="list-style-type: none"> Infrastructure development in the country increases opportunities for Non-Motor insurance segment The rise in emerging risks such as cyber-crime increases demand for insurance products Increasing demand for Medical Insurance Demand for insurance as a result of increasing likelihood for natural catastrophes 	<ul style="list-style-type: none"> Subdued economic growth Lower disposable income Declining new vehicle registrations Intense competition Fluctuating interest rates

PERFORMANCE OF HNBGI

Revenue

The revenue of HNBGI comprises Insurance premiums, Fees and Commission Income, Investment Income and Realised/Fair Value Gains and Losses.

Net income grew at 9% in 2019 to Rs. 4,081 Million primarily driven by Gross Written Premiums and Investment Income. However Fees and Commissions, Realised and Unrealised Gains declined during the year.

Gross Written Premiums (GWP)

HNBGI GWP growth was moderate at 11% and same as 2018 growth figure. Nevertheless, when comparing with the mere 5% growth in the General insurance industry the performance of HNBGI is notable. Motor insurance accounted to 75% of the GWP and the setback in demand for vehicle imports had a severe impact on our GWP. However, this was sustained by the growth in Non-Motor business such as Fire class which contributed to 22% and Miscellaneous and other classes which brought in 18%. Gross Written Premiums improved to Rs. 4,819 Million in 2019 compared to Rs. 4,341 Million in last year.

General Insurance Business Mix

Motor insurance continued to be the significant contributor achieving Rs. 3,622 Million as GWP compared to Rs. 3,346 Million in 2018 with a growth of 8% against the 3% growth achieved by the industry. Further in 2019 share of GWP from Motor segment reduced to 75% from 77% recorded in 2018. The Company continued to adopt risk based pricing to maintain right balance between competitiveness and profitability.

A healthy growth of 22% and 25% in Fire and Engineering and Miscellaneous classes respectively surpassed the industry growth of 16% and decline of 1% in respective classes despite the high competition. Due to selective underwriting carried out Medical GWP grew only by 9% compared to the industry growth of 18%.

GROSS WRITTEN PREMIUM

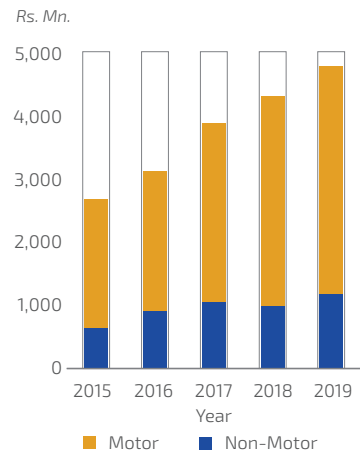
Rs. 4.8 Billion

(2018: Rs. 4.3 Billion)

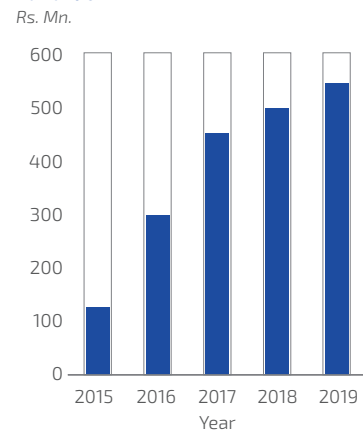
↑ 11%

Industry growth : 5%

Motor and Non-Motor Mix - HNBGI



Takaful



	HNBGI				Industry			
	2019 (Rs.Mn.)	2018 (Rs.Mn.)	Growth	Contribution	2019 (Rs.Mn.)	2018 (Rs.Mn.)	Growth	Contribution
Motor	3,622	3,346	8%	75%	64,554	62,894	3%	64%
Fire and Engineering	678	555	22%	14%	13,954	12,053	16%	14%
Marine	58	70	(18%)	1%	2,404	2,426	(1%)	2%
Medical	188	172	9%	4%	11,903	10,129	18%	12%
Miscellaneous	273	198	38%	6%	8,052	8,133	(1%)	8%
Total	4,818	4,341	11%		100,868	95,635	5%	

CHANNEL MIX

Despite the challenges and intense rivalry, we worked relentlessly to increase our market share to 4.8% in 2019 from 4.5% in 2018 by building an active sales network and providing high-quality customer services. The increase in the customer satisfaction score to 90% from 80% last year is a testament of our successful initiatives. The Broker channel continued to lead in GWP contributions which grew by 20% to Rs. 1,545 Million. The other channels contributed Rs. 3,274 Million to GWP; a 7% growth from last year. Our initiatives to enhance service efficiency continued in 2019 with the introduction of fast-track business processes to save both time and costs of various processes.

Channel	2019 (Rs. Mn.)	2018 (Rs. Mn.)	Growth 2019	Contribution 2019	Contribution 2018
Broker	1,545	1,289	20%	32%	30%
HNB	1,157	1,053	10%	24%	24%
Direct	1,418	1,270	12%	29%	29%
Advisors	699	729	(4%)	15%	17%
Total	4,819	4,341	11%		

Net Written Premiums

Net Written Premiums grew at 7% compared to 17% last year as reinsurance cost increased by 27% to Rs. 1,072 Million due to growth in Fire and Miscellaneous classes. Net Earned Premiums increased by 9% to Rs. 3,590 Million.

Investment Income

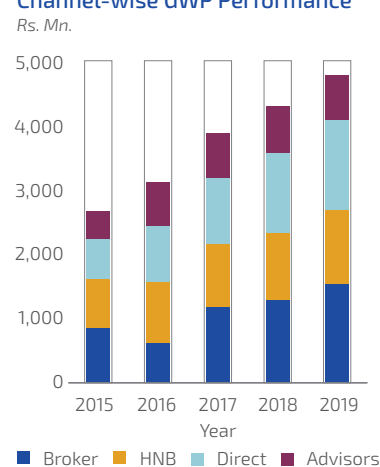
HNBGI's interest and dividend income of Rs. 359 Million marked a 21% growth when compared to the last year despite volatilities in both capital markets and interest rates.

Profitability

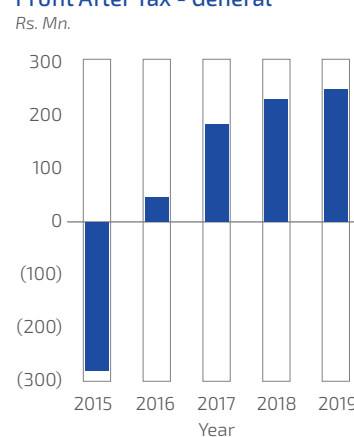
Profit Before Tax increased by 25% to Rs. 355 Million supported by revenue growth and cost efficiencies. Although benefits, claims and expenses increased by 8% to Rs. 3,726 Million, effective cost management strategies led to an improvement in the Combined Ratio to 101% from 102% last year. Some of our key initiatives which enhanced process efficiency in 2019 include:

- One-Day Servicing Policy
- Centralised underwriting and claim settlements.
- Settlement of simplified claims within 2 days.

Channel-wise GWP Performance



Profit After Tax - General



PERFORMANCE OF BUSINESS SEGMENTS

Key variables influencing profitability

Net Income

Net Income grew at 9% compared to 24% in 2018.

Expenses

Total Benefits, Claims and Other Expenses increased by 8% in 2019 to Rs. 3,726 Million.

Underlying reasons or drivers

9% growth in Net Earned Premiums.

- 8% GWP growth in Motor segment
- Slower growth in the General Insurance industry due to economic slow down

15% increase in Investment Income primarily supported by the increase in Interest and Dividend Income strategies capitalising on interest rate movements.

Net Benefits and Claims increased by 5% to Rs. 2,283 Million as a result of business growth and some large insurance claims from Fire class incurred in 2019.

	2019	2018
Motor Claims Ratio	62%	65%
Non-Motor Claims Ratio	86%	79%
Total	64%	66%

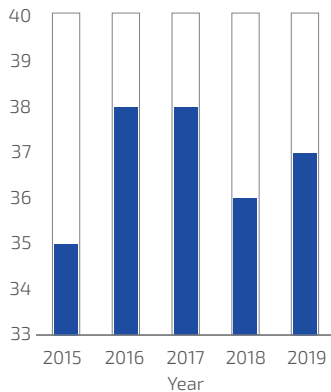
Other Operating Expenses increased by 8% due to increase in Staff Expenses and Selling Expenses

Underwriting and Net Acquisition costs increased by 19% mainly due to reserve movement on Deferred Expense Reserve movement and Business Acquisition Costs.

Efficiency

Expense Ratio - HNBTGI

%



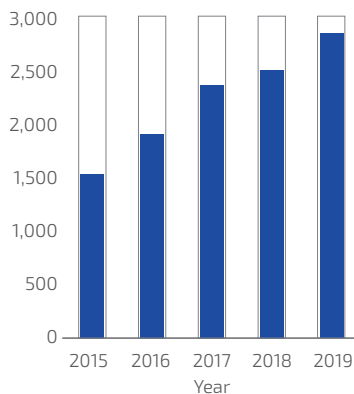
The Expense Ratio was increased by 1% but managed at 37% as a result of effective forecasting and management conscious on expenses.

CONTRACT LIABILITIES

Contract Liabilities of HNBTGI increased to Rs. 2,871 Million marking a 14% increase from the Rs. 2,525 Million recorded at the end of 2018. Growth in Unearned Premium Reserves due to business growth and Claims Outstanding Reserve growth were the key contributors. The IBNR/IBNER reserve was valued by NMG Consulting as of 31st December 2019 and their report appears on page 180. HNBTGI's technical reserves also increased by 11% to reach Rs. 2,455 Million. Technical reserves are fully backed by investments as per the requirements of Determination 1 of the IRCSL.

General Insurance Contract Liabilities

Rs. Mn.



OUR FOCUS IN 2020



Increasing Revenue Diversification.



Effective Claim Management



Improving Cost Efficiencies



Digitisation



Upgrade systems to facilitate compliance with IFRS 17

05

STATUTORY DISCLOSURES AND FINANCIAL STATEMENTS

At HNB Assurance, we believe in cultivating relationships that last a lifetime, delivering a service of care and compassion that spans generations of Sri Lankans.



Giving You the
Strength to
Brighten their
Future



FINANCIAL CALENDAR

DIVIDEND

	2019 Achievement on	2020 Target Date
Final dividend for the previous year paid/payable	8th April 2019	8th April 2020
Interim Dividend for the year paid	30th December 2019	N/A
Final dividend for the year to be paid	8th April 2020	in April 2021

ANNUAL REPORT AND ANNUAL GENERAL MEETING (AGM)

	2019 Achievement on	2020 Target Date
Annual Report and Accounts for the year to be signed	13th February 2020	in February 2021
Annual General Meeting for the year to be held	27th March 2020	in March 2021

INTERIM FINANCIAL STATEMENTS SUBMISSION TO THE COLOMBO STOCK EXCHANGE (CSE)

	2019 Achievement on	2020 Target Date
1st Quarter (ended 31st March)	8th May 2019	on or before 15th May 2020
2nd Quarter (ended 30th June)	13th August 2019	on or before 15th August 2020
3rd Quarter (ended 30th September)	14th November 2019	on or before 15th November 2020
4th Quarter (ended 31st December)	14th February 2020	on or before 15th February 2021

INTERIM FINANCIAL STATEMENTS PUBLICATION IN THE NEWSPAPERS

	2019 Achievement on	2020 Target Date
1st Quarter (ended 31st March)	17th May 2019	in May 2020
2nd Quarter (ended 30th June)	22nd August 2019	in August 2020
3rd Quarter (ended 30th September)	25th November 2019	in November 2020
4th Quarter (ended 31st December)	in February 2020	in February 2021

AUDIT COMMITTEE REPORT

“ Amidst the changes in regulatory and financial reporting requirements, the Committee continued to provide oversight and guidance to the Group’s financial reporting and internal control processes

Mahendra Jayasekera

AREAS OF FOCUS IN 2019



Sound
Corporate
Governance



Financial
Reporting



Internal and
External Audit
Activities

CHARTER OF THE COMMITTEE

The Charter of the Audit Committee ('the Committee') clearly defines the Terms of Reference of the Committee. The Charter is annually reviewed by the Board to ensure that the functioning of the Committee is in line with new developments in areas related to the Committee. The Charter was last reviewed and approved by the Committee in December 2019.

The Audit Committee assist 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 Codes regulate the composition, functions and duties and responsibilities of the Committee.

ACTIVITIES IN 2019

Financial Reporting

The Committee reviewed all Interim Financial Statements, the 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 judgments.
- Significant accounting and reporting issues.
- Impact from new accounting standards.
- Going concern assumption.
- Developments in the financial reporting framework (Sri Lanka Accounting Standards – SLFRS/LKAS).
- Consistency of the adopted accounting policies and methods, and their compliance with the Accounting Standards (SLFRS/LKAS).

Composition

Mr. Mahendra Jayasekera* - Chairman
Dr. Sivakumar Selliah* - Member
Mr. Damien Fernando** - Member

*Independent Non-Executive Directors

** Non-Executive Directors

Meetings

The Committee held five meetings during the year

Attendance

Mr. Mahendra Jayasekera - 5/5
Dr. Sivakumar Selliah - 3/5
Mr. Damien Fernando - 3/4

Attendees by Invitation

Mr. Faizal Salieh Director HNBGI, Managing Director, Executive Committee members, Head of Finance and Actuarial Consultant attended meetings by invitation regularly.

Secretary to the Committee

Sitari Jayasundara – Chief Legal Officer, Board Secretary and Compliance Officer

- Disclosure requirements and other applicable accounting and financial reporting requirements such as the Companies Act, No. 07 of 2007, Listing Rules and the Regulation of Insurance Industry Act, No. 43 of 2000 and amendments thereto, etc.

New Accounting Standards

SLFRS 9, SLFRS 16 and SLFRS 17

SLFRS 9: Financial Instruments

SLFRS 9: Financial Instruments came into effect with effect from 01st January 2018. However, as the predominant activity of HNBA and HNBGI 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 2020. As such the Group continued to apply LKAS 39 during the financial year ending 31st December 2019.

SLFRS 16: Leases

SLFRS 16 came into effect from 01st January 2019 replacing LKAS 17. Under SLFRS 16 few major changes were introduced. The most significant are:

- New definition of a lease,
- Accounting for leases in the lessee's Financial Statements

The Group as a lessee has applied SLFRS 16 as initial application with effect from 01st January 2019 using the modified retrospective approach. At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration (Right of Use). Accordingly the Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use assets of the Group consist of branch premises and vehicles taken on rent which were previously recognised as operating leases under LKAS 17.

Further information on the financial impact of the new standard can be read on Note 03 on page 195.

SLFRS 17: Insurance Contracts

SLFRS 17 which comes in to effect on 01st January 2021, establishes principles for the recognitions, measurement, presentation and disclosure of Insurance Contracts within the scope of standard. The objective of SLFRS 17 is to ensure that an entity provides relevant information that faithfully represents

Key Responsibilities

- Monitor and review the financial reporting process of the Company in order to present timely and accurate information to the Board of Directors, Regulators and Shareholders.
- Review the Financial Statements of the Company/Group, in consultation of the External Auditors where necessary, and consider whether 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 ensure that the risk management framework of the Group is implemented effectively to mitigate risks associated with financial reporting.
- Liaise with the Related Party Transactions Review Committee to ensure 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.
- Oversee 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, review their scope and monitor performance.
- Assess the independence of the External Auditors.
- Evaluate the Company's ability to continue as a going concern into the foreseeable future.

those contracts. This information gives a basis for users of Financial Statements to assess the effect on Insurance Contracts have on the entity's financial position, performance and cash flows.

Accordingly, the Group initiated a gap analysis of the new standard in 2019 with the consultation of external consultants Messrs KPMG and Actuarial Partners Consulting Sdn Bhd. The gap analysis is currently in progress and the findings of the gap analysis would be presented to the Committee in 2020 after which the implementation phase is expected to commence.

Risks and Internal Controls

The Committee regularly engages in monitoring and evaluating the effectiveness of the internal control environment of the Company. 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;

- 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 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 check-lists 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 (IRCSL) and Labour Regulations, etc.
- Reviewed Quarterly and Annual Returns submitted to the IRCSL 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 Ernst & Young performed a review on the general and application controls of the IT function during the year, as a part of their external audit process. The internal-auditors also carried out an assessment of the General IT control aspect as a part of their internal audit work. The Committee reviewed the comments made by the Auditors and monitored the implementation of the actions agreed to manage identified risks.

The progress of the IT road map is also reviewed by the Committee periodically.

Fraud Risk

The Committee ensures necessary measures are taken by the Management to mitigate fraud risk of the Company / Group, hence no 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 Whistleblowing 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 continuously to identify and mitigate the risk of fraud.

Ethics and Good Governance

The Audit Committee continuously emphasised 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 Whistle-blowing 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 Whistle-blowing 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 Human Resources Officer

All concerns brought forward during the year under the Whistle-blowing 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 63 to 64 for further information)

Professional Advice

The Committee has the authority to seek external professional advice on matters within their purview.

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 Group 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 was to improve the effectiveness of its activities and enhance its support to the Management and the Board of Directors. Summarised results of both evaluations were tabled 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 co-ordination of the audit effort to assure 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 2019 and recommended the same for the approval of the Board of Directors.

Appointment of the External Auditors

According to the Auditor Rotation Policy of the Company, the existing External Auditor, Messrs. Ernst & Young are not eligible to be re-appointed for the financial year ending 31st December 2020. The Audit Committee recommends the appointment of Messrs KPMG Sri Lanka, as the Company/Group External Auditor for the financial year ending 31st December 2020 subject to Shareholder approval at the Annual General Meeting to be held on 27th March 2020.

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 Ernst & Young, 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 KPMG, Chartered Accountants. During the period ended 31st December 2019, Internal Auditors presented the issues 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 representation summarising the observations and comments with regard to the work performed.

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.



J A P M Jayasekera
Chairman – Audit Committee

Colombo, Sri Lanka
13th February, 2020

HUMAN RESOURCES AND REMUNERATION COMMITTEE REPORT

“ Aligning remuneration to corporate goals and employee aspirations is key to driving sustainable growth and creating a conducive organisation culture

Dr. Sivakumar Selliah

AREAS OF FOCUS IN 2019



Human Resource Policy



Total Rewards Policy



Talent Management

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 2019

The Committee had an active year as we reviewed and enhanced the policy framework to broaden the scope and fill identified gaps while also aligning the same to our corporate goals. Accordingly, the following policies were reviewed and recommended to the Board for approval:

Human Resource Policy

2019 marked an important milestone in Company's HR journey, where a Human Resource Policy was introduced providing strategic direction on:

- Sourcing talent
- Employment and working conditions
- Training and learning
- Talent, development and performance management
- Total rewards
- Employee relations

promoting an agile, delegated and objective driven organisation.

Total Rewards Policy

Stemming from the Human Resource Policy, Total Rewards permits a broader focus beyond remuneration and benefits. It is the hard earned value and trust that HNB Assurance PLC brings to those who work with the Company. Creating a positive work culture, recognition and work experiences along with possibilities of growth through learning, are considered Total Rewards. A shift from a "Salary" to Total Rewards denotes the consideration of following:

Composition

Dr. Sivakumar Selliah* - Chairman
Ms. Rose Cooray** - Member
Mr. Mahendra Jayasekera* - Member

* Independent Non-Executive Director

** Non-Executive Director

Meetings

The Committee held eight meetings during the period.

Attendance

Dr. Sivakumar Selliah - 8/8
Ms. Rose Cooray - 8/8
Mr. Mahendra Jayasekera - 6/6

Attendees by Invitation

Mr. Faizal Salieh Director HNBGI,
Ms. Chiranthi Cooray Chief Transformation Officer of HNB PLC, Managing Director and Chief Human Resources Officer attended meetings by invitation regularly.

Secretary to the Committee

Sitari Jayasundara - Chief Legal Officer, Board Secretary and Compliance Officer

- Fixed pay
- Variable pay
- Benefits
- Individual growth and development
- Work-life environment

Reward principles are influenced by:

- Individual performance
- Competitive market practices
- Cost considerations and business results achieved

The Committee works towards ensuring internal equity and external competitiveness in remuneration and benefits decisions with the focus on the business for today and for the future.



Dr. S Selliah

Chairman – Human Resources and Remuneration Committee

Colombo, Sri Lanka
13th February, 2020

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.

RELATED PARTY TRANSACTION REVIEW COMMITTEE

“ The Committee provided oversight on related party transactions during the year and thereby continued to support the Audit Committee to carry out its statutory responsibilities

Mahendra Jayasekera

AREAS OF FOCUS IN 2019



Compliance with Rules and Regulations



Review of Related Party Transactions



Protecting Shareholder Interest

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 four meetings during the year.

Attendance

Mr. Mahendra Jayasekera - 4/4
Dr. Sivakumar Selliah - 3/4
Mr. Damien Fernando - 2/3

Attendees by Invitation

Managing Director, Chief Operating Officer, Head of Finance, Chief Investment and Strategy Officer, Chief Technical Officer HNBGI and Head of Finance and Support Services HNBGI attended meetings by invitation regularly.

Secretary to the Committee

Sitari Jayasundara - Chief Legal Officer, Board Secretary and Compliance Officer

- 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.

RELATED PARTY TRANSACTION REVIEW COMMITTEE

ACTIVITIES IN 2019

Review of Related Party Transactions

The Committee reviewed all related party transactions of the Company for the year 2019. All related party transactions entered into during the year were of a recurrent, trading nature and were necessary for the day-to-day operations of the Company.

In the opinion of the Committee, the terms of these transactions were not more favourable to the related parties than those generally transacted with the public.

All details of such related party transactions entered into during the year, are given in Note 45 to the Financial Statements on pages 270 to 274 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 Board of Directors.

Policies and Procedures

Head of Finance 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.

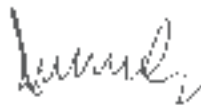
Moreover, on a quarterly basis, the Head of Finance is required to report the approved related party transactions actually entered into by the Company for Committee's consideration.

Key Responsibilities

- Developing / formulating guidelines to ensure that the Company complies with the rules listed in Section 09 of the Listing Rules.
- Review all proposed related party transactions in advance, subject to the exceptions given under Section 9.5 of the Listing Rules.
- Perform other activities 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.

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 273 of this Annual Report.



J A P M Jayasekera
Chairman – Related Party Transaction Review Committee

Colombo, Sri Lanka
13th February, 2020

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 2019



Board
Composition and
Expertise



Sub-Committee
Compositions
and Expertise



Sound
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 and selection and appointment of the CEO.

ACTIVITIES IN 2019

- During the year the Committee re-appointed Directors retiring by rotation
- Appointment of Mr. L. U. D. Fernando to the Boards of HNB Assurance PLC and HNB General Insurance Limited
- Appointment of Mr. S. A. Chapman to the Board of HNB Assurance PLC
- Appointment of Mr. M. S. Wijemanna and Mr. A. V. Abeygunasekara to the Board of HNB General Insurance Limited

- Appointment of Mr. K Wijesooriya as an Alternate Director to Mr. D P N Rodrigo
- Reconstitution of Board Sub-Committees
- Update the Committee on the new Corporate Governance Framework for insurers by IRCSL and impact of the framework 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 Directors
** Non-Executive Directors

Meetings

The Committee held three meetings during the year.

Attendance

Ms. Rose Cooray - 3/3
Mr. Mahendra Jayasekera - 3/3
Mr. Dilshan Rodrigo - 3/3

Attendees by Invitation

Managing Director attended meetings by invitation regularly.

Secretary to the Committee

Sitari Jayasundara - Chief Legal Officer, Board Secretary and Compliance Officer

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;
- 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; and
- Periodically appraise the framework for assessment of Board performance and the Board self-evaluation discussion.



M A R C Cooray
Chairperson – Nomination Committee

Colombo, Sri Lanka
13th February, 2020

REPORT OF THE INVESTMENT COMMITTEE

“ The Investment Committee has taken a long-term view of the business landscape in investing and we are pleased about the performance of the portfolio in view of the ever changing environment

Dr. Sivakumar Selliah

AREAS OF FOCUS IN 2019



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 2019

- The Committee reviewed information presented by the Management, at its quarterly 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 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 dialog 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. Ravi Abeyseriya* - Member
 Mr. Arjuna Abeygunasekara[■] - Member

*Independent Non-Executive Director

** Non-Executive Director

■ Non-Executive Director of Subsidiary

Meetings

The Committee held four meetings during the period.

Attendance

Dr. Sivakumar Selliah - 4/4
 Ms. Siromi Wickramasinghe - 4/4
 Mr. Ravi Abeyseriya - 3/4
 Mr. Arjuna Abeygunasekara - 3/3

Attendees by Invitation

Managing Director, Chief Investment and 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 - Head of Finance

CONCLUSION

Considering the difficult and volatile market conditions that prevailed during the year together with poor economic conditions, the Committee is of the opinion that HNBA and HNBGI recorded an impressive performance by managing its investment portfolios to surpass set targets, while operating within the framework prescribed by the Company's Investment Policy and statutory and other laws, regulations and guidelines.



Dr. S Selliah
Chairman – Investment Committee

Colombo, Sri Lanka
13th February, 2020

Key Responsibilities

- Developing and formulating guidelines for the management of the investment portfolios of the Company.
- Reviewing and advising on the strategies to be followed by the investment function, after evaluation of the investment portfolios.
- Monitoring compliance of the investment function with applicable laws and regulations 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 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.

REPORT OF THE RISK MANAGEMENT COMMITTEE

“ Managing risk is fundamental to an insurance company and it continues to gain significance due to heightened uncertainties in the operating environment

Dilshan Rodrigo

AREAS OF FOCUS IN 2019



Key Risk Indicators



Risk Management Framework



IT Risks

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.

ACTIVITIES IN 2019

- 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.
- Impact of external factors, including new regulations and natural disasters were examined at its 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.

Composition

Mr.Dilshan Rodrigo** - Chairman
Ms.Rose Cooray** - Member
Mr.Ravi Abey Suriya* - Member
Ms.Marina Tharmarathnam† - Member

*Independent Non-Executive Director

** Non-Executive Director

† Independent Non-Executive Director of Subsidiary

Meetings

The Committee held five meetings during the year.

Attendance

Mr.Dilshan Rodrigo - 5/5
Ms.Rose Cooray - 5/5
Mr.Ravi Abey Suriya - 5/5
Ms.Marina Tharmarathnam - 4/5

Attendees by Invitation

Mr. D Pallewatta Deputy General Manager - Risk/Chief Risk Officer/ Chief Information Security Officer of HNB PLC, Managing Director, Chief Operating Officer, Head of Finance and Other members of the Executive Committee attended meetings by invitation regularly.

Secretary to the committee

Patkunarajah Kugesan - Manager Risk and Control

REPORT OF THE RISK MANAGEMENT COMMITTEE

- Risks relating to new products were reviewed by the Committee prior to launch and exiting products.
- 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. Management actions taken to address internal breaches were also monitored.
- 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.



DPN Rodrigo
Chairman – Risk Management Committee

Colombo, Sri Lanka
13th February, 2020

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.

STRATEGY REVIEW COMMITTEE REPORT

“ Determining strategic direction is a key function of the Board as realization of our vision is dependent on this. We have worked with the Corporate Management to brainstorm and evaluate options, constructively challenge assumptions and understand the sensitivities of our strategy.

Rose Cooray

AREAS OF FOCUS IN 2019



CHARTER OF THE COMMITTEE

The terms of reference of the Committee are defined in the Strategy Review Committee Charter, which is reviewed annually. The main purposes of the Committee involve closely reviewing and monitoring the implementation of the three year strategic plan of the Group/Company, keeping the Board informed about the progress of such implementations and making timely recommendations that are deemed necessary to ensure the early arrest of any unhealthy developments with regard to the businesses of both HNB General Insurance Limited (HNBGI) and HNB Assurance PLC (HNBA).

ACTIVITIES IN 2019

I am pleased to report that the Strategy Review Committee had an active year with seven meetings to ensure that strategy was aligned to the opportunities and risks perceived in an uncertain business environment. The activities listed below provides an insight in to the matters that were taken up by the committee:

- 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

We have made recommendations to the Board on the Strategic Plan for the next three years and will continue to review stakeholder concerns, key risk drivers and performance against targets to update the Board and recalibrate plans as may be deemed necessary.

M A R C Cooray
Chairperson – Strategy Review Committee

Colombo, Sri Lanka
13th February, 2020

Composition

Ms. Rose Cooray** - Chairperson
Dr. Sivakumar Selliah* - Member
Mr. Damien Fernando** - Member
Mr. Stuart Chapman** - Member
Mr. Faizal Salieh♦ - Member
Ms. Marina Tharmarathnam♦ - Member
Mr. Sanjaya Wijemanne▪ - Member
Mr. Deepthi Lokuarachchi - Member

*Independent Non-Executive Directors

** Non-Executive Directors

▪ Non-Executive Director of Subsidiary

♦ Independent Non-Executive Director of Subsidiary

Meetings

The Committee held seven meetings during the year.

Attendance

Ms. Rose Cooray - 7/7
Mr. Sivakumar Selliah - 6/7
Mr. Damien Fernando - 4/5
Mr. Stuart Chapman - 5/5
Mr. Faizal Salieh - 7/7
Ms. Marina Tharmarathnam - 6/7
Mr. Sanjaya Wijemanne - 3/5
Mr. Deepthi Lokuarachchi - 7/7

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

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, organizational, 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 daily operations, and that they are in accordance with the corporate objectives, strategies, annual budget, approved policies and business direction.
- The Company has outsourced its Internal Audit function to Messrs. KPMG. The Internal Auditors check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis, using samples and rotational procedures and highlight significant findings in respect of any 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. 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 151 to 154.

- A Risk Management Committee has been established to assist the Board to oversee the risk management framework of the Company. The management has prepared a Risk Register identifying all key risks faced by the Company, 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.
- Key Risk Indicators (KRIs) have been identified for all major operations of the Company and a KRI report is prepared monthly. A summary of the KRI report is included in the Risk Dashboard and presented to the Risk Management Committee.
- The Risk and Compliance Department follows up on audit recommendations and ensures that the recommendations are implemented. A report is tabled at each Audit Committee meeting by the Risk and Compliance Department on the progress of implementing the actions agreed 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

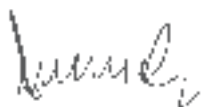
Investment Committee on a regular basis. A monthly report to the Board is submitted by the Manager - Risk and Compliance on the Company's compliance with applicable laws and regulations.

- 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 and the Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto.

By order of the Board,



J A P M Jayasekera
Chairman - Audit Committee



M A R C Cooray
Chairperson

Colombo, Sri Lanka.
13th February, 2020

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF HNB ASSURANCE PLC FOR THE YEAR ENDED 31ST DECEMBER 2019

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 2019 as set out in pages 184 to 298 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 13th February 2020 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 also 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 Jaya Mawatha, Colombo 10.

Fitch Ratings Lanka Ltd has re-affirmed the National Insurer Financial Strength Ratings of HNB Assurance PLC and HNB General Insurance Ltd at A [Ika] with a positive outlook.

2.2 Corporate Vision, Mission and Values

The vision, mission and the values of the company are given on page 7 of this report. The Company and the Group practices high standards of ethical behavior in carrying out the business in line with the vision set.

2.3 Principal Business Activities of the Company and Group Companies

The principal activities 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, Managing Director's Review (pages 14 to 17 and 18 to 20), and the Management Discussion and Analysis (pages 95 to 148). 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 [SLFRS/LKAS] 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, Listing Rules of the Colombo Stock Exchange [CSE]. The detailed statement of Directors' Responsibility is included in pages 176 to 177 forms an integral part of this report.

The aforementioned Financial Statements for the year ended 31st December 2019 which appears on pages 184 to 298 are duly signed by the Head of Finance 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 192 to 195.

3.3 Going Concern

The Directors after having made necessary assessment of the Company'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 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 final dividend of Rs. 6 per share for the year ended 31st December 2019 (2018: Final Rs. 7.00 per share) is to be approved at the Annual General Meeting to be held on 27th March 2020. More information with respect to the dividend is given in Note 43 on page 263.

Except for the post balance events disclosed in Note 47 on Page 297, 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 are disclosed in the Note 49 on the page 297. 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 2019 was Rs. 9,942.8 Million. [2018: Rs. 8,724.7 Million] whilst the Company's Gross

Written Premium for the year 2019 was Rs. 5,175.0 Million [2018: Rs. 4,420.5 Million]. Note 28 to the Financial Statements in page 246 provides a segmental analysis of the Gross Written Premium.

4.2 Profits and Appropriations

The Profit After Tax of the Group for the year 2019 was Rs. 1,010.2 Million (2018 - Rs. 2,705.3 Million) whilst the Company's Profit After Tax for the year 2019 was Rs. 826.7 Million (2018 - Rs. 2,475.2 Million). The profits for the comparative year 2018 included a one-off surplus of Rs. 381.2 Million transferred as per the Direction No: 16 of the Insurance Regulatory Commission of Sri Lanka. The details of the appropriation of profit are given below.

For the year ended 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Profit Before Taxation (PBT)	1,404,891	1,580,654	1,106,535	1,297,848
Income Tax Reversal/(Expenses)	(394,663)	1,124,656	(279,826)	1,177,367
Profit for the Year	1,010,228	2,705,310	826,709	2,475,215
Unappropriated Profit Brought Forward	4,405,581	2,381,427	4,167,660	2,373,601
Profits Available for Appropriation	5,415,809	4,705,581	4,994,369	4,467,660
Dividends Paid	(450,000)	(300,000)	(450,000)	(300,000)
Unappropriated Profit Carried Forward	4,965,809	4,405,581	4,544,369	4,167,660

The 2019 profits though reflects a negative growth when compared to 2018 it is pertinent to mention that the reported numbers of 2018 consisted of non-recurring one-off surplus and recognition of Deferred Tax asset which had a material bearing on the PBT and PAT positions.

4.3 Dividends on Ordinary Shares

Information on interim dividend paid and final proposed by the Company is given in Note 43 to the Financial Statements. The Company paid an interim dividend of Rs. 2 per share on 30th December 2019 out of exempt/taxable profits, the taxable profit was subject to withholding tax at 14%.

Further, the Directors recommended a final dividend of Rs. 6 per share for the year under review to be approved by the shareholders at the forthcoming Annual General Meeting to be held on 27th March 2020. The final dividend will be paid on 8th April 2020 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 27th of March 2020.

As required by Section 56(3) of the Companies Act, No. 07 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. 6 and Statement of Solvency prepared by the Board was audited by External Auditors Messrs. Ernst & Young 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.

4.4 Stated Capital

There were no changes in the stated capital of the Company during the year 2019, and the amount recorded was Rs. 1,171,875,000 comprising 50,000,000 ordinary shares. [2018: Stated Capital - Rs. 1,171,875,000, No. of Shares - 50,000,000]

4.5 Reserves

Transfers to/from reserves of the Group/Company are shown in the Statement of Changes in Equity appearing on page 186 and 187.

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% [2018 - 28%]. The tax position of the Company and its subsidiary is disclosed in Note 41 to the Financial Statements on pages 258 to 261.

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. 279.8 Million during the year and carries an asset of Rs. 1 Billion as of 31st December 2019. The Subsidiary carries a deferred tax asset of Rs. 9 Million as of 31st December 2019.

The Group is liable to pay a Crop Insurance Levy of 1% to the National Insurance Trust Fund on a quarterly basis computed on the Profit After Tax of the Group.

4.7 Capital Expenditure

The Company's and Group's capital expenditure on Property, Plant and Equipment and Intangible Assets amounted to Rs. 49.9 Million and Rs. 69.5 Million respectively [2018: Company Rs.42.6 Million and Group Rs. 57.4 Million] and all other related information and movements have been disclosed in Note 4 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. 17,777.4 Million and Rs. 21,202.1 Million respectively as at 31st December 2019 [2018 - Rs. 14,679.7 Million and Rs. 17,579.1 Million respectively]. The details of the Financial Investments are given in Note 7 to the Financial Statements on pages 216 to 226.

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. 14,464.5 Million as at 31st December 2019 [2018 - Rs. 12,261.5 Million], while Contract Liabilities for General Insurance constituted Rs. 2,871.4 Million [2018 - Rs. 2,525.1 Million] as at 31st December 2019. These liabilities have been valued by the appointed actuaries whose reports are disclosed in pages 179

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and 180 respectively. The assumptions and methods used are given in the accounting policies in pages 236 to 241 of these Financial Statements. The gratuity liability of the Company and the Group stood at Rs. 100.1 Million and Rs. 167.1 Million respectively [2018 - Rs. 84.8 Million and Rs. 140.4 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. 8.9 Million on software implementation. [2018 - NIL].

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 9 members and the Board of Directors of HNBGI consists of 8 members as at 31st December 2019. Information relating to the Directors of the Company is available in the Directors' Profile on pages from 30 to 35.

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 the 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	13/13	-	8/8	-	3/3	-	5/5	7/7
D P Lokuarachchi		26.05.2017	23.05.2017	13/13	13/13	-	-	-	-	-	-	7/7
J A P M Jayasekera		03.12.2012	N/A	10/13	N/A	5/5	6/6	4/4	3/3	-	-	-
D P N Rodrigo		01.07.2013	21.12.2015	10/13*	8/13*	-	-	-	3/3	-	5/5	-
S N Wickramasinghe		02.10.2013	N/A	11/13	N/A	-	-	-	-	4/4	-	-
Dr S Selliah		17.06.2014	N/A	11/13	N/A	3/5	8/8	3/4	-	4/4	-	6/7
D R Abeyuriya		01.01.2018	N/A	12/13	N/A	-	1/1	-	-	3/4	5/5	-
L U D Fernando		11.02.2019	11.02.2019	9/11	7/10	3/4	-	2/3	-	-	-	4/5
S A Chapman		11.02.2019	N/A	11/11	N/A	-	-	-	-	-	-	5/5
M O F Salieh		N/A	22.09.2014	N/A	12/13	-	-	-	-	-	-	7/7
M Tharmaratnam		N/A	01.09.2016	N/A	11/13	-	-	-	-	1/1	4/5	6/7
M S Wijemanne		N/A	11.02.2019	N/A	9/10	-	-	-	-	-	-	3/5
A V Abeygunasekara		N/A	11.02.2019	N/A	10/10	-	-	-	-	3/3	-	-
A G R Dissanayake (resigned w.e.f 12.02.2019)		27.06.2017	28.06.2017	2/2	2/2	1/1	-	1/1	-	-	-	-

*Includes meeting/s attended by Alternate Directors

■ Independent ■ Non-Executive

5.2 New Appointments, Retirement and Resignations

Mr. L U D Fernando was appointed to the Board of HNBA and HNBGI in the capacity Non Independent Non-Executive Director with effect from 11th February 2019. Mr. S A Chapman was appointed to the Board of HNBA in the capacity of Non Independent Non-Executive Director with effect from 11th February 2019. Mr. M S Wijemanna and Mr. A V Abeygunasekara were appointed to the Board of HNBGI in the capacity Non Independent Non-Executive Directors with effect from 11th February 2019. Mr. K Wijesooriya was appointed to the Boards of HNBA and HNBGI in the capacity of an Alternate Director for Mr. D P N Rodrigo with effect from 02nd September 2019. Furthermore, Mr.T K D A P Samarasinghe was appointed to the Boards of HNBA and HNBGI in the capacity of an Alternate Director to Mr. L U D Fernando with effect from 24th January 2020.

Mr. A G R Dissanayake resigned from the Board of the HNB Assurance and HNB General Insurance with effect from 12th February 2019 having served a period of 2 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 Mr. Ravi Abeyesuriya 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 Sub-Committees

Seven Board Sub-Committees 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 Sub-Committees 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 Chartered Accountants of Sri Lanka. These Committee reports are given on page 151 to 165 in the Annual Report. Committee mandates are reviewed regularly. The composition and meeting attendance by members for the above Sub-Committee meetings are given on page 170.

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 175 of the Annual Report and Note 45 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 2019 and 13th February 2020, the date of this report.

Name of Director	No. of shares held as at 31st December	
	2019 Rs.'000	2018 Rs.'000
M A R C Cooray – Chairperson	18,035	18,035
D P Lokuarachchi – Managing Director	Nil	Nil
J A P M Jayasekera	83,057	83,057
D P N Rodrigo	180	180
S N Wickramasinghe	52,500	52,500
Dr S Selliah	200,000	200,000
A G R Dissanayake (resigned w.e.f 12.02.2019)	N/A	100
D R Abeyesuriya	1,000	1,000
L U D Fernando	166	N/A
S A Chapman	Nil	N/A
S C Ratwatta (retired w.e.f 06.02.2019)	N/A	14,666

5.7 Directors' Remuneration

Director's remuneration including post-employment is given in Note 39 to the Financial Statements. Further, Directors are not entitled to obtain any loan from the Company or Group.

5.8 Related Party Transactions

The Company's transactions with Related Parties, given in Note 45 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 86 to 90. Ratios relating to dividends, net assets, market price per share are presented on Investor Information on page 315.

6.2 Distribution Schedule of Shareholding

The distribution and analysis of shareholding is given on page 88 of this Annual Report. As at 31st December 2019, HNB Assurance PLC had 3,397 registered ordinary shareholders [2018 - 3,408].

6.3 Substantial Shareholding

Hatton National Bank PLC holds 59.99% of the Ordinary Voting shares as at 31st December 2019. Information of the top 20 shareholders and the percentage held by each shareholder as at 31st December 2019 is presented on page 86 with comparative information as at 31st December 2018.

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 Managing Director'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. Ernst and Young, Chartered Accountants, who were re-appointed by a

resolution passed at the 17th 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 2019 and expressed their opinion which appears on page 181 to 183 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 39.2 to the Financial Statements. 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.

Report of the Audit Committee provides more information on appointment of auditors, Independence of auditors and the provision of Non-Audit services.

8.3 Appointment of Auditors for the Financial Year 2020

As per the Auditor Rotation Policy the existing auditor is not eligible to be selected immediately after the completion of its tenure. Thus, Messrs. Ernst and Young, the existing auditor, will not be eligible to be reappointed. The Audit Committee has recommended the appointment of Messrs. KPMG Sri Lanka as the External Auditor of the Company for the financial year 2020. The Board of Directors of the Company proposes that, Messrs. KPMG, Chartered Accountants, be appointed as the External Auditors at the Annual General Meeting to be held on the 27th of March 2020. In accordance with the Companies Act, No. 07 of 2007, a resolution relating to the appointment of External Auditors and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting to be held on the 27th of March 2020.

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 to those in Note 45 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 2019, HNB Assurance PLC recorded a CAR of 309% and HNB General Insurance Limited recorded a CAR of 223%.

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, Directors' Statement on Internal Control, Audit Committee Report and Risk Management Report available on pages 41 to 70, pages 166 to 167, pages 151 to 154 and pages 163 to 164 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.

Company's compliance with relevant sections of Corporate Governance framework issued by IRCSL in the year 2018 is given on page 65. Further, the table from page 63 to 64 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. The Corporate Governance Report is given from page 41 to 62. 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 endeavors to ensure that all shareholders have been treated equitably,
- d) the business is a going concern with supporting assumptions or qualifications as necessary, and
- e) a review of internal controls, covering financial, operational and compliance controls, and risk management, has been conducted, and a reasonable assurance of their effectiveness and successful adherence has been obtained.

14. CODE OF CONDUCT AND ETHICS

All employees of the Company/Subsidiary are governed by a Code of Conduct and Ethics 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

A Whistle Blowing policy has been communicated to all employees of the Company/Subsidiary and is encouraged 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 has complied with the relevant environmental laws and regulations and the Company has 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 on page 134 to 136.

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 page 120 to 128.

18. CORPORATE DONATIONS

Total donations made by the Company during the year amounted to Rs. 500,000 (2018 - Rs. 300,000). Details of the donations undertaken by the Company have been provided below.

Religious Places

Donations amounting to Rs. 100,000 were made to places of worship the Company closely associates with and situated in close proximity to the organisation covering the 4 main religions.

School Project

Donations amounting to Rs. 301,000 and 99,000 respectively were made to Perawella School in Welimada and Sindhathri Matha Primary School in Kalpitiya to improve the infrastructure facilities of the schools.

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 Report on Human Resources and Remuneration Committee given on pages 155 to 156.

20. ANNUAL GENERAL MEETING

The eighteenth Annual General Meeting of the Company will be held at the Auditorium on Level 22 of "HNB Towers", at No. 479, T B Jayah Mawatha, Colombo 10, on the 27th of March 2020 at 10.00 in the forenoon. The Notice of the Annual General Meeting is on page 320 of the Annual Report.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF HNB ASSURANCE PLC FOR THE YEAR ENDED 31ST DECEMBER 2019

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 year ended 31st December 2019.

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 168
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 168
Section 168 [1] (c)	Auditors' Report on the Financial Statements of the Group and the Company.	Section 8.1 on page 172
Section 168 [1] (d)	Accounting Policies of the Group and the Company and any changes therein.	Section 3.2 on page 168
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 171
Section 168 [1] (f)	Remuneration and other benefits paid to Directors during the accounting period.	Section 5.7 on page 171
Section 168 [1] (g)	Total amount of donations made by the Group during the accounting period.	Section 18 on page 173
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 170 Section 5.2 on page 170
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 172
Section 168 [1] (j)	Auditors' relationship or any interest with the Company and the Subsidiary	Section 8.2 on page 172
Section 168 [1] (k)	Acknowledgement of the contents of this Report/Signatures on behalf of the Board of Directors	Section 21 on page 174
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.
13th February, 2020.

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 45 to the Financial Statements on pages 270 to 274 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	
				2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Lanka Aluminium Industries PLC	Mr. D S Weerakkody	Insurance Premium	HNBGI	-	28	-	-
Uni Dil Packaging Solutions Ltd	Mr. J A P M Jayasekara	Insurance Premium	HNBGI	510	-	-	-
Uni Dil Packaging Ltd	Mr. J A P M Jayasekara	Insurance Premium	HNBGI	1,422	-	-	-
		Claims Incurred		11	-	-	-
Diesel and Motor Engineering PLC	Dr. L J S H Cabral	Claims Incurred	HNBGI	550	-	-	-
Tokyo Cement Company [Lanka] PLC	Dr. L J S H Cabral	Insurance Premium	HNBGI	701	-	-	-
Access Engineering PLC	Mr. D S Weerakkody	Insurance Premium	HNBGI	79	-	-	-

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 page 181 to 183.

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 Financial Statements for the Company and the Group which give a true and fair view of each financial year and place them before a General Meeting. The financial statements comprise the Statement of Financial Position as at 31st December 2019, 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 2019

Compliance Report

In preparing the financial statements for the year ended 31st December 2019, 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 184 to 298.
- 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 2019, prepared and presented in this Annual Report are consistent with the underlying books of accounts and are in conformity with the applicable regulatory requirements including;

- Sri Lanka Accounting Standards [SLFRS/ LKAS]
- Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995
- Companies Act, No. 07 of 2007
- Regulation of Insurance Industry Act, No. 43, of 2000 and subsequent amendments thereto
- Listing Rules of the Colombo Stock Exchange [CSE]
- 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 page 151 to 154 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 166 to 167.

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. 6 per share for this year, to be paid on or before 8th April 2020.

j) As required by the Sections 166 [1] and 167 [1] of the Companies Act, No. 07 of 2007 and Rule 7.5 [a] and [b] on Continuing Listing Requirements of the Colombo Stock Exchange [CSE], the Board of Directors have prepared this Annual Report in time and will ensure that a copy thereof is sent to every Shareholder of the Company, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD - Rom containing the Annual Report within the stipulated period of time.

- k) The Board of Directors after considering the financial position, operating conditions, regulatory environment and other factors required to be addressed, has established that it has reasonable expectations that the Company and the Group have adequate resources to continue in operation to justify applying the 'Going Concern' basis in preparation of these Financial Statements/ Consolidated Financial Statements.
- l) As required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act, No. 07 of 2007, the Head of Finance 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 13th February 2020.
- m) The Financial Statements of the Company and the Consolidated Financial Statements of the Group have been provided to the Company's External Auditors, Messrs Ernst & Young, who were appointed in terms of the Section 158 of the Companies Act, No. 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting held on 28th March 2019. 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 181 to 183.

By order of the Board



Sitari Jayasundara
Board Secretary

Colombo, Sri Lanka.
13th February, 2020.

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 2019 are prepared in compliance with the;

- Sri Lanka Financial Reporting Standards/ Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- The requirements of the Companies Act, No. 07 of 2007,
- The Regulation of Insurance Industry Act, No. 43 of 2000 and subsequent amendments thereto,
- Sri Lanka Accounting and Auditing Standards Act, No 15 of 1995,
- Listing rules of the Colombo Stock Exchange (CSE) and;

The 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, Messrs. KPMG, 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.

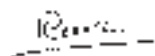
The Audit Committee of the Company meets periodically with the Internal Auditors and External Auditors to review the audit plan and the manner in which these Auditors are performing their responsibilities and to discuss auditing, internal controls and financial reporting issues. To ensure complete independence, the External Auditors and the Internal Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Financial Statements of the Company/ Group were audited by Messrs. Ernst and Young, Chartered Accountants, Independent Auditors and their report is given on pages 181 to 183 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.

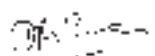
We confirm that;

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 50 on page 298 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 2019 have been paid, or where relevant accrued.



Punsirini Perera
Head of Finance



Deepthi Lokuarachchi
Managing Director/Chief Executive Officer

Colombo, Sri Lanka.
13th February 2020



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

21 January 2020

To the Shareholders of HNB Assurance PLC.

ACTUARIAL VALUATION OF THE LONG TERM INSURANCE BUSINESS AS AT 31 DECEMBER 2019

We have carried out an actuarial valuation of the Long Term Insurance Business as at 31 December 2019. 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 2019, 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 2019, the Company maintained a Capital Adequacy Ratio of 309% 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 2019 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 FYE2019 is Rs. 687.4 million and the total surplus distributed to policyholders is Rs. 115.5 million.
- 6) The tax payable on surplus distributed to policyholders is amounted to Rs16,175k. 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

6 February 2020



To the shareholders of HNB General Insurance Ltd

HNB General Insurance Ltd 31 December 2019 IBNR and LAT Certification

I hereby certify that the Central Estimate of IBNR provision of LKR85,681,727 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 2019, 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 2019, 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 LKR2,000,494,539 set by the Company, net of reinsurance, is adequate at a 50th percentile in relation to the unexpired risks of HNB General Insurance Ltd as at 31 December 2019, 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 blue ink, appearing to read 'Sivaraman Kumar'.

Sivaraman Kumar
Fellow of the Institute and Faculty Actuaries (FIA)
For and on behalf of NMG Financial Services Consulting
Dated 6 February 2020

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109 North Bridge Road, #05-21, Singapore 179097

INDEPENDENT AUDITORS' REPORT



Ernst & Young
Chartered Accountants
201 De Soanni Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax : +94 11 2687369
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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 31 December 2019, 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 to the financial statements, including a summary of significant accounting policies.

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 31 December 2019, 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 Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Company

and 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>Insurance Contract Liabilities</p> <p>The Group has life insurance contract liabilities of Rs. 14,465 Million and general insurance contract liabilities of Rs 2,871 Million which represents 87% of Group’s total liabilities.</p> <p>The valuation of the life insurance contract liabilities required the application of significant assumptions such as mortality, morbidity, longevity, investment returns, expenses, lapses and surrender rates and discount rates as disclosed in Note 2.2.2.5 to the consolidated financial statements.</p> <p>General insurance contract liabilities represent the claims liability including claims incurred but not yet reported (IBNR) and premium liability. The valuation of the general insurance contract liabilities required the application of significant assumptions such as previous claims experience, existing knowledge of risk events, industry ultimate loss ratio, claims handling expenses and management expenses as disclosed in Note 2.2.2.6 to the consolidated financial statements.</p> <p>Given the magnitude of the balance and subjectivity of the assumptions involved in the valuation of life and general insurance contract liabilities, we considered this is to be a key audit matter.</p>	<p>To assess the reasonableness of the life and general insurance contract liabilities, our audit procedures [among others] included following;</p> <ul style="list-style-type: none"> • Testing the key controls over the process of recognition, measurement and submission of data for estimating the insurance contract liabilities. • Involving specialised resources to assess the reasonableness of the assumptions used in the valuations of the life and general insurance contract liabilities. • Assessing the adequacy of the disclosures in Notes 2.2.2.5, 2.2.2.6, 21 and 22 to the consolidated financial statements.



Key audit matter	How our audit addressed the key audit matter
<p>Deferred Tax Asset and Income Tax Assessments</p> <p>As detailed in Note 41 to the consolidated financial statements, the brought forward tax losses of the life insurance business as of 31 December 2019 amounted to Rs. 3,574 Million. A deferred tax asset of Rs. 1,001 Million is derived from such tax losses.</p> <p>As detailed in Note 49 – contingencies, the company has received income tax assessments relating to the life insurance business.</p> <p>The management has revisited the estimates and judgements made on the uncertain tax positions and relevant contingent liability disclosures have been made in Note 49.</p> <p>Accordingly, due to the significant assessments and judgements involved, the above matters relating to uncertain income tax treatments is considered to be a key audit matter.</p>	<p>Our audit procedures included the following;</p> <ul style="list-style-type: none"> • Reviewing of the determination by the management and concurrence of the Audit Committee on the treatment of uncertain tax positions. • Revisiting the estimates and judgements made by the company on these assessments and engaging internal experts to assess the reasonableness of the basis on which the opinion is given by the independent tax consultant of the Company. • Assessing the business plans used and thus the likelihood that taxable profits would be available to utilise the tax losses in the future. • Assessing the adequacy of the disclosures given in Notes 41 and 49 to the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE 2019 ANNUAL REPORT

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do 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 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 Company's and 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 Company and 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.

AUDITOR'S 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 auditor's 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 internal control of the Company and the Group.
- 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 auditor’s 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 auditor’s 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 auditor’s 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, 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 auditor’s report is 2097.

13 February 2020
Colombo

STATEMENT OF FINANCIAL POSITION

As at 31st December,	Note	Page No.	Group		Company	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Assets						
Property, Plant and Equipment	4	210	162,371	151,559	111,202	104,487
Right of Use Assets	5	213	343,737	-	325,572	-
Intangible Assets	6	214	51,787	61,087	49,830	58,782
Deferred Tax Assets	41	258	1,009,711	1,304,882	1,000,673	1,280,499
Financial Investments	7	216	21,202,074	17,579,131	17,777,410	14,679,706
Investment in Subsidiary	8	227	-	-	1,150,000	1,150,000
Loans to Life Policyholders	9	227	325,307	243,113	325,307	243,113
Reinsurance Receivables	10	228	645,411	415,773	144,715	75,926
Premium Receivables	11	229	946,650	798,213	9,458	8,046
Other Assets	12	231	933,633	823,101	625,499	575,154
Insurance Contract - Deferred Expenses	13	233	138,622	140,486	-	-
Cash and Cash Equivalents	14	234	865,843	761,871	632,712	502,561
Total Assets			26,625,146	22,279,216	22,152,378	18,678,274
Equity and Liabilities						
Equity Attributable to the Equity Holders of Parent						
Stated Capital	15	235	1,171,875	1,171,875	1,171,875	1,171,875
Retained Earnings	16	235	4,965,809	4,405,581	4,544,369	4,167,660
Available For Sale Reserve	17	235	24,801	(8,025)	9,881	1,451
Other Reserve	18	235	(6,525)	(4,406)	(6,514)	(4,395)
Life Policyholders' Available For Sale Reserve Fund	19	236	177,228	(201,867)	177,228	(201,867)
Restricted Regulatory Reserve	20	236	381,156	381,156	381,156	381,156
Equity Attributable to the Equity Holders of Parent			6,714,344	5,744,314	6,277,995	5,515,880
Non-Controlling Interest			-	-	-	-
Total Equity			6,714,344	5,744,314	6,277,995	5,515,880
Liabilities						
Insurance Contract Liabilities - Life Insurance	21	236	14,464,534	12,261,472	14,464,534	12,261,472
Insurance Contract Liabilities - General Insurance	22	239	2,871,416	2,525,095	-	-
Employee Defined Benefit Liabilities	23	242	167,118	140,356	100,076	84,840
Current Tax Liabilities	24	243	112,031	22,541	16,175	14,708
Reinsurance Creditors	25	244	540,652	369,853	125,151	116,268
Lease Creditors	26	244	350,089	-	334,832	-
Other Liabilities	27	245	1,274,326	1,092,809	802,565	642,470
Bank Overdrafts	14	234	130,636	122,776	31,050	42,636
Total Liabilities			19,910,802	16,534,902	15,874,383	13,162,394
Total Equity and Liabilities			26,625,146	22,279,216	22,152,378	18,678,274

The Notes to the Financial Statements as set out on pages 189 to 298 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
Head of Finance

The Board of Directors is responsible for these Financial Statements.
Signed and on behalf of the Board;



Rose Cooray
Chairperson



J A P M Jayasekara
Director

Colombo, Sri Lanka
13th February 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31st December,	Note	Page No.	Group		Company		Change	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000	Group %	Company %
Gross Written Premium	28	246	9,942,757	8,724,696	5,175,044	4,420,513	14	17
Premium Ceded to Reinsurers	29	248	(1,312,881)	(1,059,269)	(240,974)	(215,630)	24	12
Net Written Premium			8,629,876	7,665,427	4,934,070	4,204,883	13	17
Net Change in Reserves for Unearned Premium	30	248	(156,216)	(216,988)	-	-	(28)	-
Net Earned Premium	31	249	8,473,660	7,448,439	4,934,070	4,204,883	14	17
Other Revenue								
Interest and Dividend Income	32	249	2,248,926	1,887,343	1,949,467	1,591,900	19	22
Net Realised Gains	33	251	92,856	74,058	70,000	68,673	25	2
Net Fair Value [Losses]/Gains	34	252	(8,826)	8,482	(6,370)	(18,036)	(204)	(65)
Fee and Commission Income	35	252	170,993	172,646	92,215	79,465	(1)	16
Other Income	36	253	16,196	36,030	2,965	14,627	(55)	(80)
Total Other Revenue			2,520,145	2,178,559	2,108,277	1,736,629	16	21
Net Income			10,993,805	9,626,998	7,042,347	5,941,512	14	19
Net Benefits, Claims and Expenses								
Net Insurance Benefits and Claims Paid	37	253	(3,524,768)	(3,123,585)	(1,325,145)	(1,035,164)	13	28
Net Change in Insurance Claims Outstanding	38	254	(96,007)	(112,904)	(12,870)	(31,410)	(15)	(59)
Change in Contract Liabilities - Life Fund	21	236	(2,173,251)	(1,707,149)	(2,173,251)	(1,707,149)	27	27
Change in Contract Liability due to Transfer of One-off Surplus	20	236	-	381,156	-	381,156	(100)	(100)
Other Operating and Administration Expenses	39	255	(2,385,525)	(2,282,481)	(1,392,073)	(1,351,799)	5	3
Underwriting and Net Acquisition Costs	40	257	(1,288,068)	(1,125,418)	(959,550)	(847,968)	14	13
Finance and Other Insurance Related Costs			(121,295)	(75,963)	(72,923)	(51,330)	60	42
Total Benefits, Claims and Other Expenses			(9,588,914)	(8,046,344)	(5,935,812)	(4,643,664)	19	28
Profit Before Taxation			1,404,891	1,580,654	1,106,535	1,297,848	(11)	(15)
Income Tax (Expense)/Reversal	41	258	(394,663)	1,124,656	(279,826)	1,177,367	(135)	(124)
Profit for the Year			1,010,228	2,705,310	826,709	2,475,215	(63)	(67)
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			511,043	(399,596)	456,276	(373,143)	228	222
- Fair Value Gains Recycling to Statement of Profit or Loss upon Disposal	33	251	(92,836)	(72,541)	(68,751)	(67,960)	28	1
- Net Change in Fair Value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	19	236	(379,095)	425,139	(379,095)	425,139	(189)	(189)
- Related Tax	41	258	(6,286)	8,288	-	-	(176)	-
Items that will never be Reclassified to Profit or Loss								
Actuarial (Losses)/Gains on Defined Benefit Plans	23	242	(2,119)	6,354	(2,119)	5,489	(133)	(139)
Total Other Comprehensive Income for the Year, Net of Related Tax			30,707	(32,356)	6,311	(10,475)	195	160
Total Comprehensive Income for the Year			1,040,935	2,672,954	833,020	2,464,740	(61)	(66)
Profit attributable to :								
Equity Holders of the Parent			1,010,228	2,705,310	-	-	(63)	-
Non-Controlling Interest			-	-	-	-	-	-
Profit for the Year			1,010,228	2,705,310	-	-	(63)	-
Total Comprehensive Income Attributable to :								
Equity Holders of the Parent			1,040,935	2,672,954	-	-	(61)	-
Non-Controlling Interest			-	-	-	-	-	-
Total Comprehensive Income for the Year			1,040,935	2,672,954	-	-	(61)	-
Earnings Per Share								
Basic Earnings Per Share (Rs.)	42	262	20.20	54.11	16.53	49.50	(63)	(67)
Basic Earnings Per Share - Excluding One - off Surplus (Rs.)	42	262	20.20	46.48	16.53	41.88	(57)	(61)
Dividend Per Share (Rs.)	43	263	-	-	8.00	7.00	-	14

The Notes to the Financial Statements as set out on pages 189 to 298 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

- GROUP

For the Year Ended 31st December 2019,	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 2018 [a]	1,171,875	2,381,427	30,685	[10,760]	223,272	-	3,796,499
Total Comprehensive Income for the Year							
Profit for the Year [b]	-	2,324,154	-	-	-	381,156	2,705,310
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	[463,849]	-	-	-	[463,849]
Net Change in Fair Value of Available for Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	425,139	-	-	-	425,139
Actuarial Gains on Defined Benefit Plans	-	-	-	6,354	-	-	6,354
Total Other Comprehensive Income for the Year [c]	-	-	[38,710]	6,354	-	-	[32,356]
Total Comprehensive Income for the Year [d = b+c]	-	2,324,154	[38,710]	6,354	-	381,156	2,672,954
Net Change in Fair Value of Available For Sale Financial Assets transferred from Available For Sale Reserve [e]	-	-	-	-	[425,139]	-	[425,139]
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Parent							
Dividend Paid to Equity Holders for 2017 (Note 43) [f]	-	[300,000]	-	-	-	-	[300,000]
Balance as at 31st December 2018 [a+d+e+f]	1,171,875	4,405,581	[8,025]	[4,406]	[201,867]	381,156	5,744,314
Balance as at 1st January 2019 [g]	1,171,875	4,405,581	[8,025]	[4,406]	[201,867]	381,156	5,744,314
Total Comprehensive Income for the Year							
Profit for the Year [h]	-	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 [i]	-	-	32,826	[2,119]	-	-	30,707
Total Comprehensive Income for the Year [j = h+i]	-	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 Fund [k]	-	-	-	-	379,095	-	379,095
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Parent							
Final dividend 2018 (Note 43) [l]	-	[350,000]	-	-	-	-	[350,000]
First Interim Dividend for 2019 (Note 43) [m]	-	[100,000]	-	-	-	-	[100,000]
Balance as at 31st December 2019 [g+j+k+l+m]	1,171,875	4,965,809	24,801	[6,525]	177,228	381,156	6,714,344

Stated Capital represents 50 Million Ordinary Shares as at 31st December 2019. [2018 - 50 Million Ordinary Shares]

The Notes to the Financial Statements as set out on pages 189 to 298 form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

- COMPANY

For the Year Ended 31st December 2019,	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 2018 [a]	1,171,875	2,373,601	17,415	(9,884)	223,272	-	3,776,279
Total Comprehensive Income for the Year							
Profit for the Year [b]	-	2,094,059	-	-	-	381,156	2,475,215
Other Comprehensive Income for the Year, Net of Related Tax							
Net Change in Fair Value of Available For Sale Financial Assets	-	-	(441,103)	-	-	-	(441,103)
Net Change in Fair Value of Available For Sale Financial Assets transferred to Life Policyholders' Available For Sale Reserve Fund	-	-	425,139	-	-	-	425,139
Actuarial Gains on Defined Benefit Plans	-	-	-	5,489	-	-	5,489
Total Other Comprehensive Income for the Year [c]	-	-	(15,964)	5,489	-	-	(10,475)
Total Comprehensive Income for the Year [d = b+c]	-	2,094,059	(15,964)	5,489	-	381,156	2,464,740
Net Change in Fair Value of Available For Sale Financial Assets Transferred from Available For Sale Reserve [e]	-	-	-	-	(425,139)	-	(425,139)
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Company							
Dividend Paid to Equity Holders for 2017 [Note 43] [f]	-	(300,000)	-	-	-	-	(300,000)
Balance as at 31st December 2018 [a+d+e+f]	1,171,875	4,167,660	1,451	(4,395)	(201,867)	381,156	5,515,880
Balance as at 1st January 2019 [g]	1,171,875	4,167,660	1,451	(4,395)	(201,867)	381,156	5,515,880
Total Comprehensive Income for the Year							
Profit for the Year [h]	-	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 [i]	-	-	8,430	(2,119)	-	-	6,311
Total Comprehensive Income for the Year [j = h+i]	-	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 [k]	-	-	-	-	379,095	-	379,095
Transactions with Owners Recorded Directly in Equity							
Distributions to Owners of the Company							
Final dividend 2018 [Note 43] [l]	-	(350,000)	-	-	-	-	(350,000)
First Interim Dividend for 2019 [Note 43] [m]	-	(100,000)	-	-	-	-	(100,000)
Balance as at 31st December 2019 [g+j+k+l+m]	1,171,875	4,544,369	9,881	(6,514)	177,228	381,156	6,277,995

Stated Capital represents 50 Million Ordinary Shares as at 31st December 2019. (2018 - 50 Million Ordinary Shares)

The Notes to the Financial Statements as set out on pages 189 to 298 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the Year Ended 31 December,	Note	Page No.	Group		Company	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Cash Flow From Operating Activities						
Profit Before Taxation			1,404,891	1,580,654	1,106,535	1,297,848
Adjustments for:						
Interest Income	32	249	(2,243,284)	(1,883,053)	(1,884,977)	(1,588,206)
Dividend Income	32	249	(5,642)	(4,290)	(64,490)	(3,694)
Amortisation of Intangible Assets	6	214	18,885	19,685	18,469	19,540
Depreciation of Property, Plant and Equipment	4	210	47,319	49,285	32,593	34,533
Net Depreciation of Right of Use Assets	5	213	139,525	-	126,628	-
Interest Expense of Lease Creditor	26	244	53,710	-	51,699	-
Provision for Employee Benefits	23	242	37,136	33,928	21,656	20,023
Net Realised Gains	33	251	(92,856)	(74,058)	(70,000)	(68,673)
Net Fair Value Losses/(Gains)	34	252	8,826	(8,482)	6,370	18,036
(Gains)/Losses on Disposal of Property, Plant and Equipment			(4,283)	(178)	403	(171)
			(635,773)	(286,509)	(655,114)	(270,764)
Net Change in Operating Assets	A		(558,137)	132,856	(219,553)	(5,350)
Net Change in Operating Liabilities	B		2,898,914	1,706,125	2,380,061	1,498,548
Cash Flows from Operating Activities			1,705,004	1,552,472	1,505,394	1,222,434
Gratuity Paid	23	242	(12,493)	(13,301)	(8,539)	(4,618)
Economic Service Charges (ESC) Paid			(22,205)	(20,120)	-	-
Withholding Tax on Inter Company Dividends			(9,575)	-	-	-
Capital Gain Tax Paid			(814)	-	-	-
Net Cash Generated From Operating Activities (a)			1,659,917	1,519,051	1,496,855	1,217,816
Cash Flows from Investing Activities						
Acquisition of Financial Investments	7.5/7.6	226	(135,558,700)	(95,081,304)	(97,671,001)	(66,144,150)
Proceeds from Maturity of Financial Investments	7.5/7.6	226	130,618,738	91,105,285	93,759,085	62,867,216
Proceeds from Sale of Financial Investments	7.5/7.6	226	1,684,919	993,726	1,173,551	869,073
Interest Received			2,377,621	1,951,531	1,976,793	1,666,911
Dividend Received			5,933	4,493	64,750	3,760
Acquisition of Intangible Assets	6	214	(9,585)	(22,931)	(9,517)	(20,481)
Acquisition of Property, Plant and Equipment	4	210	(59,965)	(34,459)	(40,469)	(22,113)
Proceeds from the Sale of Property, Plant and Equipment			6,117	3,413	758	2,342
Advance Paid to Right of Use Asset			(30,363)	-	(22,587)	-
Net Cash Used in Investing Activities (b)			(965,285)	(1,080,246)	(768,637)	(777,442)
Cash Flows from Financing Activities						
Dividend Paid	43	263	(450,000)	(300,000)	(450,000)	(300,000)
Payment of Lease Liabilities	26	244	(148,520)	-	(136,481)	-
Net Cash Used in Financing Activities (c)			(598,520)	(300,000)	(586,481)	(300,000)
Net Increase in Cash and Cash Equivalents (a+b+c)			96,112	138,805	141,737	140,374
Cash and Cash Equivalents at the Beginning of the Year			639,095	500,290	459,925	319,551
Cash and Cash Equivalents at the End of the Year	14	234	735,207	639,095	601,662	459,925
Notes to the Cash Flow Statement						
A. Change in Operating Assets						
Decrease/(Increase) in Deferred Expenses			1,864	(35,199)	-	-
Increase in Loans to Life Policyholders			(82,194)	(80,828)	(82,194)	(80,828)
(Increase)/Decrease in Reinsurance Receivables			(229,638)	154,005	(68,789)	(10,916)
Increase in Premium Receivables			(148,437)	(11,894)	(1,412)	(558)
(Increase)/Decrease in Other Assets			(99,732)	106,772	(67,158)	86,952
Net Change in Operating Assets			(558,137)	132,856	(219,553)	(5,350)
B. Change in Operating Liabilities						
Increase in Other Liabilities			177,265	188,803	166,649	112,608
Increase in Insurance Contract Liabilities - (Before Tax)						
Life Insurance			2,204,529	1,360,322	2,204,529	1,360,322
Increase in Insurance Contract Liabilities - General Insurance			346,321	140,189	-	-
Increase in Reinsurance Creditors			170,799	16,811	8,883	25,618
Net Change in Operating Liabilities			2,898,914	1,706,125	2,380,061	1,498,548

The Notes to the Financial Statements as set out on pages 189 to 298 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 listed 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 327 and 328 of this Annual Report.

1.2. Consolidated Financial Statements

The Consolidated Financial Statements for the year ended and as at 31st December 2019 comprise “the Company” referring to HNB Assurance PLC as the holding Company and “the Group” referring to HNB Assurance PLC and its fully owned Subsidiary HNB General Insurance Limited.

1.3. 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 activities 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 2019 is 1,076 (2018 – 992) and the Company 583 (2018 – 549).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

2.1. Basis of Preparation

2.1.1. Statement of Compliance

The Consolidated 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 2021 or adopting SLFRS -17 Insurance Contracts, exercising the temporary exemption provided to an insurer. (Refer Note 3 of page 195)

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	184
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	185
Statement of Changes in Equity – Group	Depicts all changes made to Shareholders’ equity of the Group	186
Statement of Changes in Equity – Company	Depicts all changes made to Shareholders’ equity of the Company	187
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	188
Notes to the Financial Statements	Comprising accounting policies and other explanatory information	189 to 298

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.

The responsibility of the Directors in relation to these Financial Statements is set out in detail in the Annual Report of the Board of Directors on pages 168 to 174, Directors’ Responsibility for Financial Statements on pages 176 to 177 and the certification of the Statement of Financial Position appearing on page 184 in this Annual Report.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

2.1.3. Approval of Financial Statements

The Consolidated Financial Statements of HNB Assurance PLC and its Subsidiary (Collectively the Group) for the year ended 31st December 2019 were authorised for issue by the Board of Directors on 13th February 2020.

2.1.4. Basis of Measurement

The Consolidated Financial Statements have been prepared on an accrual basis and under the historical cost convention except for the following material items in the Financial Statements.

Item	Basis of Measurement	Note	Page No.
Financial instruments at Available For Sale	at Fair Value	7.3	222
Financial instruments at Fair Value Through Profit or Loss	at Fair Value	7.4	223
Insurance Contract Liabilities – Life Insurance	Actuarially Determined Values Based on Actuarial Guidelines Issued by IRCSL	21	236
Incurred But Not Reported/Incurred But Not Enough Reported Liability	Actuarially Determined Values Based on Internationally Accepted Actuarial Policies and Methodologies	22	239
Defined Benefit Obligations	Actuarially Valued and Recognised at Present Value of the Defined Benefit Obligation	23	242

The Group and the Company presents its Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery of settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) is presented in the respective notes. No adjustments have been made for inflationary factors affecting the Consolidated Financial Statements.

2.1.5. 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 300 to 305 continuing the past practice which was a requirement of the Statement of Recommended Practice (SoRP) for Insurance Contracts then applicable, adopted by the Institute of Chartered Accountants of Sri Lanka.

2.1.6. Functional and Presentation Currency

The Financial Statements of the Group 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.

2.1.7. 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".

2.1.8. 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).

2.1.9. Materiality and Aggregation

Each material class of similar items is presented separately. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by LKAS 01 on 'Presentation of Financial Statements'.

Notes to the Financial Statements are presented in a systematic manner which ensures the understandability and comparability of Financial Statements of the Group. 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.

2.1.10. Comparative Information

The Consolidated Financial Statements provide comparative information in respect of the previous financial year. The presentation and classification of assets and liabilities in the Financial Statements of the previous financial year have been amended, where relevant for better presentation and to be comparable with those of the current year except in the following instance;

- With the initial application of SLFRS – 16 ; "Leases"; the Group has adopted modified retrospective method from 1st January 2019, without restating comparatives for 2018 reporting period, as permitted under the specific transitional provisions in the standard. (Refer Note 5 of Page 213).

2.1.11. Financial Period

The Financial Statements are prepared for the twelve months period from 1st January to 31st December.

2.2. Use of Judgments, Estimates and Assumptions

The preparation of the Consolidated Financial Statements in conformity with SLFRSs/LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material 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.

Estimates and underlying assumptions are reviewed on an on-going basis and revisions to accounting estimates are recognised prospectively.

2.2.1. 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:

2.2.1.1. 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 7 on page 216.

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.

2.2.2. Assumptions and Estimation Uncertainties

The following notes include information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments for the year ended 31st December 2019.

2.2.2.1. 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 7 page 216.

2.2.2.2. 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.

2.2.2.3. Useful Life-time of the Property, plant & Equipment

The Group reviews the residual values, useful lives and methods of depreciation of Property, Plant & 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 4 on page 210.

2.2.2.4. 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 41 on page 258.

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 49 on page 297. 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 No 49. 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.

2.2.2.5. Valuation of Insurance Contract Liabilities – Life Insurance

The liability of the life Insurance contracts are valued using the Gross Premium Valuation (GPV) methodology. GPV liability is a prospective valuation method which is derived by discounting the projected future cash flows of each individual policy. These policy cash flows reflects the best estimate assumptions

of the current portfolio and increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used are mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. For those contracts that insure risk related to longevity, prudent allowance is made for expected future mortality improvements, as well as wide ranging changes to life style, which could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing 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 Company'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 21 on page 236.

2.2.2.6. 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 amount 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.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

The key assumptions and estimates made in the valuation of the General Insurance Contract Liabilities are given in Note 22 on page 239.

2.2.2.7. Valuation of Defined Benefit Obligation – Gratuity

The cost of defined benefit plans – Gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increments, 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 23 on page 242.

2.2.2.8. Provisions for Liabilities and Contingencies

The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. Timing of concluding legal claims is uncertain; as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

2.2.2.9. Going Concern

The Directors have made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

2.2.2.10. Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined

using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values. This judgment may include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of the financial instruments. The methodologies used in the valuation of financial assets are set out in page 264 and 270.

The table below provides the references of this report which discusses the estimates in detail.

Significant Accounting Estimate/Judgment	Disclosure Reference	
	Note	Page No.
Assessment of Impairment	7	216
Insurance Contract Liabilities – Life Insurance	21	236
Liability Adequacy Test (LAT) – Life Insurance	21.5	239
Insurance Contract Liabilities – General Insurance	22	239
Liability Adequacy Test (LAT) – General Insurance	22.8	241
Valuation of Defined Benefit Obligation – Gratuity	23	242
Deferred Acquisition Cost	40	257
Deferred Tax Assets and Liabilities	41	258
Fair Value of Financial Instruments	44	264

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 51 on pages 189 to 298.

Significant Accounting Policies

Significant Accounting policies adopted by the Group have been applied consistently for all financial periods 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.
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Foreign Currency Transactions	2.5	193
Product Classification	2.6	193
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Insurance Contract – Deferred Expenses	13	233
Cash and Cash Equivalents	14	234
Insurance Contract Liabilities – Life Insurance	21	236
Insurance Contract Liabilities – General Insurance	22	239
Employee Defined Benefits Liabilities	23	242
Current Tax Liabilities	24	243
Reinsurance Creditors	25	244
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Other Liabilities	27	245

Description	Note	Page No.
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Premium Ceded to Reinsurers	29	248
Net Change in Reserves for Unearned Premium	30	248
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Net Realised Gains	33	251
Net Fair Value (Losses)/Gains	34	252
Fee and Commission Income	35	252
Other Income	36	253
Net Insurance Benefits and Claims Paid	37	253
Net Change in Insurance Claims Outstanding	38	254
Staff Expenses	39.1	256
Underwriting and Net Acquisition Costs	40	257
Income Tax and Deferred Tax	41	258
Basic Earnings Per Share (EPS)	42	262
Dividend Per Share (DPS)	43	263
Financial Assets, Liabilities and Fair Value Measurement	44	264

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. 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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent has less than a majority of the voting or similar rights of an investee, the Parent considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The voting rights and potential voting rights of the Parent

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a Subsidiary begins when the Company obtains control over the subsidiary

and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a Subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Company gains control until the date the Company ceases to control the Subsidiary.

The Financial Statements of Subsidiaries are prepared for the same reporting period as followed by the parent Company, using consistent accounting policies and same accounting policies 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.

2.4.2. Transactions Eliminated on Consolidation

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a Subsidiary, without a loss of control, is accounted for as an equity transaction.

2.4.3. Loss of Control

Upon the loss of control of a Subsidiary, the Group de-recognises the assets (including goodwill), and liabilities of the former Subsidiary, any non-controlling interests and the other components of equity related to the former Subsidiary, from the Consolidated Statement of Financial Position. Any surplus

or deficit arising on the loss of control is recognised in Profit or Loss. If the Group retains any interest in the former Subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or as an Available For Sale financial asset depending on the level of influence retained.

2.5. Foreign Currency Transactions

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. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in Profit or Loss, except for differences arising on the retranslation of Available For Sale equity instruments, which are recognised in Other Comprehensive Income.

2.6. 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.

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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. Identification and Measurement

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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.

Objective evidence of impairment may include:

- a) significant financial difficulty of the borrower or issuer,
- b) default or delinquency by debtor,
- c) It becoming 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. Impairment of financial assets carried at amortised cost is disclosed in following notes to the Financial Statements:

Staff Loans	- 12.1a
Advisor Loans	- 12.1b
Premium Receivable	- 11

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

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.

Contingencies are disclosed if material and if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event, but either a payment is not probable or the amount cannot be reliably estimated [Note 49].

2.9. Statement of Cash Flow

The Statement of Cash Flow has been prepared using the indirect method of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard LKAS 7 - Cash Flow Statements.

Interest and dividend received are classified as investing cash flows. Cash and Cash Equivalents comprise cash in hand, demand deposits and short-term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of cash flows, cash and cash equivalents are presented net of bank overdrafts [Note 14].

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.

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 2021.

An insurer may apply the temporary exemption from SLFRS 9 if, and only if:

- [a] 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;
- [b] 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.

Having considered the above criteria, since HNB Assurance PLC and HNB General Insurance Limited are predominantly connected with

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

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 2021.

Summary of the Requirements Classification and Measurement Financial Assets

SLFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

SLFRS 9 contains three principal classification categories for financial assets measured at:

- Amortised Cost
- Fair Value Through Other Comprehensive Income (FVTOCI)
- Fair Value Through Profit or Loss

The standard eliminates the existing LKAS 39 categories of Held to Maturity, Loans and Receivables and Available For Sale. Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

As at 31st December 2019, the Group had equity investments classified as Available For Sale with a fair value of Rs. 48.1 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 financial assets portfolio.

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	2,072,482	2,072,482	Amortised cost
Term Deposit	L & R	7,600,594	7,711,961	Amortised cost
Debentures	L & R	5,157,410	5,451,462	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	6,245,704	6,245,704	FVTOCI
Equity Shares	AFS	48,060	48,060	FVTOCI/FVTPL
Equity Shares	FVTPL	77,824	77,824	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 1 January 2021.

Objective

SLFRS 17 Insurance contracts establishes the 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 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;

1. Building Block Approach (BBA)
2. Premium Allocation Approach (PAA)
3. 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.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

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").

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 1 January 2021. 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.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

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Notes to the Statement of Financial Position	Note	Page No.	Notes to the Statement of Profit or Loss and Other Comprehensive Income and Other Notes	Note	Page No.
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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 to make decisions about resources 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.

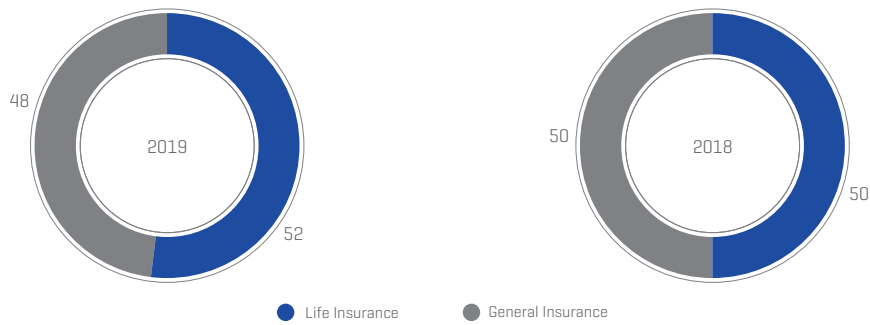
For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

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.

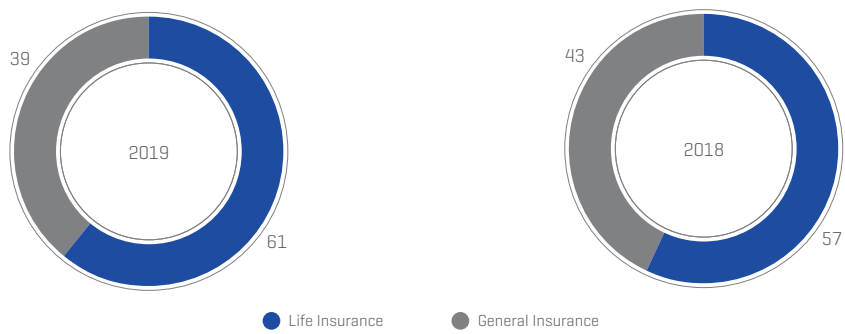
Activities of the Group are located within the country. The economic environment in which the Group operates is not subject to risks and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

SEGMENTAL PERFORMANCE HIGHLIGHT

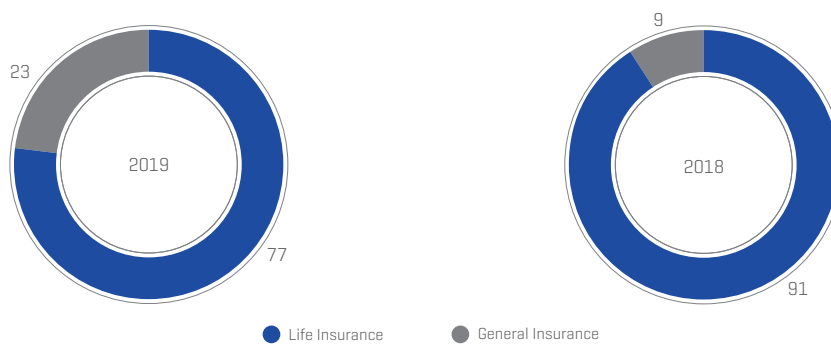
Segment - Gross Written Premium [%]



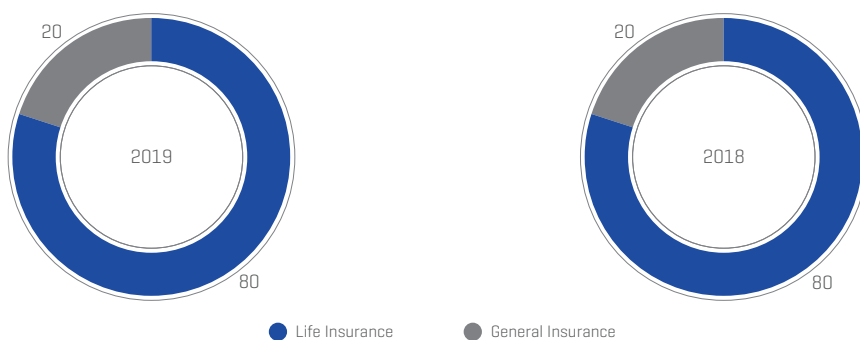
Segment - Benefits Claims and Other Expenses [%]



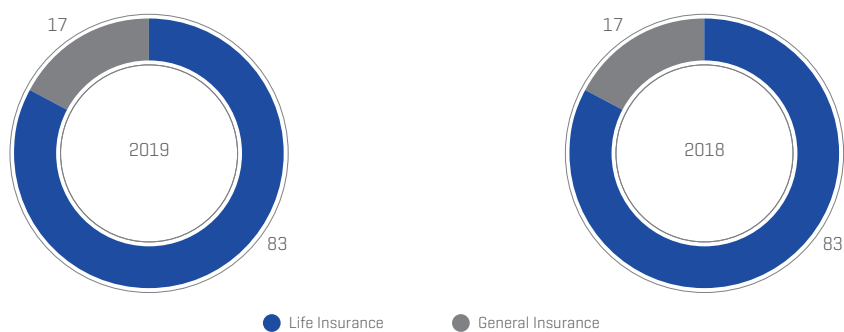
Segment - Profitability [%]



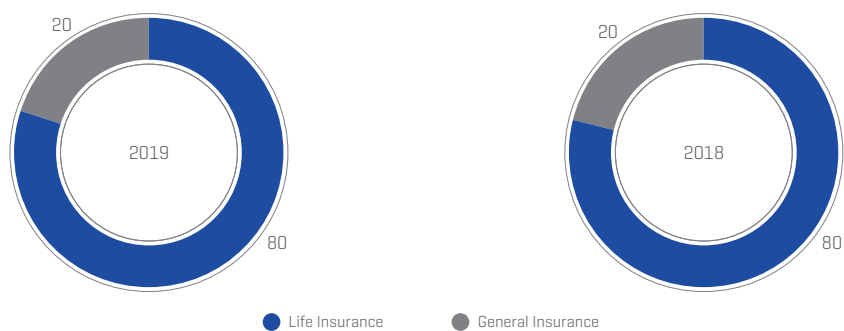
Segment - Assets [%]



Segment - Insurance Contract Liabilities [%]



Segment - Liabilities [%]



STATEMENT OF FINANCIAL POSITION - SEGMENTAL REVIEW - 2019

As at 31st December 2019,	Life Insurance Rs.'000	General Insurance Rs.'000	Intersegment Adjustment Rs.'000	Total 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

The Notes to the Financial Statements as set out on pages 189 to 298 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION - SEGMENTAL REVIEW - 2018

As at 31st December 2018,	Life Insurance	General Insurance	Intersegment Adjustment	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets				
Property, Plant and Equipment	104,487	47,072	-	151,559
Intangible Assets	58,782	2,305	-	61,087
Deferred Tax Assets	1,280,499	24,383	-	1,304,882
Financial Investments	14,679,706	2,899,425	-	17,579,131
Investment in Subsidiary	1,150,000	-	[1,150,000]	-
Loans to Life Policyholders	243,113	-	-	243,113
Reinsurance Receivables	75,926	339,847	-	415,773
Premium Receivables	8,046	790,167	-	798,213
Other Assets	575,154	270,915	[22,968]	823,101
Insurance Contract - Deferred Expenses	-	140,486	-	140,486
Cash and Cash Equivalents	502,561	259,310	-	761,871
Total Assets	18,678,274	4,773,910	[1,172,968]	22,279,216
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	4,167,660	240,876	[2,955]	4,405,581
Available For Sale Reserve	1,451	[12,431]	2,955	[8,025]
Other Reserve	[4,395]	[11]	-	[4,406]
Life Policyholders' Available For Sale Reserve Fund	[201,867]	-	-	[201,867]
Restricted Regulatory Reserve	381,156	-	-	381,156
Equity Attributable to the Equity Holders of Parent	5,515,880	1,378,434	[1,150,000]	5,744,314
Non-Controlling Interest	-	-	-	-
Total Equity	5,515,880	1,378,434	[1,150,000]	5,744,314
Liabilities				
Insurance Contract Liabilities - Life Insurance	12,261,472	-	-	12,261,472
Insurance Contract Liabilities - General Insurance	-	2,525,095	-	2,525,095
Employee Defined Benefit Liabilities	84,840	55,516	-	140,356
Current Tax Liabilities	14,708	7,833	-	22,541
Reinsurance Creditors	116,268	253,585	-	369,853
Other Liabilities	642,470	473,307	[22,968]	1,092,809
Bank Overdrafts	42,636	80,140	-	122,776
Total Liabilities	13,162,394	3,395,476	[22,968]	16,534,902
Total Equity and Liabilities	18,678,274	4,773,910	[1,172,968]	22,279,216

The Notes to the Financial Statements as set out on pages 189 to 298 form an integral part of these Financial Statements.

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	92,215	101,239	(22,461)	170,993
Other Income	2,965	13,231	-	16,196
Total Other Revenue	2,108,277	490,799	(78,931)	2,520,145
Net Income	7,042,347	4,081,362	(129,904)	10,993,805
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	(1,392,073)	(1,050,708)	57,256	(2,385,525)
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	(5,935,812)	(3,726,536)	73,434	(9,588,914)
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

The Notes to the Financial Statements as set out on pages 189 to 298 form an integral part of these Financial Statements.

STATEMENT OF PROFIT OR LOSS - SEGMENTAL REVIEW - 2018

For the Year Ended 31st December 2018,	Life Insurance Rs.'000	General Insurance Rs.'000	Intersegment Adjustment Rs.'000	Total Rs.'000
Gross Written Premium	4,420,513	4,340,575	(36,392)	8,724,696
Premium Ceded to Reinsurers	(215,630)	(843,639)	-	(1,059,269)
Net Written Premium	4,204,883	3,496,936	(36,392)	7,665,427
Net Change in Reserves for Unearned Premium	-	(216,988)	-	(216,988)
Net Earned Premium	4,204,883	3,279,948	(36,392)	7,448,439
Other Revenue				
Interest and Dividend Income	1,591,900	295,443	-	1,887,343
Net Realised Gains	68,673	5,385	-	74,058
Net Fair Value (Losses)/Gains	(18,036)	26,518	-	8,482
Fee and Commission Income	79,465	111,051	(17,870)	172,646
Other Income	14,627	21,403	-	36,030
Total Other Revenue	1,736,629	459,800	(17,870)	2,178,559
Net Income	5,941,512	3,739,748	(54,262)	9,626,998
Net Benefits, Claims and Expenses				
Net Insurance Benefits and Claims Paid	(1,035,164)	(2,089,298)	877	(3,123,585)
Net Change in Insurance Claims Outstanding	(31,410)	(81,494)	-	(112,904)
Change in Contract Liabilities - Life Fund	(1,707,149)	-	-	(1,707,149)
Change in Contract Liability due to Transfer of One-Off Surplus	381,156	-	-	381,156
Other Operating and Administration Expenses	(1,351,799)	(971,644)	40,962	(2,282,481)
Underwriting and Net Acquisition Costs	(847,968)	(289,873)	12,423	(1,125,418)
Other Insurance Related Costs	(51,330)	(24,633)	-	(75,963)
Total Benefits, Claims and other Expenses	(4,643,664)	(3,456,942)	54,262	(8,046,344)
Profit Before Taxation	1,297,848	282,806	-	1,580,654
Income Tax Reversal/(Expense)	1,177,367	(52,711)	-	1,124,656
Profit for the Year	2,475,215	230,095	-	2,705,310

The Notes to the Financial Statements as set out on pages 189 to 298 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS - SEGMENTAL REVIEW - 2019

For the Year Ended 31st December 2019,		Life	General	Intersegment	Total
		Insurance	Insurance	Adjustment	
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
	Note				
Cash Flow 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 Sale 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	14	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

The Notes to the Financial Statements as set out on pages 189 to 298 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS - SEGMENTAL REVIEW - 2018

For the Year Ended 31st December 2018,		Life Insurance	General Insurance	Intersegment Adjustment	Total
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash Flow From Operating Activities					
Profit Before Taxation		1,297,848	282,806	-	1,580,654
Adjustments for:					
Interest Income		(1,588,206)	(294,847)	-	(1,883,053)
Dividend Income		(3,694)	(596)	-	(4,290)
Amortisation of Intangible Assets		19,540	145	-	19,685
Depreciation of Property, Plant and Equipment		34,533	14,752	-	49,285
Provision for Employee Benefits		20,023	13,905	-	33,928
Net Realised Gains		(68,673)	(5,385)	-	(74,058)
Net Fair Value Losses/(Gains)		18,036	(26,518)	-	(8,482)
Gains on Disposal of Property, Plant and Equipment		(171)	(7)	-	(178)
		(270,764)	(15,745)	-	(286,509)
Net Change in Operating Assets	A	(5,350)	115,238	22,968	132,856
Net Change in Operating Liabilities	B	1,498,548	230,545	(22,968)	1,706,125
Cash Flows from Operating Activities		1,222,434	330,038	-	1,552,472
Gratuity Paid		(4,618)	(8,683)	-	(13,301)
Economic Service Charges (ESC) Paid		-	(20,120)	-	(20,120)
Net Cash Generated From Operating Activities (a)		1,217,816	301,235	-	1,519,051
Cash Flows from Investing Activities					
Acquisition of Financial Investments		(66,144,150)	(28,937,154)	-	(95,081,304)
Proceeds from Maturity of Financial Investments		62,867,216	28,238,069	-	91,105,285
Proceeds from Sale of Financial Investments		869,073	124,653	-	993,726
Interest Received		1,666,911	284,620	-	1,951,531
Dividend Received		3,760	733	-	4,493
Acquisition of Intangible Assets		(20,481)	(2,450)	-	(22,931)
Acquisition of Property, Plant and Equipment		(22,113)	(12,346)	-	(34,459)
Proceeds from the Sale of Property, Plant and Equipment		2,342	1,071	-	3,413
Net Cash Used in Investing Activities (b)		(777,442)	(302,804)	-	(1,080,246)
Cash Flows from Financing Activities					
Dividend Paid		(300,000)	-	-	(300,000)
Net Cash Used in Financing Activities (c)		(300,000)	-	-	(300,000)
Net Increase/(Decrease) in Cash and Cash Equivalents (a+b+c)		140,374	(1,569)	-	138,805
Cash and Cash Equivalents at the Beginning of the Year		319,551	180,739	-	500,290
Cash and Cash Equivalents at the End of the Year	14	459,925	179,170	-	639,095
Notes to the Cash Flow Statement					
A. Change in Operating Assets					
Increase in Deferred Expenses		-	(35,199)	-	(35,199)
Increase in Loans to Life Policyholders		(80,828)	-	-	(80,828)
(Increase)/Decrease in Reinsurance Receivables		(10,916)	164,921	-	154,005
Increase in Premium Receivables		(558)	(11,336)	-	(11,894)
Decrease/(Increase) in Other Assets		86,952	(3,148)	22,968	106,772
Net Change in Operating Assets		(5,350)	115,238	22,968	132,856
B. Change in Operating Liabilities					
Increase in Other Liabilities		112,608	99,163	(22,968)	188,803
Increase in Insurance Contract Liabilities (Before Tax) - Life Insurance		1,360,322	-	-	1,360,322
Increase in Insurance Contract Liabilities - General Insurance		-	140,189	-	140,189
Increase/(Decrease) in Reinsurance Creditors		25,618	(8,807)	-	16,811
Net Change in Operating Liabilities		1,498,548	230,545	(22,968)	1,706,125

The Notes to the Financial Statements as set out on pages 189 to 298 form an integral part of these Financial Statements.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT (PPE)

ACCOUNTING POLICY

Property, Plant and Equipment are tangible items that are held for servicing or for administrative purposes and are expected to be used for more than one year. 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 the 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 or Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is de-recognised. The costs of the day-to-day servicing of Property, Plant or Equipment are recognised in Profit or Loss as incurred.

REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

DEPRECIATION

The Group provides depreciation from the date of the assets are available for use up to the date of disposal, at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

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

Computer Equipment	6 years
Motor Vehicles	4 years
Office Equipment	5 years
Furniture and Fittings	10 years
Lease hold Improvements (Fixtures)	Based on Lease Agreement period or useful life of asset whichever is lower

The asset’s residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. The depreciation rates are determined separately for each significant part of an item of Property, Plant & Equipment and commence to depreciate 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.

ACCOUNTING POLICY

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.

	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 2018	217,376	11,401	64,846	62,290	98,073	453,986
Additions during the Year	17,568	-	6,490	3,748	6,655	34,461
Disposals during the Year	(15,106)	-	(5,684)	(1,634)	(2,909)	(25,333)
Balance as at 31st December 2018 [a]	219,838	11,401	65,652	64,404	101,819	463,114
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 [b]	225,576	5,450	66,386	68,842	112,241	478,495
Accumulated Depreciation						
Balance as at 1st January 2018	141,151	11,401	46,912	34,396	50,506	284,366
Depreciation for the Year	22,769	-	6,283	5,107	15,126	49,285
Depreciation on Disposals	(13,160)	-	(5,260)	(1,378)	(2,298)	(22,096)
Balance as at 31st December 2018 [c]	150,760	11,401	47,935	38,125	63,334	311,555
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 [d]	149,638	4,123	46,631	42,107	73,625	316,124
Carrying Value as at 31st December 2018 [a-c]	69,078	-	17,717	26,279	38,485	151,559
Carrying Value as at 31st December 2019 [b-d]	75,938	1,327	19,755	26,735	38,616	162,371

4.1a. Acquisition of PPE during the Year

During the financial year, the Group acquired PPE to the aggregate value of Rs. 59.9 Million [2018 - Rs. 34.5 Million]. Cash payments amounting to Rs. 59.9 Million [2018 - Rs. 34.5 Million] were made by the Group during the year to purchase of PPE.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT (PPE) (CONTD.)

	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 2018	164,065	5,317	50,840	38,180	73,216	331,618
Additions during the Year	9,608	-	4,775	2,308	5,424	22,115
Disposals during the Year	(12,217)	-	(4,552)	(974)	(2,756)	(20,499)
Balance as at 31st December 2018 [a]	161,456	5,317	51,063	39,514	75,884	333,234
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 [b]	157,892	5,450	53,074	43,052	82,937	342,405
Accumulated Depreciation						
Balance as at 1st January 2018	112,269	5,317	35,489	21,535	37,930	212,540
Depreciation for the Year	15,596	-	4,975	3,045	10,917	34,533
Depreciation on Disposals	(11,026)	-	(4,148)	(916)	(2,236)	(18,326)
Balance as at 31st December 2018 [c]	116,839	5,317	36,316	23,664	46,611	228,747
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 [d]	111,050	4,123	36,513	26,100	53,417	231,203
Carrying Value as at 31st December 2018 [a-c]	44,617	-	14,747	15,850	29,273	104,487
Carrying Value as at 31st December 2019 [b-d]	46,842	1,327	16,561	16,952	29,520	111,202

4.1b Acquisition of PPE during the Year

During the financial year, the Company acquired PPE to the aggregate value of Rs. 40.5 Million (2018 - Rs. 22.1 Million). Cash payments amounting to Rs. 40.5 Million (2018 - Rs. 22.1 Million) were made by Company during the year to purchase of PPE.

4.2. Fully Depreciated PPE in Use

PPE includes fully depreciated assets which are in the use of normal business activities. The initial cost of fully depreciated PPE which are still in use as at reporting date, is as follows :

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Computer Equipment	84,108	89,188	67,331	74,381
Motor Vehicles	4,120	11,401	4,120	5,317
Office Equipment	31,953	34,486	24,789	25,338
Furniture and Fittings	18,748	15,670	12,573	10,276
Fixtures	35,727	27,341	23,556	22,920
Total	174,656	178,086	132,369	138,232

4.3. PPE Pledged as Security for Liabilities

There were no items of PPE in the Group and Company, pledged as securities for liabilities during the year. [2018 - Nil]

4.4. Title Restriction on PPE

There are no restrictions that existed on the title of the PPE of the Group and Company as at the reporting date. [2018-No Title Restriction]

4.5. Assessment of Impairment of PPE

The Board of Directors has assessed the potential impairment indicators of PPE as at 31st December 2019. Based on the assessment, no impairment indicators were identified. [2018- No Impairment of PPE]

4.6. Capitalisation of Borrowing Costs

There were no capitalised borrowing costs relating to the acquisition of PPE during the year. [2018 - Nil]

4.7. Temporarily idle Property, Plant and Equipment

There were no temporarily idle properties as at the year ended 31st December 2019. [2018 - Nil]

5. RIGHT OF USE ASSETS**ACCOUNTING POLICY**

SLFRS 16 "Leases" supersedes LKAS 17 "Leases", IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. The Group has adopted SLFRS 16 using modified retrospective method from 1st January 2019, without restating comparatives for 2018 reporting period, as permitted under the specific transitional provisions in the standard.

RECOGNITION

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use assets of the Group consist of branch premises and vehicles taken on rent which were previously recognised as operating leases under LKAS 17.

MEASUREMENT

The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability (present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined Group's incremental borrowing rate) adjusted for any lease payments made at or before the commencement date less any lease incentives received, plus any initial direct costs incurred. Where the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. Right of use assets are subject to impairment.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

5. RIGHT OF USE ASSETS (CONTD.)

5.1. The movement of Right of Use Assets of the Group and Company is as follows;

As at 31st December,	Group			Company		
	2019			2019		
	Property Rs. '000	Motor Vehicles Rs. '000	Total Rs. '000	Property Rs. '000	Motor Vehicles Rs. '000	Total Rs. '000
Cost of Right of Use Assets						
Right of Use Assets (PV of Future Lease Payment) on Initial Application of SLFRS 16 as at 1st January	342,898	19,206	362,104	337,971	12,809	350,780
Opening Balance of Advance Payments for the Right of Use Assets as at 1st January	16,553	-	16,553	16,553	-	16,553
Rent Payable Under LKAS 17 as at 1st January	(8,553)	-	(8,553)	(6,554)	-	(6,554)
Additions of Right of Use Assets during the Year	72,634	10,161	82,795	58,673	10,161	68,834
Advances Paid for Right of Use Assets during the Year	30,363	-	30,363	22,587	-	22,587
Disposal of Right of Use Assets on Termination of Lease Agreements during the Year	(3,093)	-	(3,093)	(3,093)	-	(3,093)
Total Cost of Right of Use Asset [a]	450,802	29,367	480,169	426,137	22,970	449,107
Accumulated Depreciation and Amortisation						
Depreciation of Right of Use Assets	116,185	8,751	124,936	107,816	6,225	114,041
Amortisation of Rent Payable Under LKAS 17	(3,346)	-	(3,346)	(2,384)	-	(2,384)
Amortisation of Rent Advance for Right of Use Assets	17,935	-	17,935	14,971	-	14,971
Depreciation on Disposal of Right of Use Assets	(3,093)	-	(3,093)	(3,093)	-	(3,093)
Total Accumulated Depreciation and Amortisation [b]	127,681	8,751	136,432	117,310	6,225	123,535
Net Right of Use Assets as at 31st December [a-b]	323,121	20,616	343,737	308,827	16,745	325,572

5.2. Short-term Leases and Leases of Low-Value Assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

5.2. Lease Creditors

The Details of Lease Creditors in relation to Right of Use Assets are disclosed in note 26 on page 244.

6. INTANGIBLE ASSETS

ACCOUNTING POLICY

The Group's Intangible Assets include the value of Computer Software.

BASIS OF RECOGNITION

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard – LKAS 38 on "Intangible Assets". Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs which are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

ACCOUNTING POLICY

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 recognised in Profit or Loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is six years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Computer Software				
Cost				
Balance as at 1st January	238,303	215,372	235,689	215,208
Acquisition/Capitalisation during the Year	9,585	22,931	9,517	20,481
Balance as at 31st December (a)	247,888	238,303	245,206	235,689
Accumulated Amortisation				
Balance as at 1st January	177,216	157,531	176,907	157,367
Amortisation for the Year	18,885	19,685	18,469	19,540
Balance as at 31st December (b)	196,101	177,216	195,376	176,907
Carrying Amount as at 31st December (a-b)	51,787	61,087	49,830	58,782

6.1. 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. 9.6 Million (2018 - Rs. 22.9 Million) where the Company acquired/capitalised Intangible Assets (Computer Software) to the aggregate value of Rs. 9.5 Million (2018 - Rs. 20.5 Million).

Cash payments of the Group amounting to Rs. 9.6 Million (2018 - Rs. 22.9 Million) were made during the year for purchase of Intangible Assets. Cash payments of the Company amounting to Rs. 9.5 Million (2018 - Rs. 20.5 Million) were made during the year for purchase of Intangible Assets.

6.2. Fully Amortised Intangible Assets in Use

The Group's Intangible Assets includes fully amortised Computer software which are in the use of normal business activities having a gross carrying amounts of Rs. 140 Million. (2018 - Rs. 120 Million)

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

6. INTANGIBLE ASSETS (CONTD.)

6.3. Title Restriction on Intangible Assets

There were no restrictions that existed on the title of the Intangible Assets of the Group and the Company as at the reporting date. [2018-No Title Restriction]

6.4. Assessment of Impairment of Intangible Assets

The Board of Directors has assessed potential impairment indicators of Intangible Assets as at 31st December 2019. Based on the assessment, no impairment indicators were identified. [2018 - No Impairment of Intangible Assets]

6.5. Capitalisation of Borrowing Costs

There were no capitalised borrowing costs related to the acquisition of Intangible Assets during the year. [2018 - Nil]

7. 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 market place are recognised on the settlement date, i.e., the date that the Group receives/settles money for the sale/purchase of the financial asset. However, when it comes to investment in quoted equities and corporate debt, the transaction date (i.e. trade date) is used to recognise/de-recognise the asset.

MEASUREMENT OF FINANCIAL ASSETS

Initial and subsequent measurement of each classes of financial assets are disclosed in respective sub-notes below:

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 below:

RE-CLASSIFICATION OF FINANCIAL ASSETS

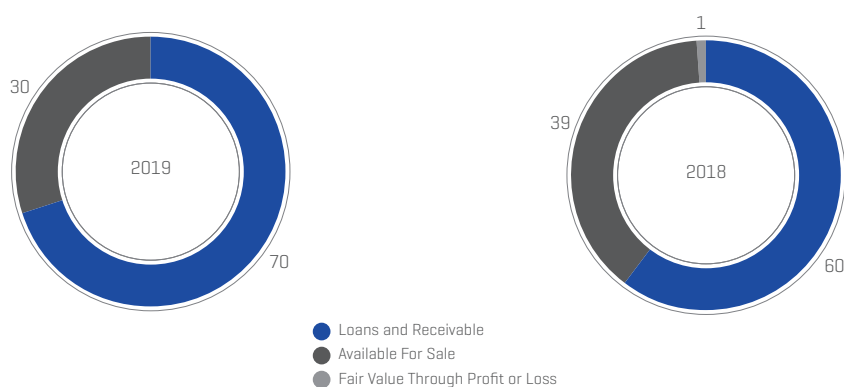
The Group evaluates its Available For Sale financial assets to determine whether the ability and intention to sell them in the near term would still be appropriate. In the case where the Group is unable to trade these financial assets due to inactive markets and management’s intention significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to Loans & Receivables is permitted when the financial assets meet the definition of Loans & Receivables and management has the intention and ability to hold these assets for the foreseeable future or until maturity. The reclassification to Held to Maturity is permitted only when the entity has the ability and intention to hold the financial asset until maturity.

An entity shall not re-classify out of fair value through profit or loss category while it is held or issued.

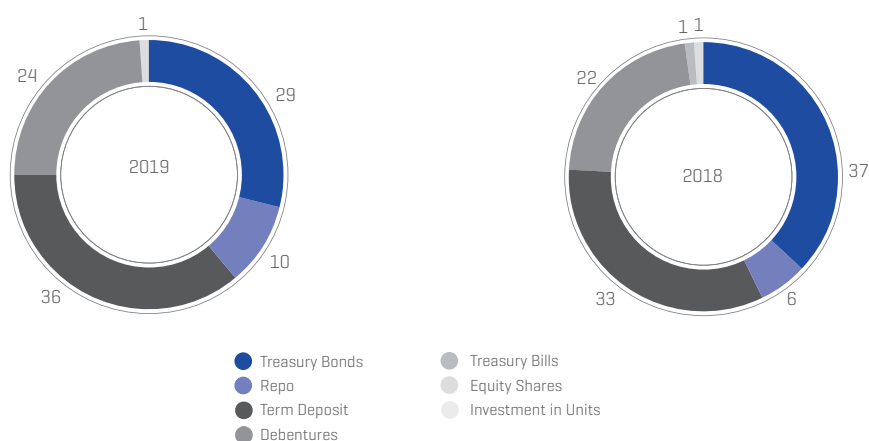
IMPAIRMENT OF FINANCIAL ASSETS

Accounting policy for impairment is disclosed in Note 2.7 of these Financial Statements.

Financial Investment Analysis Based on Reporting Category - Group [%]



Financial Investment Analysis Based on Asset Classes - Group [%]



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. 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			
		2019		2018		2019		2018	
		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	7.1	-	-	-	-	-	-	-	-
Loans and Receivables	7.2	14,830,486	15,235,905	10,709,515	10,585,692	12,065,489	12,437,762	8,728,381	8,627,920
Available For Sale	7.3	6,293,764	6,293,764	6,776,591	6,776,591	5,634,097	5,634,097	5,872,886	5,872,886
Fair Value Through Profit or Loss	7.4	77,824	77,824	93,025	93,025	77,824	77,824	78,439	78,439
Total Financial Investments		21,202,074	21,607,493	17,579,131	17,455,308	17,777,410	18,149,683	14,679,706	14,579,245

7.1 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.

7.2 LOANS AND RECEIVABLES (L & R)

ACCOUNTING POLICY

INITIAL MEASUREMENT

Financial Instruments classified as L&R 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.

As at 31st December,	Note	Group				Company			
		2019		2018		2019		2018	
		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
Repos*		2,072,482	2,072,482	1,078,670	1,078,670	1,349,087	1,349,087	786,115	786,115
Term Deposits	7.2.1	7,600,594	7,711,961	5,860,227	5,843,953	6,117,949	6,222,249	4,769,763	4,753,838
Debentures**	7.2.2	5,157,410	5,451,462	3,770,618	3,663,069	4,598,453	4,866,426	3,172,503	3,087,967
Total		14,830,486	15,235,905	10,709,515	10,585,692	12,065,489	12,437,762	8,728,381	8,627,920

* 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.

** 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 44.

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.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

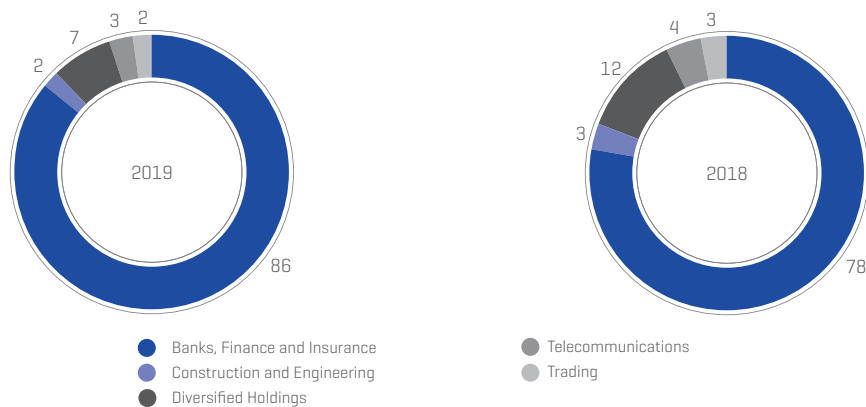
7. FINANCIAL INVESTMENTS (CONTD.)

7.2.1. Term Deposits

As at 31st December,	Group				Company			
	2019		2018		2019		2018	
	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	294,132	294,132	766,396	766,396	144,864	144,864	625,097	625,097
Other Banks	4,139,587	4,169,825	3,314,135	3,301,796	3,386,907	3,415,243	2,652,111	2,641,648
Total [a]	4,433,719	4,463,957	4,080,531	4,068,192	3,531,771	3,560,107	3,277,208	3,266,745
Licensed Specialised Banks								
Term Deposits with Related Parties - HNB Finance Ltd	50,806	54,130	50,681	51,919	50,806	54,130	50,681	51,919
Other Finance Companies	2,232,579	2,308,252	1,603,596	1,598,423	1,829,991	1,900,499	1,341,519	1,334,819
Total [c]	2,283,385	2,362,382	1,654,277	1,650,342	1,880,797	1,954,629	1,392,200	1,386,738
Total Investment in Term Deposits [a+b+c]	7,600,594	7,711,961	5,860,227	5,843,953	6,117,949	6,222,249	4,769,763	4,753,838

7.2.2. Debentures - Quoted

Sector-wise Debenture Composition - Group [%]



As at 31st December,	Group				Company			
	2019		2018		2019		2018	
	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	45,329	42,347	59,639	54,781	45,329	42,347	59,639	54,781
Commercial Bank of Ceylon PLC	230,116	243,343	230,116	224,463	190,336	201,993	190,336	185,539
DFCC Bank PLC	976,735	1,069,109	332,445	328,848	932,910	1,023,337	288,620	285,466
Hatton National Bank PLC	264,159	271,541	211,047	204,099	264,159	271,541	207,040	200,242
National Development Bank PLC	245,657	260,864	67,538	63,362	212,504	224,837	67,538	63,362
Nations Trust Bank PLC	607,952	644,408	226,885	226,832	571,137	605,570	190,069	189,977
Pan Asia Banking Corporation PLC	-	-	67,680	66,264	-	-	47,288	46,294
Sampath Bank PLC	766,116	805,670	535,729	515,545	692,075	726,953	481,791	466,158
Seylan Bank PLC	335,547	341,751	368,192	354,496	262,117	267,741	272,998	265,243
Commercial Credit and Finance PLC	213,510	212,895	213,510	205,794	152,536	152,071	152,536	147,019
Commercial Leasing and Finance PLC	65,850	62,610	65,850	60,391	65,850	62,610	65,850	60,391
HNB Finance Limited	125,045	133,416	-	-	125,045	133,416	-	-
LOLC Holdings PLC	290,932	330,128	56,248	53,893	238,979	271,176	40,907	39,195
LB Finance PLC	17,173	18,007	17,119	17,049	9,092	9,533	9,063	9,026
Merchant Bank of Sri Lanka & Finance PLC	-	-	60,350	55,065	-	-	42,910	39,324
People's Leasing & Finance PLC	151,415	157,864	196,995	195,160	114,292	119,237	144,680	143,467
Siyapatha Finance PLC	41,883	44,221	134,241	122,485	41,883	44,221	100,482	92,470
Softlogic Finance PLC	-	-	31,156	30,422	-	-	18,238	17,809
Vallibel Finance PLC	46,150	46,283	46,150	45,151	30,767	30,855	30,767	30,101
Sector Total [a]	4,423,569	4,684,457	2,920,890	2,824,100	3,949,011	4,187,438	2,410,752	2,335,864
Construction and Engineering								
Access Engineering PLC	126,509	127,117	126,832	122,018	111,328	111,863	111,612	107,376
Sector Total [b]	126,509	127,117	126,832	122,018	111,328	111,863	111,612	107,376
Diversified Holdings								
Hayleys PLC	376,798	394,790	347,291	345,266	307,580	322,027	294,671	292,953
Hemas Holdings PLC	-	-	57,348	56,826	-	-	42,610	42,230
Richard Pieris and Company PLC	-	-	42,094	41,396	-	-	36,695	36,081
Sector Total [c]	376,798	394,790	446,733	443,488	307,580	322,027	373,976	371,264
Telecommunications								
Sri Lanka Telecom PLC	148,062	160,211	148,523	148,937	148,062	160,211	148,523	148,937
Sector Total [d]	148,062	160,211	148,523	148,937	148,062	160,211	148,523	148,937
Trading								
Abans PLC	-	-	45,168	43,547	-	-	45,168	43,547
Singer [Sri Lanka] PLC	82,472	84,887	82,472	80,979	82,472	84,887	82,472	80,979
Sector Total [e]	82,472	84,887	127,640	124,526	82,472	84,887	127,640	124,526
Total Investment in Quoted Debentures [a+b+c+d+e]	5,157,410	5,451,462	3,770,618	3,663,069	4,598,453	4,866,426	3,172,503	3,087,967

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. FINANCIAL INVESTMENTS (CONTD.)

7.3. 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 19.

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			
		2019		2018		2019		2018	
		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		6,245,704	6,245,704	6,555,839	6,555,839	5,586,037	5,586,037	5,777,918	5,777,918
Treasury Bills		-	-	165,467	165,467	-	-	45,282	45,282
Equity Shares	7.3.1	48,060	48,060	55,285	55,285	48,060	48,060	49,686	49,686
Total		6,293,764	6,293,764	6,776,591	6,776,591	5,634,097	5,634,097	5,872,886	5,872,886

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 44.

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. 9.9 Million (2018-Rs. 7.9 Million) for equity instruments. Refer Note 34 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.

7.3.1. Equity Shares

As at 31st December,	Group						Company						
	2019			2018			2019			2018			
	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]	278,710	11,548	9,420	209,556	9,823	9,325	278,710	11,548	9,420	201,170	9,495	8,952	
Sampath Bank PLC	41,382	7,220	6,720	39,748	6,834	9,341	41,382	7,220	6,720	39,748	6,834	9,341	
Central Finance Company PLC	138,104	16,756	14,363	153,075	11,464	13,578	138,104	16,756	14,363	136,844	11,192	12,138	
Sector Total [a]			30,503			32,244			30,503			30,431	
Diversified Holdings													
Melstacorp PLC	39,532	2,343	1,720	39,532	2,343	1,988	39,532	2,343	1,720	39,532	2,343	1,988	
Sector Total [b]			1,720			1,988			1,720			1,988	
Manufacturing													
Tokyo Cement Company [Lanka] PLC	71,002	886	3,408	249,602	10,692	6,290	71,002	886	3,408	211,002	9,598	5,318	
Royal Ceramics Lanka PLC	50,000	6,067	4,425	50,000	6,067	3,730	50,000	6,067	4,425	50,000	6,067	3,730	
Sector Total [c]			7,833			10,020			7,833			9,048	
Beverage, Food and Tobacco													
Distilleries Company of Sri Lanka PLC	11,713	-	217	11,713	-	189	11,713	-	217	11,713	-	189	
Sector Total [d]			217			189			217			189	
Land and Property													
Overseas Realty [Ceylon] PLC	486,679	12,453	7,787	657,205	16,702	10,844	486,679	12,453	7,787	486,679	12,453	8,030	
Sector Total [e]			7,787			10,844			7,787			8,030	
Total Investment in Equity Shares [AFS]													
[a+b+c+d+e]			48,060			55,285			48,060			49,686	

7.4. 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 the assets are disposed.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. FINANCIAL INVESTMENTS (CONTD.)

As at 31st December,	Note	Group				Company			
		2019		2018		2019		2018	
		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	7.4.1	77,824	77,824	83,873	83,873	77,824	77,824	72,039	72,039
Investment in Units	7.4.2	-	-	9,152	9,152	-	-	6,400	6,400
Total		77,824	77,824	93,025	93,025	77,824	77,824	78,439	78,439

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 44.

Impairment of Financial Assets at FVTPL

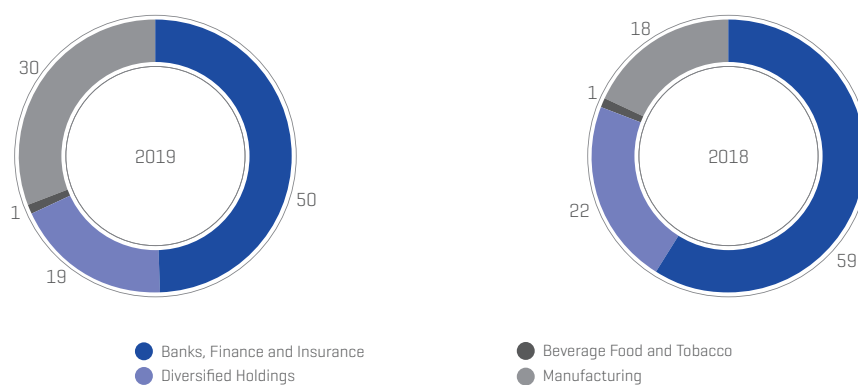
The Group has not experienced any indication of impairment in respect of FVTPL financial investments and thus no impairment losses are recognised.

Re-Classification of Financial Assets at FVTPL

During the year Group has not re-classified any financial investment under this category.

7.4.1. Equity Shares

Portfolio of Equity Investments - Group [%]



As at 31st December,	Group						Company					
	2019			2018			2019			2018		
	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	3,408	364	364	3,594	384	358	3,408	364	364
Sampath Bank PLC	64,634	12,527	10,496	62,082	11,925	14,589	64,634	12,527	10,496	62,082	11,925	14,589
Nations Trust Bank PLC	91,471	6,258	7,318	89,529	6,083	7,986	91,471	6,258	7,318	89,529	6,083	7,986
People's Leasing & Finance PLC	490,414	8,773	8,778	721,543	12,988	11,761	490,414	8,773	8,778	476,000	8,568	7,759
Seylan Bank PLC - (Non Voting)	357,116	11,637	12,071	329,151	11,243	14,647	357,116	11,637	12,071	257,761	9,006	11,470
Sector Total (a)			39,021			49,347			39,021			42,168
Diversified Holdings												
John Keells Holdings PLC	29,670	3,679	4,973	38,274	5,622	6,112	29,670	3,679	4,973	38,274	5,622	6,112
Richard Pieris and Company PLC	312,851	4,351	3,692	312,851	4,351	3,285	312,851	4,351	3,692	312,851	4,351	3,285
Vallibel One PLC	200,000	3,600	3,500	305,925	5,521	5,201	200,000	3,600	3,500	200,000	3,600	3,400
Melstacorp PLC	55,000	3,260	2,393	85,000	5,038	4,276	55,000	3,260	2,393	55,000	3,260	2,767
Sector Total (b)			14,558			18,874			14,558			15,564
Beverage Food and Tobacco												
Distilleries Company of Sri Lanka PLC	22,222	-	411	34,073	-	549	22,222	-	411	22,222	-	358
Sector Total (c)			411			549			411			358
Manufacturing												
Royal Ceramics Lanka PLC	28,000	4,318	2,478	28,000	4,318	2,089	28,000	4,318	2,478	28,000	4,318	2,089
ACL Cables PLC	95,200	3,016	5,474	126,400	3,053	4,676	95,200	3,016	5,474	95,200	3,016	3,522
Tokyo Cement Company (Lanka) PLC	330,869	12,278	15,882	330,869	12,278	8,338	330,869	12,278	15,882	330,869	12,278	8,338
Sector Total (d)			23,834			15,103			23,834			13,949
Total Investment in Equity Shares (FVTPL) (a+b+c+d)			77,824			83,873			77,824			72,039

7.4.2. Investment in Units

As at 31st December,	Group				Company			
	2019		2018		2019		2018	
	No. of Units	Carrying/ Fair Value	No. of Units	Carrying/ Fair Value	No. of Units	Carrying/ Fair Value	No. of Units	Carrying/ Fair Value
		Rs.'000		Rs.'000		Rs.'000		Rs.'000
Quoted								
NAMAL Acuity Value Fund	-	-	114,400	9,152	-	-	80,000	6,400
Total Investment in Quoted Units				9,152				6,400

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

7. FINANCIAL INVESTMENTS (CONTD.)

7.5. Movement in the Carrying Values of Financial Investments - Group

	Held to Maturity	Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
As at 1st January 2018	180,460	8,417,430	6,326,735	130,285	15,054,910
Purchases	-	92,832,889	2,248,415	-	95,081,304
Maturities	(149,512)	(90,629,933)	(325,840)	-	(91,105,285)
Disposals	-	-	(981,236)	(12,490)	(993,726)
Fair Value Gains/(Losses) and Foreign Currency Translation Recorded in Profit or Loss	-	41,385	(7,998)	(25,685)	7,702
Amortisation Adjustment/Accrued Interest	(30,948)	47,744	(83,889)	-	(67,093)
Realised Gains Recorded in Profit or Loss	-	-	72,541	915	73,456
Net Fair Value Losses Recorded in Other Comprehensive Income	-	-	(472,137)	-	(472,137)
As at 31st December 2018	-	10,709,515	6,776,591	93,025	17,579,131
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 Gains/(Losses) 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
As at 31st December 2019	-	14,830,486	6,293,764	77,824	21,202,074

7.6. Movement in the Carrying Values of Financial Investments - Company

	Held to Maturity	Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
As at 1st January 2018	180,460	6,789,740	5,659,291	111,524	12,741,015
Purchases	-	64,495,292	1,648,858	-	66,144,150
Maturities	(149,512)	(62,601,315)	(116,389)	-	(62,867,216)
Disposals	-	-	(858,867)	(10,206)	(869,073)
Fair Value Gains/(Losses) and Foreign Currency Translation Recorded in Profit or Loss	-	12,631	(7,640)	(23,593)	(18,602)
Amortisation Adjustment/Accrued Interest	(30,948)	32,033	(79,224)	-	(78,139)
Realised Gains Recorded in Profit or Loss	-	-	67,960	714	68,674
Net Fair Value Losses Recorded in Other Comprehensive Income	-	-	(441,103)	-	(441,103)
As at 31 December 2018	-	8,728,381	5,872,886	78,439	14,679,706
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) and 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
As at 31st December 2019	-	12,065,489	5,634,097	77,824	17,777,410

8. INVESTMENT IN SUBSIDIARY - COMPANY

ACCOUNTING POLICY

Investment in subsidiary is recorded at cost less impairment in the Financial Statements of the Company. The net assets of the subsidiary are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its net assets loss.

As at 31st December, Unquoted	Principal Activity	2019			2018		
		No of Shares	Holding	Cost Rs.'000	No of Shares	Holding	Cost Rs.'000
HNB General Insurance Limited	General Insurance Business	115,000,000	100%	1,150,000	115,000,000	100%	1,150,000
Total Investment in Subsidiary				1,150,000			1,150,000

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.

8.1. Impairment of Investment in Subsidiary

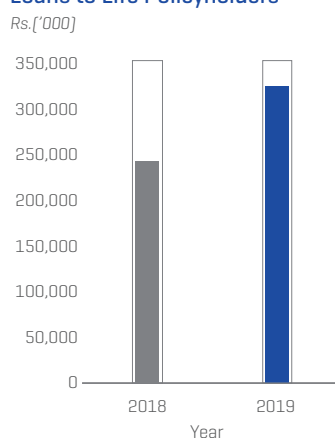
The Board of Directors has assessed the potential impairment loss of Investment in Subsidiary as at 31st December 2019. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of such investment.

9. LOANS TO LIFE POLICYHOLDERS

ACCOUNTING POLICY

Policyholder Loans are granted up to 90% of the surrender value of a Life Insurance Policy at a rate equivalent to market rate. Policyholder Loans are initially measured at Fair value of loan amount granted and subsequently measured at the amortised cost. If the policyholder demises before the full repayment of the loan, the loan balance is deducted from the death benefit. 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.

Loans to Life Policyholders



As at 31st December,	Group/Company	
	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January	200,951	133,460
Loans Granted during the Year	148,357	113,329
Repayments during the year	[79,729]	[45,838]
Balance as at 31st December	269,579	200,951
Interest Receivable	55,728	42,162
Total Loans to Life Policyholders	325,307	243,113

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

9. LOANS TO LIFE POLICYHOLDERS (CONTD.)

9.1. The surrender value of the policies for which Policy Loans have been granted as at 31st December 2019 amounted to Rs. 529.9 Million. [2018 - Rs. 397.4 Million]. Number of Policy Loans due as at 31st December 2019 was 3,546. [2018 - 3,043]

9.2. 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.

9.3. Impairment Losses on Loans to Life Policyholders

The Board of Directors has assessed the potential impairment loss of Loans to Life Policyholders as at 31st December 2019. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date in respect of Loans to Life Policyholders.

10. REINSURANCE RECEIVABLES

ACCOUNTING POLICY

The Group cedes insurance risk in the normal course of business with recognised reinsurers through formal reinsurance arrangements.

Reinsurance assets include the balances due from reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Gross Reinsurance is recorded in the Statement of Financial Position unless a right to offset exists.

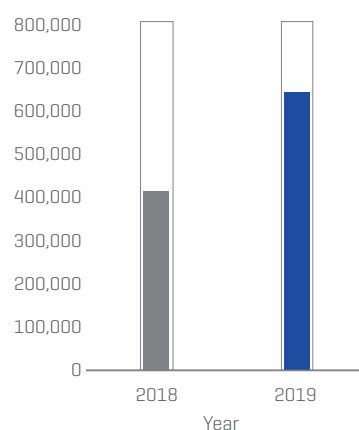
Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss, if any is recorded in Profit or Loss.

Ceded reinsurance arrangements do not relieve the Group from its obligations to Policyholders.

Reinsurance assets are de-recognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

Reinsurance Receivables - Group

Rs.('000)



As at 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Reinsurance Receivable on Outstanding Claims	10.1	343,554	205,881	65,275	32,159
Reinsurance Receivable on Settled Claims	10.2	301,857	209,892	79,440	43,767
Total Reinsurance Receivables		645,411	415,773	144,715	75,926

10.1. Reinsurance Receivable 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.

10.2. Reinsurance Receivable on Settled Claims

The age analysis of the reinsurance receivable on settled claims is as follows:

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Up to 30 days	71,055	64,316	6,392	12,282
31 to 60 days	30,736	15,015	9,237	4,854
61 to 90 days	78,787	28,412	29,439	3,986
91 to 180 days	57,900	92,875	25,442	16,358
181 to 365 days	47,259	9,254	8,930	6,287
Over 365	16,120	20	-	-
Total	301,857	209,892	79,440	43,767

10.3. Fair Value Measurement

The carrying value of reinsurance receivables approximates the fair value at the reporting date.

10.4. Impairment Losses on Reinsurance Receivables

The Board of Directors has assessed potential impairment loss of reinsurance receivables as at 31st December 2019. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date.

Refer Note 46 [Pages 281 and 284] for Reinsurance rating analysis and Note 46 [Page No. 288] for rating wise reinsurance balances.

11. PREMIUM RECEIVABLES

ACCOUNTING POLICY

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.

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.

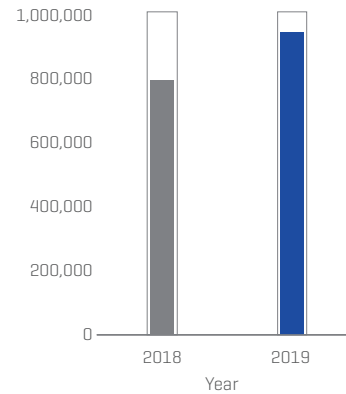
Life Insurance premiums for policies within the 30-day grace period are considered as due premium, subject to a provision for premium default. Premium Default Ratio is computed by analysing the default history. Premium will be reversed if those premiums are not settled during the subsequent month, and thus the policies will be lapsed as per the Company policy.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

11. PREMIUM RECEIVABLES (CONTD.)

Premium Receivables - Group

Rs.('000)



As at 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Premium Receivable From;					
Life Insurance					
Policyholders		15,509	14,835	15,509	14,835
Impairment Loss on Premium Default		(6,051)	(6,789)	(6,051)	(6,789)
		9,458	8,046	9,458	8,046
General Insurance					
Policyholders		493,613	446,450	-	-
Related Parties	11.1	58,063	10,423	-	-
Agents, Brokers and Intermediaries		385,516	333,294	-	-
		937,192	790,167	-	-
Total	11.2	946,650	798,213	9,458	8,046

11.1. Premium Receivable from Related Parties

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
General Insurance				
Hatton National Bank PLC	40,802	1,881	-	-
HNB Finance Ltd.	63	1,698	-	-
Sithma Development [Pvt] Ltd.	11,502	960	-	-
Acuity Stock Brokers [Pvt] Ltd.	59	177	-	-
Acuity Partners [Pvt] Ltd.	360	149	-	-
Acuity Securities Ltd.	150	127	-	-
Other Related Entities	5,127	5,431	-	-
Total	58,063	10,423	-	-

11.2. Age Analysis of Premium Receivables

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Life Insurance				
Up to 30 days	9,458	8,046	9,458	8,046
General Insurance				
Up to 30 days	619,173	492,358	-	-
31 to 60 days	318,019	297,809	-	-
	937,192	790,167	-	-
Total Premium Receivables	946,650	798,213	9,458	8,046

11.3. Fair Value Measurement

Carrying value of premium receivable is approximation of fair value due to short-term nature.

11.4. Impairment Losses on Premium Receivables

The Board of Directors has assessed potential impairment loss of Premium Receivable as at 31st December 2019. 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.

12. OTHER ASSETS

ACCOUNTING POLICY

STAFF AND ADVISOR LOANS

Loans are granted as a benefit to Staff and Advisors subject to defined eligibility criteria. These are measured at amortised cost based on the prevailing interest rates at the loan grant date. Impairment test of loans are carried out when the indicators of impairment exist.

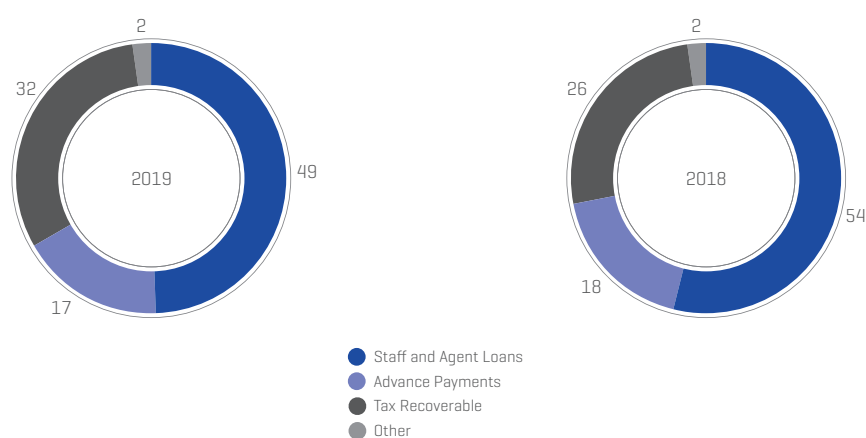
INVENTORIES

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.

Other Assets Composition - Group [%]



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

12. OTHER ASSETS (CONTD.)

As at 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Staff and Advisor Loans	12.1	458,971	439,896	266,065	277,819
Advance Payments		159,409	151,294	117,858	117,536
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	12.2	293,722	217,133	209,899	149,581
Co - Insurance Receivables		6,142	3,993	-	-
Inventories		4,306	3,464	2,583	2,039
Amounts due from Related Parties- HNB General Insurance Limited		-	-	21,344	22,968
Other Receivables		11,083	7,321	7,750	5,211
Total Other Assets		933,633	823,101	625,499	575,154

12.1. 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	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Staff Loans	12.1a	397,751	369,392	209,915	211,723
Advisor Loans	12.1b	61,220	70,504	56,150	66,096
Total		458,971	439,896	266,065	277,819

12.1a. Staff Loans

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January	359,675	331,723	207,888	178,545
Loans granted during the Year	565,921	522,814	306,366	305,141
Repayments during the Year	[177,871]	[163,139]	[101,112]	[97,253]
Balance as at 31st December	388,050	359,675	205,254	207,888
Allowance for Impairment Losses	[3,256]	[7]	[1,506]	-
Fair Value Adjustment on Staff Loan	12,957	9,724	6,167	3,835
Fair Value of the loans as at 31st December	397,751	369,392	209,915	211,723

12.1b. Advisor Loans

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January	68,333	57,561	63,761	55,045
Loans Granted during the Year	62,816	76,013	58,014	70,925
	131,149	133,574	121,775	125,970
Repayments during the Year	[70,888]	[65,241]	[66,769]	[62,209]
Balance as at 31st December	60,261	68,333	55,006	63,761
Allowance for Impairment Losses	[700]	[570]	[667]	[537]
Fair Value Adjustment on Advisor Loan	1,659	2,741	1,811	2,872
Fair Value of the loans as at 31st December	61,220	70,504	56,150	66,096

12.2. Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Withholding Tax Recoverable	235,798	165,152	208,326	149,276
Value Added Tax Recoverable	1,573	305	1,573	305
ESC Recoverable	30,059	25,384	-	-
Notional Tax on Government Securities	26,292	26,292	-	-
Balance as at 31st December	293,722	217,133	209,899	149,581

12.3. 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. Fair value of other assets approximately equals to the carrying value since they are short-term in nature.

12.4. 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 2019. 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.

13. INSURANCE CONTRACT - DEFERRED EXPENSES**ACCOUNTING POLICY****DEFERRED ACQUISITION COSTS (DAC)**

The direct and indirect costs incurred during the financial period arising from the writing or renewing of insurance contracts are deferred and amortised over the period in which the related revenues are earned. All other acquisition costs are recognised as an expense when incurred.

The DAC is applicable only to General Insurance Contracts. No DAC is calculated for Life Insurance Contracts as the acquisition costs are incurred in line with the revenue earned.

In accordance with the available regulatory guidelines of the IRCSL, the DAC is calculated based on the 1/24th basis except for the Marine policies which are computed on a 60-40 basis.

The DAC for reinsurers are amortised in the same manner as the underlying asset 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	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Reserve for Net Deferred Acquisition Expenses					
Reserve for Deferred Acquisition Expenses					
Balance as at 1st January		220,345	189,847	-	-
Increase in Deferred Acquisition Expenses	40.1	17,226	30,498	-	-
Balance as at 31st December [a]		237,571	220,345	-	-
Reserve for Deferred Reinsurance Commission					
Balance as at 1st January		(79,859)	(84,560)	-	-
Decrease/[Increase] in Deferred Reinsurance Commission	40.1	(19,090)	4,701	-	-
Balance as at 31st December [b]		(98,949)	(79,859)	-	-
Total Insurance Contract - Deferred Expenses [a+b]		138,622	140,486	-	-

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

13. INSURANCE CONTRACT - DEFERRED EXPENSES (CONTD.)

13.1. Impairment of Deferred Expenses

The Board of Directors has assessed potential impairment loss of deferred expenses as at 31st December 2019. Based on the assessment, no impairment provision is required to be made in the Financial Statements as at the reporting date.

14. 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, if any, which form an integral part of cash management, are included as a component of Cash and Cash Equivalents for the purposes of the Statement of Cash Flows. In the Statement of Financial Position, bank overdrafts are included under liabilities.

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
14.1. Cash and Cash Equivalents				
Cash in Hand	2,283	2,284	1,533	1,524
Cash at Bank with Related Parties - Hatton National Bank PLC	500,179	409,235	277,235	220,660
Cash at Bank with Related Parties - HNB Finance Ltd	311	-	311	-
Cash at Bank with Other Licensed Commercial Banks & Financial institutions	10,784	7,512	1,347	1,121
	513,557	419,031	280,426	223,305
Short Term Deposits				
Non related Commercial Banks and Financial institutions	352,286	342,840	352,286	279,256
Total Cash and Cash Equivalents [a]	865,843	761,871	632,712	502,561
14.2. Bank Overdraft				
Bank Overdraft with Related Parties - Hatton National Bank PLC	(130,636)	(122,776)	(31,050)	(42,636)
Total Bank Overdraft [b]	(130,636)	(122,776)	(31,050)	(42,636)
Total Cash and Cash Equivalents for the Purpose of Statement Cash flows [a+b]	735,207	639,095	601,662	459,925

14.3. Cash Pledged as Security for Liabilities

HNB Assurance PLC

The Company has obtained a Bank Guarantee facility from Hatton National Bank PLC for sum of 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.

The Company has also obtained a Bid bond for sum of Rs. 66,284 from Hatton National Bank PLC for tender provision of Insurance Coverage. This was secured by equivalent cash margin lying to the credit in the account No. 701020065030.

HNB General Insurance Limited

The subsidiary company has obtained performance bond for sum of Rs.0.6 Million and bid bonds for sum of 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.

15. STATED CAPITAL

ACCOUNTING POLICY

Ordinary shares in the Group are recognised at the amount paid per ordinary share net of directly attributable issue cost.

	No. of Shares	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 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	50,000,000	1,171,875	1,171,875	1,171,875	1,171,875

15.1. 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.

16. RETAINED EARNINGS

	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
As at 31st December,				
Balance as at 1st January	4,405,581	2,381,427	4,167,660	2,373,601
Profit for the Year (Excluding One-Off Surplus)	1,010,228	2,324,154	826,709	2,094,059
Dividend Paid to Equity Holders	(450,000)	(300,000)	(450,000)	(300,000)
Balance as at 31st December	4,965,809	4,405,581	4,544,369	4,167,660

17. AVAILABLE FOR SALE RESERVE

	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
As at 31st December,				
Balance as at 1st January	(8,025)	30,685	1,451	17,415
Other Comprehensive Income for the Year	411,921	(463,849)	387,525	(441,103)
Transferred to Life Policyholders' Available For Sale Reserve Fund	(379,095)	425,139	(379,095)	425,139
Balance as at 31st December	24,801	(8,025)	9,881	1,451

17.1 Available For Sale Reserve comprise of the impact arising from the changes in market values of financial assets classified under the category of Available For Sale.

18. OTHER RESERVE

	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
As at 31st December,				
Balance as at 1st January	(4,406)	(10,760)	(4,395)	(9,884)
Actuarial Gains/(Losses)-Gratuity	(2,119)	6,354	(2,119)	5,489
Balance as at 31st December	(6,525)	(4,406)	(6,514)	(4,395)

18.1 Other Reserves comprises of the actuarial gains/(losses) arising from valuation of gratuity liability as required by LKAS 19 - "Employee Benefits".

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

19. LIFE POLICYHOLDERS' AVAILABLE FOR SALE RESERVE FUND

	Group		Company	
	2019	2018	2019	2018
As at 31st December,	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1st January	(201,867)	223,272	(201,867)	223,272
Transferred from Available For Sale Reserve Fund	379,095	(425,139)	379,095	(425,139)
Balance as at 31st December	177,228	(201,867)	177,228	(201,867)

19.1 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.

20. RESTRICTED REGULATORY RESERVE

	Group		Company	
	2019	2018	2019	2018
As at 31st December,	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 1st January	381,156	-	381,156	-
Transfer of One-off Surplus from Policyholders' Fund to Shareholders' Fund	-	381,156	-	381,156
Balance as at 31st December	381,156	381,156	381,156	381,156

20.1. Nature and Purpose of the Reserve

As per the Direction No. 16 issued by the IRCSL all Life Insurance Companies were allowed to transfer One - Off Surplus attributable to Policyholders' Non participating fund to Shareholders' fund with the approval of the IRCSL. This transfer has been presented as a separate reserve as "Restricted Regulatory Reserve" under equity in accordance with the Direction. Further details will be discussed in the Note 21.2 in page 238.

20.2. 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.

	Group/Company	
	2019	2018
As at 31st December,	Fair Value	Fair Value
Asset Category	Rs.'000	Rs.'000
Term Deposits	383,260	381,935

21. 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.

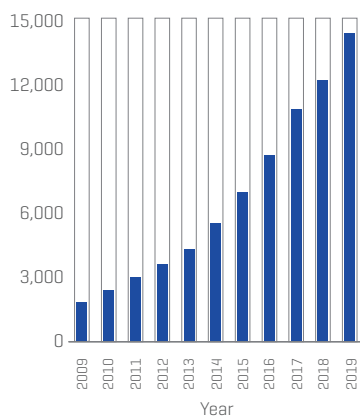
These liabilities are measured by using a prospective actuarial valuation method. The liability is determined as the sum of the present value of future benefits, the expected future management and distribution expense, less the present value of future gross premiums arising from the policy discounted 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.

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.

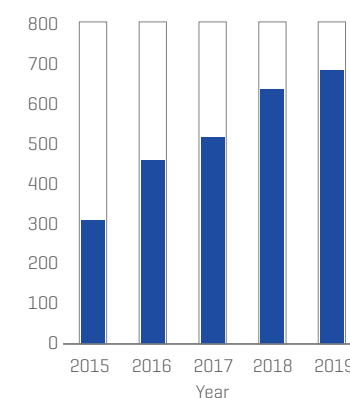
Insurance Contract Liabilities - Life Fund

Rs. Mn.



Surplus Distribution to Share Holders

Rs. Mn.



As at 31st December,	Note	Group/Company	
		2019 Rs.'000	2018 Rs.'000
Insurance Contract Liabilities			
Life Insurance Fund	21.1	14,269,182	12,112,106
Claims Outstanding		195,352	149,366
Total Insurance Contract Liabilities - Life Insurance		14,464,534	12,261,472

21.1. Life Insurance Fund

The movement in the Life Insurance Fund is as follows:

	Note	Group/Company	
		2019 Rs.'000	2018 Rs.'000
Balance as at 1st January		12,112,106	10,800,821
Change in Contract Liability due to Transfer of One-off Surplus	21.2	-	(381,156)
Change in Contract Liabilities - Life Fund		12,112,106	10,419,665
Increase in Life Insurance Fund Before Surplus Distribution to Shareholders		2,860,667	2,345,049
Surplus Distributed to Shareholders		(687,416)	(637,900)
Change in Contract Liabilities - Life Fund		2,173,251	1,707,149
Effect of Taxation on Surplus/Bonus Transferred to Policyholders	21.4	(16,175)	(14,708)
Change in Contract Liabilities - Life Fund (After Tax)		2,157,076	1,692,441
Balance as at 31st December		14,269,182	12,112,106

The valuation of the Life Insurance business as at 31st December 2019 was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of Messrs. Actuarial Partners Consulting Sdn Bhd. Valuation of Life Insurance business is performed on a semi annual basis. According to the appointed Actuary's report, the reserve for the year amounted to Rs. 14,083 Million (2018 - Rs. 11,287 Million). In opinion of the appointed Actuary, the reserve is adequate to cover the liabilities pertaining to the Life Insurance business.

As recommended by the Consultant Actuary a sum of Rs. 687.4 Million (2018 - Rs. 637.9 Million) has been transferred from the Life Insurance Fund to the Shareholders' Fund for the year 2019. As per the Report of the Life Actuary, the Company's Capital Adequacy Ratio (CAR) is 309% (2018 - 319%), well above the minimum requirement of 120%.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

21. INSURANCE CONTRACT LIABILITIES - LIFE INSURANCE (CONTD.)

21.2. 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	Non -	Total
		Fund	Participating Fund	
		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
Zerorisation 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. 20.2 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".

21.3. 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 Policy Holders' Fund to Shareholders' Fund.

21.4. 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. This is a special provision introduced in the Inland Revenue Act. As recommended by the Consultant Actuary, the Company declared a bonus of Rs. 115.5 Million [2018- Rs. 105.1 Million] to Life Insurance policyholders, participating in the profits of the Life Insurance business. The Company has charged a tax of Rs.16.2 Million [2018 - Rs. 14.7 Million] on the said bonus which is payable to the Department of Inland Revenue as of the reporting date.

21.5. Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for Life Insurance contract Liability was carried out by Mr. Hassan Scott Odierno, FSA, on behalf of Messers Actuarial Partners Consulting Sdn Bhd, as at 31st December 2019 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 and in contrast to the reserves as at 31st December 2019. No additional provision was required against the LAT as at 31st December 2019. Refer page 179 for Actuarial Report provided by the Consultant Actuary for LAT.

22. 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) together with related claims handling costs. Claims liabilities consist of the best estimate value of the claim liabilities and the Provision of Risk Margin for adverse Deviation (PRAD) calculated at line of business level.

PREMIUM LIABILITIES

Premium Liabilities are the higher of the aggregate of the 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)

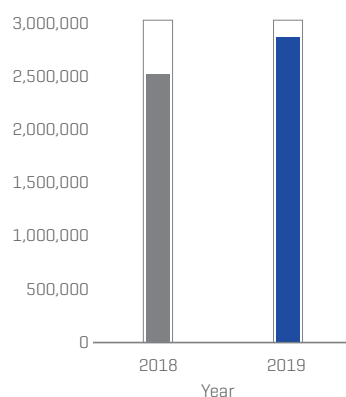
As required by SLFRS 4 - "Insurance Contracts", the Group performs a Liability Adequacy Test (LAT) in respect of General Insurance Contract Liabilities with the assistance of the External Actuary.

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.

Insurance Contract Liabilities - General Insurance

Rs. ('000)



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

22. INSURANCE CONTRACT LIABILITIES - GENERAL INSURANCE (CONTD.)

The General Insurance reserves as shown in the Statement of Financial Position represents the following :

As at 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Reserves for Net Unearned Premium	22.1	1,946,972	1,794,696	-	-
Reserves for Title Insurance	22.2	53,522	49,582	-	-
Reserves for Gross Outstanding Claims	22.3	870,922	680,817	-	-
Total Insurance Contract Liabilities - General Insurance		2,871,416	2,525,095	-	-

22.1 Reserves for Net Unearned Premium

22.1a. Reserves for Unearned Premium

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January	2,102,101	1,956,581	-	-
Increase in Reserve for Unearned Premium	265,559	145,520	-	-
Balance as at 31st December [a]	2,367,660	2,102,101	-	-

22.1b. Reserves for Unearned Reinsurance Premium

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January	[307,405]	[364,131]	-	-
Decrease/[Increase] in Reserve for Unearned Reinsurance Premium	[113,283]	56,726	-	-
Balance as at 31st December [b]	[420,688]	[307,405]	-	-
Total Reserves for Net Unearned Premium [a+b]	1,946,972	1,794,696	-	-

22.2. Reserves for Title Insurance

As at 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January [a]		49,582	34,840	-	-
Transfer to Title Insurance Reserve [b]		20,295	26,812	-	-
Recognition of Title Insurance Profit [c]	22.5	[16,355]	[12,070]	-	-
Transfer to Title Insurance Reserves [d=b+c]		3,940	14,742	-	-
Total Reserves for Title Insurance as at 31st December [a+d]		53,522	49,582	-	-

22.3. Reserves for Gross Outstanding Claims

	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January		550,126	663,854	-	-
Claims Incurred during the Year		2,640,769	2,136,740	-	-
Claims Paid during the Year		(2,473,951)	(2,250,468)	-	-
Balance as at 31st December [a]		716,944	550,126	-	-
IBNR/IBNER balance as at 1st January		130,691	93,762	-	-
Increase in IBNR/IBNER		23,287	36,929	-	-
IBNR/IBNER balance as at 31st December [b]	22.7	153,978	130,691	-	-
Total Reserves for Gross Outstanding Claims [a+b]		870,922	680,817	-	-

22.4. Reconciliation between Insurance Contract Liabilities and Technical Reserves

As at 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Insurance Contract Liabilities - General Insurance		2,871,416	2,525,095	-	-
Reserve for Net Deferred Acquisition Expenses	13.	(138,622)	(140,486)	-	-
Reinsurance on Claims Reserves		(209,983)	(120,953)	-	-
Reinsurance on Claims Reserves IBNR/IBNER		(68,296)	(52,770)	-	-
Technical Reserves		2,454,515	2,210,886	-	-

22.5. 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. 16 Million (2018 - Rs. 12 Million) as profit from Title Insurance.

22.6. Significant delays occur in the notification of claims and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the reporting date. The Reserves are determined based on the information currently available. However, it is inherent to the nature of the business written that the ultimate liability may vary as a result of subsequent developments.

22.7. Incurred But Not Reported (IBNR) and Incurred But Not Enough Reported (IBNER)

IBNR and IBNER claims Reserves as at 31st December 2019 has been actuarially computed 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.

22.8. Liability Adequacy Testing (LAT)

A Liability Adequacy Test (LAT) for General Insurance Contract Liability was carried out by Mr. Sivaraman Kumar, FIA, for and on behalf of NMG Financial Services Consulting Pte Limited as at 31st December 2019 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 2019. No additional provision was required against the LAT as at 31st December 2019. Refer the page 180 for Actuarial Report provided by the consultant actuary for LAT.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

23. EMPLOYEE DEFINED BENEFIT LIABILITIES

ACCOUNTING POLICY

DEFINED BENEFIT PLAN

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified Actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by LKAS 19 - "Employee Benefits". The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

The re-measurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognised immediately in Other Comprehensive Income. Interest cost and current service cost are recognised in Profit or Loss.

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.

23.1. Defined Benefit Plans - Provision for Employee Benefits

As at 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Present Value of Unfunded Obligation	23.1.1	167,118	140,356	100,076	84,840

23.1.1. Movement in the Present Value of the Employee Defined Benefit Plan

As at 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January		140,356	126,083	84,840	73,875
Provision Recognised during the Year	23.1.1a	37,136	33,928	21,656	20,023
Actuarial (Gains)/Losses during the Plan Year	23.1.1b	2,119	(6,354)	2,119	(5,489)
Payments during the Year		(12,493)	(13,301)	(8,539)	(4,618)
Adjustment due to Transfer of Employees from Subsidiary Company		-	-	-	1,049
Balance as at 31st December		167,118	140,356	100,076	84,840

23.1.1a. Provision Recognised in Profit or Loss

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Current Service Cost	20,995	21,320	11,899	12,635
Interest on Obligation	16,141	12,608	9,757	7,388
Total	37,136	33,928	21,656	20,023

23.1.1b. Provision Recognised in Other Comprehensive Income

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Actuarial (Gains)/Losses due to Changes in Assumptions	10,579	(11,612)	8,118	(8,296)
Actuarial (Gains)/Losses due to Changes in Experience	(8,460)	5,258	(5,999)	2,807
Actuarial (Gains)/Losses during the Plan Year	2,119	(6,354)	2,119	(5,489)

As at 31st December 2019, the Gratuity Liability was actuarially valued under the Projected Unit Credit (PUC) method by Consultant Actuary Mr. Pushpakumar Gunasekera [Actuary/Associate of Institute of Australia.] of Messrs. Smiles Global [Pvt] Ltd. The valuation is performed annually and have ensured adequate reserves are maintained.

23.1.2. The Gratuity Liability is not externally funded.

23.2. Principal Assumptions Used

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
(a) Discount Rate	10.0%	11.5%	10.0%	11.5%
(b) Future Salary Increase Rate	9%	9%	9%	9%
(c) Early Withdrawal through Resignations				
- Less than 5 years	16% - 19%	21% - 41%	19%	41%
- More than 5 years	3% - 3%	8% - 14%	3%	8%
(d) Retirement Age	55 years	55 years	55 years	55 years

23.3. Maturity Analysis of the Liability

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Within next 12 Months	5,356	1,851	4,906	1,851
Between 1 to 2 Years	2,961	6,081	2,329	5,707
Between 2 to 5 Years	18,122	36,547	11,349	19,891
Between 5 to 10 Years	51,688	82,290	29,346	43,804
Beyond 10 years	88,991	13,587	52,146	13,587
Total	167,118	140,356	100,076	84,840

23.4. 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	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
1% Increase in Discount Rate	[14,038]	[6,915]	[8,268]	[4,473]
1% Decrease in Discount Rate	16,162	7,671	9,528	4,998
1% Increase in Salary	16,917	8,304	9,972	5,380
1% Decrease in Salary	[14,914]	[7,600]	[8,782]	[4,887]

24. 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	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January		22,541	34,598	14,708	-
Current Tax for the Year		95,487	7,833	-	-
Capital Gain Tax for the Year		1,182	-	-	-
Effect of Taxation on Surplus/Bonus Transferred to Policyholders	21.4	16,175	14,708	16,175	14,708
Over Provision Pertaining to Previous Year		[465]	[3,124]	-	-
		134,920	54,015	30,883	14,708
Tax Set Off/Paid during the Year					
Economic Service Charge		[7,367]	[31,474]	-	-
Notional Tax on Government Securities		[14,708]	-	[14,708]	-
Capital Gain Tax Paid		[814]	-	-	-
Balance as at 31st December		112,031	22,541	16,175	14,708

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

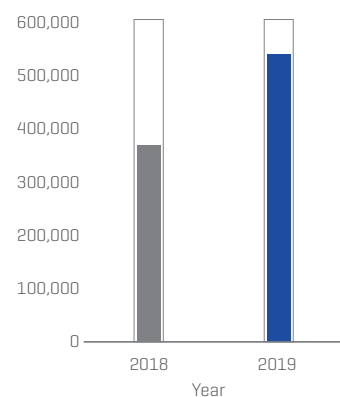
25. REINSURANCE CREDITORS

ACCOUNTING POLICY

Reinsurance creditors consist of premiums payable to reinsurers. Amounts payable are estimated in a manner consistent with the relevant reinsurance contract and are recognised at cost.

Reinsurance Creditors - Group

Rs. ('000)



As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Domestic Reinsurer - National Insurance Trust Fund (NITF)	199,756	59,896	-	-
Foreign Reinsurers	340,896	309,957	125,151	116,268
Total Reinsurance Creditors	540,652	369,853	125,151	116,268

26. 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 using the Group's incremental borrowing rate. Generally, the Group uses the market lending rate of Group's ultimate parent Hatton National Bank PLC as its incremental borrowing rate. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

26.1 The Movement of Lease Creditors for the Year is as Follows;

	Group			Company		
	2019			2019		
	Property Rs. '000	Motor Vehicle Rs. '000	Total Rs. '000	Property Rs. '000	Motor Vehicle Rs. '000	Total Rs. '000
Lease Creditor on Initial Application of SLFRS 16 as at 1st January	342,898	19,206	362,104	337,971	12,809	350,780
Additions to Lease Creditors during the Year	72,634	10,161	82,795	58,673	10,161	68,834
Interest Expenses of Lease Creditors during the Year	50,682	3,028	53,710	49,104	2,595	51,699
Rentals Paid for Lease Creditors during the Year	[137,487]	[11,033]	[148,520]	[128,266]	[8,215]	[136,481]
Lease Creditors as at 31st December	328,727	21,362	350,089	317,482	17,350	334,832

27. OTHER LIABILITIES

 ACCOUNTING POLICY**FINANCIAL LIABILITIES**

The Group initially recognises financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognised initially at fair value 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	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Policyholders Advance Payments		133,572	106,199	133,572	106,199
Payable to Policyholders		21,347	-	5,506	-
Acquisition Cost Payable		169,702	152,590	78,390	75,364
Advisor Terminal Benefit Payable	27.1	202,373	211,209	180,940	189,162
Government Levies		77,225	92,739	33,903	38,749
Amounts due to Related Parties	27.2	74,220	28,156	62,005	10,614
Accrued Expenses		206,021	144,861	133,270	71,740
Co - Insurance Payable		9,243	3,430	-	-
Claims payable		322	1,297	-	-
Staff Related Payables		188,547	202,168	139,226	129,731
Advance for Future Utilisation and Other Liabilities		191,754	150,160	35,753	20,911
Total		1,274,326	1,092,809	802,565	642,470

27.1. Advisor Terminal Benefit Payable

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Life Insurance	180,940	189,162	180,940	189,162
General Insurance	21,433	22,047	-	-
Total	202,373	211,209	180,940	189,162

27.2. Amounts due to Related Parties

As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Hatton National Bank PLC	74,220	28,156	62,005	10,614
Total	74,220	28,156	62,005	10,614

28. GROSS WRITTEN PREMIUM [GWP]

ACCOUNTING POLICY

INSURANCE PREMIUMS REVENUE RECOGNITION LIFE INSURANCE BUSINESS

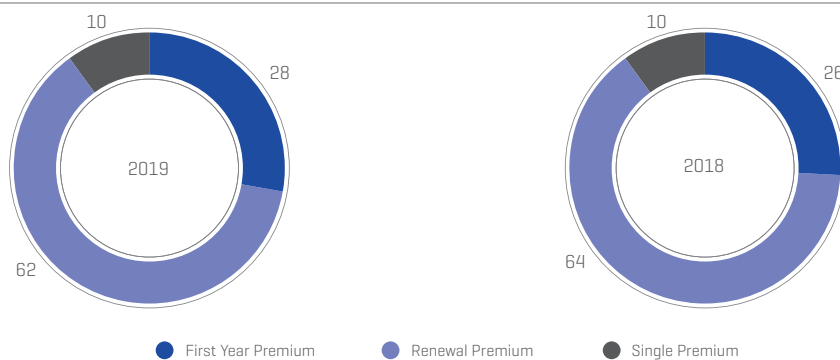
Gross Written Premiums on Life Insurance contracts are recognised as revenue when a premium is due from a Policyholder (policies within the 30-day grace period are considered as due). Premiums received in advance are not recorded as revenue but recorded as liability until the premium is due unless otherwise the relevant policy conditions require such premiums to be recognised as revenue. Benefits and expenses are provided against such revenue to recognise profits over the estimated life of the policies.

For single premium business, revenue is recognised on the date on which the policy is effective.

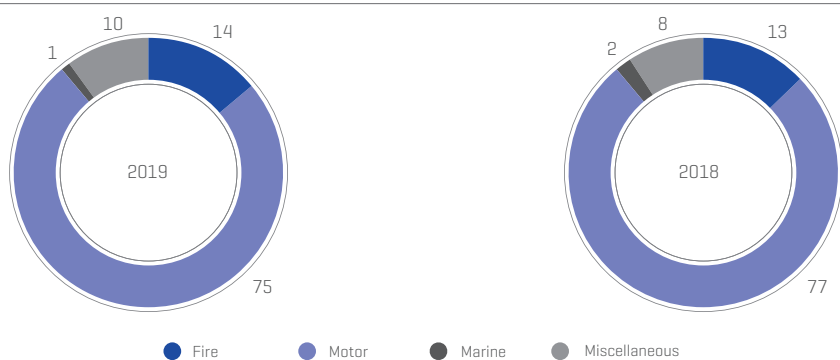
GENERAL INSURANCE BUSINESS

Gross Written Premium on General Insurance comprises of the total premium received/receivable for the whole period of cover provided by contracts entered into 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							
	2019				2018			
	First Year Premium	Renewal Premium	Single Premium	Total	First Year Premium	Renewal Premium	Single Premium	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Life Insurance								
Individual Policies	1,444,199	3,200,562	475,710	5,120,471	1,130,694	2,822,379	428,719	4,381,792
Corporate Policies	-	-	54,573	54,573	-	-	38,721	38,721
Adjustment for Inter Company Premiums	-	-	-	(43,056)	-	-	-	(29,898)
Gross Written Premium - Life Insurance [a]				5,131,988				4,390,615
	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	387,337	303,398	(13,173)	677,562	374,957	189,990	(10,424)	554,523
Motor	2,941,613	680,410	-	3,622,023	2,809,186	536,316	-	3,345,502
Marine	57,553	66	-	57,619	70,452	15	-	70,467
Miscellaneous	417,749	43,733	-	461,482	342,649	27,465	(31)	370,083
Adjustment for Inter Company Premiums	(7,917)	-	-	(7,917)	(6,494)	-	-	(6,494)
Gross Written Premium - General Insurance [b]				4,810,769				4,334,081
Total Gross Written Premium c=(a+b)				9,942,757				8,724,696

For the Year Ended 31st December,	Company							
	2019				2018			
	First Year Premium	Renewal Premium	Single Premium	Total	First Year Premium	Renewal Premium	Single Premium	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Life Insurance								
Individual Policies	1,444,199	3,200,562	475,710	5,120,471	1,130,694	2,822,379	428,719	4,381,792
Corporate Policies	-	-	54,573	54,573	-	-	38,721	38,721
Total Gross Written Premium				5,175,044				4,420,513

* 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

29. 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	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Life Insurance				
Individual Policies	123,442	105,621	123,442	105,621
Single Premium	112,677	105,970	112,677	105,970
Corporate Policies	4,855	4,039	4,855	4,039
Total Life Insurance [a]	240,974	215,630	240,974	215,630
General Insurance				
Fire	637,719	505,899	-	-
Motor	153,165	129,223	-	-
Marine	51,771	61,832	-	-
Miscellaneous	229,252	146,685	-	-
Total General Insurance [b]	1,071,907	843,639	-	-
Total Premium Ceded to Reinsurers [a+b]	1,312,881	1,059,269	240,974	215,630

30. 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	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
General Insurance					
Change in Reserve for Unearned Premium	22.1a	(265,559)	(145,520)	-	-
Change in Reserve for Unearned Reinsurers Premium	22.1b	113,283	(56,726)	-	-
Transfer to Reserve for Title Insurance	22.2	(3,940)	(14,742)	-	-
Total Net Change in Reserves for Unearned Premium		(156,216)	(216,988)	-	-

31. NET EARNED PREMIUM

For the Year Ended 31st December,	Group					
	2019			2018		
	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	5,175,044	4,818,686	9,993,730	4,420,513	4,340,575	8,761,088
Adjustment for Inter Company Premium	(43,056)	(7,917)	(50,973)	(29,898)	(6,494)	(36,392)
	5,131,988	4,810,769	9,942,757	4,390,615	4,334,081	8,724,696
Change in Reserve for Unearned Premium	-	(265,559)	(265,559)	-	(145,520)	(145,520)
Gross Earned Premium [a]	5,131,988	4,545,210	9,677,198	4,390,615	4,188,561	8,579,176
Premium Ceded to Reinsurance	(240,974)	(1,071,907)	(1,312,881)	(215,630)	(843,639)	(1,059,269)
Change in Reserve for Unearned Reinsurance Premium	-	113,283	113,283	-	(56,726)	(56,726)
Gross Reinsurance Premium [b]	(240,974)	(958,624)	(1,199,598)	(215,630)	(900,365)	(1,115,995)
Transfer to Title Insurance Reserve [c]	-	(3,940)	(3,940)	-	(14,742)	(14,742)
Total Net Earned Premium [a+b+c]	4,891,014	3,582,646	8,473,660	4,174,985	3,273,454	7,448,439

For the Year Ended 31st December,	Company	
	2019 Rs.'000	2018 Rs.'000
Gross Written Premium	5,175,044	4,420,513
Premium Ceded to Reinsurance	(240,974)	(215,630)
Total Net Earned Premium	4,934,070	4,204,883

32. 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

32. INTEREST AND DIVIDEND INCOME (CONTD.)

For the Year Ended 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Interest Income	32.1	2,243,284	1,883,053	1,884,977	1,588,206
Dividend Income	32.2	5,642	4,290	64,490	3,694
Total Interest and Dividend Income		2,248,926	1,887,343	1,949,467	1,591,900

32.1. Interest Income

For the Year Ended 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Interest Income from Financial Investments - Held to Maturity				
Treasury Bonds	-	2,196	-	2,196
Total [a]	-	2,196	-	2,196
Interest Income from Financial Investments - Loans and Receivables				
Debentures	526,529	391,284	456,012	331,704
Repurchase Agreements on Government Securities	89,348	76,841	64,041	53,737
Fixed Deposits	764,955	619,434	627,845	512,152
Staff, Advisor and Policy Loans	96,632	77,708	76,582	60,213
Total [b]	1,477,464	1,165,267	1,224,480	957,806
Interest Income from Financial Investments - Available For Sale				
Treasury Bonds	724,866	680,240	634,516	617,925
Treasury Bills	9,712	15,762	4,843	213
Total [c]	734,578	696,002	639,359	618,138
Interest Income from Cash and Cash Equivalents				
Short Term Deposits	11,410	2,926	10,238	1,763
Savings Interest	19,832	16,662	10,900	8,303
Total [d]	31,242	19,588	21,138	10,066
Total Interest Income [a+b+c+d]	2,243,284	1,883,053	1,884,977	1,588,206

32.2. Dividend Income

For the Year Ended 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Equity Shares	5,642	4,176	5,065	3,614
Investment in Units	-	114	-	80
Dividend Income from Investments in Subsidiary	-	-	59,425	-
Total Dividend Income	5,642	4,290	64,490	3,694

Temporary Exception from SLFRS 9

As explained in page 195, 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. Therefore, interest and dividend income is presented in accordance with LKAS 39.

33. NET REALISED GAINS

 ACCOUNTING POLICY

Net Realised Gains comprises gains less 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 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	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Financial Investments - Available For Sale				
Realised Gains				
Treasury Bonds	91,384	72,151	68,578	67,368
Treasury Bills	214	-	-	-
Equity Shares	1,475	592	173	592
Total [a]	93,073	72,743	68,751	67,960
Realised Losses				
Equity Shares	[237]	[202]	-	-
Total [b]	[237]	[202]	-	-
Total Net Realised Gains - Available For Sale [a+b]	92,836	72,541	68,751	67,960
Financial Investments - Fair Value Through Profit or Loss				
Realised Gains				
Investment in Units	1,789	-	1,251	-
Equity Shares	2	915	2	713
Total [c]	1,791	915	1,253	713
Realised Losses				
Equity Shares	[1,552]	-	-	-
Total [d]	[1,552]	-	-	-
Total Net Realised Gains - Fair Value Through Profit or Loss [c+d]	239	915	1,253	713
Financial Investments - Loans and Receivables				
Realised Gains				
Foreign Exchange	-	602	-	-
Total [e]	-	602	-	-
Realised Losses				
Foreign Exchange	[219]	-	[4]	-
Total [f]	[219]	-	[4]	-
Total Net Realised Gains - Loans and Receivables [e+f]	[219]	602	[4]	-
Total Net Realised Gains (a+b+c+d+e+f)	92,856	74,058	70,000	68,673

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

34. NET FAIR VALUE GAINS/(LOSSES)

ACCOUNTING POLICY

Net fair value gains/(losses) comprises fair value gains/(Losses) on financial assets at Fair Value Through Profit or Loss and Loans and Receivables categories and any impairment loss of Available For Sales financial assets.

For the Year Ended 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Financial Investments at Fair Value Through Profit or Loss					
Unrealised Gains					
Equity Securities		3,528	-	3,528	-
Total (a)		3,528	-	3,528	-
Unrealised Losses					
Investment in Units		-	[3,089]	-	[2,160]
Equity Securities		-	[22,596]	-	[21,433]
Total (b)		-	[25,685]	-	[23,593]
Financial Investments at Available For Sale					
Impairment of Available For Sale Financial Assets	34.1	[9,915]	[7,998]	[9,915]	[7,640]
Total (c)		[9,915]	[7,998]	[9,915]	[7,640]
Loans and Receivables					
Unrealised Gains					
Foreign Exchange - Term Deposits		17	42,165	17	13,197
Total (d)		17	42,165	17	13,197
Unrealised Losses					
Foreign Exchange - Term Deposits		[2,456]	-	-	-
Total (e)		[2,456]	-	-	-
Total Net Fair Value Gains/(Losses) [a+b+c+d+e]		[8,826]	8,482	[6,370]	[18,036]

34.1. Impairment of Equity Shares

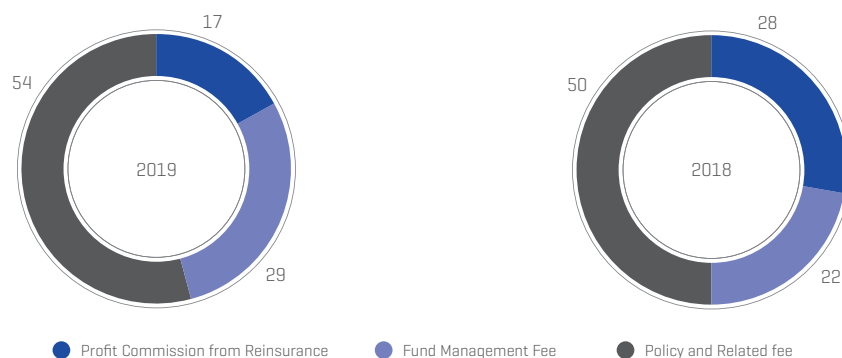
Group has experienced a significant and prolonged decline in market price than Cost of equity shares categorised under AFS category hence an impairment loss is recognised in Profit or Loss.

35. 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.

Fee and Commission Income Composition - Group [%]



For the Year Ended 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Profit Commission from Reinsurers	29,127	48,192	24,395	25,298
Fund Management Fee	49,483	38,084	55,966	43,531
Policy and Related Fee	92,383	86,370	11,854	10,636
Total Fee and Commission Income	170,993	172,646	92,215	79,465

36. OTHER INCOME

ACCOUNTING POLICY

Income earned on other sources, which are not directly related to the normal operations of the Group 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	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Gain on Disposal of Property, Plant and Equipment	4,686	178	-	171
Sundry Income	11,510	35,852	2,965	14,456
Total Other Income	16,196	36,030	2,965	14,627

37. 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

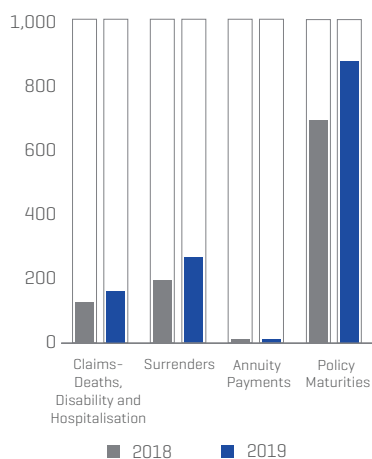
General Insurance claims include all claims occurred during the year, whether reported or not together with claims handling costs that are directly related to the processing and settlement of claims, reductions for the value of salvage and other recoveries.

REINSURANCE ON CLAIMS

Reinsurance on Claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant contract.

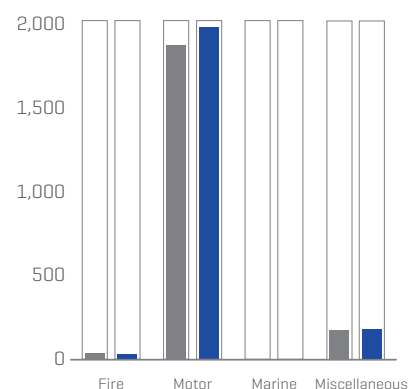
Net Claims Paid - Life Insurance

Rs. Mn.



Net Claims Paid - General Insurance

Rs. Mn.



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

37. NET INSURANCE BENEFITS AND CLAIMS PAID (CONTD.)

For the Year Ended 31st December,	Group					
	2019			2018		
	Gross Claims Paid Rs. '000	Recovery from Reinsurers Rs. '000	Net Claims Paid Rs. '000	Gross Claims Paid Rs. '000	Recovery from Reinsurers Rs. '000	Net Claims Paid Rs. '000
Life Insurance						
Claims - Deaths, Disability and Hospitalisation	284,239	[122,682]	161,557	200,279	[71,455]	128,824
Surrenders	269,697	-	269,697	195,806	-	195,806
Annuity Payments	13,888	-	13,888	13,047	-	13,047
Policy Maturities	880,003	-	880,003	697,487	-	697,487
Net Life Insurance Claims [a]			1,325,145			1,035,164
General Insurance						
Fire	186,121	[154,963]	31,158	330,691	[294,451]	36,240
Motor	2,021,607	[35,861]	1,985,746	1,914,994	[38,930]	1,876,064
Marine	44,420	[42,063]	2,357	12,767	[10,467]	2,300
Miscellaneous	221,480	[40,918]	180,562	224,986	[50,292]	174,694
Net General Insurance Claims [b]			2,199,823			2,089,298
Adjustments for Inter Company Claims [c]			[200]	-	-	[877]
Total Net Insurance Benefits and Claims Paid [a+b+c]			3,524,768			3,123,585

For the Year Ended 31st December,	Company					
	2019			2018		
	Gross Claims Paid Rs. '000	Recovery from Reinsurers Rs. '000	Net Claims Paid Rs. '000	Gross Claims Paid Rs. '000	Recovery from Reinsurers Rs. '000	Net Claims Paid Rs. '000
Life Insurance						
Claims - Deaths, Disability and Hospitalisation	284,239	[122,682]	161,557	200,279	[71,455]	128,824
Surrenders	269,697	-	269,697	195,806	-	195,806
Annuity Payments	13,888	-	13,888	13,047	-	13,047
Policy Maturities	880,003	-	880,003	697,487	-	697,487
Total Net Insurance Benefits and Claims Paid			1,325,145			1,035,164

38. 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	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Gross Change in Insurance Claims Outstanding				
Life Insurance (a)	45,985	34,329	45,985	34,329
General Insurance				
Fire	96,130	(177,451)	-	-
Motor	56,122	74,637	-	-
Marine	33,382	7,684	-	-
Miscellaneous	4,471	18,331	-	-
Total General Insurance (b)	190,105	(76,799)	-	-
Total Gross Change in Insurance Claims Outstanding (c = a+b)	236,090	(42,470)	45,985	34,329
Gross Change in Reinsurance Recoverable on Claims Outstanding				
Life Insurance (d)	(33,115)	(2,919)	(33,115)	(2,919)
General Insurance				
Fire	(83,544)	173,643	-	-
Motor	13,491	(1,821)	-	-
Marine	(33,518)	(6,628)	-	-
Miscellaneous	(3,397)	(6,901)	-	-
Total General Insurance (e)	(106,968)	158,293	-	-
Total Gross Change in Reinsurance Recoverable on Claims Outstanding (f = d+e)	(140,083)	155,374	(33,115)	(2,919)
Total Net Change in Insurance Claims Outstanding (c+f)	96,007	112,904	12,870	31,410

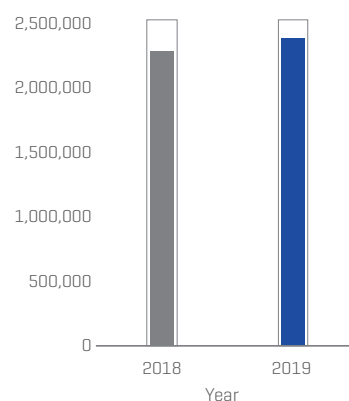
39. OTHER OPERATING AND ADMINISTRATION EXPENSES

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.

Operating and Administration Expenses - Group

Rs.('000)



ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

39. OTHER OPERATING AND ADMINISTRATION EXPENSES (CONTD.)

For the Year Ended 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Directors' Fees and Remuneration		20,015	18,565	12,533	11,925
Staff Expenses	39.1	1,155,877	1,084,613	588,424	550,379
Administration and Establishment Expenses		542,701	608,679	367,197	381,750
Selling Expenses		469,857	331,967	326,116	202,430
(Reversal of)/Provision for Tax Credits - Notional tax		[14,708]	162,583	[14,708]	162,583
Amortisation of Intangible Assets		18,885	19,685	12,568	12,360
Depreciation of Property Plant and Equipment		47,319	49,285	23,282	25,619
Net Depreciation of Right of Use Assets		139,525	-	73,351	-
Auditor's Fees and Expenses	39.2	4,396	5,104	2,257	3,060
Legal Fees		1,158	1,710	553	1,403
Donations		500	290	500	290
Total Other Operating and Administration Expenses		2,385,525	2,282,481	1,392,073	1,351,799

39.1. 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.

For the Year Ended 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Staff Salaries	727,158	634,340	361,499	314,935
Defined Contribution Plan Costs - EPF 12%	87,259	76,121	43,380	37,792
Defined Contribution Plan Costs - ETF 3%	21,815	19,030	10,845	9,448
Defined Benefit Plan Costs - Employee Benefits	37,136	33,928	18,876	17,074
Other Staff Costs	282,509	321,194	153,824	171,130
Total	1,155,877	1,084,613	588,424	550,379

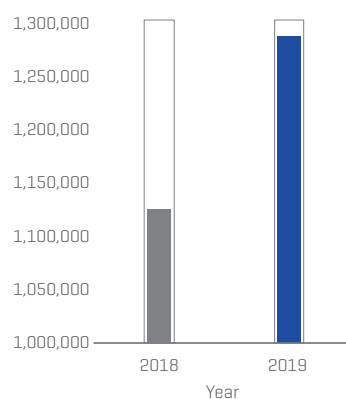
39.2. Auditor's Fees and Expenses

For the Year Ended 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Audit Fees and Expenses	3,528	4,250	1,764	2,575
Audit Related Fees	868	854	493	485
Total	4,396	5,104	2,257	3,060

40. 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.

Underwriting and Net Acquisition Cost - Group
Rs. ('000)

For the Year Ended 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Underwriting and Acquisition Costs		1,513,909	1,362,146	975,445	862,720
Reinsurance Commission		[227,705]	[201,529]	[15,895]	[14,752]
Decrease/[Increase] in Deferred Acquisition Expenses	40.1	1,864	[35,199]	-	-
Total Underwriting and Net Acquisition Costs		1,288,068	1,125,418	959,550	847,968

40.1. Decrease/[Increase] in Net Deferred Acquisition Expenses

For the Year Ended 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Decrease/[Increase] in Deferred Reinsurance Commission	19,090	[4,701]	-	-
Increase in Acquisition Cost	[17,226]	[30,498]	-	-
Total Decrease/[Increase] in Net Deferred Acquisition Expenses	1,864	[35,199]	-	-

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

41. INCOME TAX (EXPENSE)/REVERSAL

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 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 inter-company dividend are charged to Profit or Loss as it resulted in net outflow of cash from the Group.

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.

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 in to 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 years ended 31st December are as follows;

41.1a. Tax Recognised in Profit or Loss

For the Year Ended 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Income Tax					
Income Tax on Current Year's Profits		95,487	7,833	-	-
Over Provision of Income Taxes in Respect of Prior Years		(465)	(3,124)	-	-
Provision for Tax Credits (Notional Tax)		-	103,132	-	103,132
Withholding Tax on Inter Company Dividends		9,575	-	-	-
Capital Gain Tax for the Year		1,182	-	-	-
Total Income Tax [a]		105,779	107,841	-	103,132
Deferred Tax					
Reversal/(Origination) of Deferred Tax Assets	41.2a/41.2c	287,018	(1,232,704)	279,826	(1,280,499)
Origination of Deferred Tax Liability	41.2b	1,866	207	-	-
Deferred Taxation [b]		288,884	(1,232,497)	279,826	(1,280,499)
Total Tax Expense/(Reversal) [a+b]		394,663	(1,124,656)	279,826	(1,177,367)

41.1b. Tax Recognised in Other Comprehensive Income

For the Year Ended 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Deferred Tax					
Origination of Deferred Tax Assets/(Liability)	41.2	6,286	(8,288)	-	-

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

41. INCOME TAX EXPENSE/(REVERSAL) (CONTD.)

41.2. Deferred Taxation

As at 31st December,	Note	Group		Company	
		2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Deferred Tax Asset	41.2a & 41.2c	1,019,444	1,311,091	1,000,673	1,280,499
Deferred Tax Liability	41.2b	(9,733)	(6,209)	-	-
Net Deferred Tax Asset		1,009,711	1,304,882	1,000,673	1,280,499

As at 31st December,	Group							
	Statement of Financial Position				Profit or Loss		Other Comprehensive	
	2019		2018		2019	2018	2019	2018
	Temporary Difference Rs.'000	Tax Effect Assets/ [Liability] Rs.'000	Temporary Difference Rs.'000	Tax Effect Assets/ [Liability] Rs.'000	Change in Deferred Tax Assets/ [Liability] Rs.'000	Change in Deferred Tax Assets/ [Liability] Rs.'000	Change in Deferred Tax Assets/ [Liability] Rs.'000	Change in Deferred Tax Assets/ [Liability] Rs.'000
41.2a. Deferred Tax Asset								
Employee Benefits	67,042	18,771	55,516	15,544	3,227	927	-	-
Brought Forward Tax Losses	3,573,832	1,000,673	4,610,422	1,290,918	(290,245)	1,231,777	-	-
Available For Sale Financial Assets	-	-	16,531	4,629	-	-	(4,629)	8,288
Total [a]	3,640,874	1,019,444	4,682,469	1,311,091	(287,018)	1,232,704	(4,629)	8,288
41.2b. Deferred Tax Liability								
Property, Plant and Equipment	25,793	(7,222)	22,174	(6,209)	(1,012)	(207)	-	-
Right of Use Asset	3,049	(854)	-	-	(854)	-	-	-
Available For Sale Financial Assets	16,577	(1,657)	-	-	-	-	(1,657)	-
Total [b]	45,419	(9,733)	22,174	(6,209)	(1,866)	(207)	(1,657)	-
Total [a+b]		1,009,711		1,304,882	(288,884)	1,232,497	(6,286)	8,288

As at 31st December,	Company							
	Statement of Financial Position				Profit or Loss		Other Comprehensive	
	2019		2018		2019	2018	2019	2018
	Temporary Difference Rs.'000	Tax Effect Assets/ [Liability] Rs.'000	Temporary Difference Rs.'000	Tax Effect Assets/ [Liability] Rs.'000	Change in Deferred Tax Assets/ [Liability] Rs.'000	Change in Deferred Tax Assets/ [Liability] Rs.'000	Change in Deferred Tax Assets/ [Liability] Rs.'000	Change in Deferred Tax Assets/ [Liability] Rs.'000
41.2c. Deferred Tax Assets								
Brought Forward Tax Losses	3,573,832	1,000,673	4,573,212	1,280,499	(279,826)	1,280,499	-	-
Total		1,000,673		1,280,499	(279,826)	1,280,499	-	-

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 2019, Life Insurance business had a cumulative tax loss of Rs. 3,574 Million (2018- Rs. 4,573 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.999.38 Million against the taxable income generated for the year ended 31st December 2019 (2018- Rs. 621.75 Million) this was resulted in a reversal of Deferred Tax Asset of Rs. 279.83 Million for the year ended 31st December 2019 (2018 - Rs. 174.09 Million).

The Subsidiary Company, HNB General Insurance Limited also recorded a Net Deferred Tax Asset amounted to Rs. 9.04 Million (2018-Rs. 24.4 Million). The Group does not have unrecognised Deferred Tax Asset as at reporting date.

41.2d Proposed Changes to Income Tax Rates

As per the notice [PN/IT/2020-03] issued by Inland Revenue Department on 12th February 2020, "Implementation of proposed changes to the Inland Revenue Act, No. 24 of 2017", the income tax rates applicable to Company and subsidiary will be reduced from 28% to 24% with effect from 1st January 2020. However, the proposed changes are yet to be formally approved and enacted by the Parliament. As such the Company has not adjusted its deferred tax asset in the financial statements as at the reporting date. However, once formal amendments are made to the Act, the recorded Deferred Tax Asset and Profit After Tax of the Group will reduce by Rs. 144 Million and the recorded Deferred Tax Asset and Profit After Tax of the Company will reduce by Rs. 143 Million.

41.3 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.

41.4. Reconciliation of Effective Tax rate

For the Year Ended 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Profit for the Year	1,010,228	2,705,310	826,709	2,475,215
Income Tax Expenses	96,204	4,709	-	-
Provision for Tax Credits (Notional Tax)	-	103,132	-	103,132
Withholding Tax on Inter Company Dividends	9,575	-	-	-
Deferred Taxation	288,884	(1,232,497)	279,826	(1,280,499)
Profit Before Tax	1,404,891	1,580,654	1,106,535	1,297,848
At the Statutory Income Tax Rate of 28% (2018 : 28%)	393,369	442,583	309,830	363,397
Tax Effect on Inter Company Adjustments	15,812	-	-	-
Withholding Tax on Inter Company Dividends	9,575	-	-	-
Capital Gain Tax At the Rate of 10%	1,182	-	-	-
Over Provision of Current Taxes in Respect of Prior Years	(465)	(3,124)	-	-
Income Exempt from Tax	(39,682)	(208,920)	(32,537)	(194,239)
Aggregate Allowable Expenses	(10,482)	(7,607)	-	-
Aggregate Disallowed Expenses	24,183	20,360	2,229	4,933
Utilisation of Previous Tax Losses	(287,713)	(238,583)	(279,522)	(174,091)
Provision for Tax Credits (Notional Tax)	-	103,132	-	103,132
Reversal/(Origination) of Deferred Tax Assets	288,884	(1,232,497)	279,826	(1,280,499)
Income Tax Expenses/(Reversal)	394,663	(1,124,656)	279,826	(1,177,367)

41.5. Tax Loss Analysis

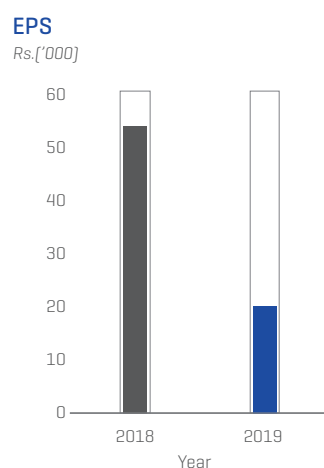
As at 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1st January	4,610,422	5,373,043	4,573,212	5,111,360
Prior Year Adjustments	(1,085)	(81,248)	(1,085)	(87,104)
Tax Losses Incurred during the Year	-	170,709	-	170,709
Tax Losses Utilised Against Taxable Income during the Year	(1,035,505)	(852,082)	(998,295)	(621,753)
Balance as at 31st December	3,573,832	4,610,422	3,573,832	4,573,212

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

42. BASIC AND DILUTED EARNINGS PER SHARE (EPS)

ACCOUNTING POLICY

The Group presents basic and diluted Earnings Per Share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the Profit or Loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the Profit or Loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.



For the Year Ended 31st December,	Group		Company	
	2019	2018	2019	2018
Amounts Used as the Numerator:				
Net Profit Attributable to Ordinary Shareholders (Rs.'000)	1,010,228	2,705,310	826,709	2,475,215
Number of Ordinary Shares used as the Denominator:				
Weighted Average No of Ordinary Shares as at 31st December ('000)	50,000	50,000	50,000	50,000
Basic Earnings Per Share (Rs.)	20.20	54.11	16.53	49.50

42.1. Basic Earnings Per Share - Excluding One-Off Surplus (EPS)

For the Year Ended 31st December,	Group		Company	
	2019	2018	2019	2018
Amounts Used as the Numerator:				
Net Profit (Rs.'000)	1,010,228	2,705,310	826,709	2,475,215
Less: One Off- Surplus (Rs.'000)	-	(381,156)	-	(381,156)
Net Profit Attributable to Ordinary Shareholders (Rs.'000)	1,010,228	2,324,154	826,709	2,094,059
Number of Ordinary Shares Used as the Denominator:				
Weighted Average No of Ordinary Shares as at 31st December ('000)	50,000	50,000	50,000	50,000
Basic Earnings Per Share (Rs.)	20.20	46.48	16.53	41.88

42.2. 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.

43. 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, regulatory approval is sought prior to declaration of dividend.

	Company	
	2019	2018
For the Year Ended 31st December,		
Interim Dividend per Share (Rs.)	2.00	-
Proposed Dividend per Share - Final (Rs.)	6.00	7.00
Total	8.00	7.00

43.1 Proposed Dividend

	Company	
	2019	2018
	Rs.'000	Rs.'000
For the Year Ended 31st December,		
Dividends to Shareholders	300,000	301,517
Tax Deducted at Source	-	48,483
Total	300,000	350,000

43.2. PROPOSED DIVIDEND

The Board of Directors has recommended a payment of Rs. 6.00 per share as a final dividend on 13th February 2020 for the year ended 31st December 2019 (2018- interim and final dividend Rs. 7.00 per share) which is subject to the approval of the shareholders at the Annual General Meeting to be held on 27th March 2020.

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 2019.

Under the Inland Revenue Act, No. 24 of 2017, a withholding tax of 14% (2018 - 14%) has been imposed on dividends declared from 1st April 2018 to 31st December 2019. From 1st January 2020 onwards WHT on dividend income has been abolished.

43.3. 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 2019. A Statement of Solvency completed and duly signed by the Directors on 13th February 2020 has been audited by M/S Ernst & Young Sri Lanka.

43.4. Dividend Paid during the Year

	Company	
	2019	2018
	Rs.'000	Rs.'000
For the Year Ended 31st December,		
First Interim Dividend for 2019: Rs. 2 per Share	100,000	-
Interim and Final Dividend for 2018: Rs. 7 per Share (Final Dividend for 2017: Rs. 6 per Share)	350,000	300,000
	450,000	300,000

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

44. 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 & Treasury Bills	Valued using the market yields obtained from the "Weekly Economic Indicators" 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		
Listed Units	Volume Weighted Average (VWA) prices obtained from the "CSE Daily" report published by the CSE on www.cse.lk	Level 1
Corporate Debt		
Listed/Unlisted Fixed Rate	Discounted Cash Flow (DCF) Method using current Treasury Bond rates (obtained from the "Weekly Economic Indicators" 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 "Weekly Economic Indicators" 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 has been computed based on the interest rates prevailed at reporting date.	Level 2

Listed Corporate Debt have been classified under level two in fair value hierarchy since there is no active market for these instruments even if such instruments are listed. Therefore when calculating the fair value, published market prices are not used.

The following is a list of financial instruments which have not been considered under the fair value measurement hierarchy, because the carrying amount of those financial instruments is a reasonable approximation of fair value since they are short-term in nature or re-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 Liabilities (Excluding Government Levies and Accruals)
Reinsurance Receivables	Bank Overdrafts
Premium Receivables	

44.1. 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:

44.1a. Financial Assets

As at 31st December,	Note	2019				
		Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total Carrying Amount	Fair Value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Repos	7.2	2,072,482	-	-	2,072,482	2,072,482
Term Deposit	7.2.1	7,600,594	-	-	7,600,594	7,711,961
Debentures	7.2.2	5,157,410	-	-	5,157,410	5,451,462
Treasury Bonds	7.3	-	6,245,704	-	6,245,704	6,245,704
Equity Shares	7.3.1 & 7.4.1	-	48,060	77,824	125,884	125,884
Loans to Life Policyholders	9	325,307	-	-	325,307	325,307
Reinsurance Receivables	10	645,411	-	-	645,411	645,411
Premium Receivables	11	946,650	-	-	946,650	946,650
Staff and Advisor Loans	12.1	458,971	-	-	458,971	458,971
Cash and Cash Equivalents	14.1	865,843	-	-	865,843	865,843
Total Financial Assets		18,072,668	6,293,764	77,824	24,444,256	24,849,675

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (CONTD.)

44.1b. Financial Liabilities

As at 31st December,	Note	2019		
		Other Financial Liabilities Rs. '000	Total Carrying Amount Rs. '000	Fair Value Rs. '000
Reinsurance Creditors	25	540,652	540,652	540,652
Lease Creditors	26	350,089	350,089	350,089
Other Liabilities [Excluding Government Levies, Other Provisions and Accruals]		455,538	455,538	455,538
Bank Overdrafts	14.2	130,636	130,636	130,636
Total Financial Liabilities		1,476,915	1,476,915	1,476,915

44.1c. Financial Assets

As at 31st December,	Note	2018				
		Loans and Receivables Rs. '000	Available For Sale Rs. '000	Fair Value Through Profit or Loss Rs. '000	Total Carrying Amount Rs. '000	Fair Value Rs. '000
Repos	7.2	1,078,670	-	-	1,078,670	1,078,670
Term Deposit	7.2.1	5,860,227	-	-	5,860,227	5,843,953
Debentures	7.2.2	3,770,618	-	-	3,770,618	3,663,069
Treasury Bonds	7.3	-	6,555,839	-	6,555,839	6,555,839
Treasury Bills	7.3	-	165,467	-	165,467	165,467
Equity Shares	7.3.1 & 7.4.1	-	55,285	83,873	139,158	139,158
Investment in Units	7.4.2	-	-	9,152	9,152	9,152
Loans to Life Policyholders	9	243,113	-	-	243,113	243,113
Reinsurance Receivables	10	415,773	-	-	415,773	415,773
Premium Receivables	11	798,213	-	-	798,213	798,213
Staff and Advisor Loans	12.1	439,896	-	-	439,896	439,896
Cash and Cash Equivalents	14.1	761,871	-	-	761,871	761,871
Total Financial Assets		13,368,381	6,776,591	93,025	20,237,997	20,114,174

44.1d. Financial Liabilities

As at 31st December,	Note	2018		
		Other Financial Liabilities Rs. '000	Total Carrying Amount Rs. '000	Fair Value Rs. '000
Reinsurance Creditors	25	369,853	369,853	369,853
Other Liabilities [Excluding Government Levies, Other Provisions and Accruals]		395,385	395,385	395,385
Bank Overdrafts	14.2	122,776	122,776	122,776
Total Financial Liabilities		888,014	888,014	888,014

44.1e. The Group's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in Note 46.

44.2. 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:

44.2a. Financial Assets

As at 31st December,	Note	2019				
		Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total Carrying Amount	Fair Value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Repos	7.2	1,349,087	-	-	1,349,087	1,349,087
Term Deposit	7.2.1	6,117,949	-	-	6,117,949	6,222,249
Debentures	7.2.2	4,598,453	-	-	4,598,453	4,866,426
Treasury Bonds	7.3	-	5,586,037	-	5,586,037	5,586,037
Equity Shares	7.3.1 & 7.4.1	-	48,060	77,824	125,884	125,884
Loans to Life Policyholders	9	325,307	-	-	325,307	325,307
Reinsurance Receivables	10	144,715	-	-	144,715	144,715
Premium Receivables	11	9,458	-	-	9,458	9,458
Staff and Advisor Loans	12.1	266,065	-	-	266,065	266,065
Cash and Cash Equivalents	14.1	632,712	-	-	632,712	632,712
Total Financial Assets		13,443,746	5,634,097	77,824	19,155,667	19,527,940

44.2b. Financial Liabilities

As at 31st December,	Note	2019		
		Other Financial Liabilities	Total Carrying Amount	Fair Value
		Rs. '000	Rs. '000	Rs. '000
Reinsurance Creditors	25	125,151	125,151	125,151
Lease Creditors	26	334,832	334,832	334,832
Other Liabilities [Excluding Government Levies, Other Provisions and Accruals]		321,335	321,335	321,335
Bank Overdrafts	14.2	31,050	31,050	31,050
Total Financial Liabilities		812,368	812,368	812,368

44.2c Financial Assets

As at 31st December,	Note	2018				
		Loans and Receivables	Available For Sale	Fair Value Through Profit or Loss	Total Carrying Amount	Fair Value
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Repos	7.2	786,115	-	-	786,115	786,115
Term Deposit	7.2.1	4,769,763	-	-	4,769,763	4,753,838
Debentures	7.2.2	3,172,503	-	-	3,172,503	3,087,967
Treasury Bonds	7.3	-	5,777,918	-	5,777,918	5,777,918
Treasury Bills	7.3	-	45,282	-	45,282	45,282
Equity Shares	7.3.1 & 7.4.1	-	49,686	72,039	121,725	121,725
Investment in Units	7.4.2	-	-	6,400	6,400	6,400
Loans to Life Policyholders	9	243,113	-	-	243,113	243,113
Reinsurance Receivables	10	75,926	-	-	75,926	75,926
Premium Receivables	11	8,046	-	-	8,046	8,046
Staff and Advisor Loans	12.1	277,819	-	-	277,819	277,819
Cash and Cash Equivalents	14.1	502,561	-	-	502,561	502,561
Total Financial Assets		9,835,846	5,872,886	78,439	15,787,171	15,686,710

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT (CONTD.)

44.2d. Financial Liabilities

As at 31st December,	Note	2018		
		Other Financial Liabilities Rs. '000	Total Carrying Amount Rs. '000	Fair Value Rs. '000
Reinsurance Creditors	25	116,268	116,268	116,268
Other Liabilities [Excluding Government Levies, Other Provisions and Accruals]		275,140	275,140	275,140
Bank Overdrafts	14.2	42,636	42,636	42,636
Total Financial Liabilities		434,044	434,044	434,044

44.2e. The Company's exposure to interest rate risk and a sensitivity analysis for Financial Assets and Liabilities is disclosed in Note 46.

44.3. 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.

As at 31st December,	Note	Group			
		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			
Fair Value Through Profit or Loss (FVTPL)					
Equity Shares	7.4.1	77,824	-	-	77,824
Total [a]		77,824	-	-	77,824
Available For Sale (AFS)					
Treasury Bonds	7.3	6,245,704	-	-	6,245,704
Equity Shares	7.3.1	48,060	-	-	48,060
Total [b]		6,293,764	-	-	6,293,764
Loans and Receivable [L & R]					
Term Deposit [More than one year]		-	3,666,194	-	3,666,194
Debentures	7.2.2	-	5,451,462	-	5,451,462
Staff and Advisor Loans	12.1	-	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

As at 31st December,	Group				
	2018				
	Fair Value Measurement Disclosed Using				
	Note	Quoted Prices in Active Markets [Level 1] Rs.'000	Significant Observable [Level 2] Rs.'000	Significant Unobservable [Level 3] Rs.'000	Total Fair Value Rs.'000
Fair Value Through Profit or Loss (FVTPL)					
Equity Shares	7.4.1	83,873	-	-	83,873
Investment in Units	7.4.2	9,152	-	-	9,152
Total [a]		93,025	-	-	93,025
Available For Sale (AFS)					
Treasury Bonds	7.3	6,555,839	-	-	6,555,839
Treasury Bills	7.3	165,467	-	-	165,467
Equity Shares	7.3.1	55,285	-	-	55,285
Total [b]		6,776,591	-	-	6,776,591
Loans and Receivable (L & R)					
Term Deposit [More than One Year]		-	2,247,907	-	2,247,907
Debentures	7.2.2	-	3,663,069	-	3,663,069
Staff and Other Loans	12.1	-	439,896	-	439,896
Total [c]		-	6,350,872	-	6,350,872
Total Financial Assets [a+b+c]		6,869,616	6,350,872	-	13,220,488

As at 31st December,	Company				
	2019				
	Fair Value Measurement Disclosed using				
	Note	Quoted Prices in Active Markets [Level 1] Rs.'000	Significant Observable [Level 2] Rs.'000	Significant Unobservable [Level 3] Rs.'000	Total Fair Value Rs.'000
Fair Value Through Profit or Loss (FVTPL)					
Equity Shares	7.4.1	77,824	-	-	77,824
Total [a]		77,824	-	-	77,824
Available For Sale (AFS)					
Treasury Bonds	7.3	5,586,037	-	-	5,586,037
Equity Shares	7.3.1	48,060	-	-	48,060
Total [b]		5,634,097	-	-	5,634,097
Loans and Receivable (L & R)					
Term Deposit [More than one year]		-	3,346,658	-	3,346,658
Debentures	7.2.2	-	4,866,426	-	4,866,426
Staff and Other Loans	12.1	-	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

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

44. FINANCIAL ASSETS, LIABILITIES AND FAIR VALUE MEASUREMENT [CONTD.]

As at 31st December,	Note	Company			
		2018			
		Fair Value Measurement Disclosed Using			
		Quoted Prices in Active Markets [Level 1] Rs.'000	Significant Observable [Level 2] Rs.'000	Significant Unobservable [Level 3] Rs.'000	Total Fair Value Rs.'000
Fair Value Through Profit or Loss (FVTPL)					
Equity Shares	7.4.1	72,039	-	-	72,039
Investment in Units	7.4.2	6,400	-	-	6,400
Total [a]		78,439	-	-	78,439
Available For Sale (AFS)					
Treasury Bonds	7.3	5,777,918	-	-	5,777,918
Treasury Bills	7.3	45,282	-	-	45,282
Equity Shares	7.3.1	49,686	-	-	49,686
Total [b]		5,872,886	-	-	5,872,886
Loans and Receivable [L & R]					
Term Deposit (More than one year)		-	2,046,327	-	2,046,327
Debentures	7.2.2	-	3,087,967	-	3,087,967
Staff and Other Loans	12.1	-	277,819	-	277,819
Total [c]		-	5,412,113	-	5,412,113
Total Financial Assets [a+b+c]		5,951,325	5,412,113	-	11,363,438

45. 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.

Details of related party transactions are reported below;

45.1a. Transaction with/between the Parent and Ultimate Controlling Party - Hatton National Bank PLC

As at 31st December,	Group		Company	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Nature of Transactions				
Insurance Premium	77,821	10,212	-	-
Claims Incurred	14,901	26,045	-	-
Investment Income	103,762	76,654	82,689	59,025
Administration Expenses	323,747	254,443	225,412	157,699
Rent Expenses	9,259	8,505	6,010	5,570
Other Operational Expenses	2,218	1,260	1,302	864
Dividends Paid	269,937	179,958	269,937	179,958

As at 31st December,	Group		Company	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Nature of Transactions				
Investments (Includes Deposits and Debentures)	558,291	1,009,575	409,023	835,802
Cash at Bank Balances	369,543	286,458	246,185	178,024

45.1b. Transaction with/between Subsidiary Companies and Joint Ventures of the Ultimate Controlling Party

For the Year Ended 31st December,	Group		Company	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
a).Sithma Development (Pvt) Limited				
Nature of Transactions				
Insurance Premium	13,333	632	-	-
Claims Paid	395	2,991	-	-
b).HNB Finance Ltd				
Nature of Transactions				
Insurance Premium	16,749	5,757	-	-
Claims Incurred	3,533	1,781	-	-
Administration Expenses	8,887	6,075	241	1
Interest Income	7,556	7,499	7,556	7,499
Investment in Term Deposits (As at 31st December)	50,806	50,681	50,806	50,681
Investment in Debentures (As at 31st December)	125,045	-	125,045	-
Cash and Savings Account Balance (As at 31st December)	311	-	311	-
c). Acuity Partners (Pvt) Ltd				
Nature of Transactions				
Insurance Premium	1,112	910	272	274
Claims Incurred	303	529	-	-
d). Acuity Stockbrokers (Pvt) Ltd				
Nature of Transactions				
Insurance Premium	647	784	-	-
Claims Incurred	772	356	-	-
e). Acuity Securities Ltd				
Nature of Transactions				
Insurance Premium	675	565	-	-
Claims Incurred	460	223	-	-
Investment in REPO (As at 31st December)	2,072,482	1,078,670	1,349,087	786,115
Investment Income from REPO	87,174	70,608	61,867	49,575

45.2. 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.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

45. RELATED PARTY DISCLOSURES (CONTD.)

Fees and transactions carried out with the related parties are given below,

45.2a. Key Management Personnel Compensation

For the Year Ended 31st December,	2019	2018
	Rs.'000	Rs.'000
Directors Fee	20,015	18,565
Short-Term Employee Benefits	51,824	49,798
Post-Employment Benefits	5,047	5,067
Outstanding Loan Balance Granted to KMPs	5,400	5,360

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.

45.2b. Other Transactions with Key Management Personnel

For the Year Ended 31st December,	2019	2018
	Rs.'000	Rs.'000
Insurance Premium - Life Insurance	2,053	781
Insurance Premium - General Insurance	1,094	1,238
Claims Paid - Life Insurance	30,500	1,808
Claims Paid - General Insurance	84	184

45.2c. Following Directors were Appointed to the Board of HNB Assurance PLC

Name of the Director	Effective Date of Appointment
Mr. Lintotage Udaya Damien Fernando	11th February 2019
Mr. Stuart Anthony Chapman	11th February 2019
Mr. Kalum Laksri Wijesooriya	2nd September 2019

45.2d. Following Directors were Appointed to the Board of HNB General Insurance Ltd

Name of the Director	Effective Date of Appointment
Mr. Lintotage Udaya Damien Fernando	11th February 2019
Mr. Arjuna Varana Abeygunasekera	11th February 2019
Mr. Malik Sanjaya Wijemanne	11th February 2019
Mr. Kalum Laksri Wijesooriya	2nd September 2019

45.2e. Following Directors have Retired/Resigned from the Board of HNB Assurance PLC

Name of the Director	Effective Date of Resignation
Mr. Sarath Carlyle Ratwatte	6th February 2019
Mr. Aloysius Gerard Rajive Dissanayake	12th February 2019

45.2f. Following Directors were Resigned from the Board of HNB General Insurance Ltd

Name of the Director	Effective Date of Resignation
Mr. Aloysius Gerard Rajive Dissanayake	12th February 2019

Subsequent appointments and resignations of the Directors after reporting date are disclosed under Note 47b.

45.2g Transactions with Entities which are Controlled and/or Jointly 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	Nature of Transactions	Group		Company	
			2019	2018	2019	2018
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Lanka Walltiles PLC	Dr. Selliah	Insurance Premium	4,494	2,098	-	-
	Mr. J A P M Jayasekara	Claims Incurred	852	4	-	-
Lanka Ceramics PLC	Dr. Selliah	Insurance Premium	849	951	-	-
	Mr. J A P M Jayasekara	Claims Incurred	667	5,184	-	-
Lanka Tiles PLC	Dr. Selliah	Insurance Premium	6,006	5,670	-	-
	Mr. J A P M Jayasekara	Claims Incurred	661	1,621	-	-
M N Properties (Pvt) Ltd.	Mr. J A P M Jayasekara	Insurance Premium	176	182	-	-
		Claims Incurred	2	-	-	-
Swisstek (Ceylon) PLC	Dr. S Selliah	Insurance Premium	1,280	473	-	-
	Mr. J A P M Jayasekara	Claims Incurred	5	-	-	-
Swistek Aluminium Ltd.	Dr. S Selliah	Insurance Premium	151	133	-	-
	Mr. J A P M Jayasekara	Claims Incurred	42	-	-	-
Lanka Financial Services Bureau	Mr. A J Alles	Insurance Premium	11	12	-	-
AKK Engineers (Pvt) Ltd.	Dr. L R Karunaratne	Insurance Premium	30	-	-	-
CIC Holdings PLC	Mr. R S Captain	Insurance Premium	1,496	1,288	-	-
Polypac Secco Ltd.	Mr. R S Captain	Claims Incurred	-	54	-	-
Arunodhaya Industries (Pvt) Ltd.	Dr. S Selliah	Insurance Premium	193	186	-	-
		Claims Incurred	289	-	-	-
Arunodhaya Investments (Pvt) Ltd.	Dr. S Selliah	Insurance Premium	199	208	-	-
Commercial Credit & Finance PLC	Mr. E D P Soosaipillai	Insurance Premium	4,503	-	-	-
		Claims Incurred	1,114	-	-	-
Ministry of Megapolis	Dr. L R Karunaratne	Insurance Premium	218	-	-	-

45.3. Transaction with the Subsidiary Company - HNB General Insurance Limited.

For the Year Ended 31st December,	2019	2018
	Rs.'000	Rs.'000
Insurance Premium	43,056	29,898
Insurance Expenses	7,917	6,494
Claims Received	200	877
Claims Paid	4,000	-
Administrations Expenses Reimbursement	295,925	250,752
Fund Management Fee Income	6,483	5,447
Profit Commission Expenses	15,978	12,423
Net Dividend Received	59,425	-

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

45. RELATED PARTY DISCLOSURES (CONTD.)

45.4. 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 2019 and thus has significant influence 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 2019, the Group has carried out transactions with the Government of Sri Lanka and other Government related entities in the ordinary course of its business, the details of which are given below. 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	Nature of Transactions	Group		Company	
			2019	2018	2019	2018
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Government of Sri Lanka		Investment balances as at 31st December	8,318,186	7,799,976	6,935,124	6,609,315
		Investment Income	823,926	754,223	703,400	655,796
Bank of Ceylon	Government Related Entity	Investment balances as at 31st December	98,231	59,639	45,329	59,639
		Investment Income	9,012	6,420	6,110	6,420
HDFC Bank of Sri Lanka	Government Related Entity	Investment Income	-	7,542	-	7,542
National Development Bank PLC	Government Related Entity	Investment balances as at 31st December	1,775,927	1,254,992	1,503,735	1,036,461
		Investment Income	193,484	126,755	163,599	104,265
People's Bank	Government Related Entity	Investment balances as at 31st December	1,641,486	1,025,149	1,390,130	879,214
		Investment Income	160,880	114,683	134,687	97,280
National Savings Bank	Government Related Entity	Investment balances as at 31st December	883,490	275,958	705,381	250,896
		Investment Income	28,469	958	22,173	896

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 2019 and 2018 are as follows:

Nature of the Transaction	2019	2018
	Rs.'000	Rs.'000
Premium Income from Government Related Entities	1,000	7,668
Claims Paid to Government Related Entities	26	-
Reinsurance Premium Net of Commission to Government Related Entities	411,046	372,701
Taxes Paid	785,004	631,653
Regulatory Charges	134,127	107,425
Utility Expenses	49,628	53,099
Media Expenses	199	1,734

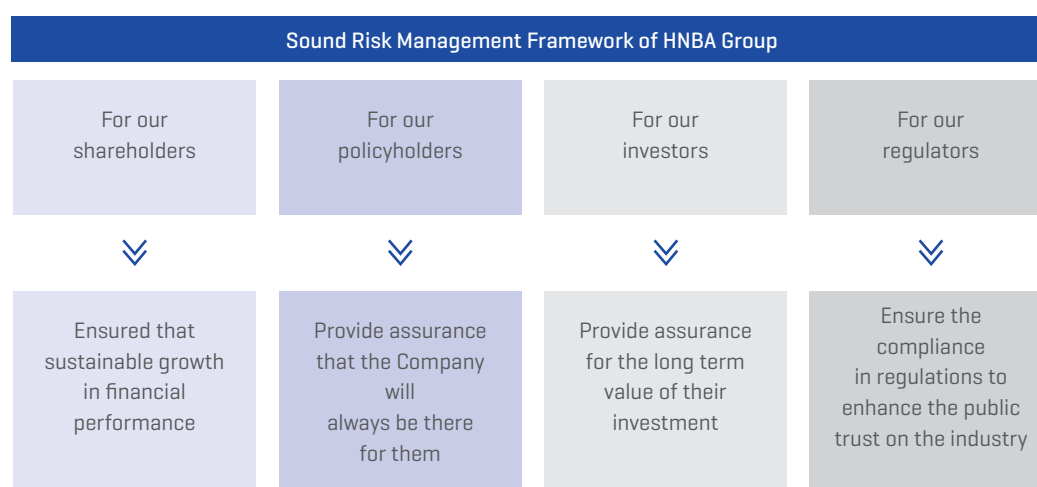
46. FINANCIAL RISK MANAGEMENT

46.1 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.

Type of Risk	Note	Page No.
Insurance Risk – Life Insurance	46.3.2.1	279
Product Design Risk	46.3.2.1.1	279
Underwriting Risk	46.3.2.1.2	280
Reinsurance Risk	46.3.2.1.3	281
Claims Risk	46.3.2.1.4	281
Insurance Risk – General Insurance	46.3.2.2	282
Product Design Risk	46.3.2.2.1	282
Underwriting Risk	46.3.2.2.2	283
Reinsurance Risk	46.3.2.2.3	283
Claims Risk	46.3.2.2.4	284
Financial Risk	46.3.3	285
Credit Risk	46.3.3.2	285
Liquidity Risk	46.3.3.3	290
Market Risk	46.3.3.4	292
Operational Risk	46.3.4	296

Importance of a Sound Risk Management Process



46.2 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.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

46. FINANCIAL RISK MANAGEMENT [CONTD.]

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 oversee the risk management activities of the Group. The Committee reports to the Board of Directors regarding the risk profile of the Group, risk management framework, including the significant policies and practices employed to manage risks in the 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.

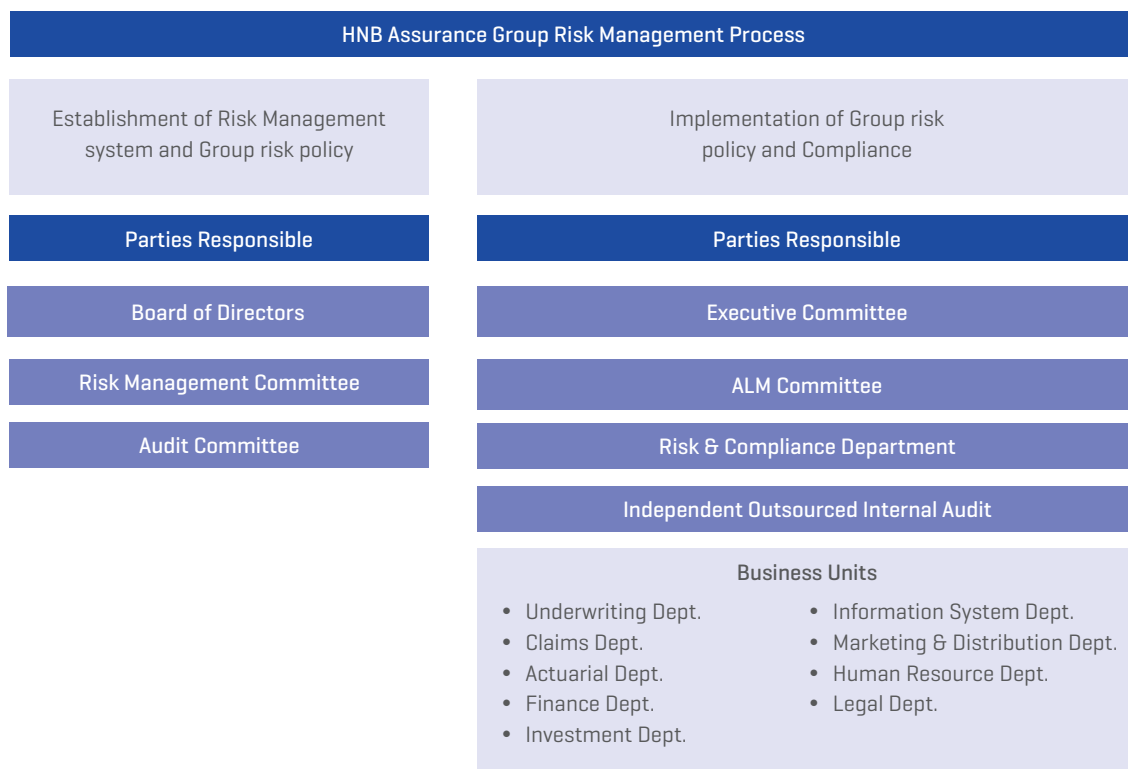
While the Risk Management Committee has the responsibilities and powers, the Executive Committee and Management are responsible for designing, implementing and maintaining an effective risk program to identify and manage risks which affect the Company/Group adversely. The management discharges this responsibility 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 Liability Management Committee [ALMC], comprising the Managing Director, senior management and representatives from the Finance, Investment, Actuarial and Risk and Compliance Divisions 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.



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 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 co-ordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to influence the capital position of the Group in the light of changes in economic conditions and risk characteristics. The capital requirements are forecasted on a periodic basis by the Management and the Board of Directors.

The Group has made no significant changes, from previous years, to its policies and processes of its capital structure. Thus there were no changes in the capital structure in the Company during the year.

Capital Management Objectives, Policies and Approach

The Group has established the following capital management objectives, policies and approaches to manage the risks that affect its capital position:

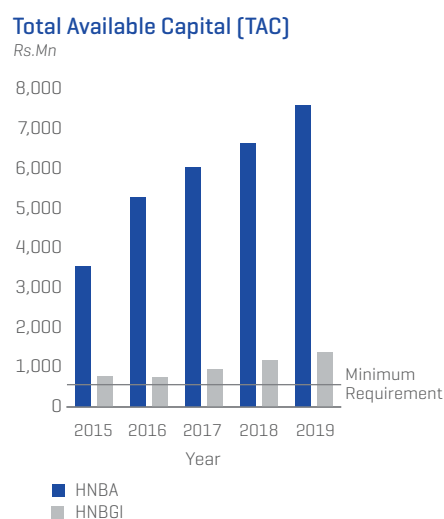
- To maintain solvency levels of the Company and subsidiary above the levels stipulated by the regulator and thereby providing a degree of security to Policyholders.
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meets the requirements of its Shareholders and Policyholders.
- To retain financial flexibility by maintaining strong liquidity.

- To align the profile of assets and liabilities taking account of risks inherent in the business.
- To maintain financial strength to support new business growth and to satisfy the requirements of the Policyholders, Shareholders, regulators and other stakeholders.
- To maintain strong credit ratings and healthy capital ratios in order to support its business objectives and maximize Shareholders' value.

The operations of the both companies (HNB Assurance PLC and HNB General Insurance Limited) in the Group are subject to regulatory guidelines and 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 and etc. to minimize the risk of default and 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.



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c) Regulatory Framework

Insurance Regulatory Commission of Sri Lanka (IRCSL) 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 IRCSL and in compliance with Section 26 of the IRR Act, and approved assets complying to Section 24 of the IRR Act and Determination 1 issued by the IRCSL, to meet unforeseeable events.

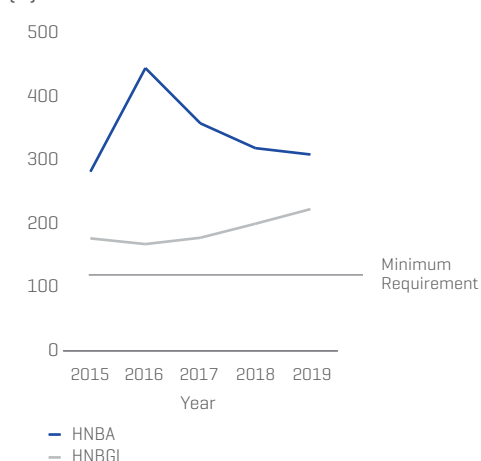
The Company and subsidiary each maintained adequate Total Available Capital (TAC) levels to support the Risk Based Capital Requirements (RCR) throughout the year thereby maintained Capital Adequacy Ratios (CAR) well above the regulatory minimum of 120%. The TAC and CAR of the Company (HNBA) and subsidiary (HNBGI) as of 31st December 2019 and 2018 are as follows.

Total Available Capital (TAC) and Risk-based Capital Adequacy Ratio (CAR)

Company	31st December 2019				31st December 2018			
	Total Available Capital (TAC)	Regulatory Minimum Capital Requirement	Risk-based Capital Adequacy Ratio [CAR]	Regulatory Minimum CAR Ratio	Total Available Capital (TAC)	Regulatory Minimum Capital Requirement	Risk-based Capital Adequacy Ratio [CAR]	Regulatory Minimum CAR Ratio
	Rs.000	Rs.000	%	%	Rs.000	Rs.000	%	%
HNBA	7,596,018	500,000	309	120	6,636,693	500,000	319	120
HNBGI	1,378,398	500,000	223	120	1,171,520	500,000	200	120

The chart below shows Company (HNBA) and subsidiary (HNBGI) Risk based Capital Adequacy Ratio (CAR) throughout past five years.

Risk Based Capital Adequacy Ratio (CAR) [%]



In addition, 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) and etc. Both companies are also regulated by the Companies Act, No. 07 of 2007.

46.3 Organisation Risk

46.3.1 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.



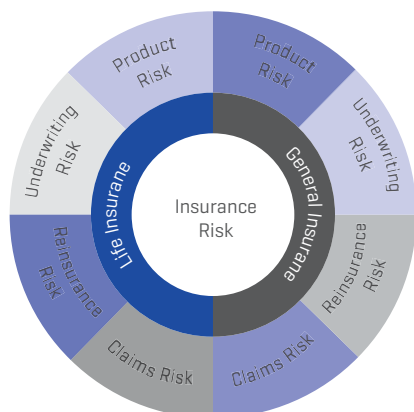
46.3.2 Insurance Risk

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.

The following chart graphically presents all kinds of insurance risks that the Group considers 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.

46.3.2.1 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 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 payout as part of its product feature. The Company also issues single premium investment policies with a guaranteed maturity benefit.

46.3.2.1.1 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 life time 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.

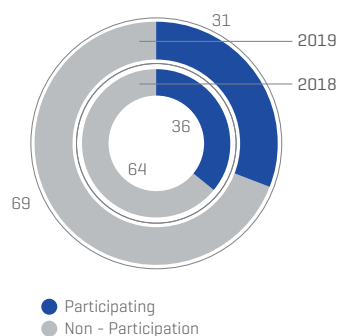
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Risk	Description	Assumptions and Risk Response Strategies
Expense Risk	Expense assumptions are the expected cost of acquisition and maintaining policies. Expense risk is the loss arising from expense experience being different than expected.	<ul style="list-style-type: none"> Annual expense studies are carried out to align expectation with actuals. The management expense assumptions are developed such that all the 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 produce 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.

Participating Vs Non - Participation (%)



46.3.2.1.2 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 sales person, is obtained to avoid any miss-understanding 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.

46.3.2.1.3 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 insure 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 very 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

46.3.2.1.4 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.

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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 sex, 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. 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. 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.
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	
		2019 %	2018 %
Mortality	+10%	0.24	0.29
	-10%	[0.24]	[0.27]
Discount rate	+ 50 basis points	[0.89]	[1.13]
	- 50 basis points	0.93	1.19

46.3.2.2 General Insurance Risk

General Insurance contracts are offered by the fully owned subsidiary of the Company, HNB General Insurance Ltd [HNBLI]. 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.

HNBLI 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.

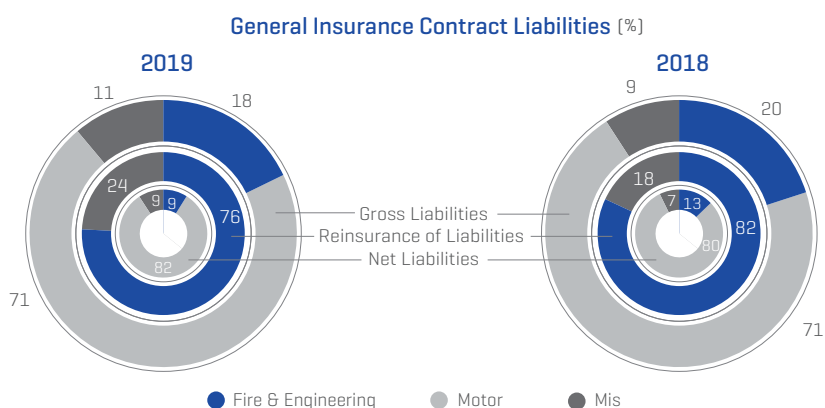
46.3.2.2.1 Product Design Risk

Risk of General Insurance product pricing being inadequate due to outdated/inaccurate assumptions on effects of climate change, natural disasters, terrorist activities, behavioral 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.

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.

The graph below depicts the concentration of non-life insurance contract liabilities by type of contract:



46.3.2.2.2 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.

46.3.2.2.3 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.

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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	A-	A M Best
Qatar General Insurance & Reinsurance Co.	Qatar	A-	A M Best
Santam Ltd	South Africa	AA-	SGP
XL Insurance Company SE	India	AA-	A M Best
National Insurance Trust Fund (NITF)	Sri Lanka (Government owned entity)	AA-	Fitch Rating
Asian Reinsurance Corporation	Thailand	BBB-	A M Best
Lancashire Insurance & Cathedral Underwriting Ltd (CCL 3010 at Lloyds)	UK	A+	A M Best
Antares Syndicate 1274 (AUL 1274 at Lloyds)	UK	A+	A M Best

46.3.2.2.4 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 certified 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 HNBGI's future claims development may follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are also used to assess the extent to which liabilities may arise in the future, but 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

	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
As at						
31st December 2019	+/-10%	716,944	+/-71,694	+/-50,696	+/-50,696	-/+36,501
31st December 2018	+/-10%	550,126	+/-55,013	+/-42,917	-/+42,917	-/+30,900

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	11
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
2008	98,195	11,834	7,136	4,653	4,371	3,795	2,051	1,913	5,892	5,122	3,388	2,200
2009	115,384	7,119	3,013	1,379	1,021	4,133	2,697	1,385	8,964	6,464	74	-
2010	142,511	21,589	9,246	7,407	4,300	3,212	9,714	4,019	9,005	10,591	-	-
2011	204,088	19,098	3,835	2,883	1,709	3,922	2,126	3,771	4,161	-	-	-
2012	226,266	16,193	9,616	3,064	4,039	3,564	4,305	6,826	-	-	-	-
2013	207,137	11,033	3,533	1,695	1,902	2,542	3,395	-	-	-	-	-
2014	257,441	13,728	2,843	4,300	4,304	4,086	-	-	-	-	-	-
2015	391,429	25,658	8,656	8,472	9,798	-	-	-	-	-	-	-
2016	345,718	33,013	18,097	18,497	-	-	-	-	-	-	-	-
2017	497,786	21,311	12,211	-	-	-	-	-	-	-	-	-
2018	566,509	54,331	-	-	-	-	-	-	-	-	-	-
2019	703,681	-	-	-	-	-	-	-	-	-	-	-

46.3.3 Financial Risk

46.3.3.1 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.



46.3.3.2 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 is equal to their carrying amounts.

Concentrations of Credit Risk - Financial Assets

As at 31st December,	Group				Company			
	2019		2018		2019		2018	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Financial Investments	21,202,074	86.74%	17,579,131	86.86%	17,777,410	92.70%	14,679,706	92.85%
Loans to Life Policyholders	325,307	1.33%	243,113	1.20%	325,307	1.70%	243,113	1.54%
Reinsurance Receivables	645,411	2.64%	415,773	2.05%	144,715	0.75%	75,926	0.48%
Premium Receivables	946,650	3.87%	798,213	3.94%	9,458	0.05%	8,046	0.05%
Amounts due from Subsidiary	-	-	-	-	21,344	0.11%	22,968	0.15%
Staff and Advisor Loans	458,971	1.88%	439,896	2.17%	266,065	1.39%	277,819	1.76%
Short Term Deposits	352,286	1.44%	342,840	1.69%	352,286	1.84%	279,256	1.77%
Cash and Cash Equivalents	513,557	2.10%	419,031	2.09%	280,426	1.46%	223,305	1.40%
Total	24,444,256	100%	20,237,997	100%	19,177,011	100%	15,810,139	100%

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

46. FINANCIAL RISK MANAGEMENT (CONTD.)

Credit Risk of Financial Investments

The counterparty failing to fulfill the obligation to repay the principal and interest of a financial instrument exposed 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			
	2019		2018		2019		2018	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Government Securities	8,318,186	38.8%	7,799,976	43.9%	6,935,124	38.5%	6,609,315	44.5%
Corporate Debt Securities	5,157,410	24.1%	3,770,618	21.2%	4,598,453	25.5%	3,172,503	21.4%
Term Deposit	7,600,594	35.5%	5,860,227	33.0%	6,117,949	34.0%	4,769,763	32.2%
Total Credit Risk Exposure - Medium & Long Term (a)	21,076,190	98.4%	17,430,821	98.1%	17,651,526	98.0%	14,551,581	98.1%
Short Term Deposits(b)	352,286	1.6%	342,840	1.9%	352,286	2.0%	279,256	1.9%
Total Credit Risk Exposure (a+b)	21,428,476	100.0%	17,773,661	100.0%	18,003,812	100.0%	14,830,837	100.0%
Equity	125,884		139,158		125,884		121,725	
Unit Trusts	-		9,152		-		6,400	
Total Credit Risk Free Financial Instruments (c)	125,884		148,310		125,884		128,125	
Total Financial Instruments (a+c)	21,202,074		17,579,131		17,777,410		14,679,706	

Concentrations of Credit Risk - Financial Instruments & Short Term Deposits

As at 31st December,	Group				Company			
	2019		2018		2019		2018	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Held to Maturity	-	-	-	-	-	-	-	-
Available For Sale								
Treasury Bonds	6,245,704	29.15%	6,555,839	36.89%	5,586,037	31.03%	5,777,918	38.96%
Treasury Bills	-	-	165,467	0.93%	-	-	45,282	0.31%
Fair Value Through Profit or Loss	-	-	-	-	-	-	-	-
Loans and Receivables								
Repo	2,072,482	9.67%	1,078,670	6.07%	1,349,087	7.49%	786,115	5.30%
Debentures								
AAA+ to AAA-	-	-	179,679	1.01%	-	-	166,762	1.12%
AA+ to AA-	1,398,315	6.53%	1,101,740	6.20%	1,275,235	7.08%	892,098	6.02%
A+ to A-	3,336,444	15.57%	1,986,386	11.18%	2,952,204	16.40%	1,716,619	11.57%
BBB+ to BBB-	422,651	1.97%	435,132	2.45%	371,014	2.06%	349,736	2.36%
BB+ to BB-	-	-	67,680	0.38%	-	-	47,288	0.32%
Term Deposits								
AAA+ to AAA-	-	-	275,958	1.55%	-	-	250,896	1.69%
AA+ to AA-	3,883,015	18.12%	3,187,727	17.94%	2,974,992	16.52%	2,453,049	16.54%
A+ to A-	4,069,865	18.99%	2,739,383	15.40%	3,495,243	19.42%	2,345,074	15.81%
BBB+ to BBB-	-	-	-	-	-	-	-	-
BB+ to BB-	-	-	-	-	-	-	-	-
Total	21,428,476	100%	17,773,661	100%	18,003,812	100%	14,830,837	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.

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. Payments and Received vs. Payments].
- 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 for all investment related activities.

Investment Operation and Monitoring

- Signing Master Repo Agreements [MRA] with all primary dealers the Group works with in order to ensure zero level of default risk for lending under repo transactions, in the event of their bankruptcy. MRA's provide the facility to the investor or investee to recover the money due by selling the collateral securities in the secondary market in the event of a default by either party.
- Maintaining a custodian arrangement for Government securities with Acuity Securities Ltd, a subsidiary of Acuity Partners [Pvt] Ltd [a joint venture of HNB and DFCC Bank].
- Entering in to a custodian agreement with Hatton National Bank PLC for listed equity investments.
- Obtaining specialist advice from legal experts on any issues related to investment activities.

The Group regularly reviews the policies and procedures in respect of managing the Credit Risk in investments and no significant changes were made during the year.

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 loan and interest exceeds surrender, value policy is foreclosed. The surrender value of policies for which loans were granted amounted to Rs. 530 Million.

Staff and Agent 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. 91% of loans granted includes collateral.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

46. FINANCIAL RISK MANAGEMENT [CONTD.]

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			
	2019		2018		2019		2018	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Reinsurance Receivable on Outstanding Claims	343,554	53%	205,881	50%	65,275	45%	32,159	42%
Reinsurance Receivable on Claims Settled	301,857	47%	209,892	50%	79,440	55%	43,767	58%
Total Exposure to Credit Risk	645,411	100%	415,773	100%	144,715	100%	75,926	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,										
2019	206,697	68%	89,619	30%	2,334	1%	3,207	1%	301,857	100%
2018	116,280	55%	82,355	40%	-	-	11,257	5%	209,892	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,										
2019	79,440	100%	-	-	-	-	-	-	79,440	100%
2018	43,767	100%	-	-	-	-	-	-	43,767	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,												
2019	71,055	24%	30,736	10%	78,787	26%	57,900	19%	63,379	21%	301,857	100%
2018	64,316	31%	15,015	7%	28,412	14%	92,875	44%	9,274	4%	209,892	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,												
2019	6,392	8%	9,237	12%	29,439	37%	25,442	32%	8,930	11%	79,440	100%
2018	12,282	28%	4,854	11%	3,986	9%	16,358	37%	6,287	14%	43,767	100%

Risk Response Strategies

- All reinsurers of the Company and 98% 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,								
2019	628,631	66%	318,019	34%	-	-	946,650	100%
2018	500,404	63%	297,809	37%	-	-	798,213	100%

Company	≤ 30 days		31 to 60 days		> 61 days		Total	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
As at 31st December,								
2019	9,458	100%	-	-	-	-	9,458	100%
2018	8,046	100%	-	-	-	-	8,046	100%

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	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Hatton National Bank PLC	AA-	Fitch Rating	500,179	409,235	277,235	220,660
Commercial Bank of Ceylon PLC	AA	Fitch Rating	8,254	4,399	388	212
Bank of Ceylon	AA+	Fitch Rating	1,020	519	290	183
National Savings Bank	AA+	Fitch Rating	50	272	41	263
DFCC Bank PLC	AA-	Fitch Rating	700	712	89	134
Pan Asia Banking Corporation PLC	BBB-	Fitch Rating	27	28	27	28
Sampath Bank PLC	A+	Fitch Rating	517	322	464	157
HDFC Bank of Sri Lanka	BB+	Fitch Rating	11	11	10	10
LOLC Finance PLC	A	Fitch Rating	21	481	14	111
People's Leasing & Finance PLC	AA-	Fitch Rating	32	31	24	23
National Development Bank PLC	A+	Fitch Rating	47	47	-	-
Nations Trust Bank PLC	A	Fitch Rating	105	690	-	-
HNB Finance Limited	A	Fitch Rating	311	-	311	-
Total Exposure to Credit Risk			511,274	416,747	278,893	221,781
Cash in hand			2,283	2,284	1,533	1,524
Cash and Cash Equivalents			513,557	419,031	280,426	223,305

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

46. FINANCIAL RISK MANAGEMENT [CONTD.]

Risk Response Strategies

The Group maintains savings and current accounts with banks and financial institutions with good credit ratings. As at 31st December 2019, 99.8% of cash was maintained with AA and above rated banks [2018: 99.6%].

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 194.

The Company has no significant concentration of Credit risk during the reporting period.

46.3.3.3 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 agreement and other short tenure investments to accommodate expected obligations and commitments of the Group.
- Determining the maturity profiles of insurance Contract Liabilities and reinsurance assets based on the estimated timing of net cash outflows from recognised insurance liabilities.
- Reviewing the maturity mix of the investment portfolio by the management and the Investment Committee on a regular basis.
- Agreeing with the reinsurers to support in case of catastrophic by way of cash call.
- Forecasting and planning for all large cash outflows in advance and making necessary arrangements to ensure the availability of funds to meet such outflows.
- 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

	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
As at 31st December 2019,	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Right of use Assets	343,737	7,948	228,356	101,718	5,715
Financial Investments	21,202,074	7,480,337	4,207,483	4,954,079	4,560,175
Loans to Life Policyholders	325,307	-	-	-	325,307
Reinsurance Receivables	645,411	629,291	16,120	-	-
Premium Receivables	946,650	946,650	-	-	-
Staff and Other Loans	458,971	129,425	169,122	116,164	44,260
Cash and Cash Equivalents	865,843	865,843	-	-	-
Total Assets	24,787,993	10,059,494	4,621,081	5,171,961	4,935,457
Liabilities					
Reinsurance Creditors	540,652	540,652	-	-	-
Lease Creditors	350,089	8,468	241,195	98,626	1,800
Other Liabilities	455,538	253,165	-	-	202,373
Bank Overdrafts	130,636	130,636	-	-	-
Total Liabilities	1,476,915	932,921	241,195	98,626	204,173

	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
As at 31st December 2018,	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	17,579,131	7,118,744	3,154,083	3,653,838	3,652,466
Loans to Life Policyholders	243,113	-	-	-	243,113
Reinsurance Receivables	415,773	415,753	20	-	-
Premium Receivables	798,213	798,213	-	-	-
Staff and Other Loans	439,896	125,493	164,297	111,870	38,236
Cash and Cash Equivalents	761,871	761,871	-	-	-
Total Assets	20,237,997	9,220,074	3,318,400	3,765,708	3,933,815
Liabilities					
Reinsurance Creditors	369,853	363,554	6,299	-	-
Other Liabilities	395,385	184,175	-	-	211,210
Bank Overdrafts	122,776	122,776	-	-	-
Total Liabilities	888,014	670,505	6,299	-	211,210

Maturity Profile of Assets & Liabilities - Company

	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
As at 31st December 2019,	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Right of use Assets	325,572	7,948	211,519	100,390	5,715
Financial Investments	17,777,410	5,376,312	3,868,666	4,318,505	4,213,927
Loans to Life Policyholders	325,307	-	-	-	325,307
Reinsurance Receivables	144,715	144,715	-	-	-
Premium Receivables	9,458	9,458	-	-	-
Staff and Other Loans	266,065	85,471	95,482	64,041	21,071
Cash and Cash Equivalents	632,712	632,712	-	-	-
Total Assets	19,481,239	6,256,616	4,175,667	4,482,936	4,566,020
Liabilities					
Reinsurance Creditors	125,151	125,151	-	-	-
Lease Creditors	334,832	8,468	227,162	97,402	1,800
Other Liabilities	321,335	140,395	-	-	180,940
Bank Overdrafts	31,050	31,050	-	-	-
Total Liabilities	812,368	305,064	227,162	97,402	182,740

	Total	Less than One Year	One Year to Three Years	Three to Five Years	More than Five Years
As at 31st December 2018,	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets					
Financial Investments	14,679,706	5,366,285	2,658,583	3,125,994	3,528,844
Loans to Life Policyholders	243,113	-	-	-	243,113
Reinsurance Receivables	75,926	75,926	-	-	-
Premium Receivables	8,046	8,046	-	-	-
Staff and Other Loans	277,819	87,235	98,942	68,034	23,608
Cash and Cash Equivalents	502,561	502,561	-	-	-
Total Assets	15,787,171	6,040,053	2,757,525	3,194,028	3,795,565
Liabilities					
Reinsurance Creditors	116,268	116,268	-	-	-
Other Liabilities	275,140	85,978	-	-	189,162
Bank Overdrafts	42,636	42,636	-	-	-
Total Liabilities	434,044	244,882	-	-	189,162

The Company has no significant concentration of Liquidity risk during the reporting period.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

46. FINANCIAL RISK MANAGEMENT [CONTD.]

46.3.3.4 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 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

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
	2019	2019	2018	2018	2019	2019	2018	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
100 bps parallel increase in all yield curves	-	[249,933]	-	[236,924]	-	[226,842]	-	[216,516]
100 bps parallel decrease in all yield curves	-	270,478	-	254,207	-	245,969	-	232,904

Following tables presents the exposure to the Interest Rate Risk by the Group and the Company.

Exposure to Interest Rate Risk - Group

	Variable interest rate Rs. '000	Fixed interest rate Rs. '000	Non-interest bearing Rs. '000	Total Rs. '000
31st December 2019,				
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 & loss	-	-	77,824	77,824
Loans to Life Policyholders	-	325,307	-	325,307
Staff and Other Loans	-	458,971	-	458,971
Cash and cash equivalent	-	352,285	513,558	865,843
Total Financial Assets	-	22,212,753	639,442	22,852,195
Financial Liabilities				
Advisor Terminal Benefit Payable	202,373	-	-	202,373
Bank Overdrafts	-	130,636	-	130,636
Total Financial Liabilities	202,373	130,636	-	333,009
31st December 2018,				
Financial Assets				
Financial Investments - Loans & receivables	-	10,709,515	-	10,709,515
Financial Investments - Available for sale	-	6,721,306	55,285	6,776,591
Financial Investments - Fair value through profit & loss	-	-	93,025	93,025
Loans to Life Policyholders	-	243,113	-	243,113
Staff and Other Loans	-	439,896	-	439,896
Cash and cash equivalent	-	342,840	419,031	761,871
Total Financial Assets	-	18,456,670	567,341	19,024,011
Financial Liabilities				
Advisor Terminal Benefit Payable	211,209	-	-	211,209
Bank Overdrafts	-	122,776	-	122,776
Total Financial Liabilities	211,209	122,776	-	333,985

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

46. FINANCIAL RISK MANAGEMENT [CONTD.]

Exposure to Interest Rate Risk - Company

	Variable interest rate Rs. '000	Fixed interest rate Rs. '000	Non-interest bearing Rs. '000	Total Rs. '000
31st December 2019,				
Financial Assets				
Financial Investments - Loans & receivables	-	12,065,489	-	12,065,489
Financial Investments - Available for sale	-	5,586,037	48,060	5,634,097
Financial Investments - Fair value through profit & loss	-	-	77,824	77,824
Loans to Life Policyholders	-	243,113	-	243,113
Staff and Other Loans	-	266,065	-	266,065
Cash and cash equivalent	-	352,285	280,427	632,712
Total Financial Assets	-	18,512,989	406,311	18,919,300
Financial Liabilities				
Advisor Terminal Benefit Payable	180,940	-	-	180,940
Bank Overdrafts	-	31,050	-	31,050
Total Financial Liabilities	180,940	31,050	-	211,990
31st December 2018,				
Financial Assets				
Financial Investments - Loans & receivables	-	8,728,381	-	8,728,381
Financial Investments - Available for sale	-	5,823,200	49,686	5,872,886
Financial Investments - Fair value through profit & loss	-	-	78,439	78,439
Loans to Life Policyholders	-	243,113	-	243,113
Staff and Other Loans	-	277,819	-	277,819
Cash and cash equivalent	-	279,256	223,305	502,561
Total Financial Assets	-	15,351,769	351,430	15,703,199
Financial Liabilities				
Advisor Terminal Benefit Payable	189,162	-	-	189,162
Bank Overdrafts	-	42,636	-	42,636
Total Financial Liabilities	189,162	42,636	-	231,798

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.

Following table shows the equity portfolio diversification the Group and the Company.

Equity Portfolio Diversification

As at 31st December,	Group				Company			
	2019		2018		2019		2018	
Industry	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Banks, Finance and Insurance	69,526	55.2	81,591	55.0	69,526	55.2	72,599	56.7
Manufacturing	31,667	25.2	25,123	16.9	31,667	25.2	22,997	17.9
Diversified Holdings	16,276	12.9	20,862	14.1	16,276	12.9	17,553	13.7
Land and Property	7,787	6.2	10,845	7.3	7,787	6.2	8,030	6.3
Closed/Open End Funds	-	-	9,152	6.2	-	-	6,400	5.0
Beverage, Food and Tobacco	628	0.50	737	0.5	628	0.50	546	0.4
Total	125,884	100	148,310	100	125,884	100	128,125	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	
	2019	2018	2019	2018	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
10 per cent increase in equity prices	7,782	8,387	4,806	5,528	7,782	7,204	4,806	4,969
10 per cent decrease in equity prices	(7,782)	(8,387)	(4,806)	(5,528)	(7,782)	(7,204)	(4,806)	(4,969)

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 honor liabilities of foreign currency denominated insurance policies, which are sold in the ordinary course of business.

However, no material liabilities were recorded on foreign currency denominated policies as at the reporting date.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity due to changes in the fair value of currency sensitive monetary assets.

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	
	2019	LKR Amount	2018	LKR Amount	2019	LKR Amount	2018	LKR Amount
	USD '000	Rs.'000	USD '000	Rs.'000	USD '000	Rs.'000	USD '000	Rs.'000
Assets	1,414	254,043	1,657	304,593	560	100,554	468	86,036
	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	(12,702)	(9,146)	(15,230)	(10,965)	(5,028)	(3,620)	(4,302)	(3,097)
5% weakening of rupee	12,702	9,146	15,230	10,965	5,028	3,620	4,302	3,097
+/- % impact on Profit	0.90%	0.91%	0.96%	0.41%	0.45%	0.44%	0.33%	0.13%

The Group has no significant concentration of currency risk during the reporting period.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

46. FINANCIAL RISK MANAGEMENT (CONTD.)

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	
		2019	2018	2019	2018	2019	2018	2019	2018
		Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Exchange rate	5% strengthening of rupee	(12,702)	(9,146)	(15,230)	(10,965)	(5,028)	(3,620)	(4,302)	(3,097)
Yield curve	+100 basis points		(249,933)	-	(236,924)		(226,842)	-	(216,516)
ASPI	10% increase	7,782	10,409	8,387	11,567	7,782	10,409	7,204	10,155
Total		(4,920)	(248,670)	(6,843)	(236,322)	2,754	(220,053)	2,902	(209,458)
Exchange rate	5% weakening of rupee	12,702	9,146	15,230	10,965	5,028	3,620	4,302	3,097
Yield curve	-100 basis points		270,478	-	254,207		245,969	-	232,904
ASPI	10% decrease	(7,782)	(10,409)	(8,387)	(11,567)	(7,782)	(10,409)	(7,204)	(10,155)
Total		4,920	269,215	6,843	253,605	(2,754)	239,180	(2,902)	225,846

Note 1 : The correlation of variables will have a significant effect in determining the ultimate impact of exchange rate, interest rate and equity price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis.

Note 2 : It should be noted that movements in these variables are non-linear. The method used for deriving sensitivity information and significant variables has not changed from the previous period.

46.3.4 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 in to 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 in to 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.

47. EVENTS OCCURRING AFTER THE REPORTING DATE

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

All material post reporting date events have been considered and where appropriate, adjustments or disclosures have been made in the respective notes to the Financial Statements.

Except for the following mentioned post balance events there have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements.

47.a. Proposed Dividend

The Board of Directors has recommended a payment of final dividend of Rs.6.00 per share as a final dividend on 13th February 2020 for the Financial Year 2019 (2018 Interim and Final Dividend - Rs. 7.00 per share). More information with respect to the dividend declaration is given on Note 43.

47.b. Subsequent Changes in Directorship - Appointment of Alternate Director

Mr. Thal pawila Kankanange Don Aruna Prasad Samarasinghe was appointed as an Alternate Director to Mr. L.U.D. Fernando of the Board of HNB Assurance PLC and its Subsidiary HNB General Insurance Limited w.e.f. 24th January 2020.

47.c. Subsequent Changes in Income Tax Rates

As per the notice [PN/IT/2020-03] issued by Inland Revenue Department on 12th February 2020, "Implementation of proposed changes to the Inland Revenue Act, No. 24 of 2017", the income tax rates applicable to Company and Subsidiary will be reduced from 28% to 24% with effect from 1st January 2020. However, the proposed changes are yet to be formally approved and enacted by the Parliament. Accordingly no adjustments are made in the financial statements as at the reporting date. However resulting financial impact of this amendment is disclosed in Note No. 41.2d.

48. COMMITMENTS

48.1. The Group has committed an expense of Rs. 8.98 Million for the purchase of computer software.

As at the 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.

49. CONTINGENCIES

49.1 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 matter was fixed for argument on 04th, 30th and 31st March 2020. As the Company is of the strong view that no additional Tax liabilities are arising due to this assessment and no provision is made in the Financial Statements for the tax in dispute and penalty which amounted to Rs. 21.99 Million.

49.2 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 IRD	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	6.01
Total				70.31	39.35	109.66

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

49. CONTINGENCIES (CONTD.)

49.3 Assessment on VAT

The Company has received VAT notice of assessments and 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. 1.33 Million. Further, the subsidiary Company, HNB General Insurance Limited, has received a tax assessment and penalty amounted to Rs. 8.25 Million on VAT return filed and the subsidiary is in the process of making an appeal to the Commissioner General of Inland Revenue.

49.4 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 and 2016/2017. 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, Company's Tax Consultants and the life insurance industry are confident that these assessments will not materialise. 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. Mn]
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
Total				722

50. LITIGATIONS AND CLAIMS

In the opinion of the Directors and in consultation with the Company lawyers, litigation currently pending against the Group 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.

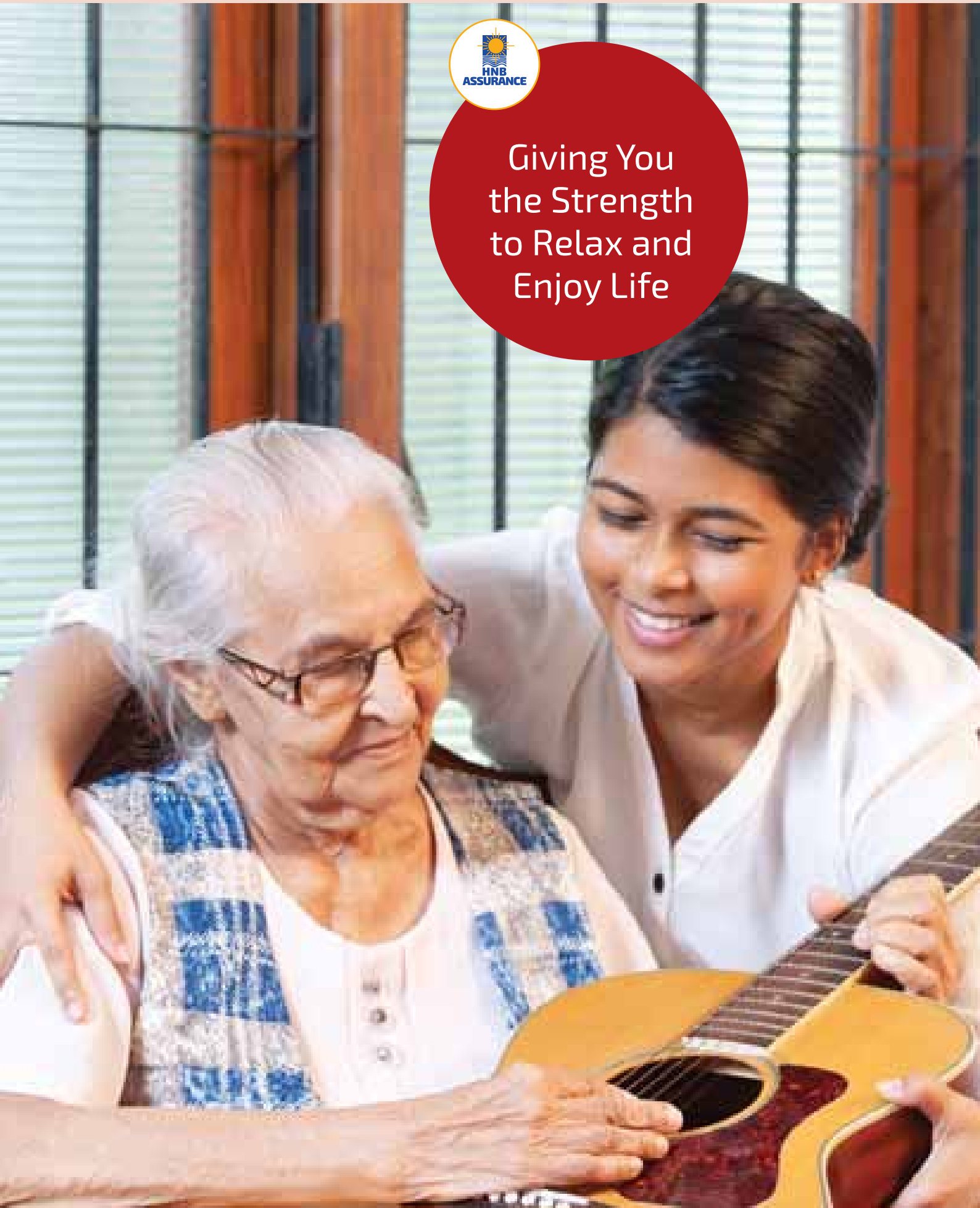
51. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for these Financial Statements. Please refer to pages 176 to 177 of the Statement of Directors' Responsibility for Financial Reporting.

We focus on providing an atmosphere of tranquillity and peace of mind; bridging boundaries across generations and inspiring a spirit of togetherness and learning.



Giving You
the Strength
to Relax and
Enjoy Life



STATEMENT OF FINANCIAL POSITION OF THE LIFE INSURANCE FUND - SUPPLEMENTAL

As at 31st December,	Note	Page No.	2019 Rs.'000	2018 Rs.'000
Assets				
Financial Investments	A	301	14,391,366	11,973,289
Loans to Life Policyholders	B	304	325,307	243,113
Reinsurance Receivables	C	305	144,715	75,926
Premium Receivables	11	229	9,458	8,046
Other Assets	D	305	87,754	39,102
Cash and Cash Equivalents	E	305	325,754	227,164
Total Assets			15,284,354	12,566,640
Equity and Liabilities				
Life Policyholders' Available For Sale Reserve Fund	19	236	177,228	[201,867]
Total Equity			177,228	[201,867]
Liabilities				
Insurance Contract Liabilities - Life Insurance	21	236	14,464,534	12,261,472
Reinsurance Creditors	F	305	125,151	116,268
Other Liabilities	G	305	324,817	221,152
Bank Overdrafts	E	305	31,050	24,068
Payable to Life Shareholders			161,574	145,547
Total Liabilities			15,107,126	12,768,507
Total Equity and Liabilities			15,284,354	12,566,640

The Notes to the Supplemental Statement of Financial Position as set out on pages 301 to 305 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	2019 Rs.'000	2018 Rs.'000
Loans and Receivable	A.1	8,864,157	6,231,433
Available For Sale	A.2	5,449,385	5,663,417
Fair Value Through Profit or Loss	A.3	77,824	78,439
Total Financial Investments		14,391,366	11,973,289

The table below shows the carrying values of these Financial Instruments together with their fair values.

As at 31st December,	2019		2018	
	Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
Loans and Receivable	8,864,157	9,185,548	6,231,433	6,148,507
Available For Sale	5,449,385	5,449,385	5,663,417	5,663,417
Fair Value Through Profit or Loss	77,824	77,824	78,439	78,439
Total Financial Investments	14,391,366	14,712,757	11,973,289	11,890,363

As at 31st December,	Note	2019		2018	
		Carrying value Rs.'000	Fair value Rs.'000	Carrying value Rs.'000	Fair value Rs.'000
A.1 Loans and Receivable					
Repos		1,021,250	1,021,250	405,487	405,487
Term Deposits	A.4	4,002,468	4,090,724	3,148,308	3,132,610
Debentures	A.5	3,840,439	4,073,574	2,677,638	2,610,410
Total		8,864,157	9,185,548	6,231,433	6,148,507
A.2 Available For Sale					
Treasury Bonds		5,401,325	5,401,325	5,568,450	5,568,450
Treasury Bills		-	-	45,282	45,282
Equity Shares	A.6	48,060	48,060	49,685	49,685
Total		5,449,385	5,449,385	5,663,417	5,663,417
A.3 Fair Value Through Profit or Loss					
Investment in Units	A.7	-	-	6,400	6,400
Equity Shares	A.8	77,824	77,824	72,039	72,039
Total		77,824	77,824	78,439	78,439
A.4. Term Deposits					
Long-Term and Medium Term Deposits with,					
Licensed Commercial Banks	A.4.1	2,264,213	2,288,501	1,919,079	1,911,973
Licensed Specialised Banks		251,744	253,111	100,356	100,356
Licensed Finance Companies	A.4.2	1,486,511	1,549,112	1,128,873	1,120,281
Total		4,002,468	4,090,724	3,148,308	3,132,610

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS -LIFE INSURANCE FUND

A. FINANCIAL INVESTMENT (CONTD.)

As at 31st December,		2019		2018	
		Carrying value	Fair value	Carrying value	Fair value
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
A.4.1. Licensed Commercial Banks					
Term Deposits with Related Parties - Hatton National Bank PLC		144,865	144,865	495,132	495,132
Others Banks		2,119,348	2,143,636	1,423,947	1,416,841
Total		2,264,213	2,288,501	1,919,079	1,911,973
A.4.2. Licensed Finance Companies					
Term Deposits with Related Parties - HNB Finance Ltd		50,806	54,130	50,681	51,919
Other Finance Companies		1,435,705	1,494,982	1,078,192	1,068,362
Total		1,486,511	1,549,112	1,128,873	1,120,281
A.5. Debentures					
Debentures - Quoted	A.5.1	3,840,439	4,073,574	2,677,638	2,610,410
Total		3,840,439	4,073,574	2,677,638	2,610,410
A.5.1 Debentures - Quoted					
Abans PLC		-	-	40,148	38,708
Access Engineering PLC		96,147	96,609	96,393	92,733
Bank of Ceylon		45,329	42,347	50,440	45,813
Commercial Bank of Ceylon PLC		174,643	185,751	174,643	170,063
Commercial Credit and Finance PLC		81,298	81,098	81,298	78,367
Commercial Leasing and Finance PLC		43,900	41,740	43,900	40,261
DFCC Bank PLC		766,123	845,590	232,114	229,899
Hatton National Bank PLC		222,557	228,197	175,203	169,244
Hemas Holdings PLC		-	-	42,610	42,230
Hayleys PLC		307,580	322,027	294,671	292,953
HNB Finance Limited		100,036	106,732	-	-
LOLC Holdings PLC		207,808	235,805	35,794	34,295
LB Finance PLC		9,092	9,533	9,063	9,026
Merchant Bank of Sri Lanka & Finance PLC		-	-	32,010	29,486
National Development Bank PLC		166,686	177,182	44,473	41,425
Nations Trust Bank PLC		434,049	460,251	153,263	153,224
Pan Asia Banking Corporation PLC		-	-	38,549	37,735
People's Leasing & Finance PLC		105,161	109,860	120,354	119,605
Richard Pieris and Company PLC		-	-	32,705	32,152
Sri Lanka Telecom PLC		148,062	160,211	148,523	148,937
Sampath Bank PLC		562,488	591,971	405,866	393,114
Seylan Bank PLC		250,677	255,891	261,559	253,794
Singer (Sri Lanka) PLC		72,163	74,276	72,163	70,856
Siyapatha Finance PLC		31,257	33,075	58,275	53,631
Softlogic Finance PLC		-	-	18,238	17,809
Vallibel Finance PLC		15,383	15,428	15,383	15,050
Total Investment in Quoted Debentures		3,840,439	4,073,574	2,677,638	2,610,410

As at 31st December,	2019			2018		
	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000
A.6. Equity Shares - Available For Sale						
Banks, Finance and Insurance						
Seylan Bank PLC - [Non Voting]	278,710	11,548	9,420	201,170	9,495	8,952
Sampath Bank PLC	41,382	7,220	6,720	39,748	6,834	9,341
Central Finance Company PLC	138,104	16,756	14,363	136,844	11,192	12,138
Sector Total			30,503			30,431
Diversified Holdings						
Melstacorp PLC	39,532	2,343	1,720	39,532	2,343	1,988
Sector Total			1,720			1,988
Manufacturing						
Tokyo Cement Company [Lanka] PLC	71,002	886	3,408	211,002	9,598	5,317
Royal Ceramics Lanka PLC	50,000	6,067	4,425	50,000	6,067	3,730
Sector Total			7,833			9,047
Beverage, Food and Tobacco						
Distilleries Company of Sri Lanka PLC	11,713	-	217	11,713	-	189
Sector Total			217			189
Land and Property						
Overseas Realty [Ceylon] PLC	486,679	12,453	7,787	486,679	12,453	8,030
Sector Total			7,787			8,030
Carrying Value of Total Investment in Quoted Shares			48,060			49,685

As at 31st December,	2019		2018	
	No. of Units	Carrying/ Fair Value	No. of Units	Carrying/ Fair Value
		Rs.'000		Rs.'000
A.7. Investment Units				
Quoted				
NAMAL Acuity Value Fund	-	-	80,000	6,400
Total Investment in Quoted Units		-		6,400

NOTES TO THE SUPPLEMENTAL FINANCIAL STATEMENTS -LIFE INSURANCE FUND

A. FINANCIAL INVESTMENT (CONTD.)

As at 31st December,	2019			2018		
	No. of Shares	Cost	Carrying/ Fair Value	No. of Shares	Cost	Carrying/ Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000
A.8. Equity Shares - Fair Value Through Profit or Loss						
Banks, Finance and Insurance						
National Development Bank PLC	3,594	384	358	3,408	364	364
Sampath Bank PLC	64,634	12,527	10,496	62,082	11,925	14,589
Nations Trust Bank PLC	91,471	6,258	7,318	89,529	6,083	7,986
Peoples Leasing & Finance PLC	490,414	8,773	8,778	476,000	8,568	7,759
Seylan Bank PLC - (Non Voting)	357,116	11,637	12,071	257,761	9,006	11,470
Sector Total			39,021			42,168
Diversified Holdings						
John Keells Holdings PLC	29,670	3,679	4,973	38,274	5,622	6,112
Richard Pieris and Company PLC	312,851	4,351	3,692	312,851	4,351	3,285
Vallibel One PLC	200,000	3,600	3,500	200,000	3,600	3,400
Melstacorp PLC	55,000	3,260	2,393	55,000	3,260	2,767
Sector Total			14,558			15,564
Beverage Food and Tobacco						
Distilleries Company of Sri Lanka PLC	22,222	-	411	22,222	-	358
Sector Total			411			358
Manufacturing						
Royal Ceramics Lanka PLC	28,000	4,318	2,478	28,000	4,318	2,089
ACL Cables PLC	95,200	3,016	5,474	95,200	3,016	3,522
Tokyo Cement Company (Lanka) PLC	330,869	12,278	15,882	330,869	12,278	8,338
Sector Total			23,834			13,949
Carrying Value of Total Investment in Quoted Shares			77,824			72,039

As at 31st December,	2019	2018
	Rs.'000	Rs.'000
B. LOANS TO LIFE POLICYHOLDERS		
Balance as at 1st January	200,951	133,460
Loans Granted during the Year	148,357	113,329
Repayments during the Year	[79,729]	[45,838]
	269,579	200,951
Interest Receivable	55,728	42,162
Balance as at 31st December	325,307	243,113

As at 31st December,		2019 Rs.'000	2018 Rs.'000
C. REINSURANCE RECEIVABLES			
Reinsurance Receivable on Outstanding Claims		65,275	32,159
Reinsurance Receivable on Settled Claims	C.1	79,440	43,767
Total Reinsurance Receivable		144,715	75,926
C.1 Reinsurance Receivable on Settled Claims			
The Age Analysis of the Reinsurance Receivable on Settled Claims is as Follows:			
Up to 30 days		6,392	12,282
31 to 60 days		9,237	4,854
61 to 90 days		29,439	3,986
91 to 180 days		25,442	16,358
181 to 365 days		8,930	6,287
Total Reinsurance Receivable on Settled Claims		79,440	43,767
D. OTHER ASSETS			
Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)	D.1	82,408	35,588
Other Receivables		5,346	3,514
Total Other Assets		87,754	39,102
D.1 Taxes Recoverable from the Commissioner General of Inland Revenue (CGIR)			
Withholding Tax Recoverable (WHT)		82,408	35,588
Total Taxes Recoverable		82,408	35,588
E. CASH AND CASH EQUIVALENTS			
Cash in Hand		1,410	1,360
Cash at Bank with Licensed Commercial Banks		1,347	725
Cash at Bank with Related Parties		222,334	171,379
		225,091	173,464
Short-Term Deposits	E.1	100,663	53,700
Cash and Cash Equivalents		325,754	227,164
Bank Overdrafts		(31,050)	(24,068)
Total Cash and Cash Equivalents		294,704	203,096
E.1 Short - Term Deposits			
Licensed Commercial Banks		100,663	53,700
Total Short - Term Deposits		100,663	53,700
F. REINSURANCE CREDITORS			
Foreign Reinsurer		125,151	116,268
G. OTHER LIABILITIES			
Policyholders Advance Payments		133,572	106,199
Acquisition Cost Payable		140,142	85,738
Taxes and Government Levies		19,012	16,943
Others		32,091	12,272
Total Other Liabilities		324,817	221,152

INSURANCE REVENUE ACCOUNT

For the Year Ended 31st December,	2019 Rs.'000	2018 Rs.'000
Life Insurance		
Gross Written Premium	5,175,044	4,420,513
Premium Ceded to Reinsurers	[240,974]	[215,630]
Net Written/Earned Premium	4,934,070	4,204,883
Net Benefits Expense	[1,338,015]	[1,066,574]
Net Commission	[975,445]	[862,720]
Expenses Attributable to Policyholders	[1,449,101]	[1,388,377]
Fees and Commission Income	92,215	79,465
Underwriting Surplus	1,263,724	966,677
Change in Contract Liabilities - Life Fund	[2,173,251]	[1,707,149]
Change in Contract Liability due to Transfer of One-Off Surplus	-	381,156
Interest and Dividend Income	1,949,467	1,591,900
Net Realised Gains	70,000	68,673
Net Fair Value Losses	[6,370]	[18,036]
Other Income	2,965	14,627
Surplus from Life Insurance Business [a]	1,106,535	1,297,848
General Insurance		
Gross Written Premium	4,818,686	4,340,575
Premium Ceded to Reinsurers	[1,071,907]	[843,639]
Net Written Premium	3,746,779	3,496,936
Net Change in Reserves for Unearned Premium	[156,216]	[216,988]
Net Earned Premium	3,590,563	3,279,948
Net Claims Incurred	[2,282,960]	[2,170,792]
Net Commission	[554,442]	[511,849]
[Increase]/Decrease in Deferred Acquisition Expenses	[1,864]	35,199
Expenses	[887,270]	[809,500]
Fees and Commission Income	101,239	111,051
Underwriting Deficit	[34,734]	[65,943]
Interest and Dividend Income	358,884	295,443
Net Realised Gains	19,901	5,385
Net Fair Value [Losses]/Gains	[2,456]	26,518
Other Income	13,231	21,403
Operating Profit from General Insurance Business [b]	354,826	282,806
Reconciliation of Statement of Income and Insurance Revenue Accounts		
Surplus from Life Insurance Business [a]	1,106,535	1,297,848
Operating Profit from the Subsidiary [b]	354,826	282,806
Profit Before Taxation	1,461,361	1,580,654
Consolidated adjustments		
Dividend Received from Subsidiary	[59,425]	-
Realised Gains on Sale of AFS investments	2,955	-
	1,404,891	1,580,654
Income Tax [Expense]/Reversal	[394,663]	1,124,656
Profit for the Year	1,010,228	2,705,310

TAKAFUL BUSINESS ANALYSIS - PROFITABILITY

For the Year Ended 31st December,	Life-Takaful	
	2019 Rs.'000	2018 Rs.'000
Gross Written Contribution (Premium)	4,401	2,895
Contribution (Premium) Ceded to Retakaful Companies (Reinsurers)*	(1,651)	(684)
Net Earned Contribution (Premium)	2,750	2,211
Other Income	1,507	260
Net Income	4,257	2,471
Total Benefits, Loss (Claims) and Other Expenses	(787)	(422)
Transfer to Family Takaful Fund	3,470	2,049

For the Year Ended 31st December,	Non Life -Takaful	
	2019 Rs.'000	2018 Rs.'000
Gross Written Contribution (Premium)	549,004	500,476
Contribution (Premium) Ceded to Retakaful Companies (Reinsurers)*	(96,387)	(55,817)
Unearned Takaful Contribution (Premium)	(929)	(47,774)
Net Earned Contribution (Premium)	451,688	396,885
Other Income	33,060	28,363
Net Income	484,748	425,248
Total Benefits, Loss (Claims) and Other Expenses	(456,226)	(423,545)
Profit for the Year	28,522	1,703

* 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 308 and 309 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 2019. 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 financial transactions undertaken by HNBA Takaful Unit, during the year ended 31st December 2019, 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.

We seek Allah the Almighty to grant us all success and straight – forwardness.



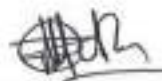
ASH – SHEIKH FAZIL M.FAROOK

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 2019, 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

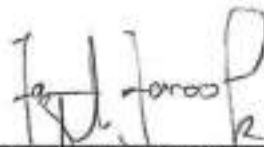
The scope of our audit primarily involves the review of HNBG Takaful Unit's compliance with the Shari'ah Regulations and Guidelines. Our review also includes examining, on a test basis, each type of product in relation to issuance, compensations and accountings.

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 2019, 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.

We seek Allah the Almighty to grant us all success and straight – forwardness.



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

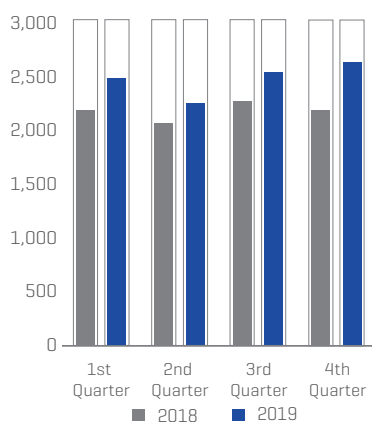
QUARTERLY ANALYSIS 2019 AND 2018 - GROUP

Statement of Profit or Loss	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Jan - March		Apr - June		Jul - Sep		Oct - Dec		Jan - Dec	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	2,492,178	2,188,943	2,259,765	2,069,368	2,550,103	2,277,765	2,640,711	2,188,620	9,942,757	8,724,696
Premium Ceded to Reinsurers	(346,661)	(281,611)	(332,408)	(250,078)	(286,797)	(256,098)	(347,015)	(271,482)	(1,312,881)	(1,059,269)
Net Written Premium	2,145,517	1,907,332	1,927,357	1,819,290	2,263,306	2,021,667	2,293,696	1,917,138	8,629,876	7,665,427
Net Change in Reserves for Unearned Premium	(102,877)	(133,724)	(4,618)	(71,606)	(82,721)	(58,946)	34,000	47,288	(156,216)	(216,988)
Net Earned Premium [a]	2,042,640	1,773,608	1,922,739	1,747,684	2,180,585	1,962,721	2,327,696	1,964,426	8,473,660	7,448,439
Other Revenue										
Interest and Dividend Income	525,317	451,586	552,442	453,084	575,247	480,319	595,920	502,354	2,248,926	1,887,343
Net Realised Gains	4,311	16,660	18,513	18,659	6,028	29,206	64,004	9,533	92,856	74,058
Net Fair Value (Losses)/Gains	(23,335)	(2,791)	(14,560)	(6,998)	16,793	(449)	12,276	18,720	(8,826)	8,482
Fee and Commission Income	57,995	45,471	33,935	35,076	41,747	32,409	37,316	59,690	170,993	172,646
Other Income	4,753	6,008	10,824	11,584	6,565	7,451	(5,946)	10,987	16,196	36,030
Total Other Revenue [b]	569,041	516,934	601,154	511,405	646,380	548,936	703,570	601,284	2,520,145	2,178,559
Net Income [c=a+b]	2,611,681	2,290,542	2,523,893	2,259,089	2,826,965	2,511,657	3,031,266	2,565,710	10,993,805	9,626,998
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims	(937,628)	(645,829)	(857,195)	(802,613)	(973,020)	(939,108)	(852,932)	(848,939)	(3,620,775)	(3,236,489)
Change in Contract Liabilities - Life Fund	(691,644)	(528,021)	(541,684)	(533,917)	(667,653)	(593,616)	(272,270)	(51,595)	(2,173,251)	(1,707,149)
Change in Contract Liability due to Transfer of One-off Surplus	-	381,156	-	-	-	-	-	-	-	381,156
Other Operating and Administration Expenses	(486,490)	(484,007)	(588,841)	(519,677)	(646,640)	(511,671)	(663,554)	(767,126)	(2,385,525)	(2,282,481)
Underwriting and Net Acquisition Costs	(304,339)	(293,170)	(273,945)	(256,990)	(358,028)	(284,437)	(351,756)	(290,821)	(1,288,068)	(1,125,418)
Finance & Other Insurance Related Costs	(27,790)	(11,545)	(31,067)	(17,409)	(32,241)	(15,113)	(30,197)	(31,896)	(121,295)	(75,963)
Total Benefits, Claims and other Expenses [d]	(2,447,891)	(1,581,416)	(2,292,732)	(2,130,606)	(2,677,582)	(2,343,945)	(2,170,709)	(1,990,377)	(9,588,914)	(8,046,344)
Profit Before Taxation [c+d]	163,790	709,126	231,161	128,483	149,383	167,712	860,557	575,333	1,404,891	1,580,654
Income Tax [Expense]/Reversal	(44,657)	(10,378)	(62,144)	(22,181)	(38,256)	(41,203)	(249,606)	1,198,418	(394,663)	1,124,656
Profit for the Period	119,133	698,748	169,017	106,302	111,127	126,509	610,951	1,773,751	1,010,228	2,705,310

Note 1: To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2018 Annual Report have been reclassified where necessary.

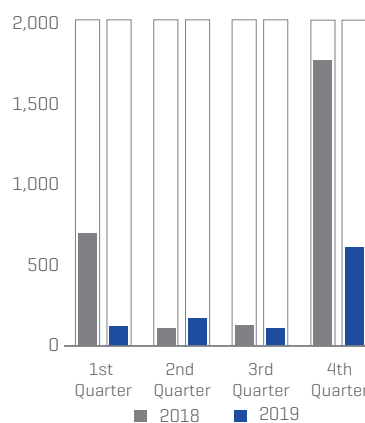
Gross Written Premium - Group

Rs. Mn.



Profit for the Period - Group

Rs. Mn.



QUARTERLY ANALYSIS

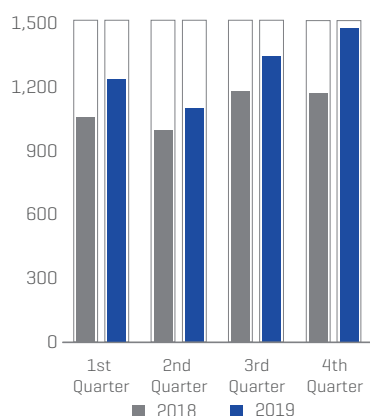
2019 AND 2018 - COMPANY

Statement of Profit or Loss	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Jan - March		Apr - June		Jul - Sep		Oct - Dec		Jan - Dec	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross Written Premium	1,239,820	1,061,207	1,104,074	1,000,191	1,349,467	1,184,149	1,481,683	1,174,966	5,175,044	4,420,513
Premium Ceded to Reinsurers	(58,779)	(51,690)	(58,448)	(52,296)	(60,645)	(54,233)	(63,102)	(57,411)	(240,974)	(215,630)
Net Earned Premium(a)	1,181,041	1,009,517	1,045,626	947,895	1,288,822	1,129,916	1,418,581	1,117,555	4,934,070	4,204,883
Other Revenue										
Interest and Dividend Income	442,505	383,275	465,547	381,477	482,035	403,648	559,380	423,500	1,949,467	1,591,900
Net Realised Gains	3,485	12,523	11,531	17,411	5,974	29,206	49,010	9,533	70,000	68,673
Net Fair Value (Losses)/Gains	(13,513)	(4,407)	(14,263)	(8,491)	9,915	(8,582)	11,491	3,444	(6,370)	(18,036)
Fee and Commission Income	39,563	36,975	16,209	12,528	17,439	14,665	19,004	15,297	92,215	79,465
Other Income	1,147	2,579	3,237	4,344	1,259	4,170	(2,678)	3,534	2,965	14,627
Total Other Revenue (b)	473,187	430,945	482,261	407,269	516,622	443,107	636,207	455,308	2,108,277	1,736,629
Net Income (c=a+b)	1,654,228	1,440,462	1,527,887	1,355,164	1,805,444	1,573,023	2,054,788	1,572,863	7,042,347	5,941,512
Net Benefits, Claims and Expenses										
Net Insurance Benefits and Claims	(347,180)	(132,735)	(354,211)	(260,533)	(371,799)	(403,205)	(264,825)	(270,101)	(1,338,015)	(1,066,574)
Change in Contract Liabilities - Life Fund	(691,644)	(528,021)	(541,684)	(533,917)	(667,653)	(593,616)	(272,270)	(51,595)	(2,173,251)	(1,707,149)
Change in Contract Liability due to Transfer of One-off Surplus	-	381,156	-	-	-	-	-	-	-	381,156
Other Operating and Administration Expenses	(277,546)	(265,165)	(334,008)	(290,620)	(386,659)	(280,814)	(393,860)	(515,200)	(1,392,073)	(1,351,799)
Underwriting and Net Acquisition Costs	(223,249)	(230,531)	(191,700)	(186,932)	(273,439)	(211,393)	(271,162)	(219,112)	(959,550)	(847,968)
Finance & Other Insurance Related Costs	(16,818)	(7,112)	(18,137)	(10,446)	(19,482)	(9,672)	(18,486)	(24,100)	(72,923)	(51,330)
Total Benefits, Claims and other Expenses(d)	(1,556,437)	(782,408)	(1,439,740)	(1,282,448)	(1,719,032)	(1,498,700)	(1,220,603)	(1,080,108)	(5,935,812)	(4,643,664)
Profit Before Taxation (c+d)	97,791	658,054	88,147	72,716	86,412	74,323	834,185	492,755	1,106,535	1,297,848
Income Tax (Expense)/Reversal	(23,839)	-	(20,992)	(17,251)	(20,431)	(17,337)	(214,564)	1,211,955	(279,826)	1,177,367
Profit for the Period	73,952	658,054	67,155	55,465	65,981	56,986	619,621	1,704,710	826,709	2,475,215

Note 1: To enhance the comparability with the annual audited accounts, figures presented in the quarterly analysis section of the 2018 Annual Report have been reclassified where necessary.

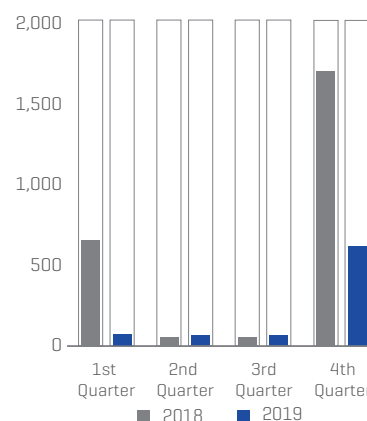
Gross Written Premium - Company

Rs. Mn.



Profit for the Period - Company

Rs. Mn.



DECADE AT A GLANCE

HNB ASSURANCE PLC - GROUP Statement of Financial Position

As at 31st December,	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	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	162,371	151,559	169,620	161,362	136,279	133,942	137,009	118,447	121,568	130,971
Right of use Assets	343,737	-	-	-	-	-	-	-	-	-
Intangible Assets	51,787	61,087	57,841	60,882	45,185	51,622	53,807	61,068	48,876	52,308
Deferred Tax Assets	1,009,711	1,304,882	64,098	52,922	49,394	-	2	-	-	-
Financial Investments	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	3,643,361
Loans to Life Policyholders	325,307	243,113	162,285	120,441	91,992	71,082	53,656	29,888	20,097	15,000
Reinsurance Receivables	645,411	415,773	569,778	494,726	141,354	162,260	105,390	162,715	130,867	122,403
Premium Receivables	946,650	798,213	786,319	623,294	345,916	364,051	301,182	247,417	231,385	231,929
Other Assets	933,633	823,101	1,036,846	770,674	625,985	683,149	575,180	482,216	397,385	337,745
Insurance Contract - Deferred Expenses	138,622	140,486	105,287	74,951	65,935	52,072	32,912	19,968	20,059	12,392
Cash and Cash Equivalents	865,843	761,871	641,950	625,527	386,929	173,245	144,087	209,293	190,355	81,444
Total Assets	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	4,627,553
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	375,000
Retained Earnings	4,965,809	4,405,581	2,381,427	1,721,675	1,174,262	1,196,546	941,820	690,197	444,057	676,118
Available for Sale Reserve	24,801	(8,025)	30,685	(7,152)	(4,748)	3,590	1,427	6,209	-	-
Other Reserves	(6,525)	(4,406)	(10,760)	1,790	(1,093)	1,177	2,172	-	-	-
Life Policyholders' AFS Reserve Fund	177,228	(201,867)	223,272	(191,131)	(56,350)	40,748	(4,182)	(1,191)	(22,526)	31,050
Restricted Regulatory Reserve	381,156	381,156	-	-	-	-	-	-	-	-
Total Equity	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	1,082,168
Liabilities										
Insurance Contract Liabilities - Life	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	2,415,214
Insurance Contract Liabilities - General	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	743,049
Employee Defined Benefit Liabilities	167,118	140,356	126,083	90,433	81,001	71,493	56,637	42,360	34,129	25,076
Current Tax Liabilities	112,031	22,541	34,598	3,300	-	12,012	35,143	42,950	25,998	28,618
Deferred Tax Liabilities	-	-	-	-	-	8,845	-	-	-	-
Reinsurance Creditors	540,652	369,853	353,042	287,895	131,905	110,778	100,881	83,253	103,256	77,309
Lease Creditor	350,089	-	-	-	-	-	-	-	-	-
Other Liabilities	1,274,326	1,092,809	896,288	781,246	590,383	510,468	394,298	403,543	322,413	256,119
Bank Overdrafts	130,636	122,776	141,660	-	-	-	-	-	-	-
Total Liabilities	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	3,545,385
Total Equity and Liabilities	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	4,627,553

Statement of Profit or Loss

For the year ended 31st December,	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	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	2,428,183
Net Earned Premium	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	1,844,360
Income from Investments and Other Income	2,520,145	2,178,559	1,911,857	1,298,327	1,049,152	1,167,910	937,417	736,810	466,956	516,880
Net Claims and Benefits	(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)	(648,137)
Change in Contract Liabilities - Life Fund	(2,173,251)	(1,707,149)	(2,166,427)	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)
Change in Contract Liability due to Transfer of One-off Surplus	-	381,156	-	-	-	-	-	-	-	-
Underwriting and Net Acquisition Costs Expenses	(1,288,068)	(1,125,418)	(1,028,872)	(922,886)	(699,679)	(474,826)	(381,259)	(348,108)	(288,059)	(164,991)
Expenses	(2,506,820)	(2,358,444)	(1,888,202)	(1,611,869)	(1,325,214)	(1,334,634)	(1,107,209)	(981,430)	(833,221)	(746,854)
Profit Before Taxation	1,404,891	1,580,654	927,027	705,521	169,773	438,583	425,093	393,866	271,840	269,525
Income Tax (Expenses)/Reversal	(394,663)	1,124,656	(17,275)	(58,108)	27,571	(20,857)	(35,970)	(42,726)	(25,772)	(27,786)
Profit for the Year	1,010,228	2,705,310	909,752	647,413	197,344	417,726	389,124	351,140	246,068	241,739
Basic Earnings per Share (Rs.)	20.20	54.11	18.20	12.95	3.95	8.35	7.78	7.02	5.14	5.38
Dividend per Share (Rs.)	8.00	7.00	6.00	5.00	2.00	3.75	3.25	2.75	2.10	1.80

HNB ASSURANCE PLC/LIFE INSURANCE - COMPANY

Statement of Financial Position

As at 31st December,	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	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	111,202	104,487	119,078	112,151	94,107	-	-	-	4,276	4,573
Right of use Assets	325,572	-	-	-	-	-	-	-	-	-
Intangible Assets	49,830	58,782	57,841	60,882	45,185	-	-	-	22,203	20,773
Deferred Tax Assets	1,000,673	1,280,499	-	-	-	-	-	-	-	-
Financial Investments	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	2,415,853
Investment in Subsidiary	1,150,000	1,150,000	1,150,000	1,150,000	1,150,000	-	-	-	-	-
Loans to Life Policyholders	325,307	243,113	162,285	120,441	91,992	71,082	53,656	29,888	20,097	15,000
Reinsurance Receivables	144,715	75,926	65,010	54,814	34,269	23,446	23,626	40,716	27,848	18,617
Premium Receivables	9,458	8,046	7,488	6,805	5,592	6,943	6,710	9,573	-	-
Other Assets	625,499	575,154	764,256	575,676	493,571	195,023	169,032	137,795	129,223	102,556
Cash & Cash Equivalents	632,712	502,561	352,307	476,572	258,222	88,482	74,705	129,916	62,468	13,005
Total Assets	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	2,590,377
Equity and Liabilities										
Equity										
Stated Capital	1,171,875	1,171,875	1,171,875	1,171,875	1,171,875	-	-	-	-	-
Retained Earnings	4,544,369	4,167,660	2,373,601	1,897,936	1,397,806	-	-	-	-	-
Available for Sale Reserve	9,881	1,451	17,415	(1,465)	53	-	-	-	-	-
Other Reserves	(6,514)	(4,395)	(9,884)	(1,886)	(2,039)	(18,780)	928	-	-	-
Life Policyholders' AFS Reserve Fund	177,228	(201,867)	223,272	(191,131)	(56,350)	40,748	(4,182)	(1,191)	(22,526)	31,050
Restricted Regulatory Reserve	381,156	381,156	-	-	-	-	-	-	-	-
Total Equity	6,277,995	5,515,880	3,776,279	2,875,329	2,511,345	21,968	(3,254)	(1,191)	(22,526)	31,050
Liabilities										
Insurance Contract Liabilities - Life	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	2,415,214
Employee Defined Benefit Liabilities	100,076	84,840	73,875	50,883	44,008	31,508	6,747	4,943	4,565	3,406
Current Tax Liabilities	16,175	14,708	-	-	-	-	-	-	-	-
Reinsurance Creditors	125,151	116,268	90,650	39,395	37,547	30,921	24,849	29,928	28,106	25,341
Lease Creditor	334,832	-	-	-	-	-	-	-	-	-
Other Liabilities	802,565	642,470	529,862	486,474	422,583	283,764	221,113	215,391	170,126	115,366
Bank Overdrafts	31,050	42,636	32,756	-	-	-	-	-	-	-
Total Liabilities	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	2,559,327
Total Equity and Liabilities	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	2,590,377

Statement of Profit or Loss

For the year ended 31st December,	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	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	1,084,480
Net Earned Premium	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	985,283
Income from Investments and Other Income	2,108,277	1,736,629	1,564,967	1,031,606	783,126	707,444	578,890	428,630	297,566	339,295
Net Claims and Benefits	(1,338,015)	(1,066,574)	(575,551)	(401,677)	(280,495)	(412,383)	(679,136)	(261,771)	(62,760)	(59,900)
Change in Contract Liabilities - Life Fund	(2,173,251)	(1,707,149)	(2,166,427)	(1,708,285)	(1,462,100)	(1,192,273)	(724,829)	(555,909)	(558,325)	(531,733)
Change in Contract Liability due to Transfer of One-off Surplus	-	381,156	-	-	-	-	-	-	-	-
Underwriting and Net Acquisition Costs Expenses	(959,550)	(847,968)	(822,715)	(748,051)	(544,673)	(386,651)	(327,858)	(294,456)	(247,379)	(177,530)
	(1,464,996)	(1,403,129)	(1,049,158)	(911,979)	(719,583)	(703,519)	(578,327)	(523,220)	(444,773)	(399,415)
Profit Before Taxation	1,106,535	1,297,848	725,665	656,642	457,028	228,022	181,489	165,226	172,000	156,000

HNB GENERAL INSURANCE LTD./GENERAL INSURANCE - SUBSIDIARY

Statement of Financial Position

As at 31st December,	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	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	51,169	47,072	50,542	49,211	42,172	133,942	137,009	118,447	117,292	126,398
Right of use Assets	18,165	-	-	-	-	-	-	-	-	-
Intangible Assets	1,957	2,305	-	-	-	51,622	53,807	61,068	26,673	31,535
Deferred Tax Assets	9,038	24,383	64,098	52,922	49,394	-	2	-	-	-
Financial Investments	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	1,227,508
Reinsurance Receivables	500,696	339,847	504,768	439,912	107,085	138,814	81,764	121,999	103,019	103,786
Premium Receivables	937,192	790,167	778,831	616,489	340,324	357,108	294,472	237,844	231,385	231,929
Other Assets	329,478	270,915	278,711	208,118	141,431	488,126	406,148	344,421	268,162	235,189
Insurance Contract - Deferred Expenses	138,622	140,486	105,287	74,951	65,935	52,072	32,912	19,968	20,059	12,392
Cash and Cash Equivalents	233,131	259,310	289,643	148,955	128,707	84,763	69,382	79,377	127,887	68,439
Total Assets	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	2,037,176
Equity and Liabilities										
Equity										
Stated Capital	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	375,000
Retained Earnings	421,440	240,876	10,781	[173,306]	[220,589]	1,196,546	941,820	690,197	444,057	676,118
Available for Sale Reserve	14,920	[12,431]	10,315	[8,642]	[7,756]	3,590	1,427	6,209	-	-
Other Reserves	[11]	[11]	[876]	3,676	946	19,957	1,244	-	-	-
Total Equity	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	1,051,118
Liabilities										
Insurance Contract Liabilities - General	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	743,049
Employee Defined Benefits Liabilities	67,042	55,516	52,208	39,550	36,993	39,985	49,890	37,417	29,564	21,670
Current Tax Liabilities	95,856	7,833	34,598	3,300	-	12,012	35,143	42,950	25,998	28,618
Deferred Tax Liabilities	-	-	-	-	-	8,845	-	-	-	-
Reinsurance Creditors	415,501	253,585	262,392	248,500	94,358	79,857	76,032	53,325	75,150	51,968
Lease Creditor	15,257	-	-	-	-	-	-	-	-	-
Other Liabilities	493,105	473,307	372,547	307,892	176,817	226,704	173,185	188,152	152,287	140,753
Bank Overdrafts	99,586	80,140	108,904	-	-	-	-	-	-	-
Total Liabilities	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	986,058
Total Equity and Liabilities	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	2,037,176

Statement of Profit or Loss

For the year ended 31st December,	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gross Written Premium	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	1,343,703
Net Earned Premium	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	859,077
Income from Investments and Other Income	490,799	459,800	360,174	273,805	279,041	460,466	358,527	308,180	169,390	177,585
Net Claims and Benefits	[2,282,960]	[2,170,792]	[1,718,847]	[1,546,601]	[1,837,294]	[1,160,721]	[889,072]	[892,750]	[802,370]	[588,237]
Underwriting and Net Acquisition Costs Expenses	[344,496]	[289,873]	[214,898]	[177,847]	[160,979]	[88,175]	[53,401]	[53,652]	[40,680]	12,539
Profit/(Loss) Before Taxation	354,826	282,806	201,362	48,879	[284,300]	210,561	243,604	228,640	99,840	113,525

HNB ASSURANCE PLC - GROUP

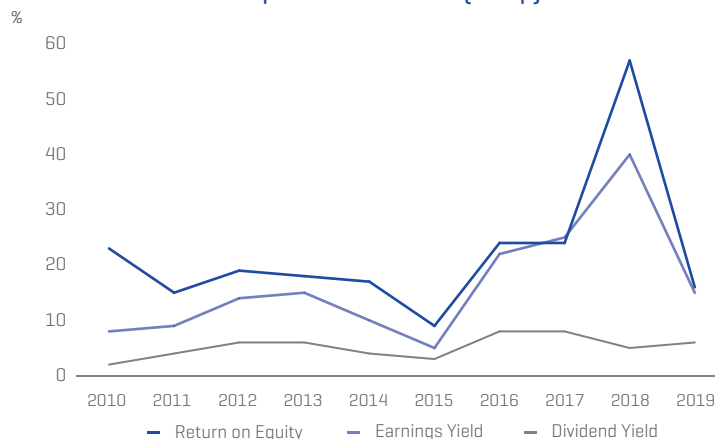
Statement of Cash Flows

For the year ended 31st December,	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit Before Tax	1,404,891	1,580,654	927,027	705,521	169,773	438,583	425,093	393,866	271,840	269,525
Net Adjustments and net change in Operating Assets and Liabilities	255,026	(61,603)	582,782	586,677	999,997	348,864	(188,697)	(90,905)	389,970	522,072
Net Cash Generated from Operating Activities	1,659,917	1,519,051	1,509,809	1,292,198	1,169,770	787,447	236,396	302,961	661,810	791,597
Net Cash Used in Investing Activities	(965,285)	(1,080,246)	(1,385,046)	(953,600)	(767,836)	(595,289)	(164,102)	(179,023)	(871,645)	(748,093)
Net Cash Used in Financing Activities	(598,520)	(300,000)	(250,000)	(100,000)	(188,250)	(163,000)	(137,500)	(105,000)	318,746	(56,250)
Net Increase/(Decrease) in Cash and Cash Equivalents	96,112	138,805	(125,237)	238,598	213,684	29,158	(65,206)	18,938	108,911	(12,746)
Cash and Cash Equivalents at the beginning of the Year	639,095	500,290	625,527	386,929	173,245	144,087	209,293	190,355	81,444	94,100
Cash and Cash Equivalents at the end of the Year	735,207	639,095	500,290	625,527	386,929	173,245	144,087	209,293	190,355	81,354

Investor Information

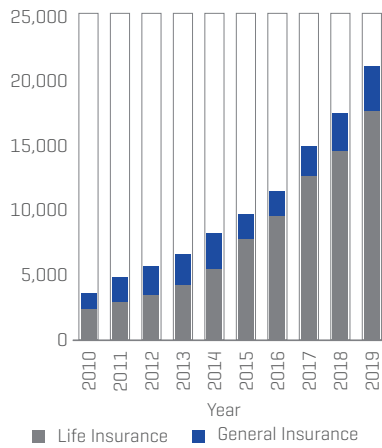
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Return on Equity	16.22%	56.71%	24.09%	24.00%	8.64%	17.30%	18.41%	18.79%	15.23%	23.00%
Market Price per Share as at 31st Dec (VWA) [Rs.]	138	132.00	72.50	58.80	74.60	83.50	52.50	49.00	56.90	78.00
Market Price per Share as at 31st Dec (VWA) [Rs.] - Adjusted for Bonus Issue	138	132.00	72.50	58.80	74.60	83.50	52.50	49.00	56.90	66.31
Price Earning Ratio (Times)	6.83	2.44	3.98	4.54	18.89	10	6.75	6.98	11.07	12.33
Earnings Yield	14.64%	40.99%	25.10%	22.02%	5.29%	10.00%	14.82%	14.33%	9.03%	8.11%
Dividend Yield	5.80%	5.30%	8.28%	8.50%	2.68%	4.49%	6.19%	5.61%	3.69%	2.31%
Market Capitalisation [Rs. Mn]	6,900	6,600	3,625	2,940	3,730	4,175	2,625	2,450	2,845	2,925
Employee Information										
Number of Employees	1,076	992	947	903	836	829	804	723	662	597
GWP per Employee [Rs. Mn]	9.24	8.80	8.26	7.37	6.52	5.63	4.82	4.44	4.51	4.07
Net Profit per Employee [Rs. '000]	938.87	2727.13	960.67	716.96	236.06	503.90	483.98	485.67	371.70	404.92
Life Insurance Operation										
Net Claims Ratio (With Maturity)	27%	25%	15%	12%	10%	19%	36%	19%	5%	6%
Expense Ratio	49%	49%	49%	48%	46%	48%	47%	59%	56%	59%
Combined Ratio	76%	74%	64%	60%	56%	67%	83%	78%	61%	65%
General Insurance Operation										
Net Claims Ratio	64%	66%	64%	69%	88%	72%	66%	68%	69%	68%
Expense Ratio	37%	36%	38%	38%	35%	38%	39%	34%	34%	39%
Combined Ratio	101%	102%	102%	107%	123%	110%	105%	102%	103%	107%

Investor Information-Graphical Presentation (Group)

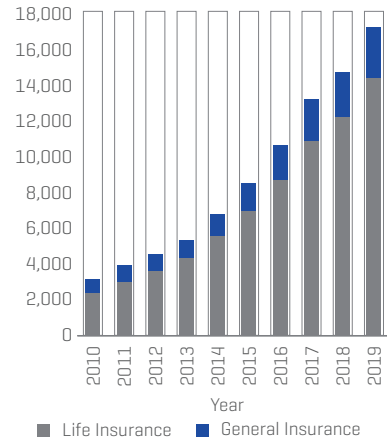


HNB ASSURANCE PLC - GROUP
Graphical Presentation

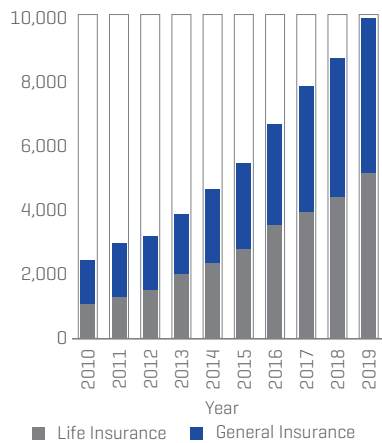
Investments/Financial Investments - Group
Rs. Mn.



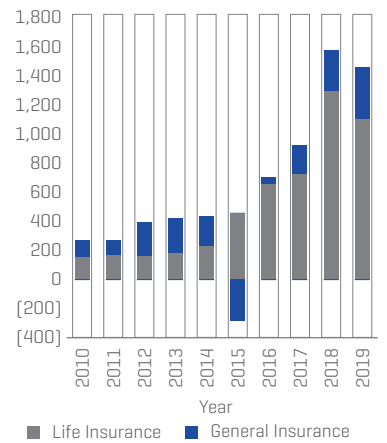
Contract Liabilities - Group
Rs. Mn.



Gross Written Premium - Group
Rs. Mn.



Profit Before Tax - Group
Rs. Mn.



GLOSSARY

Acquisition Expenses

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

Admissible Assets

Assets that may be included in determining an insurer's statutory solvency. Such assets are specified under the Rules made under the Regulation of Insurance Industry Act, No.43 of 2000 and amendments thereto.

Claims

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

Claims Incurred

The aggregate of all claims paid during the accounting period together with attributable claims handling expenses, where appropriate, adjusted by Claims Outstanding and IBNR/IBNER 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.

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 Policyholder on the security of the surrender value of a long term insurance policy. The loan is normally limited to a percentage of the current surrender value of the policy and interest is charged on such loans.

Reinsurance

An arrangement whereby one party [the reinsurer], in consideration for a premium, agrees to indemnify another party [cedent – the primary insurer] against part or all of the liability assumed by the cedent under policy or policies of insurance

Premium Ceded to Reinsurers

The premium paid by the ceding Company to the reinsurer in consideration for all or part of the risk assumed by the reinsurer.

Reinsurance Commission

Commission/discount received or receivable in respect of premium paid or payable to a reinsurers.

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 reserve maintained by a general insurer to provide for claims that may arise in the future under the insurance policies that are still in force.

Key Insurance Ratios

Net Claims Ratio	=	$\frac{\text{Net claims incurred}}{\text{Net earned premium}} \times 100$
Expense Ratio	=	$\frac{\text{Net Expense incurred}}{\text{Net earned premium}} \times 100$
Combined Ratio	=	$\frac{[\text{Net claims incurred} + \text{Expenses}]}{\text{Net earned premium}} \times 100$

GRI CONTENT INDEX

GRI Standard Number	GRI Standard Title	Code	Requirements	Publication Pages
Organisational Profile				
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GRI 102	General Disclosures	102-2	Activities, brands, products, and services	8
GRI 102	General Disclosures	102-3	Location of headquarters	3
GRI 102	General Disclosures	102-4	Location of operations	139
GRI 102	General Disclosures	102-5	Ownership and legal form	6
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GRI 102	General Disclosures	102-7	Scale of the organisation	12-13
GRI 102	General Disclosures	102-8	Information on employees and other workers	111-119
GRI 102	General Disclosures	102-9	Supply chain	22-23
GRI 102	General Disclosures	102-11	Precautionary principle or approach	7,20
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NOTICE OF MEETING

Notice is hereby given that the Eighteenth [18th] Annual General Meeting of HNB Assurance PLC is convened on Friday the Twenty Seventh [27th] day of March 2020, 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 2019, the Auditors' Report thereon.
- ii. To declare a final dividend of Rs.6.00 per share for the year 2019, to the shareholders as recommended by the Directors.
- iii. To re-elect Mr. Darshan Ravindra Abeyesuriya, 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: 07 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 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 2020 for charitable and other purposes.

By Order of the Board
HNB ASSURANCE PLC



Sitari Jayasundara
Board Secretary

Colombo, Sri Lanka.
13th February 2020

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 Center", 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 Deepthi Prasad Lokuarachchi, 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 Eighteenth [18th] Annual General Meeting of the Company to be convened on Friday the Twenty Seventh [27th] day of March 2020 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.6.00 per share	In favour	
	Against	
To re-elect Mr. Darshan Ravindra Abeyesuriya, 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 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 2020.

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

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 and 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 : 011 2 337 423
 Email : board.secretariat@hnbassurance.com

Name :

Permanent Mailing Address :

Contact Numbers [Tel] :

	Country Code	Area Code	Number
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[Fax] :

	Country Code	Area Code	Number
--	--------------	-----------	--------

Email :

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 Number	PQ 108	PB 5167
Tax payer Identification (TIN) No.	134009373	139051670
VAT Registration No.	134009373-7000	139051670-7000
Principal Activities	Life Insurance Business	General Insurance Business
Telephone	+94 114 793 700	+94 114 676 700
Facsimile	+94 114 793 728	+94 114 501 166
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 OFFICER

No.30, Iceland Business Centre, Sri Uttarananda Mawatha Colombo 03, Sri Lanka.

BOARD OF DIRECTORS

Rose Cooray	Chairperson- Non Executive Director (HNBA/HNBGI)
Deepthi Lokuarachchi	Managing Director (HNBA/HNBGI)
Mahendra Jayasekera	Independent/Non- Executive Director (HNBA)
Dilshan Rodrigo	Non Independent/Non-Executive Director (HNBA/HNBGI)
Siroimi Wickramasinghe	Non Independent/Non-Executive Director (HNBA)
Dr. Sivakumar Selliah	Independent/Non- Executive Director (HNBA)
Ravi Abeyseriya	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 Abeygunasekera	Non Independent/Non-Executive Director (HNBGI)

ALTERNATE DIRECTORS

Kalum Wijesooriya	Non Independent/Non-Executive Director (HNBA/HNBGI)
Dr. Prasad Samarasinghe	Non Independent/Non-Executive Director (HNBA/HNBGI)

CORPORATE INFORMATION

EXECUTIVE COMMITTEE

Deepthi Lokuarachchi	Managing Director/CEO (HNBA/HNBGI)
Prasanth Fernando	Chief Operating Officer (HNBA)
Nilesh Amarasinghe	Chief Investment and Strategy Officer (HNBA/HNBGI)
Sithumina Jayasundara	Chief Operating Officer (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)
Lasitha Wimalaratne	Deputy Chief Operating Officer (HNBA)

PRINCIPAL OFFICERS

HNB Assurance PLC	Prasanth Fernando
HNB General Insurance Limited	Sithumina Jayasundara

SPECIFIED OFFICERS

HNB Assurance PLC	Prasanth Fernando
HNB General Insurance Limited	Sithumina Jayasundara

COMPANY SECRETARY

Sitari Jayasundara

CREDIT RATING (FITCH) – HNBA & HNBGI

Insurer Financial Strength Rating A [Ika]

REGISTRARS

Central Depository Systems (Pvt) Limited
Ground Floor, M & M Centre,
341/5, Kotte Road,
Rajagiriya

BANKERS

Hatton National Bank PLC
Commercial Bank of Ceylon PLC
Sampath Bank PLC
Bank of Ceylon
National Savings Bank
HDFC Bank of Sri Lanka
DFCC Bank PLC
Pan Asia Banking Corporation PLC
National Development Bank PLC
Seylan Bank PLC
Nations Trust Bank PLC

CONSULTANT ACTUARIES

Life Insurance

Actuarial Partners Consulting Sdn Bhd
Suite 17.02 Kenanga International,
Jalan Sultan Ismail,
50250 Kuala Lumpur, Malaysia.

REINSURANCE PANEL

Life Insurance

Munich Re Company
RGA
Hannover Re

General Insurance

NMG Financial Services Consulting Pte Ltd.
109 North Bridge Road, #05-21, Singapore 179097.

General Insurance

General Insurance Corporation - India
National Insurance Trust Fund
Qatar General Insurance
Asian Reinsurance Corporation
Santam Reinsurance
AXA XL
Cathedral Syndicate 3010
Antares Syndicate 1274

Gratuity

Smiles Global (Pvt) Limited
14 A, Boyd Place,
Colombo 03, Sri Lanka

AUDITORS

External Auditors

Ernst & Young
Chartered Accountants,
201, De Saram Place,
Colombo 10,
Sri Lanka.

Internal Auditors


KPMG
Chartered Accountants
32A, Sir Mohamed Macan Markar Mawatha,
P.O. Box 186,
Colombo 03,
Sri Lanka.

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